

**NAUTILUS** Inc

NAUTILUS  
 Universal  
 BOWFLEX  
 SCHWINN  
 Octane  
 modern movement



# Investor Meetings

May 2018



# About This Presentation

## Safe Harbor Statement

This presentation includes forward-looking statements (statements which are not historical facts) within the meaning of the Private Securities Litigation Reform Act of 1995, including statements concerning the Company's prospects, resources, capabilities, anticipated future financial trends or operating results, long-term growth capability, demand for the Company's products, future plans for introduction of new products and the anticipated outcome of new business initiatives, estimates of market size and opportunities for growth, planned capital expenditures, and potential uses of our capital resources, including statements regarding potential share repurchases, acquisitions or dividend programs. Factors that could cause Nautilus, Inc.'s actual results to differ materially from these forward-looking statements include our ability to acquire inventory from sole source foreign manufacturers at acceptable costs, within timely delivery schedules and that meet our quality control standards, availability and price of media time consistent with our cost and audience profile parameters, a decline in consumer spending due to unfavorable economic conditions in one or more of our current or target markets, failure to successfully integrate acquired businesses, an adverse change in the availability of credit for our customers who finance their purchases, our ability to pass along vendor raw material price increases and increased shipping costs, our ability to effectively develop, market and sell future products, our ability to protect our intellectual property, and the introduction of competing products. Additional assumptions, risks and uncertainties are described in detail in our registration statements, reports and other filings with the Securities and Exchange Commission, including the "Risk Factors" set forth in our Annual Report on Form 10-K, as supplemented by our quarterly reports on Form 10-Q. Such filings are available on our website or at [www.sec.gov](http://www.sec.gov). You are cautioned that such statements are not guarantees of future performance and that actual results or developments may differ materially from those set forth in the forward-looking statements. We undertake no obligation to publicly update or revise forward-looking statements to reflect subsequent events or circumstances.

## Financial Information

Unless otherwise indicated, all information regarding our operating results pertain to continuing operations.

© Nautilus, Inc. 2018

# Agenda

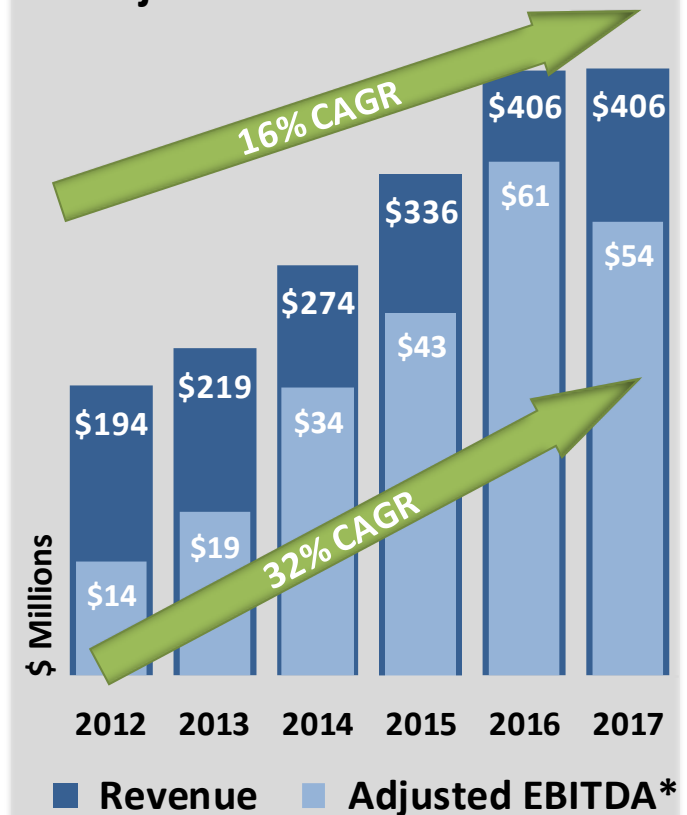
---

- Overview
- Financial Performance
- Growth Drivers
- 2018 Outlook and Guidance
- Long-term Goals
- Key Takeaways

# Who We Are

- Mission is to provide **innovative solutions** that make fitness more **attainable** and **motivate** people to live **healthier** lives
- We have a strong portfolio of **brands**, including three of the top five in the industry\*
- Consumer insights driven **innovation** and new products pipeline
- **Multichannel** growth strategy to meet consumer needs wherever they shop
- Focused on **profitable growth** and increasing shareholder value

## Double-digit Revenue Growth Coupled with Even Faster Adjusted EBITDA\* Growth



\*Adjusted EBITDA from Continuing Operations; Non-GAAP information, see Appendix for reconciliation to GAAP

\*Based on a 2016 national consumer research study

# Strong Brands

 **BOWFLEX**

**SCHWINN**

 **NAUTILUS**

**Octane**  
FITNESS



Innovation  
Quick, Proven Results

Quality and Value  
High Awareness

Authentic  
Professional Grade

Leader in Zero  
Impact Cardio

# Industry Leading Product Quality & Innovation

## Octane Fitness Max Trainer®

High Intensity Interval Training for the commercial gym, launching Fall 2018



## Bowflex HVT™

Strength and cardio in one workout, launched May 2017



## Octane XT-ONE™, the next generation cross-trainer

Walk, run, hike, and climb on one machine



## 560 SelectTech® Dumbbells

Award winning first ever smart dumbbells



## Bowflex Results Series™

Premium treadmills and ellipticals, launched Fall 2017



## First of a kind Zero Runner® ZR8000

Enabling everyone to run safely and comfortably



# Diversified Multichannel Growth Strategy

## Direct to Consumer

- Unique innovative products
- Sold directly to consumers
- Significant investment in media

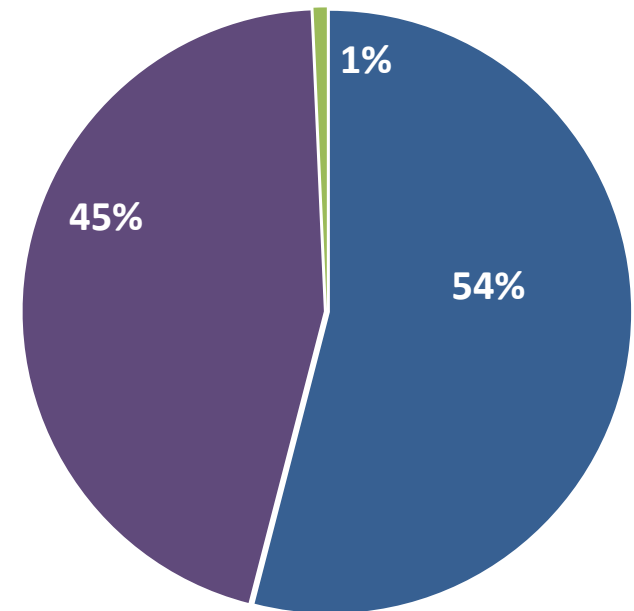
## Retail Channel

- Wide assortment of fitness products
- Sold to distributors, retailers, and specialty fitness
- International sales and commercial

## Royalty

- License revenue related to trademarks and patents

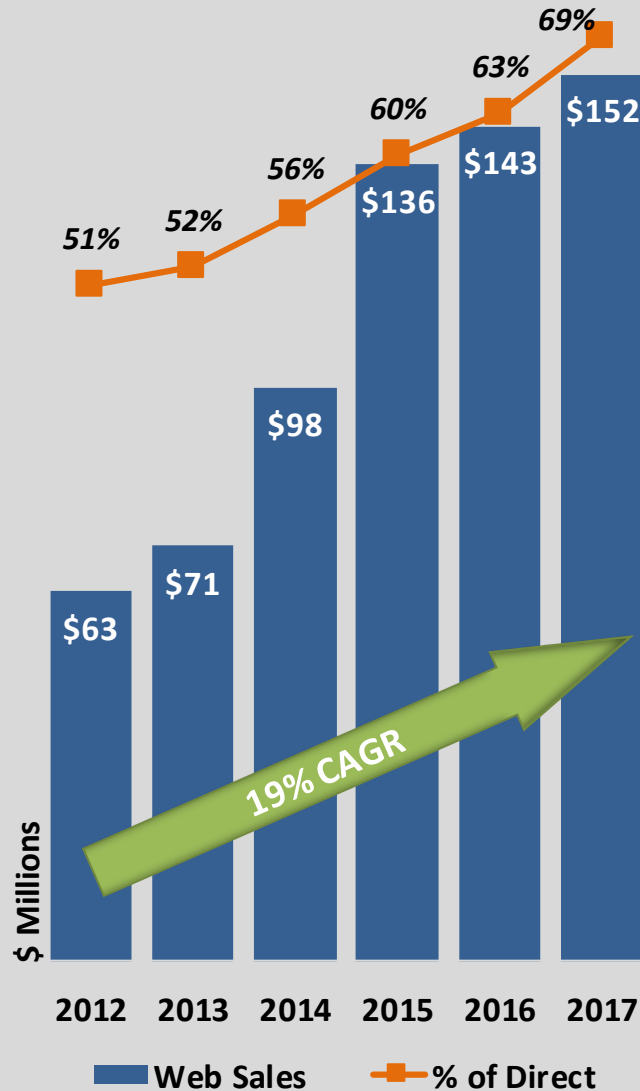
2017 Revenue Channel Mix



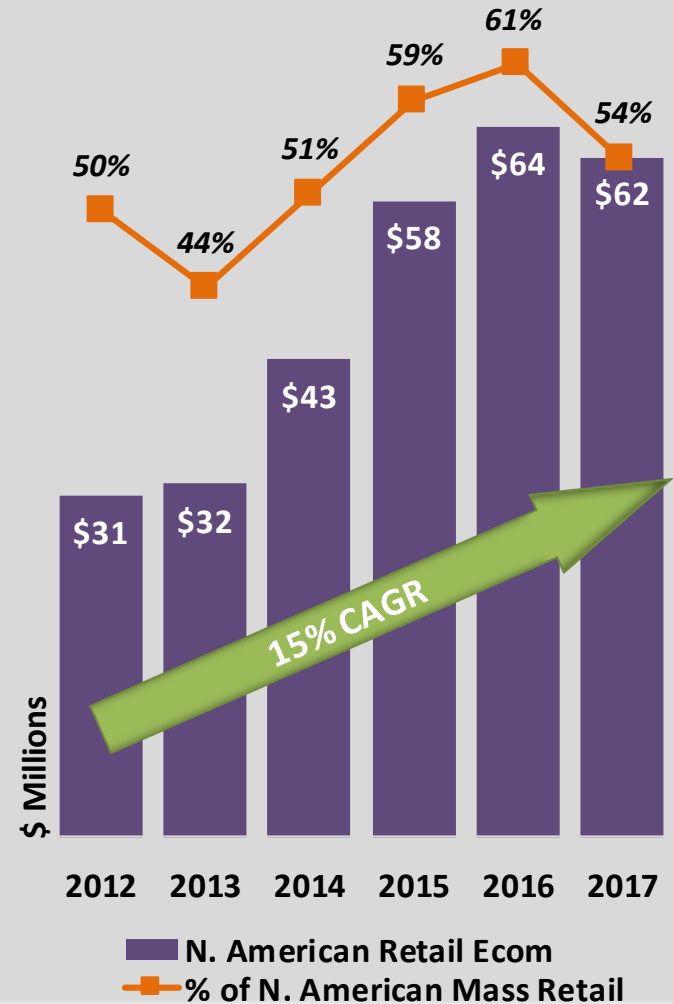
■ Direct ■ Retail ■ Royalty

# Embracing Ecommerce

## Robust Direct Channel Web Sales Growth

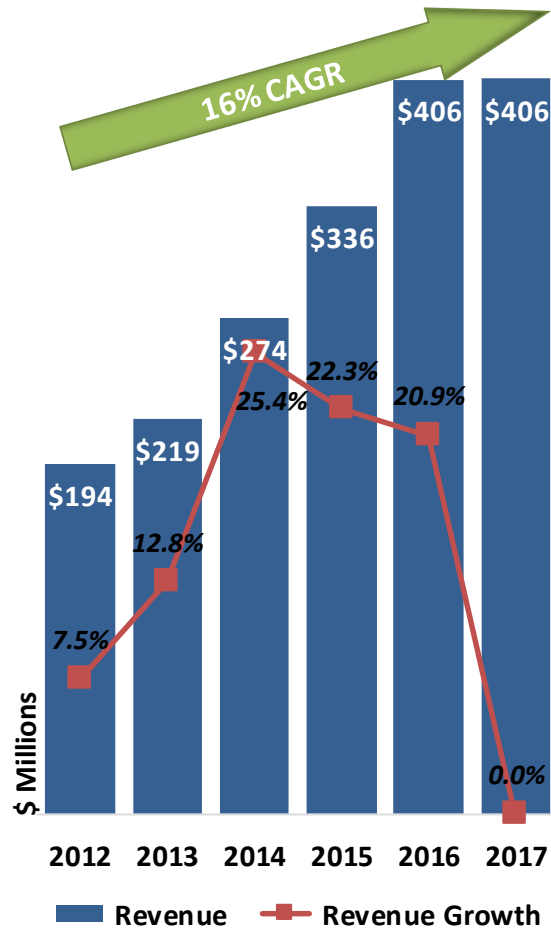


## Balanced Mix of Growth with Ecom and Bricks & Mortar Customers

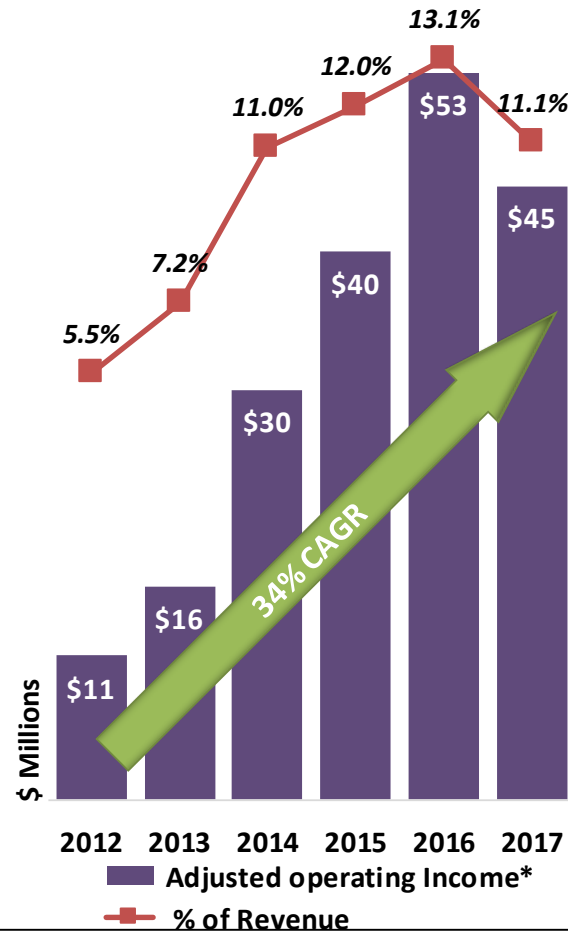


# Delivering Solid Financial Performance

## Balanced revenue growth...

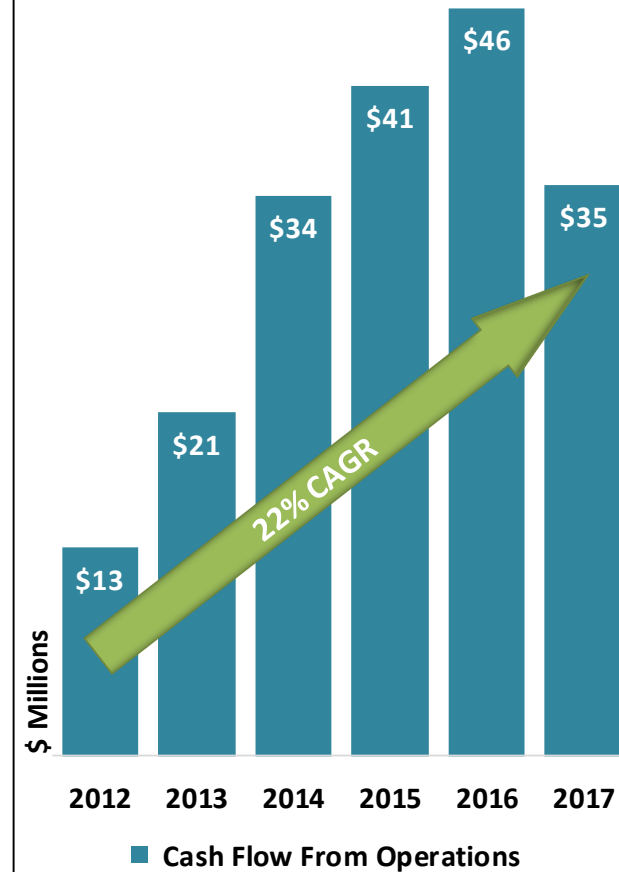


## Coupled with strong profitability metrics...

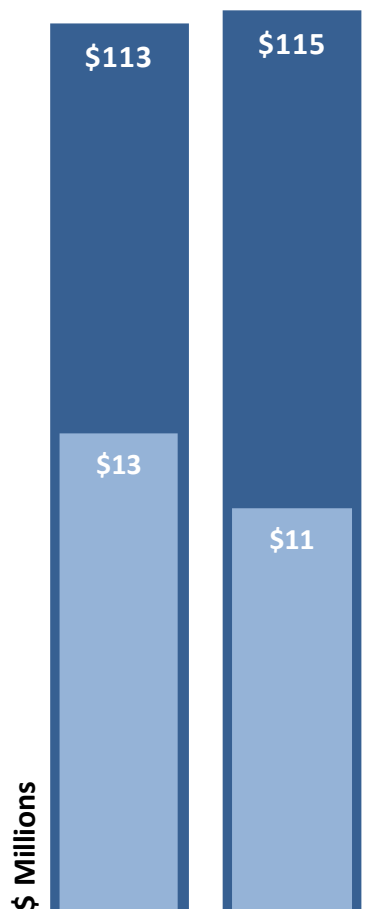


\*2017 adjusted to exclude \$8.8 million asset impairment charge; see Appendix for reconciliation to GAAP

## Resulted in robust cash generation



# Reported Q1 Results Exceeded Guidance



Q1 2017 Q1 2018

■ Revenue

■ Operating Income

- Q1 2018 revenue growth led by gains in Retail
  - Retail growth of 14% with strong growth across several product lines and specialty & commercial customers
  - Direct decline of 5% due to phase-down of TreadClimber product sales
- Operating Income impacted by product mix and higher product costs
  - Retail margins down due to higher product costs (FX related)
  - Direct down due to product mix
  - OPEX down \$0.9M, in part from a \$1.2M reserve charge in Q1 2017

# Five Key Growth Drivers

Innovation

Innovation

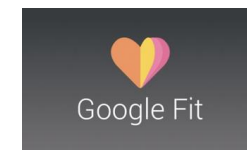
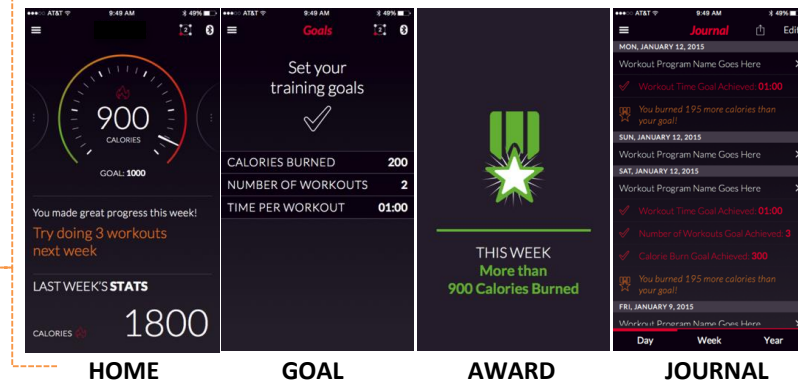
International

Retail

New  
Distribution  
Opportunities

Strategic  
Opportunities

- Continued investments in R&D to create new product categories
- Reinvent consumer experience with real-time coaching, tracking, and motivation
- Innovating with apps and connectivity options
- Partnering with leading platforms to seamlessly sync and share workout data
- Q4 2018 targeted launch of new digital platform including subscription model



# Five Key Growth Drivers

## International

Innovation

**International**

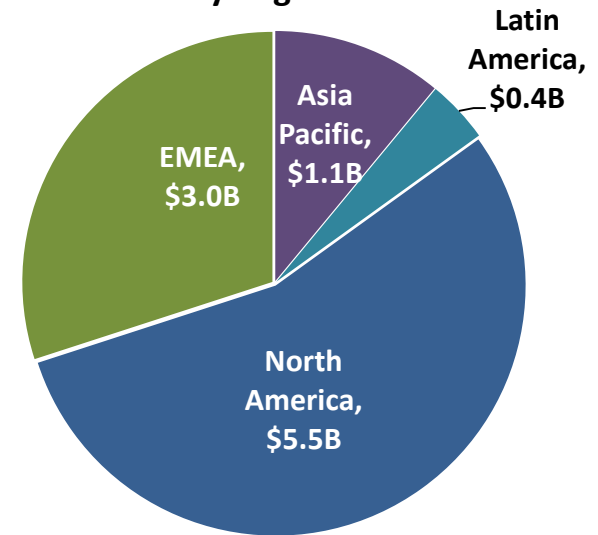
Retail

New  
Distribution  
Opportunities

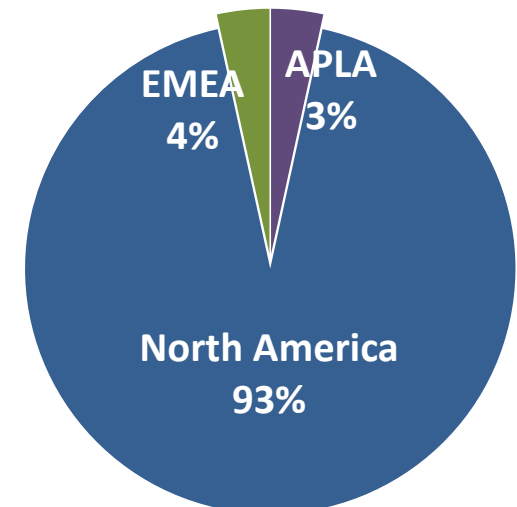
Strategic  
Opportunities

- Large potential opportunity outside North America to grow low current market share
- Nautilus and Octane brands well recognized worldwide
- Key initiatives & investments in 2018 to target doubling of international revenue to \$60M by 2020:
  - ❑ Restructured Octane and organic teams under a single leader
  - ❑ Increased investment in local sales teams
  - ❑ Investment in localized marketing material

Estimated Global Market Size  
by Region\*



2017 Nautilus Regional Mix



\*Compilation of industry and internal data; values reflect wholesale pricing

# Five Key Growth Drivers

Retail

Innovation

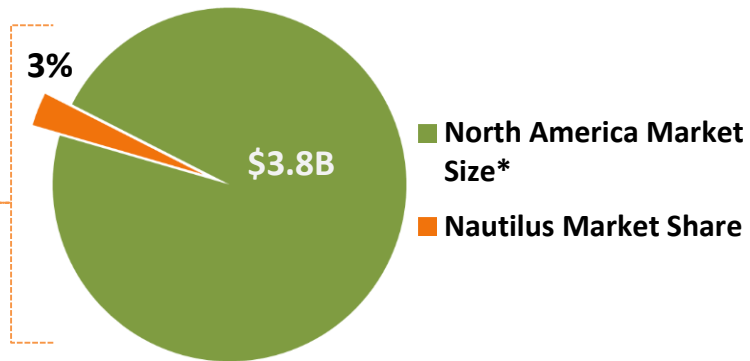
International

Retail

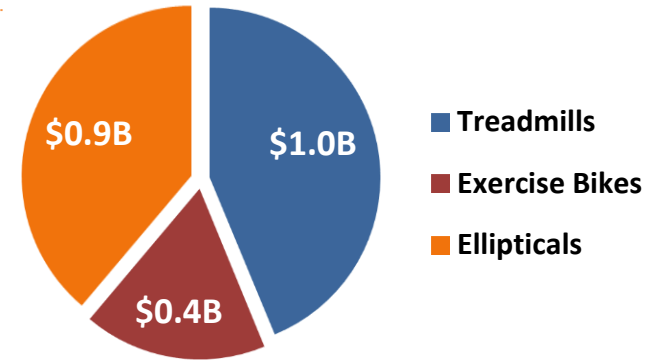
New  
Distribution  
Opportunities

Strategic  
Opportunities

- Current small market share provides opportunity for growth within existing market
- Balance of sales between traditional storefront and faster growing e-commerce
- Broaden assortment of SKUs among existing customers
- Expand use of brand portfolio to address new price points and consumer segments



North America Largest Cardio Categories\*



\*Based on SFIA 2017 Manufacturers' Sales by Category Report; values reflect wholesale pricing of consumer fitness equipment

# Five Key Growth Drivers

## New Distribution Opportunities

Innovation

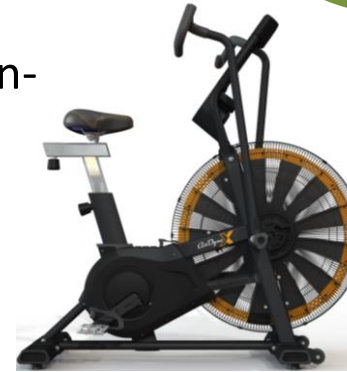
International

Retail

**New  
Distribution  
Opportunities**

Strategic  
Opportunities

- Expansion into specialty retail and commercial club markets with Octane
- Increasing presence in cross-fit studios with Air-Dyne products
- Higher leverage of Direct media spend via Dick's Sporting Goods in-store sales of Max Trainer
- Entry into hand held and shelf fitness products with Modern Movement
- Commitment to e-commerce growth in Direct. 69% of Direct channel sales are online. More than 54% of visitors are on mobile devices.



\*Based on internal analysis; values reflect wholesale pricing;

\*\*Based on SFIA 2017 Manufacturers' Sales by Category Report

Innovation

International

Retail

New  
Distribution  
Opportunities

**Strategic  
Opportunities**

- Company in solid position to expand
  - Strong balance sheet with >\$92M in cash
  - Significant cash generation
  - Leverageable infrastructure to capture synergies
- Opportunities to accelerate existing strategies through further acquisitions
- Invest in intellectual property portfolio to drive new product innovation and potentially increase royalty stream
- Explore opportunities in incremental adjacent categories



# 2018 Plan and Guidance

# 2018 Plan Focus

**2018 incorporates multifaceted plan to make targeted investments, return business to revenue growth and position NLS for future accelerated OI growth**



**Approximately \$3 - \$4 M of incremental expense and \$5 - \$6 M of incremental CAPEX will be invested in 4 key areas:**

- **Building out new digital technology platforms to support subscription models – *launch Q4 2018***
- **Realignment and restructuring of International business model – *complete during Q3 2018***
- **Consolidate warehouse facilities and supply chain optimization – *complete during Q3 2018***
- **Complete ERP and other systems integration of Octane Fitness acquisition – *complete during Q2 2018***

# Key Initiatives for 2018

---

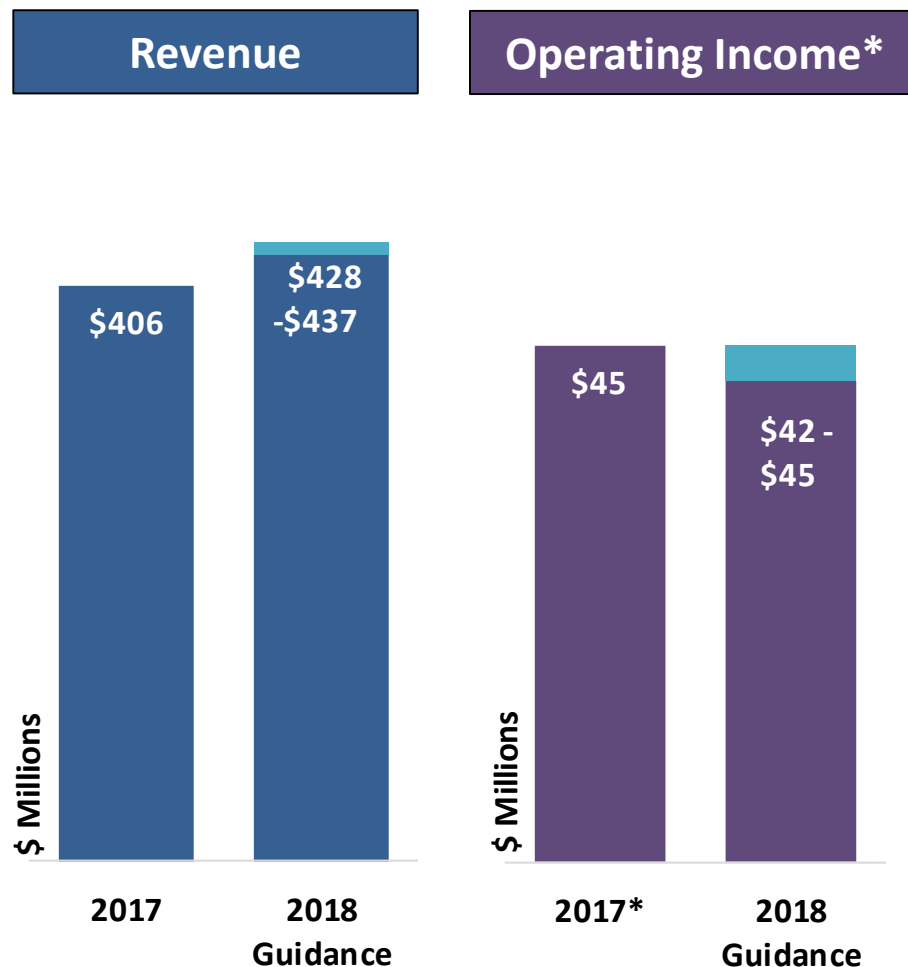
- **Innovation platform investments reflecting a changing environment**
- **Established new International business unit under new General Manager**
- **Systems integration – Octane ERP/financials into NetSuite**
- **Warehouse consolidation – integrated worldwide network supporting family of NLS brands**
- **Enhanced supply chain flexibility**

# Anticipated Outcomes from 2018 Investments

---

- **More integrated & efficient operational infrastructure**
- **Incremental investment in Product Innovation starting to deliver upgraded digital platforms**
- **Broader market access points**
- **Position Company for accelerated growth**

# FY 2018 Guidance



\*2017 Operating income is adjusted to exclude an \$8.8 million asset impairment charge

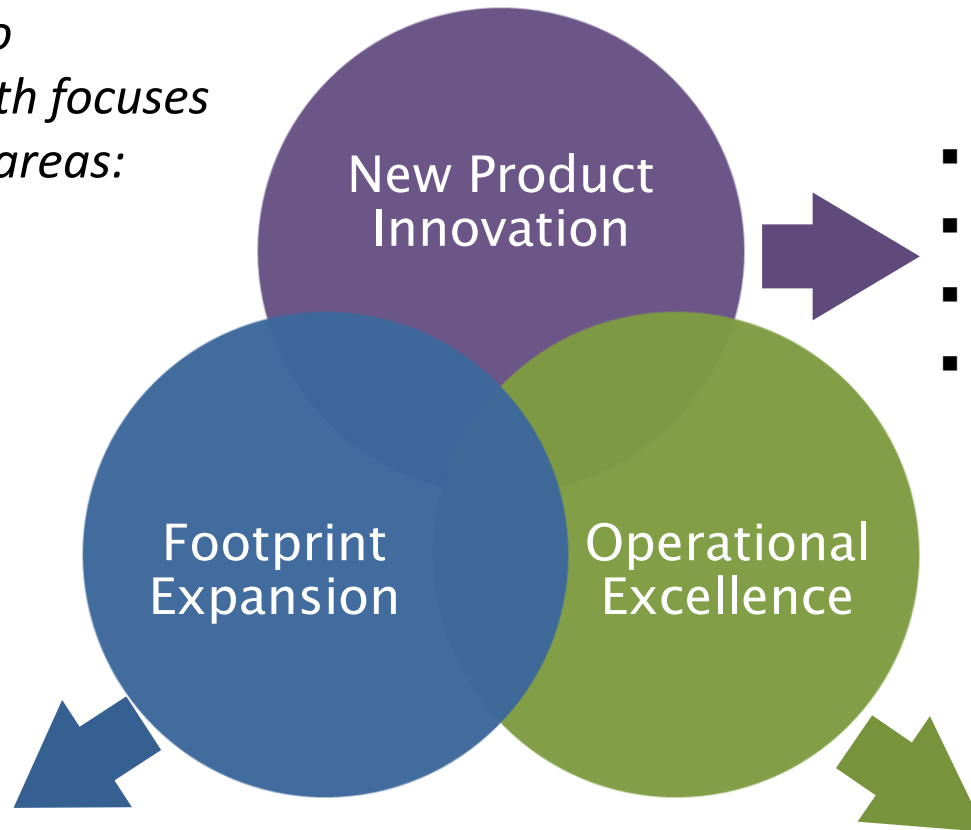
- Full year revenue guidance range of \$428M - \$437M
  - Steady growth projected in Mass Retail with larger second half growth anticipated
  - Direct growth projected to be higher in back-end with launch of new product
  - TreadClimber decline only material through Q2 2018
  - Specialty Retail and Commercial channel anticipated to return to growth mode in 2018
- Full year operating income guidance range of \$42M - \$45M
  - Investments in international, supply chain enhancements, and technology initiatives partially offsetting profit growth
  - Higher product costs expected due to unfavorable exchange rates and material cost increases



# Long-term Goals

# “The Road Map” for Profitable Growth

*Our approach to profitable growth focuses on three major areas:*



- Process Rigor
- IP Portfolio
- Brand Engagement
- Margin Discipline

- New Price Points
- New Core Categories
- Plus Growth Opportunities
- Access to Broader Audience

- Leverage Infrastructure
- Continuous Cost Improvements
- Supply Chain Efficiency
- Media Planning

# Targeted Operating Metrics

	Revenue Growth	Operating Income Growth	Operating Income % of Revenue	EBITDA** % of Revenue
<b>Long-term Run Rate</b>	<b>10-12%</b>	<b>Growth in excess of revenue growth</b>	<b>11-15%</b>	<b>13-17%</b>
2013 Results	12.8%	48.5%	7.2%	8.9%
2014 Results	25.4%	91.8%	11.0%	12.5%
2015 Results	22.3%	33.6%	12.0%	12.9%
2016 Results	20.9%	32.6%	13.1%	15.1%
2017 Results	0.0%	-15.5%*	11.1%*	13.3%*

\*Excludes 2017 \$8.8 million asset impairment charge

\*\*Reflects EBITDA from continuing operations excluding the 2017 \$8.8 million asset impairment charge

- Long-term Run Rate reflects management assessment of Nautilus' organic growth capability over the next 3-5 years
- Annual results will fluctuate within stated Long-term Run Rate due to industry dynamics, specific product life cycles, and other factors

# Capital Deployment Initiatives

## Organic Growth

New Product Introductions

Expanding Distribution

Infrastructure Investments

## Acquisition Strategy

Enhance or Accelerate Revenue Growth Drivers

Opportunistically Expand IP Portfolio

## Return Capital to Shareholders

Add'l \$15M Share Buyback Program Announced Q1 2018

Potential for Special/Ongoing Dividend Program

Priority

#1

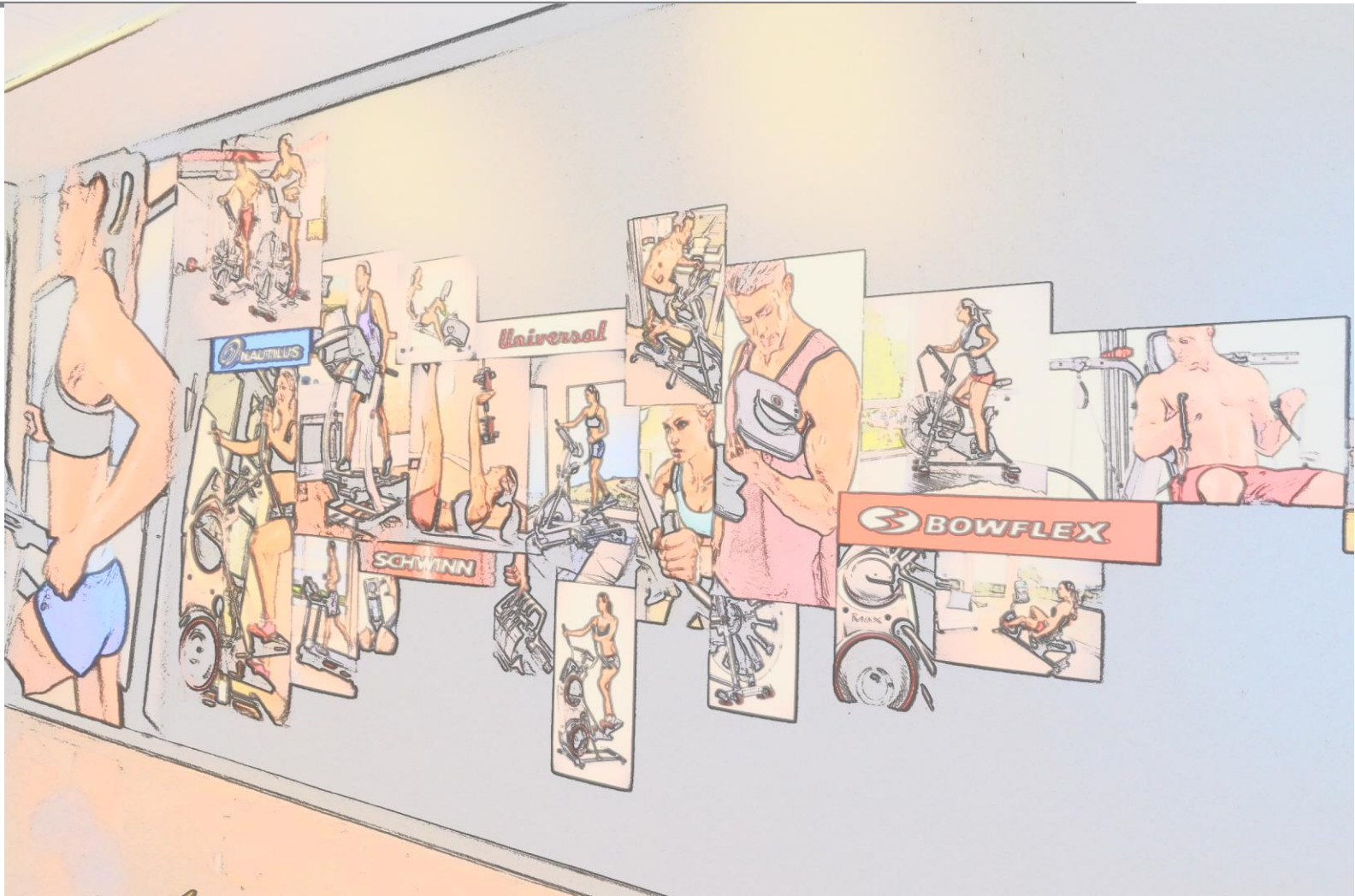
#2

#3

# Key Takeaways

---

- ✓ Leading portfolio of fitness brands
- ✓ Unique & innovative products and IP
- ✓ Solid sales & earnings growth; significantly improved profitability
- ✓ Strong financial condition
- ✓ Scalable platform & infrastructure
- ✓ Experienced management team that delivers on expectations



THANK YOU



# Appendix

# P&L Summary

All values in \$ millions except per share amounts

	2012	2013	2014	2015	2016	2017	Q1 2017	Q1 2018
Retail Revenue	\$ 63.9	\$ 76.8	\$ 93.2	\$ 106.2	\$ 177.9	\$ 183.9	\$ 37.8	\$ 43.0
Direct Revenue	125.0	136.7	175.6	225.6	225.1	219.4	74.7	71.2
Royalties	5.1	5.4	5.6	4.0	3.1	2.9	0.7	0.6
<b>Total Revenue</b>	<b>193.9</b>	<b>218.8</b>	<b>274.4</b>	<b>335.8</b>	<b>406.0</b>	<b>406.2</b>	<b>113.3</b>	<b>114.8</b>
Retail Gross Margin	14.4	19.5	23.7	26.9	58.8	60.3	12.1	13.4
% of Retail Rev	22.5%	25.3%	25.4%	25.3%	33.1%	32.8%	32.0%	31.2%
Direct Gross Margin	71.6	81.7	111.2	142.4	149.7	140.7	48.9	44.8
% of Direct Rev	57.3%	59.7%	63.3%	63.1%	66.5%	64.1%	65.5%	63.0%
Royalty	5.1	5.4	5.6	4.0	3.0	2.9	0.7	0.6
<b>Total Gross Margin</b>	<b>91.0</b>	<b>106.5</b>	<b>140.6</b>	<b>173.2</b>	<b>211.5</b>	<b>203.9</b>	<b>61.7</b>	<b>58.9</b>
% of Rev	46.9%	48.7%	51.2%	51.6%	52.1%	50.2%	54.5%	51.3%
Selling and Marketing	58.6	66.5	81.1	101.6	115.4	116.2	37.7	36.8
General and Administrative	17.7	18.7	22.1	21.4	28.8	27.1	7.5	6.9
Research and Development	4.2	5.6	7.2	9.9	13.9	15.4	3.9	4.5
Asset impairment	-	-	-	-	-	8.8	-	-
<b>Total Operating Expense</b>	<b>80.4</b>	<b>90.8</b>	<b>110.4</b>	<b>133.0</b>	<b>158.1</b>	<b>167.6</b>	<b>49.1</b>	<b>48.2</b>
% of Rev	41.5%	41.5%	40.2%	39.6%	38.9%	41.3%	43.3%	42.0%
Retail Operating Income (Loss)	7.9	11.4	13.3	12.9	29.5	27.5	2.2	3.9
% of Retail Rev	12.3%	14.9%	14.2%	12.1%	16.6%	15.0%	5.9%	9.1%
Direct Operating Income (Loss)	12.5	14.1	29.3	39.9	43.2	34.9	15.3	11.3
% of Direct Rev	10.0%	10.3%	16.7%	17.7%	19.2%	15.9%	20.5%	15.9%
Royalties and Unallocated Corporate	(9.7)	(9.8)	(12.5)	(12.5)	(19.3)	(26.1)	(4.9)	(4.5)
<b>Total Operating Income (Loss)</b>	<b>\$ 10.6</b>	<b>\$ 15.7</b>	<b>\$ 30.2</b>	<b>\$ 40.3</b>	<b>\$ 53.4</b>	<b>\$ 36.3</b>	<b>\$ 12.7</b>	<b>\$ 10.7</b>
% of Rev	5.5%	7.2%	11.0%	12.0%	13.2%	8.9%	11.2%	9.3%
Other Expense (Income)	0.2	(0.3)	(0.1)	0.2	1.8	0.6	0.4	0.0
<b>Pretax Income (Loss)</b>	<b>\$ 10.4</b>	<b>\$ 16.0</b>	<b>\$ 30.2</b>	<b>\$ 40.0</b>	<b>\$ 51.6</b>	<b>\$ 35.7</b>	<b>\$ 12.3</b>	<b>\$ 10.7</b>
Pretax Income (Loss) per Diluted share	\$ 0.34	\$ 0.51	\$ 0.95	\$ 1.27	\$ 1.65	\$ 1.15	\$ 0.40	\$ 0.35
Income Tax Expense (Benefit)	(0.2)	(32.1)	9.8	13.2	16.5	8.1	4.1	2.5
<b>Net Income (Loss) from Continuing Operations</b>	<b>\$ 10.6</b>	<b>\$ 48.1</b>	<b>\$ 20.4</b>	<b>\$ 26.8</b>	<b>\$ 35.1</b>	<b>\$ 27.6</b>	<b>\$ 8.2</b>	<b>\$ 8.1</b>
Net Income (Loss) per Diluted share	\$ 0.34	\$ 1.53	\$ 0.64	\$ 0.85	\$ 1.12	\$ 0.89	\$ 0.26	\$ 0.27

# Reconciliation of Non-GAAP Financial Measures

## Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) from Continuing Operations (unaudited):

Values in \$ millions

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Net income (loss) from continuing operations</b>	<b>\$ 10.6</b>	<b>\$ 48.1</b>	<b>\$ 20.4</b>	<b>\$ 26.8</b>	<b>\$ 35.1</b>	<b>\$ 27.6</b>
Interest expense (income), net	(0.1)	0.0	(0.0)	(0.2)	1.7	0.9
Income tax expense (benefit) of continuing operations	(0.2)	(32.1)	9.8	13.2	16.5	8.1
Depreciation and amortization	3.3	3.3	4.0	3.4	7.9	8.6
Asset impairment charge	-	-	-	-	-	8.8
<b>Adjusted EBITDA from continuing operations<sup>(1)</sup></b>	<b>\$ 13.6</b>	<b>\$ 19.4</b>	<b>\$ 34.2</b>	<b>\$ 43.2</b>	<b>\$ 61.1</b>	<b>\$ 54.0</b>

(1) May not add due to rounding

## Adjusted Operating Income (unaudited):

Values in \$ millions

	<u>2017</u>
<b>Operating income</b>	<b>\$ 36.3</b>
Asset impairment charge	8.8
<b>Adjusted operating income</b>	<b>\$ 45.1</b>

## Adjusted Operating Income Growth % (unaudited):

	<u>2017</u>
<b>Operating income growth %</b>	<b>(32.0%)</b>
Asset impairment charge	16.5%
<b>Adjusted operating income growth %</b>	<b>(15.5%)</b>

## Adjusted Operating Income % of Revenue (unaudited):

	<u>2017</u>
<b>Operating income % of revenue</b>	<b>8.9%</b>
Asset impairment charge % of revenue	2.2%
<b>Adjusted operating income % of revenue</b>	<b>11.1%</b>