**Investment Thesis**

**Why is WW a good deal?**

- **Leading position in the US and Europe:** WW is the market leader in the US weight-management services market. Moreover, the company has a strong presence in Continental Europe and UK.
- **Strong recent performance explained by the implementation of the Transformation Plan:** WW’s EBITDA margin is substantially higher than its peers and EBITDA has grown at a higher rate in the recent years. This was sustained by revamping its points program, improving its mobile/digital platforms and the partnership with Oprah, which allowed for increases in recruitment and retention.
- **Robust cash flow generation:** strong operational performance in 2016-2018 coupled with the high fixed costs and low CAPEX nature of the business yielded a 135% increase in FCF.
- **Solid growth prospects:** the global weight-management market is forecasted to grow at a 8.3% CAGR (2018-2025), driven primarily by the increase in obesity levels and the prevalence of lifestyle diseases. WW has ample opportunities for growth, particularly in the high margin online segment, in B2B and in largely untapped demographics such as men and young women.

**How will value be created?**

The company will be acquired at an EV/(EBITDA-Cap. Software Exp.) multiple of **13.5x**, corresponding to an EV of $5,573 mn.

- Equity and Debt will fund 61.2% and 38.8% of the acquisition, respectively.
- **Value Creation Strategies:** (I) **grow the B2C services segment**, focusing on improving retention and acquisition rates; (II) **implement a B2B strategy**, establishing partnerships with corporations; (III) **reformulate product offering**, introducing faster-growing categories like organic, naturally-healthy or free-from; and (IV) **acquire Nutrisystem to enter the ready meals market** and solidify its position in the core geography, being able to generate **synergies** (selling WW-branded ready meals through Nutrisystem’s capabilities).

EBITDA is forecasted to be 120% higher in 2023 than in 2018, primarily due to growth in the B2C services segment (driven by **high acquisition rates and low churn rates**; and by **margin expansion**, due to the shift to the higher-margin online business and to high operating leverage). Nutrisystem’s acquisition also contributes significantly, but is not paramount for the deal.

**How will value be captured?**

- **Exit strategy:** Given WW’s size at the time of exit, an IPO would be a likely scenario. Alternatively, the company could be sold to a strategic buyer such as Nestlé, Unilever or Kraft Heinz, which have invested significantly in the Health and Wellness space.
- **Returns:** No multiple arbitrage is assumed, and the deal yields a money multiple of 2.92x for the fund and ~5.59x for the management team. **Revenue growth is the major driver** of value creation, being mostly explained by Nutrisystem’s acquisition and growth in the online segment.
Company & Market Overview

- Company Overview
- Market Overview
- Historic Financials
WW is a well-established US wellness company and the leading weight-management services provider, being present in most developed economies.

**Company Profile & History**

WW (formerly Weight Watchers) is a U.S. wellness company and the leading provider of weight management services.

- The company was founded by Jean Nidetch, a Brooklyn homemaker in 1963.
- WW was acquired by H. J. Heinz Company in 1968.
- In the early 2010s, sales declined steeply, driven by: the emergence of free diet/fitness apps; WW missing the broader consumer shift to online; and the fact that WW was perceived as just a diet plan company.
- WW’s fortunes began to change when it introduced 1-2-3 Success, the first point-based diet plan in 2015.
- The company went public again in 2012.
- 2015 Transformation Plan improved results, by rebranding WW, revamping its points program (introduction of SmartPoints), improving its mobile/digital platforms and recruiting pivotal influencers, namely Oprah Winfrey.

**Geographic Presence**

- WW operates through a network of company-owned and franchise operations, servicing four geographic segments: North America – US and Canada –, United Kingdom, Continental Europe – Germany, Switzerland, France, Belgium, Netherlands and Sweden – and Other – Australia, New Zealand and worldwide franchises.
- North America has been the key market for WW, accounting for ~70% of sales in 2017.
- Operations in Spain ceased in the first quarter of 2017, whereas operations in Mexico ceased in the first quarter of 2018.

**High Level Financials (2018e)**

- Revenue: $1,537mn (+18% vs. ‘17)
- EBITDA: $457mn (+43% vs. ‘17)
- Op Income: $418mn (+56% vs. ‘17)
- Net Income: $204mn (+18% vs. ‘17)
- FCF: $200 mn (+10% vs. ‘17)

**Description**

- Corporate HQs: New York, US
- Number of Workers: 18,000 (Dec. 2018)
- EOP* Meeting Subscribers (2018): 1.36mn (+8.7% vs. ‘17)
- EOP Online Subscribers (2018): 2.71mn (+38% vs. ‘17)

*EOP – End of the Period

**Revenue % per geography (2017)**

- North America: 69.7%
- Continental Europe: 18.3%
- UK: 7.6%
- Other: 4.4%
WW’s offer relies on a **point-based dieting** plan which is advertised by celebrities like Oprah and attracts mainly **middle-aged women**

### Business Model

#### Core Business

WW provides **weight-management programs**, being **WW Freestyle** the most recent one (2017). WW Freestyle relies on a **point-based dieting plan** which encourages healthier food choices at appropriate portions, focusing more on the nutritional "value" than on calories.

WW Freestyle redefined 200 common foods as 'zero point' foods, making it significantly easier for subscribers to adapt the WW's points system to everyday eating habits.

WW's programs are commercialized through **2 channels**: in-group **meetings** and **online** subscription plans (any of them has an initiation fee of $20). All subscribers are given access to WW's app, which allows them to: scan barcodes for their SmartPoints values, engage with other users and receive/provide support through the Connect feature.

#### Secondary Businesses

WW sells **complementary products**, including bars, snacks, cookbooks, food and restaurant guides with SmartPoints values, magazines and certain third-party products. The company also **licenses its trademarks in some consumer products categories**.

#### Marketing Strategies

Ongoing **rebranding** efforts: reposition the company as a **wellness & lifestyle brand**, instead of a pure weight-loss services provider (e.g.: launch of Beyond the Scale program, introduction of SmartPoints, the 1st point system which no longer considered calories as the primary deciding factor in determining the point value for food, and changing company name from Weight Watchers to WW with the motto “Wellness that Works”)

**Influencer Advertising** spurs new customer growth. WW entered into a 5-year advertising partnership with **Oprah Winfrey** in October 2015. Kate Hudson joined as a celebrity ambassador in 2018. Furthermore, campaigns featuring male brand ambassadors, such as DJ Khaled and Kevin Smith, have slightly fomented this demographic group member base.

Focus on **community** support increases retention rates as the successful integration of the "Connect" social platform into the broader WW ecosystem has improved customer experience

"Summer of Impact Campaign" was launched, through digital and TV advertising in 2018, **to smooth seasonality**. Campaign encourages people to be healthy year-round, not just following New Year's resolutions

### Customers

Roughly **90% of WW members are female** and the distribution is skewed towards Caucasian women **around 50 years old** (average online member skews closer to 40).

Females aged 18-34 correspond only to ~17% of subscriber base and ~33% of the subscribers are international.

In the 2013-2017 period, growth was mainly driven by online subscriber acquisition.

**Average subscriber retention** has historically been ~8.4 months. In the last year, retention **began sharply rising**, reaching ~9.85 months in Q4 2018.

WW's sales are **seasonal**, with ~40% of new joiners entering the program during 1Q, typically related to New Year's resolutions.
WW has a **highly qualified and experienced** management team implementing a **rebranding strategy** and ownership has become more diluted

### Management Team

WW has a diverse and qualified team comprised by professionals with significant experience in industries such as retail, consumer products, apparel and lifestyle products, experts on obesity, behaviour change, and technology. The current team was assembled in recent years in order to reposition the brand as a wellness & lifestyle brand, which explains the short tenure at the company.

### Ownership Structure

The graph represents the **Top 5 shareholders** (August, 2018)

- As of August 16, 2018, **Artal International S. C. A.**, the **largest shareholder**, owns approximately **22.24%** of outstanding common stock, having sold 6,000,000 shares of common stock (~9% of outstanding common stock) in a block trade at a price of $76.00 per share.
- In 2015, **Ms. Winfrey received 10% of WW shares** and an option to buy an incremental 5% of the stock, exercisable at $6.97/share, in exchange for **her cooperation with the company**. Since then, Ms. Winfrey has sold some shares, now owning ~8% of the stock with sales related to estate planning purposes. **This strategic alliance is a key asset for WW** given not only MS. Winfrey's marketing clout, but also her network of influential senior leaders across companies in the US, which may make it easier for WW to develop further strategic partners.
- 82.47% of shares are held by Institutions and 9.27% by insiders

### Top Management Profiles*

"**The world doesn't need another diet. The world needs a leader in wellness and a brand that can bring wellness to everyone, not just a few**" – Mindy Grossman, President & CEO

**President & CEO: Mindy Grossman, 60**
- Took over as CEO in July 2017. Previously, Mrs. Grossman served as Chief Executive Officer of HSN, Inc., a multichannel retailer of fashion, household and lifestyle products; and held various executive positions at Nike, Ralph Lauren and Tommy Hilfiger
- Education: B.A. (The George Washington University)

**CFO & Emerging Markets President: Nicholas P. Hotchkin, 52**
- Has served as WW's CFO since 2012. Previously, Mr. Hotchkin served as a Senior Vice-President of Finance at Staples, Inc. and held several corporate finance positions with Delphi Corporation and General Motors Corporation

*For additional information, see Attachment 1*
Margins will continue to **expand** following the **shift from Meetings to Online Subscriptions**, the segment with the highest gross margin.

### Revenues (~$1.54bn) and Gross Margins (~57.5%) in 2018

<table>
<thead>
<tr>
<th>Revenues from Online Subscriptions</th>
<th>Revenues from Meetings</th>
<th>Revenues from Product Sales and Other</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Share of Revenues</strong></td>
<td><strong>Gross Margin (%)</strong></td>
<td><strong>Share of Revenues</strong></td>
</tr>
<tr>
<td>37%</td>
<td>82%</td>
<td>47%</td>
</tr>
</tbody>
</table>

- **Having grown at a 17.8% CAGR in 2015-2018 period**, these plans provide interactive and personalized resources that allow users to follow WW’s weight management program via web-based and mobile app products. There are 2 online subscription models: the **digital/OnlinePlus plan** (standard monthly fee = **$19.95/month**) – which gives access to food & activity tracking, to the Connect feature and to a 24/7 expert online chat – and **coaching (54.95/ month)**, – which, besides these features, offers unlimited phone sessions with a dedicated coach and personalized plans and skills training. For digital/OnlinePlus, 3-month and 6-month discounted commitment plans are offered as an alternative payment structure.

- Costs are associated with running and maintaining WW’s digital platforms but also Experts and Coaches’ compensation.

- **Having grown at a 6.9% CAGR in 2015-2018 period**, WW’s **meeting plan ($44.95/month)** encompasses all the features of OnlinePlus, additionally providing access to weekly meetings (30-45 minutes), where participants learn through member-driven discussion and individual goal-setting. Each meeting has a “leader”, a part-time (not certified) WW employee who is responsible for coordinating the sessions, educating members on the program and its range of tools.

- **Costs are associated with operating meetings**, including meeting room rent and leaders’ compensation.

- **Product sales and other grew at a 3.0% in 2015-2018 period** and comprises products sales (~35% gross margin) and Licensing, franchise royalties and others (~55% gross margin).

- WW commercializes a range of **consumer products** (mostly reduced fat food), including bars, snacks, cookbooks, food and restaurant guides with SmartPoints values and magazines. Non-members can also buy these products using WW’s e-commerce platforms.

- WW **licenses its trademarks** and other intellectual property in certain food, beverages and other consumer products and services, which are helpful to weight- and health-conscious consumers. It also endorses selected branded consumer products and services. In its early years, WW used an aggressive franchising strategy to quickly establish a meeting infrastructure to pre-empt competition. Since then, WW has acquired many franchises. The remaining franchisees pay royalties of 10% of meeting fee revenues as well as purchase products for sale.

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**Company & Market Overview**

**Value creation & Business Plan**

**Capital Structure**

**Valuation & Returns**

**Exit options & Due Diligence**

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High **operating leverage** provides a significant **incentive to grow customer base**, as marginal costs are significantly lower than marginal revenues

**Historically, WW’s marketing expenses have been concentrated in the 1st quarter**, given consumer’s propensity to start diets and resolutions at the beginning of the year (e.g., in FY17, 43% of marketing expenses occurred in Q1). Despite the increasing reliance on the online segment, WW’s marketing mix has not been focused on the digital channel – **UBS estimates that only 20% to 30% of its marketing expense in 2017 was digital**

The average marketing expense per new subscriber – **subscriber acquisition cost** was estimated by Morgan Stanley to be around **$40 in 2017** and to normalize over the following years, which makes customer base growth a great opportunity for the company as **customer lifetime value** – average revenue per customer during its retention period – **was around $264**

<table>
<thead>
<tr>
<th>Marketing expenses</th>
<th>SG&amp;A expenses</th>
<th>Interest expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>As a % of Revenues</strong></td>
<td><strong>As a % of Revenues</strong></td>
<td><strong>As a % of Revenues</strong></td>
</tr>
<tr>
<td>15%</td>
<td>16%</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Customer Acquisition Cost (’17)</strong></td>
<td><strong>Average Customer Lifetime Value (’17)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>$40</strong></td>
<td><strong>$264</strong></td>
<td></td>
</tr>
</tbody>
</table>

**SG&A expenses have remained virtually unchanged, despite changes in the number of subscribers.** These costs include, among others, corporate compensation, facility costs, depreciation and amortization of systems in support of the business infrastructure, and audit, legal and litigation expenses

**Interest expenses decreased during the 2015-2017 period.** Prior to refinancing its debt in November 2017, WW was paying approximately $27-$28 million in quarterly interest payments. In 1Q18, its interest expense was nearly $36 million, an amount which UBS estimates to remain steady throughout FY18 and which is consistent with the company’s guidance of $144 million in interest expense in 2018

**WW has high operating leverage, resulting in low incremental cost to serve additional customers (e.g., in 2018, operating leverage was 3.0 as revenues increased by 18% but EBIT jumped 33.5%).** Fixed costs include rent/overhead, meeting room supplies, base salaries, technology, product and content, whereas variable costs only account for commissions, product materials, customer care and other small costs

*One-time costs (~1% of total costs) were not considered in this analysis; Depreciation is incorporated in Cost of Revenues and SG&A expenses*
Given the nature of its high operating leverage business, after 2015 WW was able revert disappointing profitability results, by serving more people

<table>
<thead>
<tr>
<th>($ mn)</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>1,724</td>
<td>1,480</td>
<td>1,164</td>
<td>1,165</td>
<td>1,307</td>
<td>1,537</td>
</tr>
<tr>
<td>% Growth</td>
<td>-6%</td>
<td>-14%</td>
<td>-21%</td>
<td>0%</td>
<td>12%</td>
<td>18%</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>1,374</td>
<td>1,182</td>
<td>937</td>
<td>949</td>
<td>1,082</td>
<td>1,289</td>
</tr>
<tr>
<td>Meetings</td>
<td>852</td>
<td>745</td>
<td>588</td>
<td>605</td>
<td>665</td>
<td>717</td>
</tr>
<tr>
<td>% Growth</td>
<td>-9%</td>
<td>-13%</td>
<td>-21%</td>
<td>3%</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>Online</td>
<td>522</td>
<td>437</td>
<td>350</td>
<td>344</td>
<td>417</td>
<td>571</td>
</tr>
<tr>
<td>% Growth</td>
<td>4%</td>
<td>-16%</td>
<td>-20%</td>
<td>-2%</td>
<td>21%</td>
<td>37%</td>
</tr>
<tr>
<td><strong>Product Sales &amp; Other</strong></td>
<td>350</td>
<td>298</td>
<td>227</td>
<td>216</td>
<td>225</td>
<td>248</td>
</tr>
</tbody>
</table>

| **Cost of revenues** | (723) | (677) | (590) | (579) | (614) | (653) |
| Meetings           | N/A   | N/A   | (388) | (386) | (402) | (409) |
| Gross Margin       | N/A   | N/A   | 34%   | 36%   | 40%   | 43%   |
| **Online**         | N/A   | N/A   | (89)  | (83)  | (84)  | (103) |
| Gross Margin       | N/A   | N/A   | 74%   | 76%   | 80%   | 82%   |
| **Product Sales & Other** | (165) | (142) | (112) | (111) | (128) | (141) |
| Gross Margin       | 53%   | 52%   | 50%   | 49%   | 43%   | 43%   |

| **Gross Profit**  | 1,001 | 803   | 574   | 585   | 693   | 884   |
| % Growth          | -9%   | -20%  | -28%  | 2%    | 18%   | 28%   |
| Gross Margin (%)  | 58%   | 54%   | 49%   | 50%   | 53%   | 58%   |

| **Operating Expenses** | (540) | (503) | (406) | (385) | (425) | (474) |
| % of Revenues       | 31%   | 34%   | 35%   | 33%   | 33%   | 31%   |
| Marketing Expenses  | (296) | (262) | (201) | (194) | (201) | (236) |
| % Revenues          | 17%   | 18%   | 17%   | 17%   | 15%   | 15%   |
| SG&A                | (245) | (241) | (205) | (190) | (211) | (238) |
| % of Revenues       | 14%   | 16%   | 18%   | 16%   | 16%   | 16%   |
| Other Operating Expenses | 0     | 0     | 0     | (13)  | 0     | 0     |
| % of Revenues       | 0%    | 0%    | 0%    | 1%    | 0%    | 0%    |

| **EBITDA**         | 505   | 349   | 221   | 253   | 319   | 448   |
| % Growth           | -8%   | -31%  | -37%  | 15%   | 26%   | 41%   |
| EBITDA Margin (%)  | 29%   | 24%   | 19%   | 22%   | 24%   | 29%   |

* WW includes depreciation in the cost of revenues, being added back in order to calculate EBITDA

- From 2013 to 2015, revenues decreased across all segments. Stronger competition and difficulty from the company to adapt to changes in consumer needs and the online shift drove WW to respond, implementing the Transformation Plan in 2015
- Following this plan, subscriber recruitment and retention improved significantly, leading to the increase in revenues in all segments, specially in the online segment. North America and Continental Europe were the fastest-growing regions in this period
- Cost of revenues decreased until 2016, when the trend reverted as revenues increased. However, cost of revenues did not vary as much as revenues, since some of these costs are fixed
- In the 2013-2015 period, gross profit and gross margin declined as costs did not decrease as much as revenues. After that, gross margin and gross profit increased as the company enjoys from relatively high operating leverage and could increase quantities, while the company was shifting from meetings to the higher-margin online segment
- Marketing expenses decreased until 2016, resulting from the Oprah agreement and the integration of TV spots
- WW also made efforts to adopt cost-saving initiatives in SG&A, including rationalization of its workforce and reduction of its total payroll. After 2016, as performance improved, SG&A expenses grew as a result of higher compensation and incentives
- WW’s high operating leverage nature makes EBITDA very dependent on revenues volume (i.e., when revenues increase by 1%, EBITDA grows by more than 1% and vice-versa)
Strong cash flow generation has given room for deleveraging, while the company is more profitable than its peers and sees potential to grow faster.

**Robust Cash Flow generation and deleveraging**

WW has been capable of growing its Operating Cash Flow throughout the past three years due to the significant increase in net income, which, in turn, was primarily driven by EBITDA growth. During the same period, Capital Expenditure increased slightly, while Capital Software Expenditure suffered a minor decrease after a big investment to revamp the mobile app in 2014/2015. WW can be characterized as a low CAPEX business but one that requires considerable investment in Marketing (as seen before) and Software Innovation. Operational performance has improved the company’s Cash Conversion Ratio.

<table>
<thead>
<tr>
<th>($ mn)</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>253</td>
<td>319</td>
<td>448</td>
</tr>
<tr>
<td>Depreciation &amp; Amortization</td>
<td>(53)</td>
<td>(51)</td>
<td>(39)</td>
</tr>
<tr>
<td>Interest Expenses</td>
<td>(115)</td>
<td>(113)</td>
<td>(144)</td>
</tr>
<tr>
<td>Taxes</td>
<td>(17)</td>
<td>18</td>
<td>(61)</td>
</tr>
<tr>
<td>Net Income</td>
<td>69</td>
<td>173</td>
<td>204</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>($ mn)</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Cash Flow</td>
<td>119</td>
<td>222</td>
<td>253</td>
</tr>
<tr>
<td>[Cash conversion ratio*]</td>
<td>47%</td>
<td>70%</td>
<td>56%</td>
</tr>
<tr>
<td>CAPEX</td>
<td>(6)</td>
<td>(14)</td>
<td>(18)</td>
</tr>
<tr>
<td>Capital. Software Exp.</td>
<td>(29)</td>
<td>(27)</td>
<td>(35)</td>
</tr>
<tr>
<td>FCF</td>
<td>85</td>
<td>181</td>
<td>200</td>
</tr>
</tbody>
</table>

In 2017, WW extended the maturity of its overall debt with the repayment of a term loan set to expire in 2020 and the issuance of a new term loan due in 2024. Further, it replaced a $50mn revolver with a $150mn revolver. Finally, it also issued $300mn in senior notes. By the end of 2017, around 84% of the debt held by WW in 2017 ($1,865 mn) was linked to interest rate indices (managed with interest rate swaps) - and 7% ($123mn) was linked to a revolving credit facility. Leverage peaked at 8.3x net debt / EBITDA in 2015, but strong EBITDA (and consequently FCF) growth combined with consistent debt paydown since then has resulted in meaningful deleverage through 2018. EBITDA growth is expected to remain the primary driver for WW deleveraging.

**Strong EBITDA generation compared to peers**

WW enjoys from higher and faster-growing EBITDA margins than its peers but could not grow Revenues as much as them, which makes revenue growth one of the biggest focus for the company to further improve profitability, also combined with its high operating leverage nature. On the last day of 2018, WW valuation multiple EV/EBITDA was 9.0x, which makes its valuation look relatively cheap, compared to its peers, despite the fact that the company's EBITDA margin is higher and has allowed higher EBITDA growth.

<table>
<thead>
<tr>
<th></th>
<th>3Y Revenue CAGR</th>
<th>3Y EBITDA CAGR</th>
<th>2018 EBITDA Margin</th>
<th>3Y Avg. EV/EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>WW</td>
<td>9.7%</td>
<td>27.3%</td>
<td>29.7%</td>
<td>11.3x</td>
</tr>
<tr>
<td>Average peer**</td>
<td>13.2%</td>
<td>18.9%</td>
<td>15.6%</td>
<td>13.4x</td>
</tr>
</tbody>
</table>

* Cash Conversion Ratio = OCF/EBITDA

** Peers considered were Medifast, Nutrisystem and Herbalife Nutrition
WW could potentially reach approximately 50 million subscribers, a market that is worth $18bn

The Global Health & Wellness Market, a broad definition of WW’s Total Addressable Market (TAM), is valued at $3.7tn and is expected to grow at a CAGR of 5.9% between 2018 and 2026.1 Narrowing the scope, it is possible to define the Global Weight Management Market, which includes healthy meals and beverages, diet supplements, weight management services and workout equipment, as the company’s TAM. The Global Weight Management amounted to $214.7bn2 in 2016. North America was the largest regional market (45%), followed by Europe (23%), Asia Pacific (22%), Latin America (7%) and MEA (3%). In the 2018-2025 period, the market is forecasted to grow at a 8.3% value CAGR, with the Asia Pacific region accounting for the fastest growth during the forecast period.

WW’s Serviceable Addressable Market (SAM) is within the Global Weight Management Market, being mostly focused on the US Weight Loss Market – despite ongoing rebranding initiatives, WW is still mainly focused on weight-loss. This SAM is estimated to be worth $18bn, addressing roughly 50mn subscribers – for additional information, see Attachment 2.

Core Market refers to middle-to-older aged women (35-64) in the US who are either overweight / obese or are actively trying to control their weight.
**Obesity levels**

- In the 2000-2015 period, obesity prevalence **increased significantly** across all age demographics
- In 2015-16, the prevalence of obesity was higher among middle-aged adults (43%) than among younger adults (36%)
- Overall obesity prevalence rate is estimated to **reach 42% by 2030**

**Prevalence of lifestyle diseases**

- In recent years, cardiovascular diseases and diabetes were, respectively, the 1st and 7th top causes of death in the US
- The total number of people with diabetes is **forecasted to increase** from 30.3mn (9.2% of U.S. population) to 54.9mn (13.9% of U.S. population) in 2030

**Real disposable income**

- Real personal disposable income per capita has experienced a 9.7% increase in the 2013-2017 period, having risen from $39,763 to $42,791

**Shift from offline to online**

- Advances in technology, logistics, payments and trust, combined with the increasing internet and mobile access, and consumer demand for convenience and flexibility have lead to shift from offline to online commerce
- This broad trend has also affected the weight loss & management market, as evidenced by the emergence of new competitors such as MyFitnessPal. **WW is well positioned to benefit from this trend, having a strong online presence**

**Popularity of subscription-based models**

- In recent years, there has been an upsurge in the quantity of available subscription services, notably in media streaming (e.g.: Netflix and Spotify). There are other categories that support the subscription based model, including Meal Kits (e.g.: Blue Apron), Home Service (e.g.: Handy) and Beauty Products (e.g.: Birchbox)

**Competition from food and beverage giants**

- Several of the most important players in the food and beverage market, including Nestle, Unilever, Danone, General Mills and even Coca-Cola have been making various investments in the health and wellness space, in an attempt to meet customer trends. This could **potentially decrease the demand for WW's consumer products**

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*For additional information, see Attachment 3*
Offering **broader lifestyle solutions** and more **convenience** is paramount to gain competitive advantage over its direct competitors.

### Performance levels in customer perspective*

- Customers look for products or services that are **as inexpensive, convenient/easy to use and effective producing results as possible** (with scientific proof of success), while allowing them to **experience a broad approach to achieve a healthy lifestyle**, rather than just losing weight.

<table>
<thead>
<tr>
<th>Price</th>
<th>Concept broadness</th>
<th>Convenience</th>
<th>Efficacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weightwatchers</td>
<td>WW's services ($20-$55/month) are <strong>substantially cheaper</strong> than other weight-loss programs (~$300/month), but those are mostly meal replacement plans, which reduce groceries expenses. Self-help materials are free or relatively cheap.</td>
<td>Despite the rebranding efforts, WW is still seen as a <strong>weight loss company</strong>, just like other commercial programs. On the other hand, self-help materials display content in many lifestyle areas, though very few of them aggregate features.</td>
<td>WW has an <strong>easy to use and functional app</strong>, a wide meeting centres' network and its diets offer more flexibility for customers' choices; however, it does not offer the convenience of delivering ready meals at client's homes like most of the other commercial programs.</td>
</tr>
<tr>
<td>Other commercial weight-loss programs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-help materials</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **WW is mostly threatened by its direct competitors** (other commercial weight-loss programs and self-help materials). In Attachment 4 it can be concluded that WW performs equally or better than the remaining substitute products/services (fitness centres, doctors/nutritionists, surgical procedures and supplements/diet pills/shakes) in all the major performance drivers.

**WW does not have a clear competitive advantage.** This could be achieved by continuing the **rebranding efforts** (to become a lifestyle company), offering more **convenience** (e.g., by also delivering ready meals at home) and reinforcing its program's **efficacy** in marketing initiatives. However, WW is still able to **distinguish itself from the direct competitors** since its **app is considered** superior, relying on an efficient point-based diet plan which motivates subscribers and its **community support** and the inherent collaboration are very important assets for the company.

* For additional information, see Attachment 4.
Value creation & Business Plan

- **Value creation strategies**
  - Market Share gain
  - Internationalization
  - Buy-and-build
- **Business Plan forecast**
Several initiatives are proposed for WW to leverage on its core business and to grow the products segment.
Focusing on services, the company should aim at **improving customer acquisition and attraction**, while **implementing B2B partnerships**.

### Leverage on services
- Providing counselling, encouraging community support and engaging with subscribers in innovative ways is the core business of the company. Due to the high operating leverage of its core business, it is **paramount to increase revenues**, which will have a positive impact on EBITDA margin.

### Grow B2C
- While the company will continue observing a shift from meetings to online, it should focus on acquisition and retention to improve top and bottom line results.

### Implement B2B strategy
- The company is testing a pilot project in B2B, a segment with potential to generate additional revenues.

### Expand the products segment
- Current product offering is considered to be insufficient to cater to customers’ needs, mainly in terms of product categories and convenience. It only represents 11% of WW’s revenues and there is potential to **capture more value from the food consumption stage of the customer journey**.

### Change current product portfolio
- Current products are mostly reduced-fat snacks. WW has the opportunity to sell faster-growing product categories like organic, naturally-healthy or free-from.

### Implement strategy to offer more convenience
- Ready meals and meal kits are the major options to cater to the growing number of customers looking for convenience and time-saving in their eating habits.

### Company & Market Overview
- **Currently**, WW is present in most developed countries. Expansion to underdeveloped markets could make sense in the business perspective, as countries like Mexico and India show changes in attitudes towards weight management and high obesity/overweight levels. However, following a **PE rationale**, entering these markets would represent a significant investment (of capital and time), whereas return is unpredictable (e.g., WW is struggling with its Brazilian operations and unsuccessfully tried to enter the Mexican market in the past). Therefore, as there is still value to create and solidify in current markets, it is believed that WW should hold back on possible expansion plans, leaving this opportunity to be explored by future target buyers in 5-7 years.
**Acquisition** will primarily be driven by increased focus on **non-core demographic** segments and the implementation of a **referral program**

<table>
<thead>
<tr>
<th>Rationale*</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Referral Program</strong></td>
<td></td>
</tr>
<tr>
<td>- Results from the pilot test show that the referral program can <strong>increase recruitment among consumers who are new to the brand</strong> (40% of incremental subscribers were new to the brand, up from ~33% of annual subscribers historically)</td>
<td>- Implement a referral program similar to the one piloted in Canada across all geographies where WW operates, until the end of 2019, to take advantage of network effects and positive feedback</td>
</tr>
<tr>
<td>- Assuming that new subscribers' retention rate is similar to WW's retention rate (9.4 months), the <strong>subscriber acquisition cost</strong> associated with the initiative is less than <strong>12% of revenue</strong>, which is <strong>below WW's annual marketing expense rate</strong> of ~15.4%</td>
<td>- The program will <strong>offer WW's members one month of the program for free in exchange for convincing a friend to enrol</strong> in a 3-month or 6-month commitment plan</td>
</tr>
<tr>
<td>- Potentially increase retention for current subscribers who may be encouraged to stay on the program longer with their friend</td>
<td></td>
</tr>
<tr>
<td><strong>Marketing Campaigns</strong></td>
<td></td>
</tr>
<tr>
<td>- WW's <strong>sales are seasonal</strong>, with ~40% of new joiners entering the program during 1Q, typically related to New Year's resolutions</td>
<td>- Launch <strong>marketing campaigns</strong> featuring Ms. Winfrey and other key influencers, which <strong>offer new members the possibility to win prizes</strong> (e.g.: free trips, free lunches with the celebrity featured in the campaign), <strong>at different times of the year</strong>, particularly the ones when subscriber acquisition is lower</td>
</tr>
<tr>
<td>- <strong>Smoothing sales seasonality</strong> would help to <strong>improve the seasonality</strong> of WW's profitability – 1Q is generally the least profitable quarter given the marketing spend required to acquire new customers</td>
<td></td>
</tr>
<tr>
<td><strong>Women &lt;35</strong></td>
<td></td>
</tr>
<tr>
<td>- Only ~17% of subscribers are women aged 18 to 34</td>
<td>- Focus on the <strong>online segment</strong> and adopt a communication strategy centred on digital advertising, particularly <strong>influencer advertising</strong></td>
</tr>
<tr>
<td>- The average <strong>online customer is 10 years younger</strong> than the average customer (40 vs. 50), indicating younger women engage with WW primarily through the online channel</td>
<td>- Refine advertising campaigns, featuring young people</td>
</tr>
<tr>
<td>- <strong>Millennials are the key age demographic</strong> for e-commerce, spending more online than any other age group (~$2,000 per year)</td>
<td>- Launch special programs for brides and recent mothers</td>
</tr>
<tr>
<td><strong>Men</strong></td>
<td></td>
</tr>
<tr>
<td>- Although obesity rates are similar among men and women, men comprise only ~27% of weight management programmes participants (10% in WW)</td>
<td>- Focus on the <strong>online channel</strong> and convey a message centred on the app’s <strong>easiness to use</strong> and features like the activity tracker</td>
</tr>
<tr>
<td>- Academic research evidences a <strong>mismatch between men's preferences and the available offer</strong>. Men perceive weight management programmes as feminine and dislike significant restrictions on food intake</td>
<td>- Increase awareness through <strong>male influencer advertising</strong> (e.g.: athletes, chefs and artists)</td>
</tr>
<tr>
<td>- WW could increase male subscription rates by readjusting its communication strategy and altering some product features to cater for men's preferences</td>
<td>- Improve the content related to workout, adding exercise plans which cater to <strong>men's preferences</strong></td>
</tr>
</tbody>
</table>

*For additional information, see Attachment 5*
**Retention** will primarily be driven by **improving the app**, introducing a **rewards program** and **broadening the scope** to a more holistic approach to Wellness.

| User Experience | Rewards Program | WW is implementing a health-based rewards program to increase member focus on logging on the app positive behaviour. Subscribers would track their meals, physical activity and weight on the app, being able to redeem exclusive products/services. This would lead to higher program efficacy, **higher app engagement and better retention rates**.
| Wellness Experience | Included in the rebranding strategy of the company, WW could broaden the program to include new activities for members, by creating **partnerships with companies that incentivise healthy habits** (a good example is the partnership with Headspace, a leader in meditation and mindfulness, to create customized content for WW members).
| Personalized marketing | Marketing Cloud allows WW to **collect individual data** regarding their customers, which enables the company to send **personalised emails to subscribers**, based on their preferences, reminding them of their goals, keeping track of targets and encouraging the purchase of additional products/services.
| Ready-meals convenience | One of the value creation strategies is to **acquire Nutrisystem**, in order to cater to those WW subscribers who look for convenience in their eating habits, by allowing them to purchase WW-branded **ready meals**. This will improve their satisfaction with the program.
| User Interface | Fitpoints | Apart from SmartPoints, the company is implementing and improving the FitPoints system, where subscribers have **activity goals** (fitness plans or workout regimens to improve energy, flexibility, strength or muscle toning) suitable to their physical characteristics. WW's app can also incorporate results from **synced fitness devices** like Fitbit.
| Voice Integration | WW’s app is now allowing members to ask their **Alexa or Google assistant** to look up for SmartPoints value on food, to track FitPoints, and get updates on their goals and progress, which increases ease of use.
| New Connect Feature | The Connect feature now allows members to **create groups for people with the same interests**, food preferences or in the same life stage, where they can share their experiences. This allows WW to continuing incentivising community support between members.
| Scale integration | WW has a partnership with Conair, a scale producer, to **sell WW-branded scales**, where subscribers can sync it to the app and monitor body fat, body water, bone mass, muscle mass and BM, making it easier to track health progress.
| Pricing | Price discounts | Subscriber average retention period is ~9.5 months but very few customers stay longer than 13/14 months. Therefore, WW could apply **price discounts in specific weight maintenance programs, for people who stay longer than 14 months in the program**.

The proposed acquisition and retention initiatives aim at **sustaining high acquisition rates** in both **meetings and online** segments, while **lowering the churn rates**. However, most of these initiatives will have a **larger effect on the online segment**, to **follow the shift in consumer preferences**.
Proposed initiatives will **improve acquisition and churn rates**, leading to significant **subscriber and revenue growth**, while online revenues should surpass meetings in 2020.

---

**Proposed initiatives will sustain high acquisition rates, lower churn rates and smooth seasonality**

- **Acquisition rates** reached all-time highs in 2018, being **projected to decline** in the upcoming years.
- **Subscriber growth is still generated in the future** as in the **first quarter** the acquisition rate is much higher than the churn rate and **compensates** for the loss in customers in the other quarters.
- Due to previously discussed initiatives, acquisition **seasonality is expected to decline** over time, while **churn rates decline 1p.p. per year**.

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**EOP subscribers in the online segment grow double-digit in the following years, while meetings growth rates are more moderate**

- As a result of the above acquisition rates, the **meetings and online** segments are projected to register significant **growth rates** in the following years (online and meetings grow at 17.8% and 4.1% CAGR from 2018 to 2021), **stabilizing thereafter**.
- Due to higher acquisition rates, the **online segment grows much faster than meetings**.

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**The shift to online implies that this segment’s revenues surpass meetings in 2020 and that overall gross margin improves**

- As previously discussed, the **meetings segment has lower gross margin but higher dollar contribution per subscriber**, which implies that, despite the subscriber **shift to online, this segment only surpasses meetings in 2020**.
- Individual gross margins only increase marginally over time, but the **shift to the higher-margin online business improves the overall margin**.
Scaling B2B partnerships will allow WW to **reach new customers** that would not be interested in the program without their companies’ incentive.

**WW is testing a B2B model that can be easily replicated...**

- **WW is testing a B2B model**, having entered into an agreement with the City of New York and its unions to offer an agency wide weight loss and health improvement program, in 2016. The model has already successfully **attracted 4,000 people** to enter the program as WW provides digital subscriptions and in-meeting plans to employees at a discounted price, with NYC subsidizing 50% of the expenses. Employee Spouses, Domestic Partners, and Dependents over the age of 18 are also eligible for WW at a discounted price.

- The plan would replicate this model and to establish **partnerships with corporations and municipalities**. WW will provide programmes – digital plan and meetings plan – at a **discounted price** (33% discount for Meetings to $30/ month and 25% discount for Online to $14/ month) and companies will subsidize part of the program.

**...being these partnerships mutually beneficial for partner organizations and for WW**

**For partner organizations**:  
- WW’s scientifically-proven solutions encourage behavior change and an increase in quality of life, focused on food, fitness and mindset, which can **increase productivity, create a positive environment and reduce absenteeism**. 
- Potential **savings in healthcare** insurance for employees/ employers could be exploited. In the US, obesity costs employers $73.1bn per year and McKinsey & Company’s research strongly indicates weight-management programs are among the most impactful and cost-efficient ways to mitigate obesity.
- This kind of non-pecuniary benefits can **attract better talent for corporations**

**For WW**:  
- By implementing WW’s plan in organizations, WW would **reach customers** that would not be interested in the program without their companies’ incentive; **EOP subscribers** will substantially grow in the beginning years from the initial 4,000 in 4Q18, stabilizing after 2023.

Revenue growth will follow subscriber growth, given that each meetings’ subscriber contributes with a higher $ revenue, but a lower gross margin.
- Overall gross margin improves over time as the online segment grows faster than meetings.
**Fast-growing product categories** will be added to the portfolio and the option chosen to enter in the ready meals market and to offer more convenience is **acquiring Nutrisystem**

<table>
<thead>
<tr>
<th>Solidify current markets</th>
<th>Expand the products segment</th>
<th>Grow B2C</th>
<th>Implement B2B strategy</th>
<th>Change current product portfolio</th>
<th>Implement strategy to offer more convenience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leverage on services</td>
<td>Providing counselling, encouraging community support and engaging with subscribers in innovative ways is the core business of the company. Due to the high operating leverage of its core business, it is paramount to increase revenues, which will have a positive impact on EBITDA margin.</td>
<td>While the company will continue observing a shift from meetings to online, it should focus on acquisition and retention to improve top and bottom line results.</td>
<td>The company is testing a pilot project in B2B, a segment with potential to generate additional revenues.</td>
<td>Current products are mostly reduced-fat snacks. WW has the opportunity to sell faster-growing product categories like organic, naturally-healthy or free-from.</td>
<td>Ready meals and meal kits are the major options to cater to the growing number of customers looking for convenience and time-saving in their eating habits.</td>
</tr>
</tbody>
</table>

**Tap new markets**

Currently, WW is present in most developed countries. Expansion to underdeveloped markets could make sense in the business perspective, as countries like Mexico and India show changes in attitudes towards weight management and high obesity/overweight levels. However, following a **PE rationale**, entering in these markets would represent a significant investment (of capital and time), whereas return is unpredictable (e.g., WW is struggling with its Brazilian operations and unsuccessfully tried to enter the Mexican market in the past). Therefore, as there is still value to create and solidify in current markets, it is believed that WW should hold back on possible expansion plans, leaving this opportunity to be explored by future target buyers in 5-7 years.

**Company & Market Overview**

**Value creation & Business Plan**

**Capital Structure**

**Valuation & Returns**

**Exit options & Due Diligence**
Entering in the **ready meals market or the meal kits market** could revitalize WW’s current product offering and **fast-growing product categories** should be

**WW’s product offering runs short on its potential, creating the need to add different product categories**

- Although the overall US Health & Wellness market grew ~10.4% in the 2013-2017 period, *WW’s product sales fell ~40.5% between 2013 and 2016, having shown modest signs of recovery only in 2017. This negative trend corresponded to a market share decline from 0.13% in 2013 to 0.08% in 2017.*

- *WW’s product offering is mainly comprised by reduced fat and reduced sugar products, such as snacks, bars and yogurts. Portfolio composition appears to be correlated with sales decline – Euromonitor’s market research indicates consumers’ preferences are shifting away from these product categories, which rely on the artificial removal of ingredients (fat and sugar).*

- This creates the opportunity for WW to **offer a broader portfolio of products, which could encompass both natural, healthy, organic and free-from products** – which are gaining traction and attracting more people

**WW should also consider entering in the ready meals and/or meal kits segments, to add offer convenience**

- Currently WW only captures value through providing dietary plans to subscribers. The company could **capture some extra value arising from subscribers’ food expenses**

- As customers look for portability and convenience, key areas where WW is lagging behind its competitors, there is room for **WW to enter the ready meals and the meal kits markets.** Consumers view these alternatives as ways to save meal planning, shopping and cooking time, as well as to try new recipes while being healthy

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**Ready meals:** meals that arrive already pre-cooked, requiring little preparation

**Meal kits:** packs of fresh ingredients to cook a meal

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- WW could **consider entry options in the ready meals and meal kits segments**, as people are increasingly looking for this type of products and competitors are establishing their position in the segments
In the **ready meals retail channel**, a **licensing agreement** with a leading player would be the **best option but it has a limited contribution** to profits and **bounds exit options**

### Competitive landscape

- **In the US retail channel**, sales of Health & Wellness ready meals amounted to $6.61bn in 2017 and are forecasted to grow at a 7.4% CAGR in the 2019-2023, reaching $9.85bn in 2023.
- Leading food companies, **Nestlé and Conagra Brands**, have **long dominated HW ready meals sales in the retail channel**. Nevertheless, in spite of having made significant investments to meet increasing consumer demand for healthier, more natural and more convenient food options both companies have been losing market share – Nestlé’s market share dropped from 20.8% in 2013 to 14.8% in 2017, while ConAgra’s market share dropped from 10.1% in 2013 to 9.7% in 2017.
- Simultaneously, Amy’s Kitchen, a manufacturer manufactures organic and non-GMO convenience and frozen foods, has been gaining traction, benefiting from the increasing demand for vegetarian meals.
- Weight-management companies – Nutrisystem, MediFast, and Jenny Craig – are also present in this channel, although they correspond only to a small share of retail sales.

### Entry options analysis

**Development of in-house production and distribution capabilities**

- Apart from the **coordination and time needs**, it would **difficult to reach meaningful scale** within the holding period and incumbents benefit from economies of scale and scope, which make them more cost-efficient.

**Acquisition of an incumbent player**

- The leading incumbents are **larger than WW** and their product offering also comprises categories which are **not coherent with WW’s brand image**. Smaller players lack scale to make WW-ready meals available across the US.

**Partnership with a retail player, to produce and distribute WW ready meals**

- A **licensing agreement** between Nestlé/Conagra Brands and WW would be **mutually beneficial**. Nestlé/ConAgra could leverage on WW’s reputation in the weight-management market, customer base and balanced meal plans to strengthen its product portfolio and reach new consumers, ultimately reversing market share decline (see attachment 7 for valuation of this strategy).

### Top players in US H&W ready meals (retail channel)

<table>
<thead>
<tr>
<th>Market share</th>
<th>2017 Sales ($ mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nestlé</td>
<td>14.8%</td>
</tr>
<tr>
<td>ConAgra</td>
<td>9.7%</td>
</tr>
<tr>
<td>WW</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

### Pro & Cons from WW perspective

**Increased market penetration** – Nestlé and Conagra Brands’ geographic scope, large production capacity and distribution network would allow WW ready meals to be available in most retail locations across the US territory within a short time frame, something which would not be achievable through partnerships with regional smaller players

**Little to no capital requirement**

**Risk mitigation** – the agreement would reduce economic and financial risk

**Dependence on third-party** – WW would have little to no control over strategy execution. Low product quality could damage WW’s brand image and reputation

**Limited contribution to profits** – royalties fees typically range between 6%-10% of revenues

**Limited exit options** – signing a licensing agreement with Nestlé or ConAgra would narrow down potential strategic buyers, since other industry players would have lower incentives to acquire a company
In the **ready meals home-delivery channel**, the **acquisition of Nutrisystem** is the most attractive option as it allows for **significant synergies**

### Competitive landscape

- **The home delivery channel** is dominated by 3 WW’s competitors – **Nutrisystem**, Medifast, and Jenny Craig (private company). These companies operate primarily under **subscription-based models**, offering **nutritionally balanced meal plans** and ancillary counselling services targeted at a more upscale customer segment (upper-middle class). Despite focusing on the home-delivery channel, these companies also commercialize some products through traditional retail locations.
- Besides weight-management companies, the home-delivery channel also encompasses several smaller players such as Freshly, a provider of direct-to-consumer (DTC) healthy prepared meals in which Nestlé invested $77mn

### Entry options analysis

**Development of in-house production and distribution capabilities**

- The **timeframe necessary** to reach meaningful **scale** is large (3-5 years) and the **incumbents have the know-how** to implement more efficient cost structures

**Acquisition of a rival company, with home-delivery capabilities**

- Among the leading players in the home-delivery channel, Nutrisystem (NS) and Medifast (MF) are the only publicly-listed companies. Given Medifast’s high EV/EBITDA multiple (18.2x as of 31/12/2018 and averaging 16.0x in the last three years) and Nutrisystem’s strong performance, NS is the logical acquisition target (11.3x by the end of 2018 and 13.8x in the last three years)

**Pros & Cons from WW perspective**

- **Market share gain** – the acquisition would strengthen WW’s position in the US market, enabling it to become the market leader in both weight-management services and products
- **Portfolio complementary & Synergies** – there is a degree of complementarity between both companies’ portfolio, which could be explored through the launching of ready meals based on WW dietary plans
- **Scale & Supply Chain capabilities** – NS has the scale and supply chain capabilities necessary to service all WW customers in the US, who are interested in WW ready meals, within 6 months after the acquisition
- **Broader exit options** – contrarily to a licensing agreement with a leading food company, the acquisition would not restrain the set of exit options
- **Significant capital commitment** (EV of $1,199mn as of 31/12/2018)

**Weighting the main advantages and drawbacks of the 2 strategic options** – enter the retail channel through a licensing agreement with Nestlé or Conagra Brands and enter the home-delivery channel through the acquisition of Nutrisystem –, the **2nd option is the one which will be implemented since Nutrisystem’s acquisition (I) will reinforce WW’s position in the US weight-management market, (II) will give rise to substantial synergies (see slide 27), and (III) will not restrain exit options. The licensing agreement with Nestlé or Conagra can be seen as an alternative lever, in case the Nutrisystem’s acquisition fails (see attachment 7 for valuation of this alternative strategy)
In **meal kits, none of the entry options seem attractive** as the only viable one, a licensing agreement with a leading player, would have limited profitability.

### Competitive landscape

The US meal kits market is dominated by 2 online subscription companies, Blue Apron (BA) and HelloFresh (HF), which have been acquiring smaller players in the field (e.g., HF recently acquired Green Chef, an organic meal kit company).

Companies have not generated **profits** yet and have been trying to reach critical scale through **aggressive strategies** that contract margins (e.g., HF offers free delivery, 50%-off on the 1st order and charges an average meal kit price of $8.5 vs. $9.4 from Blue Apron - BA). BA is growing at a much slower rate than HF, as it is struggling with the emergence of more efficient, aggressive players.

Only a very small fraction ($155mn) of meal kits are commercialized in retail channels. Nevertheless, **WW is testing a partnership** with Sprouts Farmers, a retailer present in some US states, to sell meal kits in its California stores. WW has also partnered up with FreshRealm, a small fresh food end-to-end platform, to make meal kits available at grocery retail.

### Entry options analysis

<table>
<thead>
<tr>
<th>In-house production and distribution</th>
<th>Acquisition of one of the leading players</th>
<th>Licensing Agreement with one of the leading players</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing in-house production and distribution capabilities would be <strong>too costly and time-consuming</strong>. Furthermore, none of the existing players has yet reached critical mass – which indicates the business would likely generate losses in the medium term – and several food industry analysts have raised concerns on the sustainability of BA and HF's business model.</td>
<td><strong>Although an acquisition would allow WW</strong> to leverage on the acquired company's customer base and know-how, it would not be attractive from a PE point of view given the <strong>significant risk</strong> – <strong>incumbents are struggling to reach critical mass</strong> and several analysts have cast doubts on the sustainability of BA and HF's business model – and capital commitment.</td>
<td><strong>Signing a licensing agreement with BA or HF presents several advantages when compared to the other 2 entry options, including the little to no capital requirements, and allowing the focus to remain on weight-management programs instead of partially shifting to meal kits production and distribution. Nevertheless, given the typical royalty fees (6%-10% of revenues), the impact on WW's EBITDA would be relatively small</strong> – according to the projections (see attachment 8), meal kit commercialization would only result in a $3.64mn increase in EBITDA in 2020, a contribution which would grow to $5.67mn in 2023.</td>
</tr>
</tbody>
</table>

The analysis conducted evidences that **none of the entry options is attractive**. Consequently, WW will refrain from entering the meal kits market within the first 2 years after the acquisition. In 2021, the decision will be reexamined.
Nutrisystem’s supply chain relies on third parties, a business model which has allowed the company to improve margins and grow revenues by 14% per annum since 2013

Supply chain

NS implemented an integrated order receipt, billing, picking and shipping system to efficiently manage its interactions with third parties in the value chain:

- Production is outsourced to a number of vendors to minimize fixed costs and capital investments
- Storage and packaging are handled by one provider, using its outsourced facilities
- NS uses one outsourced shipping provider for retail and another one for home-delivery (where 94% of initial orders were shipped within three business days in 2017)

Geographic presence

- NS is present in all US states, having seven outsourced facilities, spread over the country

High-Level Operating Figures (2018)

- Revenue: $701mn (+15% CAGR 2014-18)
- Gross Margin: 53%
- Selling & Marketing: 27% of Sales
- General & Administrative: 11% of Sales
- EBITDA: $99mn (14% margin)
- Net Income: $58 (8% profit margin)

Distribution channels

NS meal plan features 235 food options, including frozen and ready-to-go breakfasts, lunches, dinners, snacks and flex meals, which can be complemented with fresh fruits, vegetables, lean protein and dairy

Retail channel

- Nutrisystem commercializes multi-day meal plans and single products (e.g., snacks, bars) in Walmart and other major grocers. This offers brand exposure, as it is an opportunity for consumers who may not be aware of their programs to sample their products at a cheaper price
- Typically, customers order via telephone or website (92%) their monthly food plan, but also via QVC (2%), a television shopping network
- Monthly plans range from $275 to $335, priced to serve upper-middle class
- Prices are slightly more competitive than those of competitors, with monthly plans averaging $295 Jenny Craig’s $300 and MediFast’s $329
- Specialised counselling is free of charge and there is no membership fee

Home-delivery channel

- Nutrisystem has been able to grow revenues and EBITDA (CAGRs of 14.4% and 55.3%, respectively)
- Revenues are expected to increase by 7% in 2019 (Bloomberg consensus)

Historical growth

- Revenue ($ mn) - EBITDA ($ mn)
- EBITDA margin

Company & Market Overview Value creation & Business Plan Capital Structure Valuation & Returns Exit options & Due Diligence
The plan would be to keep two separated brands but to allow WW’s subscribers to order WW’s recommended meals, using NS’s capabilities

- Within the H&W market, WW and NS have different customer bases and business models:
  - **WW is a service-based company**, focused on providing diet plans, tools and support, while giving them the flexibility in their food choices (despite also selling some products like snacks and bars)
  - **NS is a product-based company** that targets people who want to save cooking and shopping time by acquiring healthy meal-replacement plans (despite also providing a free counselling service)
- Due to these differences, it is believed to be more logical to **keep two separated brands**, in order to leverage on each company’s strong brand image on their different segments
- These business models are still generally perceived as substitute methods: WW’s subscribers prefer WW because they believe that a more personalized counselling, a motivating goal tracking system and the supportive WW’s community help them deliver intended results; NS’s subscribers opt for their programmes as they believe in the effectiveness of meal-replacement plans and counselling
- However, it is believed that **there is some level of complementarity**: it is believed that 5% of WW’s North America subscribers would like to save cooking and shopping time if they could directly buy WW-branded meals on its app/website, taking advantage of NS’s value chain capabilities (synergies)

**Nutrisystem’s growth would be reinforced by synergies with WW**

- NS would be acquired on 01/2020 by ~$1,341 mn. Considering its 2019 Bloomberg consensus’ estimated EBITDA, this deal would represent a TV/(EBITDA-CSE) multiple of 12.9x and a TV/EBITDA multiple of 11.9x (see attachment 9 for more detailed valuation information)
- Standalone revenues are estimated, by Bloomberg consensus, to grow by 7% in 2019, and that growth rate is believed to be maintained
- Gross and EBITDA margins should also continue at 2019 levels, which are also estimated by Bloomberg consensus

**Company & Market Overview**

**Value creation & Business Plan**

**Capital Structure**

**Valuation & Returns**

**Exit options & Due Diligence**
Bottom line results will be boosted by **WW’s revenue growth and gross margin improvement**, as well as **Nutrisystem’s** acquisition and revenue growth.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>1,164</td>
<td>1,165</td>
<td>1,307</td>
<td>1,537</td>
<td>1,722</td>
<td>2,916</td>
<td>3,103</td>
<td>3,246</td>
<td>3,408</td>
</tr>
<tr>
<td>% Growth</td>
<td>-21%</td>
<td>0%</td>
<td>12%</td>
<td>18%</td>
<td>12%</td>
<td>69%</td>
<td>6%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Weight Watchers</strong></td>
<td>1,164</td>
<td>1,165</td>
<td>1,307</td>
<td>1,537</td>
<td>1,722</td>
<td>1,884</td>
<td>2,002</td>
<td>2,082</td>
<td>2,172</td>
</tr>
<tr>
<td>% Growth</td>
<td>-21%</td>
<td>0%</td>
<td>12%</td>
<td>18%</td>
<td>12%</td>
<td>9%</td>
<td>6%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>937</td>
<td>949</td>
<td>1,082</td>
<td>1,289</td>
<td>1,455</td>
<td>1,611</td>
<td>1,722</td>
<td>1,795</td>
<td>1,878</td>
</tr>
<tr>
<td>Meetings</td>
<td>588</td>
<td>605</td>
<td>665</td>
<td>717</td>
<td>743</td>
<td>765</td>
<td>778</td>
<td>790</td>
<td>812</td>
</tr>
<tr>
<td>Online</td>
<td>350</td>
<td>344</td>
<td>417</td>
<td>571</td>
<td>713</td>
<td>844</td>
<td>937</td>
<td>981</td>
<td>1,021</td>
</tr>
<tr>
<td><strong>Product Sales &amp; Other</strong></td>
<td>227</td>
<td>216</td>
<td>225</td>
<td>248</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**Weight Watchers**

- WW is expected to **continue the recent recovery**, being able to grow significantly in the next three years and stabilizing afterwards.
- Growth is mostly driven by the online segment (13.3% CAGR from 2018 to 2023), while meetings (2.5% CAGR) and product sales (3.5% CAGR) should present moderate growth.
- The **acquisition of Nutrisystem** in 2020 makes revenues jump in that year and that business is expected to grow around 6% per year.

**Nutrisystem**

- WW’s gross margins improve due to high operating leverage and revenue growth, but also due to the **shift from meetings to online**.
- Nutrisystem’s gross margin is expected to be constant in the future.

- The bet on marketing and employee motivation is to be maintained, being reflected in the fact that operating expenses are projected to follow recent levels as a % of revenues.

- EBITDA’s recent growth will **slow down**, being boosted by Nutrisystem’s acquisition in 2020 (which lowers consolidated EBITDA margin in that year, as it is a lower-margin business).
- WW will represent most of the consolidated EBITDA.

---

**Operating Expenses**

|------|------|------|------|------|------|------|------|------|------|

**Cost of revenues**

|------|------|------|------|------|------|------|------|------|------|

**% of Revenues**

|------|------|------|------|------|------|------|------|------|------|

**Weight Watchers**

- WW includes depreciation in the cost of revenues, being added back in order to calculate EBITDA.

**Capital Structure**

**Value creation & Business Plan**

**Company & Market Overview**

**Entry options & Due Diligence**

**Valuation & Returns**
Nutrisystem’s acquisition and **Capital Expenditures around ~$90mn per annum** will yield a **$536mn increase in annual EBITDA** by 2023

### EBITDA breakdown

- EBITDA growth is **mostly explained by growth in B2C**, due to the initiatives to improve subscriber acquisition and retention
- Launching **B2B generates incremental $25mn**
- **Post-acquisition** Nutrisystem’s EBITDA growth increases the company’s value creation impact by 65%
- Consolidated EBITDA is **120% higher** in 2023 than WW’s EBITDA in 2018

### CAPEX breakdown

- **WW is a low-CAPEX business** in nature, being the future Capital investments projected to ensure the company's normal course of operations, with no significant structural changes. Increasing effort in improving user interfaces is reflected in the increase in Capitalized Software Expenses
- Nutrisystem is also a **low-CAPEX business** and does not distinguish CAPEX categories (expansion and maintenance) in its annual reports. **Capitalized Software Expenses** are expected to gradually increase as the company grows (the jump in 2020 is related to the integration in WW’s app)
Capital Structure

- Capital Structure
- Management Incentive Package
WW’s debt structure will be all senior, with 2.5x TLB and 3x Senior Notes; Capex Facility will fund 60% of Nutrisystem’s acquisition in 2020, being the remaining 40% funded with cash.
Taking into account the after tax market values of the current management ownership, the **management team and Oprah Winfrey will be given 19% control** over the company (10.7pp higher than before LBO). This will result in exit proceeds of $680 million for the executive management and $786 million for Oprah (returns of 10.06 and 4.04, respectively).

Oprah Winfrey is a **valuable asset for customer acquisition**. Ever since the partnership was created, EBITDA grew 103%, from $221m to $448m, driven by a subscribers growth of 37%. Although these results are not solely due to Oprah, she was a very important factor. As so, the management package is designed in such a way that Ms. Winfrey does not lose any market value from the transaction. Ms. Winfrey is not part of the executive management team and therefore, her share of equity is mainly on the institutional strip.

In order keep incentives aligned, 10% of her current position will be used to acquire sweet equity, the remaining 90% will be equally divided into ordinary shares and FRI. The higher returns from the management strip should guarantee her loyalty to the company.

Current WW’s management incentives scheme is based on wage compensation and company ownership. This incentives scheme has been working well in aligning the management team with the shareholders. After the LBO, wage compensation will remain unchanged and each member of the management team will have **1.5x of its annual salary worth in sweet equity**, which will represent 15% of ordinary shares. Moreover, current ownership of the company will be rolled-over as institutional investment.

### Ownership Structure

<table>
<thead>
<tr>
<th>Management Team</th>
<th>Sweet Equity</th>
<th>Institutional Ords</th>
<th>FRI</th>
<th>Return (2023)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mindy F. Grossman</td>
<td>2.73</td>
<td>50.06</td>
<td>0.26</td>
<td>1.59</td>
</tr>
<tr>
<td>Nicholas P. Hotchkim</td>
<td>4.57</td>
<td>3.92</td>
<td>0.44</td>
<td>2.66</td>
</tr>
<tr>
<td>Michael F. Colosi</td>
<td>0.85</td>
<td>2.31</td>
<td>0.08</td>
<td>0.50</td>
</tr>
<tr>
<td>Stacey Mowbray</td>
<td>0.79</td>
<td>2.19</td>
<td>0.08</td>
<td>0.46</td>
</tr>
<tr>
<td>Corinne Pollier</td>
<td>1.32</td>
<td>2.04</td>
<td>0.13</td>
<td>0.77</td>
</tr>
<tr>
<td>Oprah Winfrey</td>
<td>273.44</td>
<td>27.34</td>
<td>23.81</td>
<td>143.53</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>283.7</td>
<td>87.87</td>
<td>24.3</td>
<td>150.02</td>
</tr>
</tbody>
</table>

### Oprah’s stake

- **Institutional Strip**
- **Sweet Equity**

Oprah Winfrey will be entitled to 7.3% of total equity (**Envy Ratio of 1.5**); **Oprah, a key asset** for the company, will have **10% of her current position in sweet equity**.
Valuation & Returns

- Valuation
- Returns breakdown and covenants
- Sensitivity/Break-even analysis
WW will be acquired by ~$5.6bn, at a 13.5x EV/(EBITDA-CSE) multiple or 12.4x EV/EBITDA multiple, after performing a valuation analysis based on different methods

- WW would be acquired by $5,573mn, based on a 13.5x EV/(EBITDA-Capit. Soft. Exp.) multiple, which corresponds to a 12.4x EV/EBITDA multiple
- As can be seen by analysing WW’s historical valuation multiple, the company usually trades below the average industry peer
- This transaction value is 36% higher than the end-of-2018 EV of the company, which represents a timing opportunity as the company’s EV in the recent weeks declined, reaching an EV/EBITDA’18E multiple of 9.0 (see attachment 11)
- The multiples in the industry are considerably high as this is a growing business with most companies registering double digit recent growth

The median EV/EBITDA for direct competitors registers a median of 12.6x (implying an EV of $5,757mn) and for other comparables the median multiple is 10.9x (EV of $4,980mn)

Historical revenue growth predicts an EV/EBITDA of 13x (implying an EV of $5,816mn) and forecasted revenue growth indicates a multiple of 11.9x (EV of $5,306mn)

- Analyzing the direct trading competitors’ multiples, the 2Y and 5Y medians predict an EV of $6,409mn and $6,282mn, respectively

**EV/EBITDA 2018**

- Median: 12.6x
- Median: 10.9x

**Through-the-cycle EV/(EBITDA - CSE)**

- 5Y Median 15.2x
- 2Y Median 15.5x

**DCF**

<table>
<thead>
<tr>
<th>Analyst Report</th>
<th>Date</th>
<th>EV/(EBITDA-CSE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JP Morgan</td>
<td>12/06/2018</td>
<td>20.5</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>13/09/2018</td>
<td>16.5</td>
</tr>
<tr>
<td>UBS</td>
<td>09/07/2018</td>
<td>21.9</td>
</tr>
</tbody>
</table>

Company & Market Overview  Value creation & Business Plan  Capital Structure  Valuation & Returns  Exit options & Due Diligence
The deal would generate **high returns for the fund and for managers after five years**, being **all bank case covenants respected**

### Investment Case Returns

<table>
<thead>
<tr>
<th>($ mn)</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adj EBITDA</td>
<td>503</td>
<td>732</td>
<td>806</td>
<td>860</td>
<td>920</td>
<td>963</td>
<td>1,003</td>
</tr>
<tr>
<td>EV</td>
<td>6,795</td>
<td>9,877</td>
<td>10,880</td>
<td>11,616</td>
<td>12,422</td>
<td>12,997</td>
<td>13,538</td>
</tr>
<tr>
<td>Management Exit Proceeds</td>
<td>502</td>
<td>868</td>
<td>1,094</td>
<td>1,271</td>
<td>1,466</td>
<td>1,617</td>
<td>1,762</td>
</tr>
<tr>
<td>Management Equity</td>
<td>262</td>
<td>262</td>
<td>262</td>
<td>262</td>
<td>262</td>
<td>262</td>
<td>262</td>
</tr>
<tr>
<td>Management Returns (MM)</td>
<td>1.92</td>
<td>3.31</td>
<td>4.17</td>
<td>4.85</td>
<td>5.59</td>
<td>6.17</td>
<td>6.72</td>
</tr>
<tr>
<td>IRR</td>
<td>82%</td>
<td>61%</td>
<td>48%</td>
<td>41%</td>
<td>35%</td>
<td>31%</td>
<td></td>
</tr>
<tr>
<td>Institutional Investor Exit Proceeds</td>
<td>4,531</td>
<td>6,309</td>
<td>7,524</td>
<td>8,561</td>
<td>9,699</td>
<td>10,691</td>
<td>11,690</td>
</tr>
<tr>
<td>Institutional Investor Equity</td>
<td>3,324</td>
<td>3,324</td>
<td>3,324</td>
<td>3,324</td>
<td>3,324</td>
<td>3,324</td>
<td>3,324</td>
</tr>
<tr>
<td>Institutional Returns (MM)</td>
<td>1.36</td>
<td>1.90</td>
<td>2.26</td>
<td>2.58</td>
<td>2.92</td>
<td>3.22</td>
<td>3.52</td>
</tr>
<tr>
<td>IRR</td>
<td>38%</td>
<td>31%</td>
<td>27%</td>
<td>24%</td>
<td>21%</td>
<td>20%</td>
<td></td>
</tr>
</tbody>
</table>

### Bank case covenants

<table>
<thead>
<tr>
<th>($ mn)</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Cover</td>
<td>2.8</td>
<td>3.0</td>
<td>2.8</td>
<td>2.9</td>
<td>1.6</td>
<td>1.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Covenant</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Net Senior debt/EBITDA</td>
<td>3.4</td>
<td>3.8</td>
<td>3.1</td>
<td>2.6</td>
<td>2.0</td>
<td>1.5</td>
<td>1.0</td>
</tr>
<tr>
<td>EBITDA/Cash interest</td>
<td>3.3</td>
<td>4.3</td>
<td>4.0</td>
<td>4.1</td>
<td>4.4</td>
<td>4.8</td>
<td>5.1</td>
</tr>
<tr>
<td>Covenant</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
</tr>
</tbody>
</table>

- **The fund is expected to have a money multiple return of ~2.9 in a 5-year horizon (2023)**, the expected exit date, corresponding to an IRR of 24%. Nonetheless, keeping the investment for 7 years (2025) would yield returns of 3.52 (assuming similar financing conditions in 2024)

- **The executive management is expected a money multiple return of 10** – which implies exit proceeds of $673m, while **Oprah** is expected a multiple return of 3.99. Combined, this yields a return of 6.10 by 2023

- **The entry multiple will be 13.5x Adj. EBITDA**, supported by the entry valuation analysis and is assumed to be constant upon exit (no multiple arbitrage)

- **In the bank case, customer acquisition rates, average revenue per costumer and EBITDA margins drop 0.5% while the churned rate and Capex increase 0.5% for all businesses in Weight Watchers, as well as a drop of 0.5% in Nutrisystem’s annual revenue growth and EBITDA margin**

- A debt rollover/refinancing is expected by 2024

- Until exit, in 2023, assuming no debt rollover/refinancing no covenant is breached, with significant headroom
The **bank case**, although being more conservative, still **has a significant upside**, while **Equity Value increases ~$7.1bn**

---

**Investment case vs. Bank case**

**Equity Value drivers**

- As seen before, the **bank case is more conservative** in all the operating model projections, yielding an exit **EV of $10,151mn, 22% lower than the investment case** exit EV of $12,421mn
- **Net Debt is lower in the investment case** as more cash is generated
- **FRI is naturally the same** in both cases
- Most of the **upside is in ordinary equity**
- **Sweet Equity** still presents **relevant returns** in the bank case

---

**Company & Market Overview**

**Value creation & Business Plan**

**Capital Structure**

**Valuation & Returns**

**Exit options & Due Diligence**

---

**Equity Value jumped 211% from entry to exit date:**
- **Fees** amount to **2.5% of the transaction EV** and the **increase in Capitalized Software Expenses** also affect negatively the Equity Value
- **No multiple arbitrage** is assumed (i.e., exit multiple = entry multiple)
- **Cash generates additional value** as **positive CF's** over the holding period allow for **deleveraging**
- **Growth in WW's EBITDA margin** contributes significantly, while Nutrisystem's margin is constant
- **Revenue growth is the major driver** of value creation, being sustained by Nutrisystem's acquisition and growth in the B2C business
Returns are more **sensitive to WW’s online growth and EBITDA margin**, as well as to entry/exit multiples; Returns are **still meaningful if Nutrisystem cannot be acquired**

<table>
<thead>
<tr>
<th>Current value w/ Inst. MM=2.92 in 2023*</th>
<th>Value* for Inst. MM=2.5 in 2023*</th>
<th>Risk mitigation/comfort</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WW Online revenue CAGR</td>
<td>13.3%</td>
<td>- Initiatives to improve acquisition and retention; shift to online; reduced cyclicity; strong recent growth (29% CAGR in 2016-2018)</td>
</tr>
<tr>
<td>WW Meetings revenue CAGR</td>
<td>2.5%</td>
<td>- Initiatives to improve acquisition and retention; Community support as an important asset; in-meeting sales of new product categories</td>
</tr>
<tr>
<td>Nutrisystem Revenue CAGR</td>
<td>12.0%</td>
<td>- Strong track record (double-digit growth in 2013-2017); increasing demand for convenient and healthy; competitive prices and quality</td>
</tr>
<tr>
<td><strong>EBITDA margin</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WW average EBITDA margin</td>
<td>33.9%</td>
<td>- Shift to higher-margin online segment and high operating leverage will improve gross margins; other op. expenses will follow revenue growth</td>
</tr>
<tr>
<td>Nutrisystem average EBITDA margin</td>
<td>15.0%</td>
<td>- Efficient cost structure; slim business model reliant on specialized third parties; gradual growth of EBITDA margins in the past</td>
</tr>
<tr>
<td><strong>Multiple</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WW entry multiple</td>
<td>13.5</td>
<td>- High expected returns; significant premium (39%) over end-of-2018 trading EV; WW usually trades below the average industry peer</td>
</tr>
<tr>
<td>WW exit multiple</td>
<td>13.5</td>
<td>- Diverse target buyers with potential to capture synergies (see slide 39); opportunities to be explored (e.g., international expansion)</td>
</tr>
<tr>
<td>Nutrisystem entry multiple</td>
<td>12.9</td>
<td>- High expected returns; alternative levers like licensing agreement in ready meals</td>
</tr>
<tr>
<td><strong>CSE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WW + Nutrisystem average annual Cap. Soft. Exp.</td>
<td>$55.6mn</td>
<td>- Most software infrastructures are already implemented; innovation will be guaranteed by reasonable investments</td>
</tr>
</tbody>
</table>

*; Institutional MM of 2.92 and 2.50 correspond to IRRs of ~24% and ~20%, respectively

**Institutional Money Multiple in alternative scenarios**

- Deal funded by junior debt instead of Term Loan B**: 2.81
  - **Part of the deal is still funded by Bonds**
- Deal without Nutrisystem’s acquisition***: 2.61
  - **No alternative strategy**
- Deal without Nutrisystem’s acquisition but with licensing agreement in ready meals****: 2.69
  - **See slide 23**
Exit Options & Due Diligence

• Exit Options and Target Buyers
• Areas to Due Diligence
Even though **IPO is the most likely** exit option, **trade sale** would still be **very likely**, with various potential buyers positioned to **capture synergies** from a potential acquisition.

### Analysis

<table>
<thead>
<tr>
<th>Company</th>
<th>Rationale</th>
</tr>
</thead>
</table>
| Nestlé | - Nestlé’s strategy is increasingly **reliant on healthy, natural and organic product categories**  
- Despite the investments to meet increasing consumer demand for healthier and more convenient food options, Nestlé has **failed to meet its annual 5% sales growth target** and has been **loosing market share** in several product categories, **including ready meals**  
- Acquiring WW would allow Nestlé to **strengthen its product offering and to cement its position in H&W** |
| Unilever | - Unilever has been **loosing market share in the H&W food market and** this decline can be explained by (I) the company’s **“old-fashioned” H&W product portfolio**, which is focused on fortified/functional packaged food and “better for you” packaged food; and (II) **scepticism regarding the healthiness of its products**  
- Acquiring WW would allow Unilever to **broaden its offer**, by incorporating WW’s **healthier product categories**  
- Similarly to its competitors, Kraft Heinz has been adjusting to increasing health consciousness – the company has removed artificial colours from its products and announced the launch of Springboard Brands, a **business focused on finding and growing natural and organic brands**  
- Despite these initiatives, Kraft Heinz has been **struggling to grow** and acquiring WW would allow Kraft Heinz to add **product categories to its portfolio and strengthen its overall position** in the H&W space |
| Kraft Heinz | Given WW's forecasted size at the time of exit, an IPO stands as the most probable exit option. The **outcome of an IPO is uncertain**, being highly **dependent on factors such as pricing, timing and changes in the underlying market conditions** – for a detailed analysis of IPO success factors see attachment 13 –, which must be monitored closely. In particular, since WW’s business is consumer cyclical – the demand for WW’s services is positively correlated with the business cycle –, taking the company public during an expansionary period would be crucial to ensure a successful exit |

### Likelihood

- **Trade Sale**
  - Nestlé’s strategy is increasingly reliant on healthy, natural and organic product categories
  - Despite the investments to meet increasing consumer demand for healthier and more convenient food options, Nestlé has failed to meet its annual 5% sales growth target and has been loosing market share in several product categories, including ready meals
  - Acquiring WW would allow Nestlé to strengthen its product offering and to cement its position in H&W

- **IPO**
  - Unilever has been loosing market share in the H&W food market and this decline can be explained by (I) the company’s “old-fashioned” H&W product portfolio, which is focused on fortified/functional packaged food and “better for you” packaged food; and (II) scepticism regarding the healthiness of its products
  - Acquiring WW would allow Unilever to broaden its offer, by incorporating WW’s healthier product categories
  - Similarly to its competitors, Kraft Heinz has been adjusting to increasing health consciousness – the company has removed artificial colours from its products and announced the launch of Springboard Brands, a business focused on finding and growing natural and organic brands
  - Despite these initiatives, Kraft Heinz has been struggling to grow and acquiring WW would allow Kraft Heinz to add product categories to its portfolio and strengthen its overall position in the H&W space

- **Secondary Sale**
  - Given the size of the typical investments made by leading PE firms, a secondary sale is possible, particularly in the form of a club deal. KKR and TPG would be the most likely candidates among the analysed firms, considering their past investments in the weight-management market – see attachment 14
## Commercial Due Diligence

Commercial Due Diligence will be paramount in the upcoming weeks, in order to have a better perception on potential **growth, Oprah’s impact and Nutrisystem’s potential**.

<table>
<thead>
<tr>
<th>Description</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Verify the assumptions regarding the US Weight Management market outlook</td>
<td>⬤</td>
</tr>
<tr>
<td>Conduct an in-depth analysis of the market outlook in non-core geographies, identifying key growth drivers</td>
<td>⬤</td>
</tr>
<tr>
<td>Identify unmet market opportunities</td>
<td>⬤</td>
</tr>
<tr>
<td>Conduct surveys and focus groups to confirm WW’s differentiation and superior offering</td>
<td>⬤</td>
</tr>
<tr>
<td>Conduct an in-depth competitor analysis in non-core geographies, identifying major threats to WW</td>
<td>⬤</td>
</tr>
<tr>
<td>Forecast the impact on sales of partnership termination</td>
<td>⬤</td>
</tr>
<tr>
<td>Identify alternative influencers to mitigate the negative impact of a partnership termination</td>
<td>⬤</td>
</tr>
<tr>
<td>Monitor closely Nutrisystem’s performance in 2019 and adjust the entry multiple and projections accordingly</td>
<td>⬤</td>
</tr>
<tr>
<td>Identify potential conflicts which may arise from differences in company culture and define a strategic approach to mitigate them and to align incentives</td>
<td>⬤</td>
</tr>
<tr>
<td>Conduct a preliminary assessment of how operations will be integrated and aligned</td>
<td>⬤</td>
</tr>
<tr>
<td>Assess the likelihood of meeting synergies forecast</td>
<td>⬤</td>
</tr>
<tr>
<td>Review the legislation in the countries where WW operates regarding areas such as employment, marketing and advertising, products and services and data protection</td>
<td>🅿️</td>
</tr>
<tr>
<td>Identify expected regulatory/legislative changes and evaluate their potential impact on WW</td>
<td>🅿️</td>
</tr>
<tr>
<td>Review contracts with key parties, including employees, franchisees, licensees and IT services providers; and estimate the risk and consequences of contract breaches</td>
<td>🅿️</td>
</tr>
<tr>
<td>Analyse employment policies and compensation schemes (including the existence of golden parachutes)</td>
<td>🅿️</td>
</tr>
<tr>
<td>Verify if there are any ongoing legal actions against WW and assess the potential impact of a negative outcome</td>
<td>🅿️</td>
</tr>
<tr>
<td>Verify if WW is following an effective tax-optimizing strategy, reviewing the tax legislation in the countries where it operates and identifying expected changes in tax legislation</td>
<td>🅿️</td>
</tr>
<tr>
<td>Review transfer pricing policies</td>
<td>🅿️</td>
</tr>
</tbody>
</table>
Other key areas for Due Diligence include operational & IT assessment, management incentives alignment, financial conditions and valuation; DD should **amount to $2mn**

<table>
<thead>
<tr>
<th>Operational &amp; IT</th>
<th>Operational Improvements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Measure customer satisfaction through surveys and focus groups and identify key areas for improvement</td>
</tr>
<tr>
<td></td>
<td>- Perform a detailed value chain analysis, identifying possible inefficiencies and defining a strategic approach to reverse them</td>
</tr>
<tr>
<td></td>
<td>- Evaluate the performance of the pilot tests which the company has launched during the 2nd half of 2018 and adjust forecasts accordingly</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IT</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Conduct an in-depth analysis of WW's ability to protect the integrity of its IT systems against damage from third-party cyber-attacks, fire, power loss, earthquakes, telecommunications failures and similar unexpected adverse events</td>
</tr>
<tr>
<td></td>
<td>- Assess WW's digital platforms in terms of easiness of use and efficiency to determine key areas for improvement</td>
</tr>
<tr>
<td></td>
<td>- Examine in detail recent expenditure on IT systems and adjust future investment estimations</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management</th>
<th>Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Assess if the management team is motivated and aligned with the new strategy</td>
</tr>
<tr>
<td></td>
<td>- Determine if the team needs to be strengthened in some areas and identify potential experts to be hired</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial</th>
<th>Reported Information</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Review WW's accounting policies and assess the accuracy of financial reported information</td>
</tr>
<tr>
<td></td>
<td>- Examine debt, assessing if there are any debt misrepresentations (debt-like positions omissions) that could understate the amount of net debt</td>
</tr>
<tr>
<td></td>
<td>- Perform deeper analysis on NWC to adjust target's valuation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Markets</th>
<th>Valuation &amp; Exit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Examine the outlook for general economic conditions, developments in credit markets, and equity market volatility</td>
</tr>
<tr>
<td></td>
<td>- Analyse WW's currency hedging and risk management tools</td>
</tr>
<tr>
<td></td>
<td>- Adjust valuation according to the outcome of due diligence</td>
</tr>
<tr>
<td></td>
<td>- Conduct an in-depth analysis of identified potential buyers</td>
</tr>
</tbody>
</table>

**6-8 weeks**

~$2mn
Attachments
## Management Team

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Age</th>
<th>Gender</th>
<th>1st year at WW</th>
<th>1st year at current position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mindy F. Grossman</td>
<td>President &amp; CEO</td>
<td>60</td>
<td>Female</td>
<td>2017</td>
<td>2017</td>
</tr>
<tr>
<td>Nicholas P. Hotchkin</td>
<td>CFO &amp; President, Emerging Markets</td>
<td>52</td>
<td>Male</td>
<td>2017</td>
<td>2017</td>
</tr>
<tr>
<td>Debra Benovitz</td>
<td>Senior Vice-President, Global Consumer Insights</td>
<td>52</td>
<td>Male</td>
<td>2014</td>
<td>2014</td>
</tr>
<tr>
<td>Michael F. Colosi</td>
<td>General Counsel &amp; Secretary</td>
<td>52</td>
<td>Male</td>
<td>2014</td>
<td>2014</td>
</tr>
<tr>
<td>Gary Foster</td>
<td>Chief Scientific Officer</td>
<td>58</td>
<td>Male</td>
<td>2013</td>
<td>2013</td>
</tr>
<tr>
<td>Michael Korcuska</td>
<td>Chief Product Officer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Michael Lysaght</td>
<td>Chief Technology Officer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stacey Mowbray</td>
<td>President, North America</td>
<td>55</td>
<td>Female</td>
<td>2014</td>
<td>2016</td>
</tr>
<tr>
<td>Corinne Pollier</td>
<td>President, International</td>
<td>53</td>
<td>Female</td>
<td>2003</td>
<td>2014</td>
</tr>
<tr>
<td>Kimberly A. Samon</td>
<td>Chief People Officer</td>
<td>50</td>
<td>Female</td>
<td>2014</td>
<td>2014</td>
</tr>
<tr>
<td>Stacie Sherer</td>
<td>Senior Vice-President, Corporate Communications</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gail B. Tifford</td>
<td>Chief Brand Officer</td>
<td>48</td>
<td>Female</td>
<td>2018</td>
<td>2018</td>
</tr>
</tbody>
</table>

## Management Team – Profiles

### President & CEO: Mindy Grossman
- Took over as CEO in July 2017. Previously, Mrs. Grossman served as Chief Executive Officer of HSN, Inc., a multichannel retailer of fashion, household and lifestyle products; and held various executive positions at Nike, Ralph Lauren and Tommy Hilfiger
- Education: B.A. (The George Washington University)

### CFO & Emerging Markets President: Nicholas P. Hotchkin
- Has served as WW’s CFO since 2012. Previously, Mr. Hotchkin served as a Senior Vice-President of Finance at Staples, Inc. and held several corporate finance positions with Delphi Corporation and General Motors Corporation
SVP, Global Consumer Insights: Debra Benovitz
- Has served as WW’s Senior Vice-President for Global Consumer Insights since October 2014. Previously, has held senior positions at PepsiCo (Global VP Strategy and Insights) and Dr Pepper Snapple Group (VP Consumer Insights)
- Education: BA (Columbia University) and MBA (Wisconsin School of Business)

General Counsel and Secretary: Michael F. Colosi
- Has been General Counsel and Secretary at WW since May 2014. Previously, has held several senior positions at Kenneth Cole Productions Inc.
- Education: B.A. in Economics and English (Cornell University) and J.D. (Michigan Law School)

Chief Science Officer : Gary Foster
- Has been WW’s Chief Science Officer since July 2014. Previously, Dr. Foster was the Director of the Center for Obesity Research and Education at Temple University.
- Education: B.A. in Psychology (Duquesne University), M.S. in Psychology (University of Pennsylvania), and a Ph.D. in Clinical Psychology (Temple University).

Chief Product Officer: Michael Korcuska
- Has served as WW’s Chief Product Officer, where he leads product transformation, since November 2017. Previously, Mr. Korcuska was Vice President of Product Management at LinkedIn, where he led several product teams, including LinkedIn’s products for China
- Education: B.S. in Symbolic Systems (Stanford University) and M.S. in Computer Science (Northwestern University)

Chief Technology Officer: Michael Lysaght
- Has served as WW’s Chief Technology Officer since September 2016. Previously, Mr. Lysaght served as WW’s SVP of Digital Product Engineering from September 2014 to September 2016 and as Interim CTO from April 2016 to September 2016. Prior to joining WW, Mr. Lysaght worked at SecondMarket
- Education: B.Sc. in Computer Science (University College Cork)

President, Americas: Stacey Mowbray
- Has served as WW’s President, Americas since March 2016. Prior to that time, Ms. Mowbray served as President and General Manager of Weight Watchers Canada (2014-2016), as CEO of Second Cup Ltd. (2009-2014).
- Education: B.B.A (Wilfrid Laurier University) and M.B.A (York University)
President, International: Corinne Pollier
- Has served as WW's President, International since March 2016. Previously, Mrs. Pollier held several senior ranks in the company, including President of Continental Europe & Australia–New Zealand (2014-2016) and President of Continental Europe (2013-2014)
- Education: Masters in Management (HEC Business School Paris)

Chief People Officer: Kimberly Samon
- Has served as WW's Chief People Officer since 2014. Previously, Ms. Samon worked as Executive VP of HR and Corporate Strategy with Simmons Bedding Company
- Education: B.A. in Industrial and Labor Relations from Cornell University, M.B.A in Management (Mercer University), and a J.D. with a focus in Labor and Employment Law (Stetson University).

SVP, Corporate Communications: Stacie Sherer
- Was appointed Senior Vice President, Corporate Communications in July 2017. Previously, Ms. Sherer served as WW's Vice President, Public Relations. Prior to Weight Watchers, Ms. Sherer was a Managing Director at Burson-Marsteller, a global, full-service communications agency
- Education: B.S. in Business Administration (Miami University)

Chief Brand Officer: Gail Tifford
Has joined WW as Chief Brand Officer in March 2018. Prior to WW, Ms. Tifford served as Vice President of Media North America and Global Digital Innovation for Unilever, and as Vice President, Strategic Partnerships at Viacom
- Education: B.A. In Psychology (Tuffs University) and J.D. (Brooklyn Law School)
Despite its broad geographic presence, WW is mainly focused on the US Weight Management Market. Narrowing the scope and considering the gender (~90% of subscribers are female) and age (~81.8% of subscribers are older than 35) breakdown of WW's customers, as well as the rate of US adults who actively try to control their weight (49%), it is possible to define the company's core addressable segment: middle-to-older aged women (35-64) in the US who are either overweight/obese or are actively trying to control their weight.

Alongside with the Core Addressable Market described above, WW's Target Market is composed by three other subgroups. First, and as it was already mentioned, WW holds worldwide operations and so a significant part of its target market is also composed by international subscribers. Second, WW is also capable of targeting some American younger female subscribers, even though such number is residual (~3mn). Finally, despite WW's services being mainly subscribed by a female audience, a slight portion of American Men buy such services and products and so end up being part of WW Target Market.
Lifestyle diseases

According to the National Center for Chronic Disease Prevention and Health Promotion (CDC), cardiovascular diseases and diabetes were, respectively, the 1st and 7th leading causes of death in the U.S. in 2015 and 2016.

<table>
<thead>
<tr>
<th>Percentage of total deaths</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardiovascular diseases</td>
<td>23.10%</td>
<td>23.40%</td>
</tr>
<tr>
<td>Malignant neoplasms</td>
<td>21.80%</td>
<td>22.00%</td>
</tr>
<tr>
<td>Accidents (unintentional injuries)</td>
<td>5.90%</td>
<td>5.40%</td>
</tr>
<tr>
<td>Chronic lowe respiratory diseases</td>
<td>5.60%</td>
<td>5.70%</td>
</tr>
<tr>
<td>Cerebrovascular diseases</td>
<td>5.20%</td>
<td>5.20%</td>
</tr>
<tr>
<td>Alzheimer’s disease</td>
<td>4.20%</td>
<td>4.10%</td>
</tr>
<tr>
<td>Diabetes mellitus</td>
<td>2.90%</td>
<td>2.90%</td>
</tr>
<tr>
<td>Influenza and pneumonia</td>
<td>1.90%</td>
<td>2.10%</td>
</tr>
<tr>
<td>Nephritis, nephrotic syndrome and nephrosis</td>
<td>1.80%</td>
<td>1.80%</td>
</tr>
<tr>
<td>Intentional self-harm (suicide)</td>
<td>1.60%</td>
<td>1.60%</td>
</tr>
</tbody>
</table>

In 2015, CDC estimated 30.3 million people – 9.4% of the U.S. population – had diabetes. Of these 30.3 million people, 7.2 million (23.8%) were not aware of or did not report having diabetes.

According to the Institute for Alternative Futures’ projections, in 2030 the total number of people suffering from diabetes will reach 54.9 Million (13.9% of the U.S. population). Annual deaths are projected to climb by 38% to 385,800; and total annual medical and societal costs related to diabetes will increase 53% to more than $622 billion by 2030.
According to Gallup market research, between 50% and 60% of U.S. adults would like to lose weight and between 30% and 40% would like to stay at their present weight.

Although evidence suggests that the U.S. weight loss & management market is sizable, it does not support the popular belief that consumer interest in weight management has increased significantly in recent years.

Furthermore, GfK MRI’s “The Survey of the American Consumer” indicates that consumer interest in health & wellness, particularly healthier living, have not materially changed over the 2013-2017 period.

Real personal disposable income is defined as the post-tax and benefit income available after an adjustment has been made for inflation.

Changes in real disposable income are thought to have a strong relationship over time with the level of consumer spending on goods and services.

Data shows that real disposable income on a per capita basis has been increasing consistently since 2000.

As mentioned before, considering the 2013-2017 period, real disposable income per capita has risen from $39,763 to $42,791, which corresponds to a 9.7% increase.
WW offers 3 program types (all of them give access to the app): Digital/OnlinePlus Plan ($19.9/month) is limited to access to the app; Meetings ($44.95/month) additionally includes weekly group meetings with Leaders’ guidance; and Coaching ($54.95/month) encompasses phone sessions with a dedicated coach, and personalized plans. A $20 starter fee is required. Its products are cheaper vs. Herbalife, and ready meals in retail shops are fairly cheap.

WW is often described as a company that basically provides weight-loss programs (either in-person meetings or online subscriptions). It doesn’t directly deliver pre-prepared meals (these can be found in retail stores), despite having an online shop with food & beverages offering. Its app includes healthy recipes, exercise and calories tracking and the Community feature but does not comprise workout plans or exercises database.

WW does not deliver ready meals at home, which is less convenient but allows for more flexibility. However, its app and programs are described as easy to use and very functional. The SmartPoints system is very complete (rates many ingredients) and allows for flexibility, while still pursuing a tailored goal. The wide network of meeting centers and the Community feature are also tools to make the process easier for its clients.

Weight Watchers is one of the few commercial weight-loss programs whose ability to deliver has been repeatedly proven by clinical studies, even though Leaders are not certified. Its programs are considered more efficient for weight-loss, sugar control and body fat than brief advice or self-help materials. In 2018, WW ranked 1st for “Best Weight-Loss Diet”, “Best Commercial Diet Plan” and “Best Fast Weight-Loss Diet” in the US.
Many apps/websites are free or offered at a low subscription price (e.g., Fitness Pal has a $9.99 premium subscription). Books and magazines related to healthy habits, food and exercise are also relatively cheap.

**Other commercial weight-loss programs**

Meal replacement programs are priced around $300/month, but replace groceries expenses for their clients.

These are also very **weight-loss-focused programs**, not fully integrated in health & wellness. If we look at their apps, the focus is only on calories consumption, goal tracking and dieting.

**Home delivery** of self-made meals or shakes makes it very convenient. Clients can decide from a fairly big **variety** of meals and **order online or by phone**.

Many studies prove the **efficacy** of meal replacement weight-loss programs as it is difficult to escape from prepared healthy meals.

**Self-help materials**

Many apps/websites are **free or offered at a low subscription price** (e.g., Fitness Pal has a $9.99 premium subscription). Books and magazines related to healthy habits, food and exercise are also relatively cheap.

There is a huge **variety** of resources providing healthy recipes, calories consumption tracking, exercise tracking or workout plans, but **very few of them aggregate all of these features**.

Downloading an app and buying a book/magazine is **practical and accessible** by almost everyone. These resources can guide self-training, even though still requiring physical effort.

Self-help materials can deliver **short term results** but there is lack of evidence that they help sustain a weight loss trajectory or a healthy lifestyle in the long run.
Having a monthly appointment with a doctor or nutritionist to set up and follow up on a diet plan can have very distinct prices, ranging from $30/month to $200/month. Nutritionists will give advice on how food and nutrition affect someone’s health. A diet plan is designed for each person but this plan does not have an integrated approach to lifestyle, being focused on diet. Usually these appointments are hosted on a monthly or trimester basis, so there is no frequent goal tracking and there is less flexibility when compared to online/commercial programs. These doctors or nutritionists offer professional advice and design personalized diet plans, which statistically and clinically result in weight loss.

Subscriptions in fitness centers depend on the services offered, but its prices usually range between $25/month and $60/month, to which an initiation fee of around is added. Fitness centers offer a huge variety of fitness programs (from lifting to group dance/yoga/workout classes). Usually gyms do not offer diet plans, being associated to a broad lifestyle concept. Usually big fitness centers chains have a wide network of gyms, which makes it easy for someone to find one nearby. Results require big physical effort and energy. Exercise is recommended by public health agencies for weight loss because it has proven results of helping in weight control and living a healthier lifestyle.

### Performance levels

<table>
<thead>
<tr>
<th>Price</th>
<th>Concept broadness</th>
<th>Convenience</th>
<th>Efficacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscriptions in fitness centers depend on the services offered, but its prices usually range between $25/month and $60/month, to which an initiation fee of around is added. Fitness centers offer a huge variety of fitness programs (from lifting to group dance/yoga/workout classes). Usually gyms do not offer diet plans, being associated to a broad lifestyle concept. Usually big fitness centers chains have a wide network of gyms, which makes it easy for someone to find one nearby. Results require big physical effort and energy. Exercise is recommended by public health agencies for weight loss because it has proven results of helping in weight control and living a healthier lifestyle.</td>
<td></td>
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</tr>
</tbody>
</table>
### Surgical procedures

**Mayo Clinic**

Depending on the type of surgery, a bariatric surgery costs between $15,000 and $25,000. In addition, this type of surgery is not considered to reduce overall health care costs in the long run.¹

**Barix Clinics**

This procedure usually aims at improving **physical appearance** and improving **health conditions** (e.g., diabetes and blood pressure). It does not change someone’s diet or incentivises a healthier lifestyle.

This type of surgery is only recommended to people with very high levels of body mass index. No major physical efforts is required, but **recovery period** takes a few weeks, people tend to avoid **invasive surgeries**.

It does not replace good habits but makes it easier to cut on calories and to be more active. Some people regain weight after surgery and gastrointestinal snags may appear but **results are significant enough**.²

### Supplements/ diet pills/shakes

**Herbalife**

Usually **pills or supplements** are sold in packages, costing around $60/month, reducing the expenses with food for the client. Herbalife’s **shakes kits** can range from $50/month to $150/month.

**Cellucor**

These are **weight-loss-only** methods (do not exactly stimulate and promote healthier lifestyles), that usually reduce appetite, reduce fat absorption or increase fat burning.

These products **do not require much physical effort** from the customer and can be acquired **online** in retail websites, pharma platforms or even in multi-level marketers.

There is **lack of scientific proof** that taking pills reduces weight for itself, without a change in dietary habits. This weight-loss method has some **frequency of side effects**.

---

¹ Depending on the type of surgery, a bariatric surgery costs between $15,000 and $25,000. In addition, this type of surgery is not considered to reduce overall health care costs in the long run.

² This type of surgery is only recommended to people with very high levels of body mass index. No major physical efforts is required, but recovery period takes a few weeks, people tend to avoid invasive surgeries.
Contrarily to conventional wisdom, a disproportionate share of middle-aged consumers – 45 to 64 years – are shopping online. Looking at revenues per shopper, generate Millennials – consumers aged 18 to 34 – are the key age demographic for online commerce, spending more money online in a given year than any other age group. According to BI Intelligence research, consumers in this age group spend, on average, $2,000 per annum on e-commerce, despite having lower incomes than older adults.

Although the prevalence of overweight and obesity are nearly equal among men and women in the US, men account for only 27% of people who participate in behavioural weight loss programmes. **Why are participation rates lower among men?**

Studies indicate the low participation rates among men can be attributed to a mismatch between men’s preferences and what the programmes offer: men perceive weight loss programs as feminine and as being targeted at women. **What do men seek in a weight management programme?**

Men report wanting individually focused programs that do not include strict meal plans and provide the ability to tailor the diet to their preferences. Additionally, they prefer programs that do not disrupt their daily routine and provide information in a clear and direct manner.
In developed economies, the toll of obesity on healthcare systems is between 2% and 7% of all healthcare spending. This figure does not include the large cost of treating associated diseases such as type 2 diabetes and heart disease, which would take the healthcare cost toll up to 20%.

McKinsey & Co estimates the global economic impact from obesity – which encompasses the loss of productive life, direct healthcare costs, and investment to mitigate the costs – to be roughly $2.0tn (2012 PPP dollars), or 2.8% of global GDP. In the US, obesity generated an impact of $663bn a year in 2012, or 4.1% of GDP.

Finkelstein et al (2010) estimate the annual cost to employers attributable to obesity among full-time employees, in the US, to be $73.1bn. This figure contemplates not only medical expenses, which amount to $30.3bn, but also the costs associated with absenteeism ($12.8bn) and lower productivity ($30bn).

McKinsey & Company’s research indicates that weight-management programs are among the most impactful and cost-efficient strategies to reduce obesity.
Attachment 7 – Alternative scenario to Nutrisystem’s acquisition: ready meals commercialization under a licensing agreement with a leading HW ready meals player

**EBITDA projections (FY20 - FY23)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution to EBITDA ($ mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>6</td>
</tr>
<tr>
<td>2021</td>
<td>12</td>
</tr>
<tr>
<td>2022</td>
<td>15</td>
</tr>
<tr>
<td>2023</td>
<td>17</td>
</tr>
</tbody>
</table>

**Returns & Value Creation**

Under this scenario, the fund is expected to have a money multiple return of 2.69 in a 5-year horizon (2023), corresponding to an IRR of 22%. Nonetheless, keeping the investment for 7 years (2025) would yield returns of 3.21 (assuming similar financing conditions in 2024)

**WW ready meals contribution to EBITDA** is forecasted to amount to $18.5 mn in 2020, reaching $28.9 mn in 2023. Since the meals will be commercialized on the mass market, they will be purchased by both WW users and non-WW users

Contribution to EBITDA from WW users’ purchases was estimated assuming:
- 10% of WW subscribers in the US will purchase WW ready meals in 2020. This proportion will increase 10% per year from 2020 to 2023
- The average annual expenditure on WW ready meals per customer will be equal to $200 and will remain stable over the forecast period

Contribution to EBITDA from non-WW users’ purchases was estimated assuming:
- WW will be able to reach 1% of the US population (excluding WW users) in 2020. This proportion will increase 10% per year from 2020 to 2023
- Annual expenditure on WW ready meals per consumer will be equal to the annual expenditure on HW ready meals per capita in the US forecasted by Euromonitor

The royalty fee corresponds to 8% of sales, a value which is comprised within the typical 6%-10% range

Under this scenario, total value creation will amount to ~$6.7 bn, which corresponds to a 185% increase in Equity Value:
- **No multiple arbitrage** is assumed (i.e., exit multiple = entry multiple)
- **Revenue growth will be the major driver** of value creation, being mostly sustained by high acquisition rates and improved retention in the B2C segment
- **EBITDA margin will expand**, as a result of the strong growth of the higher margin online business and the licensing agreement, being the 2nd most relevant value driver
- **Cash will generates additional value** due to significantly positive CFs over the holding period which will allow for deleveraging
Meal kits’ potential contribution to revenues is forecasted to amount to $3.64mn in 2020, reaching $5.67mn in 2023. Since costs associated with the licensing agreement are negligible/inexistent, the contribution to EBITDA will be equal to the contribution to revenues.

Projections rely on the following assumptions:
- 3% of WW users in the US will subscribe the service in 2020. This proportion will increase by 10% per year from 2020 to 2023.
- The average annual expenditure per WW user who subscribes the service will be equal to the average of Blue Apron and Hello Fresh’s annual expenditure per subscriber.
- The royalty fee will correspond to 8% of sales, a value which is comprised within the typical 6%-10% range.

### Meal kits (licensing agreement) – Projections (FY20 to FY23)

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution to EBITDA ($ mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>3.64</td>
</tr>
<tr>
<td>2021</td>
<td>4.29</td>
</tr>
<tr>
<td>2022</td>
<td>4.90</td>
</tr>
<tr>
<td>2023</td>
<td>5.67</td>
</tr>
</tbody>
</table>
Attachment 9 – Nutrisystem's Valuation

- Nutrisystem would be acquired by $1,341mn, based on a 12.9x EV/(EBITDA-CSE) multiple, which corresponds to a 11.9x EV/EBITDA multiple
- This transaction represents a 12% premium over the 31/12/2018 EV of the company
- The deal will result in a multiple accretion due to the acquisition of Nutrisystem at a lower multiple than the one of Weight Watchers at exit (12.9x vs. 13.5x), resulting in a multiple accretion gain of $40.5mn
- Sensitivity analysis on the acquisition multiple can be found in slide 37

The median EV/EBITDA for direct competitors registers a median of 12.6x (implying an EV of $1,419mn) and for other comparables the median multiple is 10.9x (EV of $1,228mn)

- Historical revenue growth predicts an EV/EBITDA should be 12x (implying an EV of $1,245mn) and forecasted revenue growth indicates a multiple of 14.2x (EV of $1,473mn)
Looking at the coupon rates on bonds issued in USD, with similar maturities (4 to 6 years) and across ratings, it is easy to conclude that most bonds have coupons between 6 and 8 percent, annually.

USD denominated senior unsecured fixed rate bonds issued by US companies rated between B- and B+ yields have recently increased from 6 to 7.5 percent, mainly due to higher risk related to trade wars and the expected interest rate hike by the Federal Reserve.

Although this implies that credit conditions are not as favourable as they were 6 to 12 months ago, the new business plan and company control is expected to stimulate credit appetite on investors and create better financing conditions for WW’s LBO, through an increase in rating from B to B+, corroborated by the Altman Z-score of 5.36 and the BNP Paribas Leveraged Finance Team.

Based on term loans with similar rating (B+), currency and maturity, and in accordance with BNP Paribas Leveraged Finance Team estimates, the LBO can be funded through a Term Loan paying 400 bps.
WW's EV fluctuation is directly correlated with both top-line and end of the period subscribers growth. Once these two variables showed significant signs of acceleration, WW's EV increased. On the other hand, after ten consecutive periods of top-line growth and eleven periods of end of the period subscribers growth, the Q2'18 disappointing results lead to a drop in WW's EV.
- Considering the established criteria, 3 possible target buyers with strong potential were identified – Nestlé, Kraft Heinz and Unilever. Besides having operations within the Global Healthy Eating, Nutrition & Weight Loss market, which could give rise to synergies, these fast-moving consumer goods giants have a strong track record of acquisitions and other investments in the field, are financially sound and have Asset Management or PE companies among its leading shareholders, which could back the acquisition.

- 4 additional companies, which did not meet all the criteria defined, – Procter & Gamble, Danone, General Mills and Amazon – were also analyzed in extent.

Given WW’s size at the time of exit, which will be substantially higher than the size of its competitors, it is extremely unlikely that the company will be acquired by another weight-management services provider. In order for synergies to occur, potential buyers where selected considering the leading players which have operations within the Global Healthy Eating, Nutrition & Weight Loss market, a broad definition of WW’s TAM.

Given the significant investment which will be necessary to acquire WW, only companies with an EV higher than $25bn (twice the size of WW by 2023) were considered in the analysis. Furthermore, both financial strength indicators, in particular the debt-to-equity ratio, and the presence of major leading institutional investors such as Asset Management or PE firms – which could help fund the operation – among the companies leading shareholders.

Lastly, acquisitions during the 2016-2018 triennium were examined, in order to find if the potential buyers had bought companies that operate in the Global Healthy Eating, Nutrition & Weight Loss market. The existence of large deals in recent years supports the hypothesis that the companies could be interested in acquiring WW.
<table>
<thead>
<tr>
<th>Company</th>
<th>Company Profile</th>
<th>Size &amp; Financial</th>
<th>Relevant deals in the H&amp;W market</th>
<th>Assessment</th>
</tr>
</thead>
</table>
| Nestlé | Nestlé is the largest food and beverage company in the world. The company’s offer comprises water coffee, milk products and ice cream, nutrition and health science, prepared dishes and cooking aids, confectionery, and pet care, which are sold in ~190 countries. In recent years, Nestlé has shifted its focus towards natural, organic and healthy product categories. | D/E: 0.63 (vs. industry’s D/E 0.52)  
**Largest Shareholders:** Nestlé SA (3.04%), The Vanguard Group (2.70%), Norges Bank Investment Management (2.43%) | **Acquisitions since 2015:**  
- **Atrium** (deal size: $2.3bn) - manufacturer of nutritional health products  
- **Terraferil** (deal size: not disclosed) – seller of natural, organic, plant-based foods and healthy snacks  
**Other investments:** In 2017, Nestlé acquired a minority stake in Freshly, a meal-kits startup | ![Green star] |
| Kraft Heinz | Kraft Heinz is a leading player in the food and beverage industry. The company’s offer comprises condiments and sauces, cheese and dairy, meals, refreshment beverages, coffee and other grocery products, which are sold in ~200 countries. In line with the health, Kraft Heinz announced the launch of Springboard Brands, a incubator program for natural and organic food brands. | D/E: 0.53 (vs. industry’s D/E 0.51)  
**Largest Shareholders:** Berkshire Hathaway (26.7%), 3G Capital Partners (22.1%) and The Vanguard Group (3.74%) | **Acquisitions since 2015:**  
- **Primal Kitchen** (deal size: $200mn) – maker of “better-for-you” condiments, sauces and salad dressings  
Note: In 2017, Kraft Heinz made an unsuccessful $143bn approach to take over Unilever | ![Blue star] |
| Unilever | Unilever is a leading player in the CPG industry. The company’s offer comprises branded and packaged goods, primarily foods, detergents, home care and personal products, which are sold in ~190 countries. Faced with increasing competition, Unilever has been loosing market share in several product categories comprised in the Global Healthy Eating, Nutrition & Weight Loss market. | D/E: 2.55 (vs. industry’s D/E 0.17)  
**Largest Shareholders:** The Leverhulme Trust (4.19%), BlackRock Investment Management (2.96%) and The Vanguard Group (2.84%) | **Acquisitions since 2015:**  
- **GSK FHD** (deal size: $3.8bn) – Health Food Drinks portfolio, which comprises brands such as Horlicks  
- **Mãe Terra** (deal size: not disclosed) – Provider of natural and organic food  
**Other investments:** In 2017, Unilever Ventures acquired a stake in Sun Basket, a healthy and organic meal-kit startup | ![Green star] |

* Largest shareholders – relevant institutional investors such as PE or Asset Management firms are highlighted in green.
<table>
<thead>
<tr>
<th>Company</th>
<th>Company Profile</th>
<th>Size &amp; Financial</th>
<th>Relevant deals in the H&amp;W market</th>
<th>Assessment</th>
</tr>
</thead>
</table>
| **P&G**   | Procter & Gamble is a leading player in the CPG industry. Although its offer relies predominantly on consumer health, and personal care and hygiene products, it also comprises various food and beverage product categories, which are sold in ~180 countries | D/E: 0.57 (vs. Industry’s D/E 0.3) Largest Shareholders: The Vanguard Group (7.41%), SSgA Funds Management (4.48%) and BlackRock Fund Advisors (4.38%) | Acquisitions since 2015:  
- **Merck Consumer Health** (deal size: $4.2bn) - manufacturer of over-the-counter products, including cough and cold remedies, diet supplements, everyday health supplements, and women’s and children’s health products | 📈 |
| **Danone** | Danone is a leading food-processing group. Danone’s offer comprises diary-products, plant-based products, baby foods, biscuit and cereals, bottled water and medical nutrition products, which are sold ~120 countries | D/E: 1.24 (vs. Industry’s D/E 0.52) Largest Shareholders: Danone SA (5.59%), Massachusetts Financial Services Co. (2.48%) and The Vanguard Group (2.34%) | Acquisitions since 2015:  
- **WhiteWave Foods** (deal size $12.5bn) – CPG company, which manufactured, marketed, distributed, and sold branded plant-based foods and beverages (2016) | 📈 |
| **General Mills** | Leading player in the CPG industry. General Mills’ offer includes ready-to-eat cereal, convenient meals, ethnic meals, pizza, soup, frozen breakfast and frozen entrees, and snacks | D/E: 2.58 (vs. Industry’s D/E 0.51) Largest Shareholders: The Vanguard Group (7.25%), SSgA Funds Management (5.68%) and BlackRock Fund Advisors (4.81%) | General Mills did not acquire any company which operates within the Global Healthy Eating, Nutrition & Weight Loss market, in the 2015-2018 period.  
In 2018, General Mills acquired Blue Buffalo, a pet food manufacturer, for $8bn | 📈 |
| **Amazon** | Amazon is a multinational technology company which focuses on e-commerce, cloud computing, and artificial intelligence. The company is the largest e-commerce marketplace and cloud computing platform in the world as measured by revenue and market capitalization. The company has recently the healthy food market, through the acquisition of Whole Foods Market. | D/E: 0.33 (vs. Industry’s D/E 0.83) Largest Shareholders: Jeff Bezos (16.1%), The Vanguard Group (5.93%) and Fidelity Management & Research (3.48%) | Acquisitions since 2015:  
- **Whole Foods Market** (deal size $13.7bn) – American supermarket chain which sells only products free from artificial colors, flavors, preservatives, sweeteners and hydrogenated fats | 📈 |
Post-IPO performance of recent transactions
Regulatory Windows
Sector performance
IPO pipeline
Valuation level
IPO candidate's life cycle
Short-term
Mid-term
Long-term
Macroeconomic conditions
IPO pipeline
Economic cycle
Valuation level
IPO candidate's life cycle
Market Volatility
Funding needs

Criteria used by IPO investors to make investment decisions

Research indicates investors give a 60/40% weighting to financial/non-financial metrics when making IPO investment decisions.

Among financial factors, EY highlights debt to equity ratios, EPS growth, sales growth, ROE, profitability and EBITDA growth as being the most relevant indicators for investors.

Among non-financial factors, EY highlights quality of management, corporate strategy and execution, brand strength and operational effectiveness, and corporate governance.

Most important financial IPO success factors to investors

<table>
<thead>
<tr>
<th>Factor</th>
<th>0%</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>63%</td>
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<tr>
<td>ROE</td>
<td></td>
<td></td>
<td></td>
<td>59%</td>
<td></td>
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<tr>
<td>EBITDA growth</td>
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<td></td>
<td>38%</td>
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<tr>
<td>Gross margins</td>
<td>12%</td>
<td>26%</td>
<td>35%</td>
<td></td>
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<tr>
<td>ROA</td>
<td></td>
<td></td>
<td></td>
<td>50%</td>
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</table>

Most important non-financial IPO success factors to investors

<table>
<thead>
<tr>
<th>Factor</th>
<th>0%</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management credibility and experience</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>90%</td>
</tr>
<tr>
<td>Quality of corporate strategy and its execution</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand strength and market position</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>73%</td>
</tr>
<tr>
<td>Operational effectiveness</td>
<td></td>
<td></td>
<td></td>
<td>59%</td>
<td></td>
</tr>
<tr>
<td>Corporate governance practices</td>
<td></td>
<td></td>
<td></td>
<td>54%</td>
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<tr>
<td>Research and innovation</td>
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<td></td>
<td></td>
<td>44%</td>
<td></td>
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<tr>
<td>Financial reporting and accounting control environment</td>
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<td></td>
<td>30%</td>
<td></td>
<td></td>
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<tr>
<td>CEO leadership style</td>
<td></td>
<td></td>
<td></td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Ability to recruit and retain talented people</td>
<td></td>
<td></td>
<td></td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>IFRS/US GAAP accounting tracking record</td>
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<td></td>
<td></td>
<td>13%</td>
<td></td>
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<tr>
<td>Quality of investor relations</td>
<td></td>
<td></td>
<td></td>
<td>8%</td>
<td></td>
</tr>
</tbody>
</table>

Note: % represents the percentage of institutional investors that had the particular factor as one of their top five choices.

IPO Timing

The window of opportunity for an IPO is difficult to predict, being dependent on variables such as political developments, interest rates, inflation and economic forecast – other key variables are described on the chart below.

To determine the most adequate timing for an IPO, both hard and soft indicators are examined. Hard key indicators for positive IPO sentiment include the valuation of the peer group and the volatility on capital markets measuring the risk, whereas soft factors to consider include investors’ sentiment as determined by the level of trading volume or velocity and the after-IPO performance of recent IPOs.
In spite of market volatility, US IPO activity saw 191 IPOs (>50mn market cap) raising a total of US$46.8b in 2018, a Y-o-Y increase of 19% in volume terms and 32% in value terms. Healthcare (76 offerings, $9.1bn raised) and technology (52 offerings, $18.1bn raised) continued to be dominant sectors in the US exchanges in 2018 both in deal number and proceeds.

26 unicorns (with total proceeds of US$15.0b) went public in 2018, a trend which is expected to continue into 2019.

US exchanges remained the preferred destination for foreign companies. Cross-border IPOs accounted for 31% of US IPOs, with 60 companies from 15 different countries choosing to list in the US during 2018.

Positive post-IPO price performance is keeping investors engaged and encouraging more IPO candidates to go public. In 2018, US IPOs have posted average first-day returns of ~15.1% and average current share price post-IPO (by Dec. 5) of 11%.

According to EY research, solid performance in 2018 creates a supportive backdrop for continued US IPO activity in 2019. Technology, healthcare, consumer products and industrials are expected to remain the most active sectors as investors look to balance high returns potential, with more traditional, less risky investments. Focusing on the tech sector, several decacorns (Uber, Airbnb, Pinterest and Lyft) are expected to go public during 2019. Nevertheless, the decline in quarter-over-quarter IPO activity across all regions in 4Q18 sends signals for a cautious start in 2019.

Key factors which can influence investor sentiment for IPOs in 2019:

- Interest rate hikes
- Oil Prices
- Implications from changes in US trade policies
- Currency
- Short-term volatility
- Geopolitical tensions
- Economic growth
- Stronger regulatory requirements
## Attachment 14 – Secondary Sale: Potential Buyers Analysis

<table>
<thead>
<tr>
<th>Company</th>
<th>Size and Investment Criteria</th>
<th>Industry Focus</th>
<th>Relevant Deals</th>
<th>Assessment</th>
</tr>
</thead>
</table>
| KKR              | **Private Equity AUM: $142bn**  
Typically invests up to $700mn in companies with EV ranging from $500mn to $2.4bn | KKR's core industries in the US: industrials, financial services, retail & consumer, energy, technology, media & entertainment, healthcare and hospitality & leisure | **Consortium:** $45bn acquisition of TXU Corp. (KKR & Co, TPG and Goldman Sachs Capital Partners)  
**Single Buyer Purchase:** $29bn acquisition of First Data Corp. | ![icon] |
| Blackstone       | **Private Equity AUM: $126.2bn**  
Typically invests between $100mn and $1.25bn, but it also considers both smaller and larger transactions in companies with EV above $500 mn | No particular industry focus. Blackstone funds cover several industries, including financial services; consumer & retail; healthcare; and energy | **Consortium:** $20bn acquisition of Thomson Reuters Financial and Risk Business (Blackstone, GIC Pte Ltd and CPPIB)  
**Single Buyer Purchase:** $4.3bn acquisition of AON HR BPO platform | ![icon] |
| TPG              | **Private Equity AUM: $66bn**  
Typically invests between $10mn and $1bn in companies with an EV ranging between $300mn and $3bn | TPG holds investments across several sectors. It is important to highlight the recent investments in wellness industry, having acquired several gym operators | **Consortium:** $27 bn acquisition of Caesars Entertainment Corporation (TPG, Apollo and Axa)  
**Single Buyer Purchase:** $2.25bn acquisition of RCN Telecom Services | ![icon] |
| Sentinel Capital  | **Private Equity AUM: $2.6bn**  
Typically invests between $10mn and $15mn in companies with an EV ranging from $25mn to $250mn | Lower midmarket companies operating in various industries, including consumer discretionary, healthcare products and services, and consumer staples | In 2016, Sentinel Capital Partners acquired Quick Weight Loss Centers, a provider of weight loss services. The terms of the agreement were not disclosed | ![icon] |
| North Castle      | **Private Equity AUM: $650mn**  
Targets companies with EV ranging between $50mn and $500mn | Small-cap middle market consumer businesses in personal care, consumer health, sports and fitness, weight management, and nutrition | In 2013, North Castle Partners acquired Jenny Craig, for an undisclosed amount (estimated to be below $600mn) | ![icon] |
Literature Review
Literature Review

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