

## Wide-Moat Investing Summit Preview: Technogym — (Body- )Building a Moat

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For Wide-Moat Investing Summit 2019, my colleague Michael Morosi and I have chosen to present a company with a visionary founder and CEO, an energized corporate culture, a maniacal focus on the design of aspirational hardware, continuous innovation in software, and an open platform for IT services and apps. But do not worry; this is not yet another take on the investment thesis of Apple...

The company we are discussing, which perfectly fits the description above, is Technogym SpA, the global leader in high-end fitness equipment and one of the top holdings in the MAPFRE AM Behavioral Fund.

Similar to many Silicon Valley success stories, Technogym was founded in a little garage in 1983 by Nerio Alessandri, who remains CEO and retains around 45% of the total shares. Since its inception, the Italian company's revenues have increased at more than a 25% CAGR. Technogym is now the second-largest player in the professional segment of the manufacturing industry, leading the market in Europe. It offers a complete set of equipment - cardio and strength - to meet all the needs of a variety of fitness consumers, from premiere athletic training to general fitness and rehabilitation.

Presently, Technogym is perceived as a top-quality player, with enviable brand awareness due in large part to its distinctive Italian design heritage. The company's combination of design, quality, and innovation allows Technogym to charge a significant premium compared to its peers. The company also benefits from secular growth in spending on "wellness", a phrase coined by Technogym's founder, and places global health as a core pillar of the company's mission.

Opportunities for future growth and further margin improvement come from the company's currently low market share in North America (the largest global fitness market) and in Asia, as well as its low but increasing penetration in the consumer segment. While this geographic expansion requires incremental spending on sales and distribution, we believe in the strategic rationale of these investments is sound, and management has a track record of good capital allocation as evidenced in the company's historical profitability and returns, with gross margins approaching 70% and ROE of 25%.

Technogym's persistent focus on hardware innovation has been a major contributor to its ability to achieve pricing power. But what really makes Technogym a wide moat company and one of the top holdings in our portfolio is its "solution selling" approach, which is the key factor that differentiates its business from the competition. Technogym does not sell exercise equipment; rather it offers a complete package of hardware, software, and services to its clients. Technogym provides gym clubs with both ERP and CRM software, effectively becoming the sales, marketing, and operations engine of its customers.

The company also offers a complete range of connected equipment and a cloud platform with data and training programs that are integrated with some of the most popular consumer health apps. This allows the end user a personalized experience that is accessible at any time and anywhere. "Wellness" has now become "wellness on the go".

The data generated across the Technogym platform can be accessed by the equipment operator to obtain information on users and develop personalized workouts or more engaging programs to improve the customer experience. The integration of hardware, software, and services creates high switching costs that extend well beyond replacing gym equipment. Further, in the long-term this data can create meaningful value not only for the gym club but also for stakeholders across the health and wellness ecosystem, including employers, insurance, and healthcare providers.