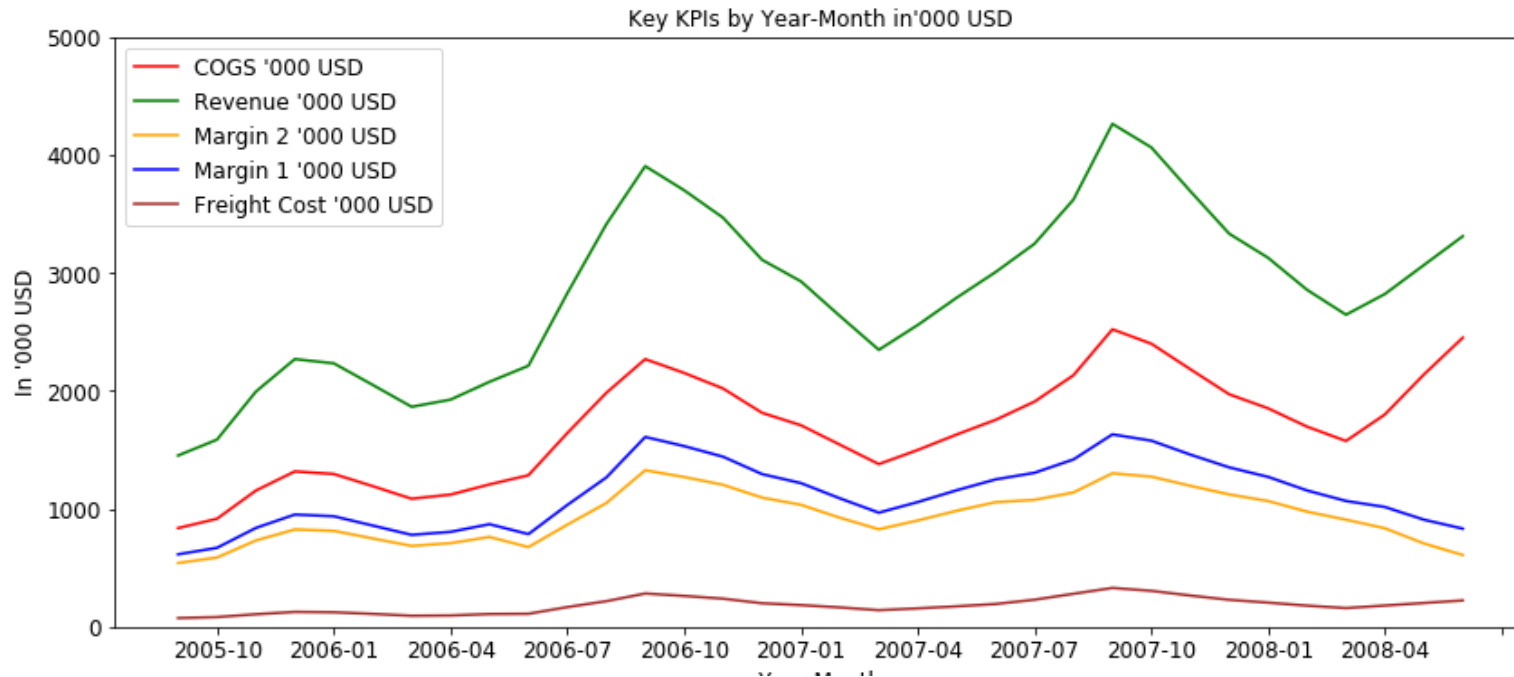
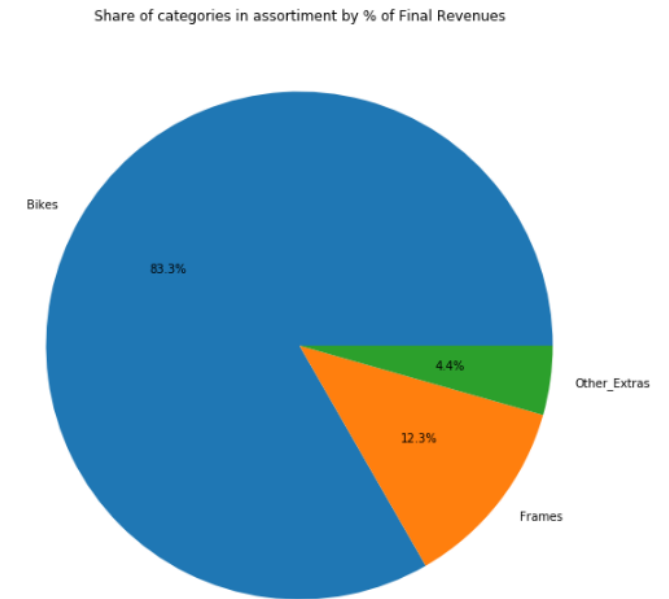


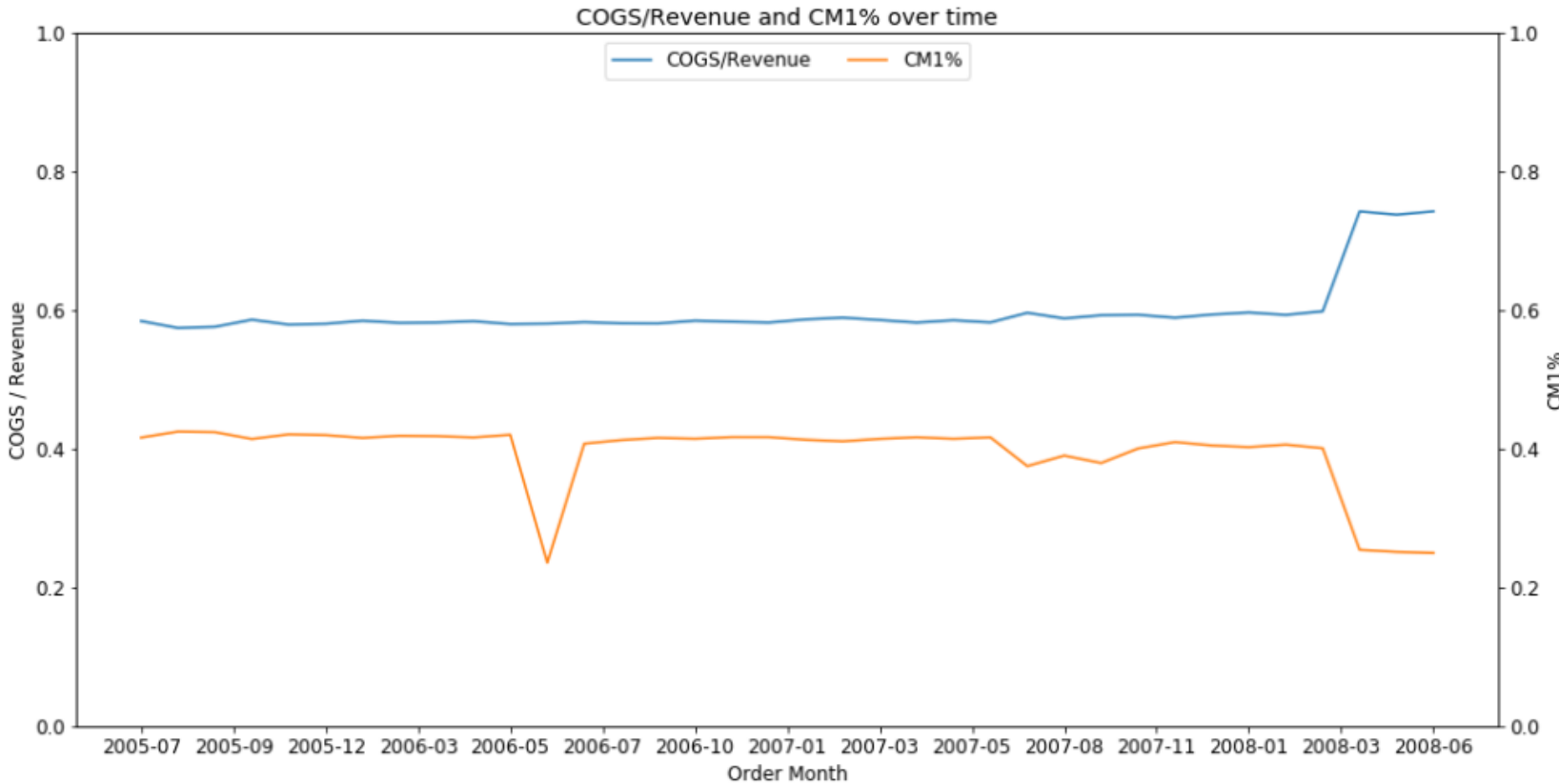
Profitability over time



- Decrease in Margin I implies higher product costs (COGS) in relation to revenues
- Equivalent decrease of Margin II implies that Fulfilment costs have not changed from before
- Other Extras are at times not breaking even
- Frames & Extras constitute a minor part of the portfolio



CM1 % and COGS/Revenue sharp change 2018-04 to 2018-06



High increase in COGS



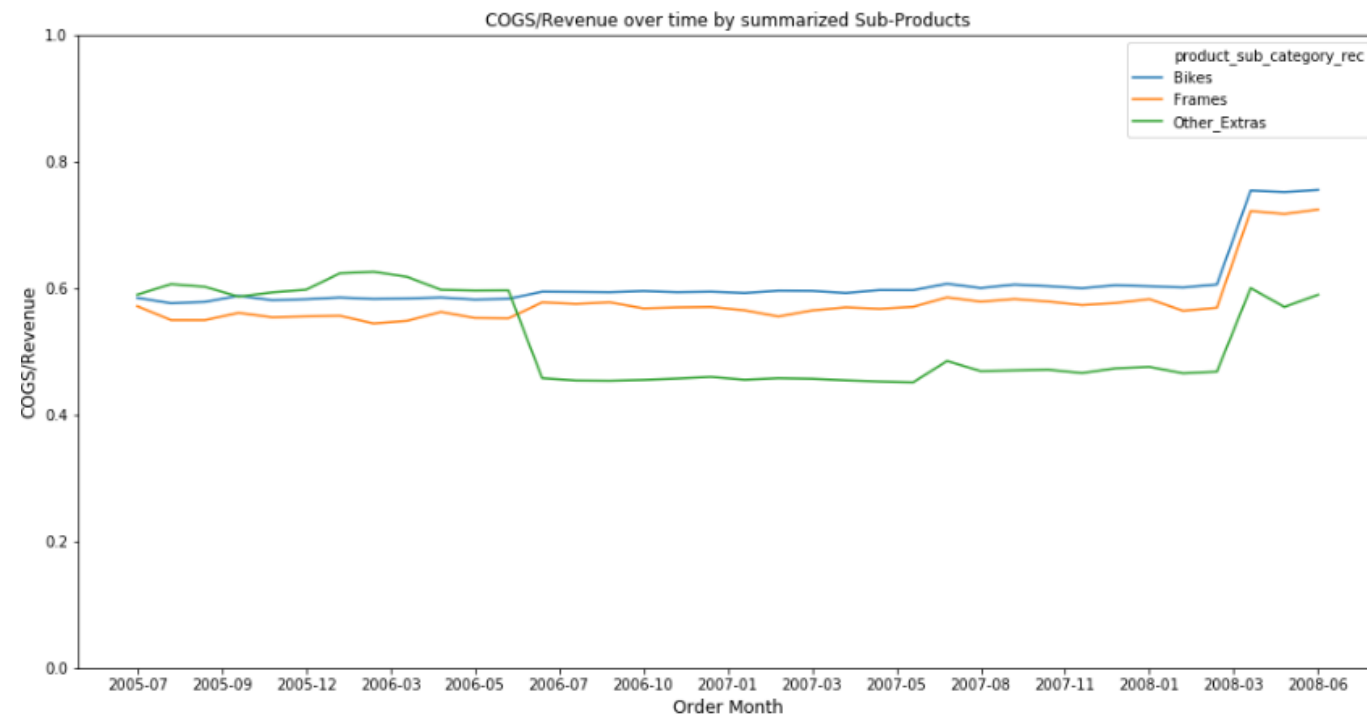
No increase in Revenue



High increase in COGS/Revenue

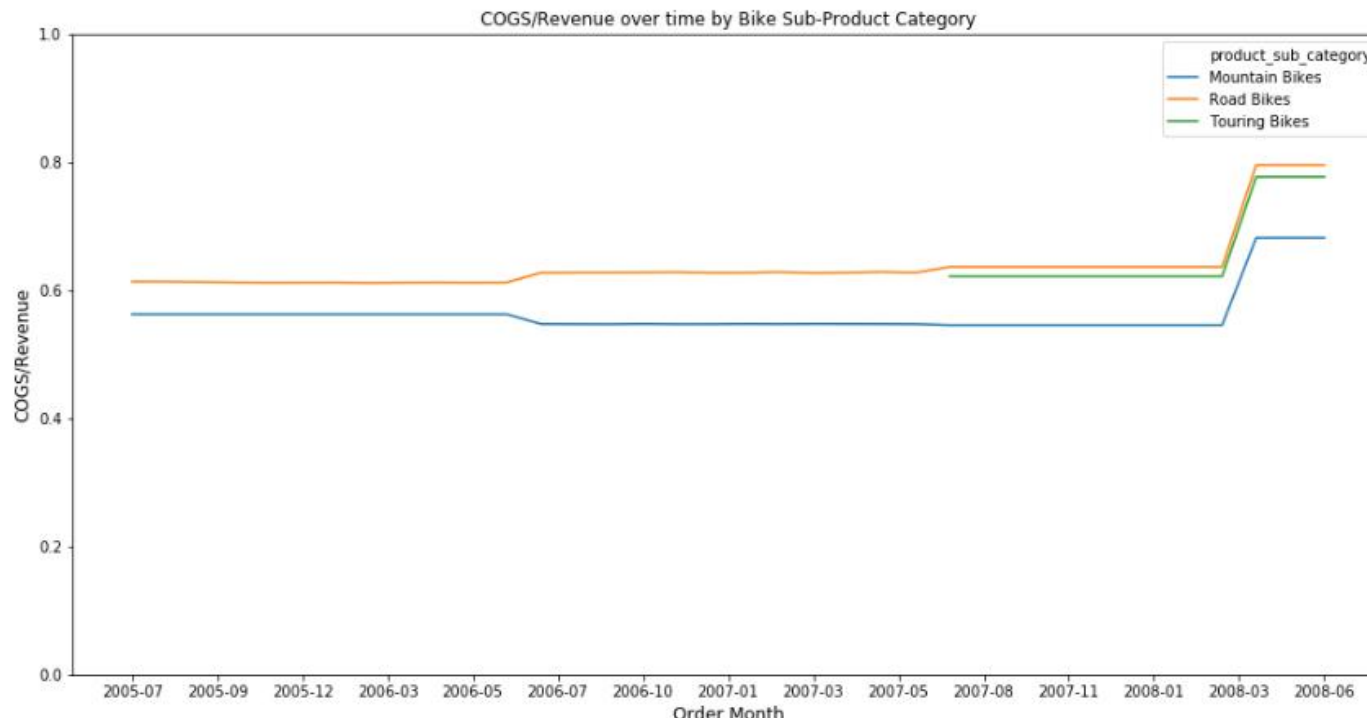


Lower CM1% = Lower profitability



All product sub-categories

- Bikes and Frames mostly impacted by increase in COGS/Revenue
- Other Extras as clothing, accessories and other components less impacted
 - Profitability focus should shift towards Bikes and Frames
- Increase in sales of other extras could bring in better unit Margins



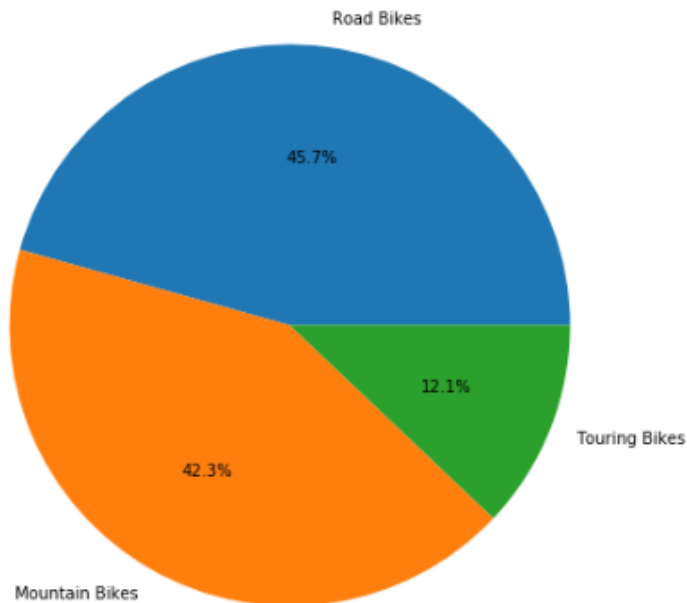
Bike sub-products

- COGS/Revenue increased in all bike sub-categories
- COGS/Revenue highest (0.8) for Road Bikes, followed by Touring Bikes

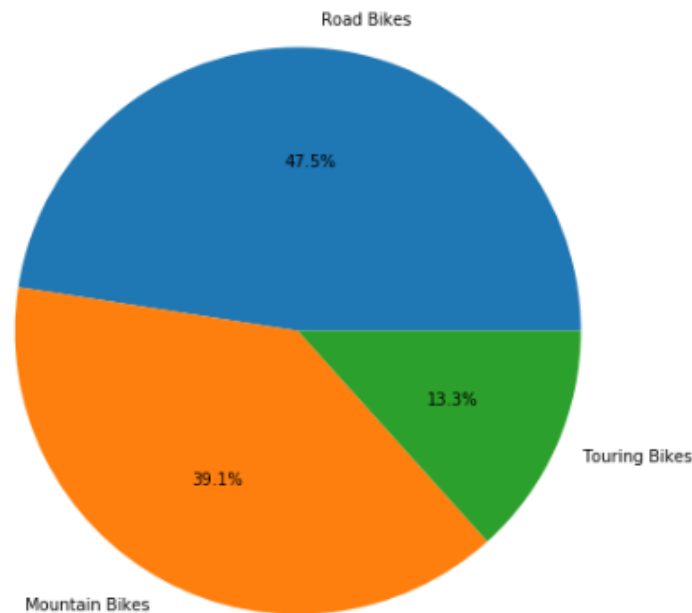
Bikes: simple statistics

- **Road bikes** comprise the highest share in portfolio's COGS at 47% yielding only 43% of portfolio's Margin I
 - **Biggest cost driver**
- **Touring bikes**, in turn, are least profitable costing 13% of the portfolio's COGS but yield only 10% of the margin
- **Mountain bikes** are more profitable as they incur 40% of the portfolio's COGS but yield 47% of the margin
 - **Better bike performer**

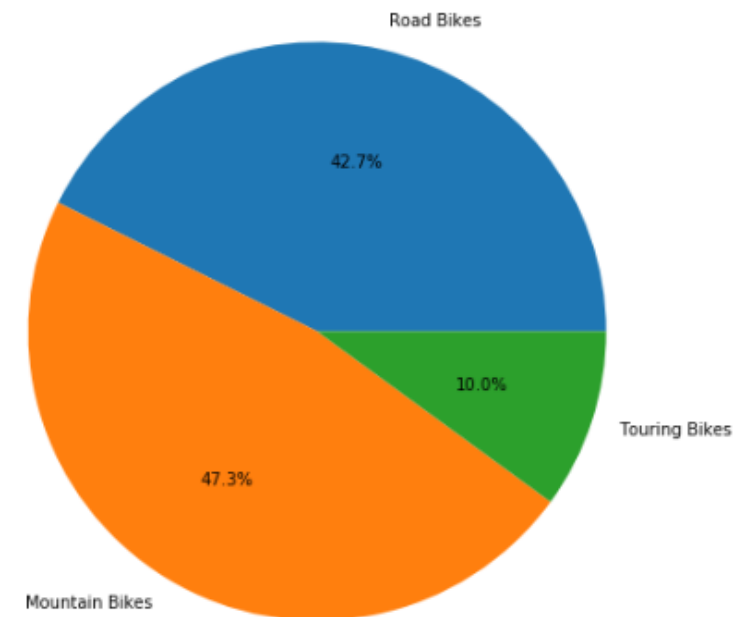
Share of Bike sub-categories in assortment by % of Final Revenues

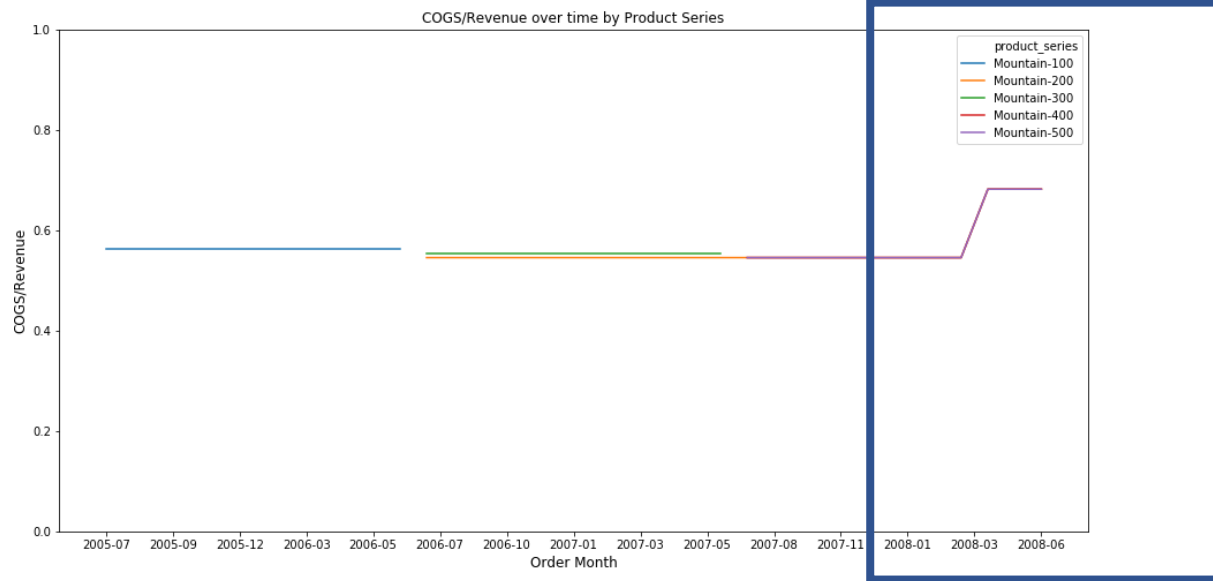


Share of Bike sub-categories in assortment by % of Costs



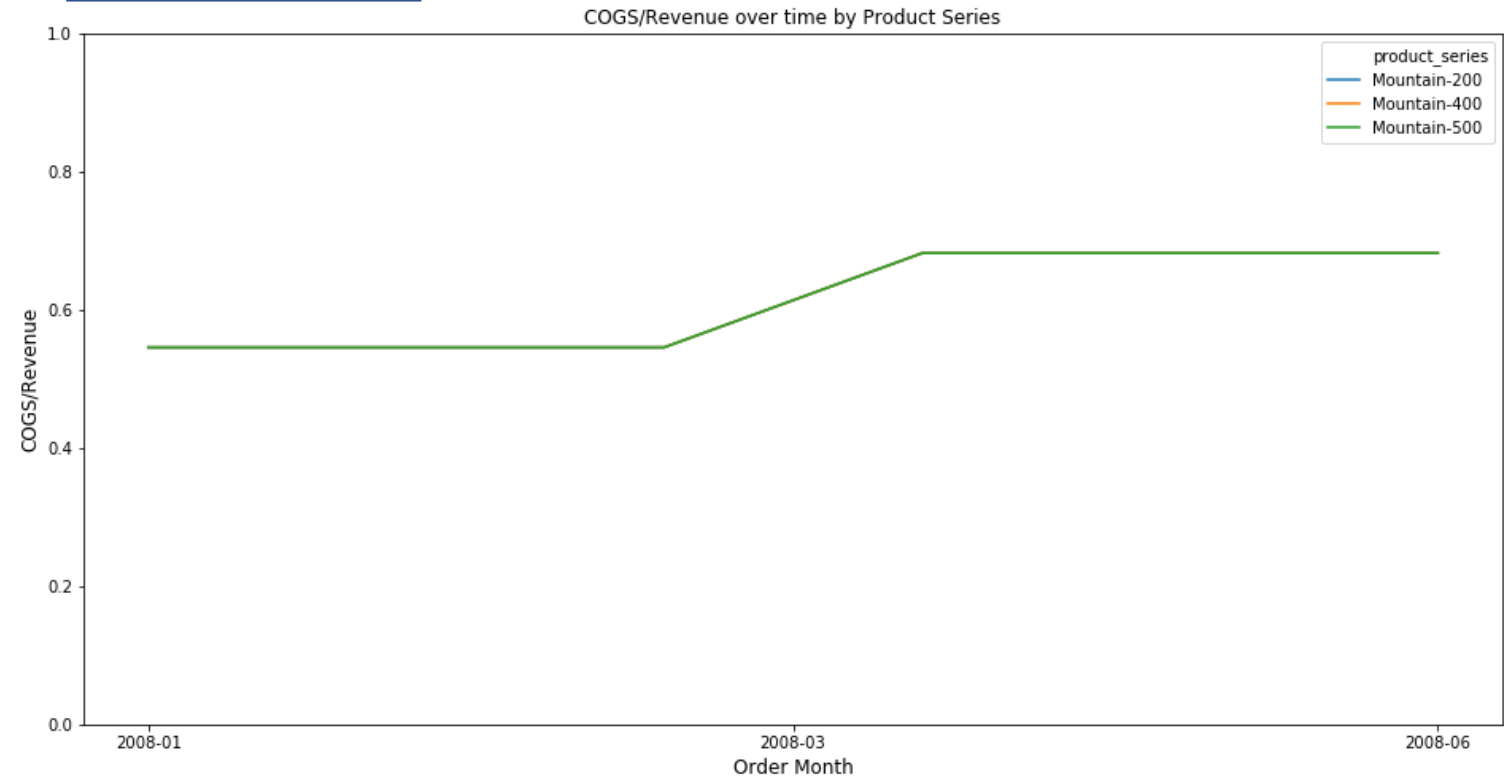
Share of Bike sub-categories in assortment by % of Margin I

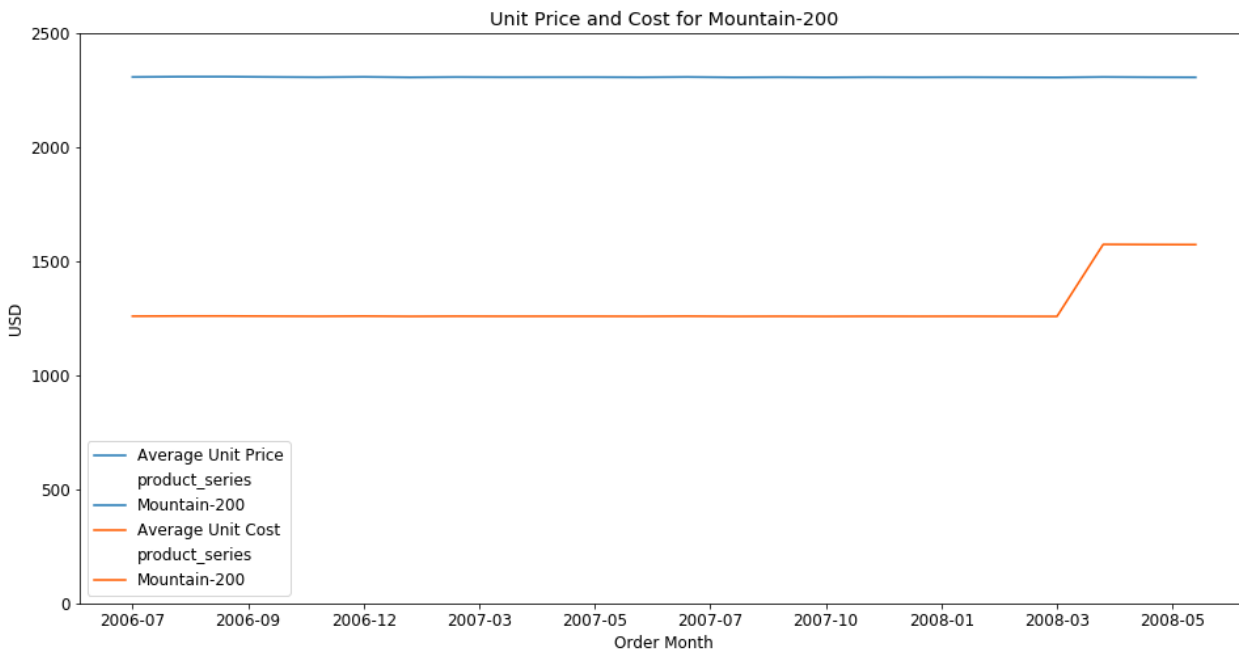




Mountain Bikes

- Mountain bike models -200, -400 and -500 all show the same decrease in profitability
- All other bike models show a similar decrease in profitability due to higher COGS

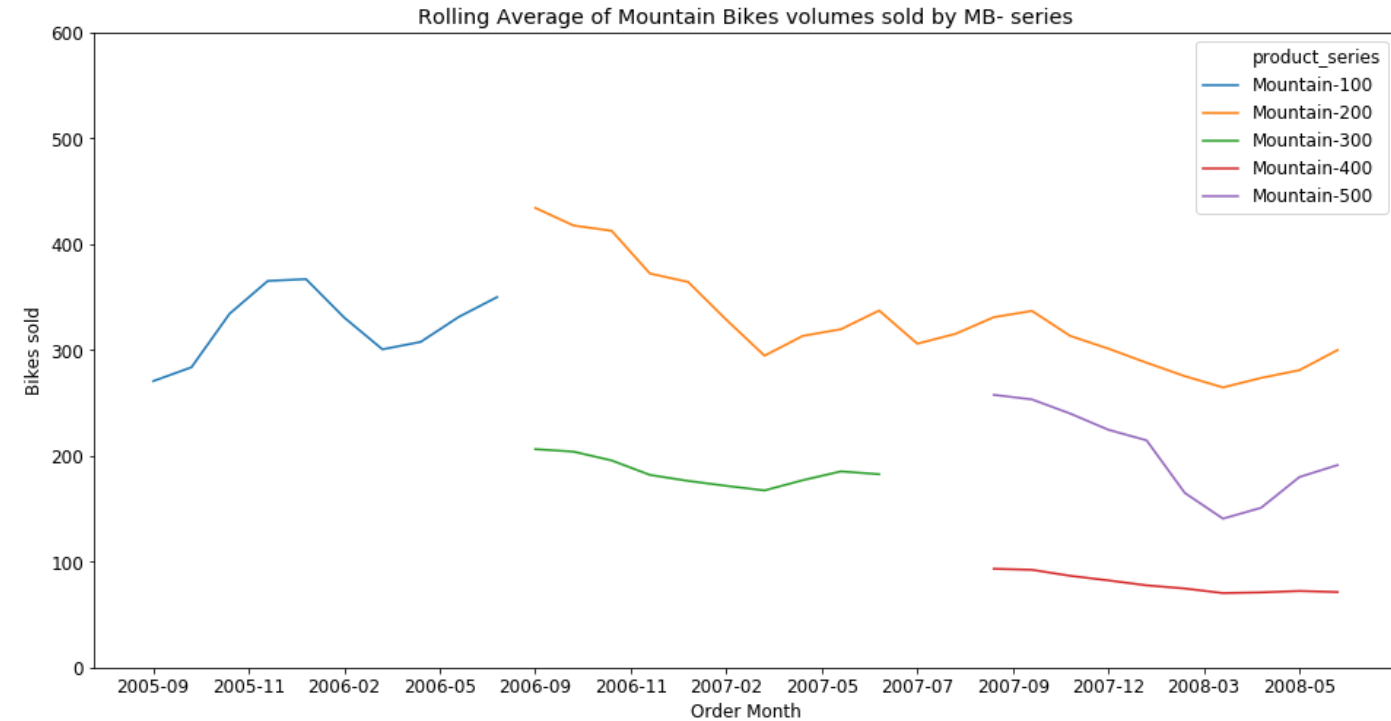




Mountain Bikes: Unit Economics & Volumes

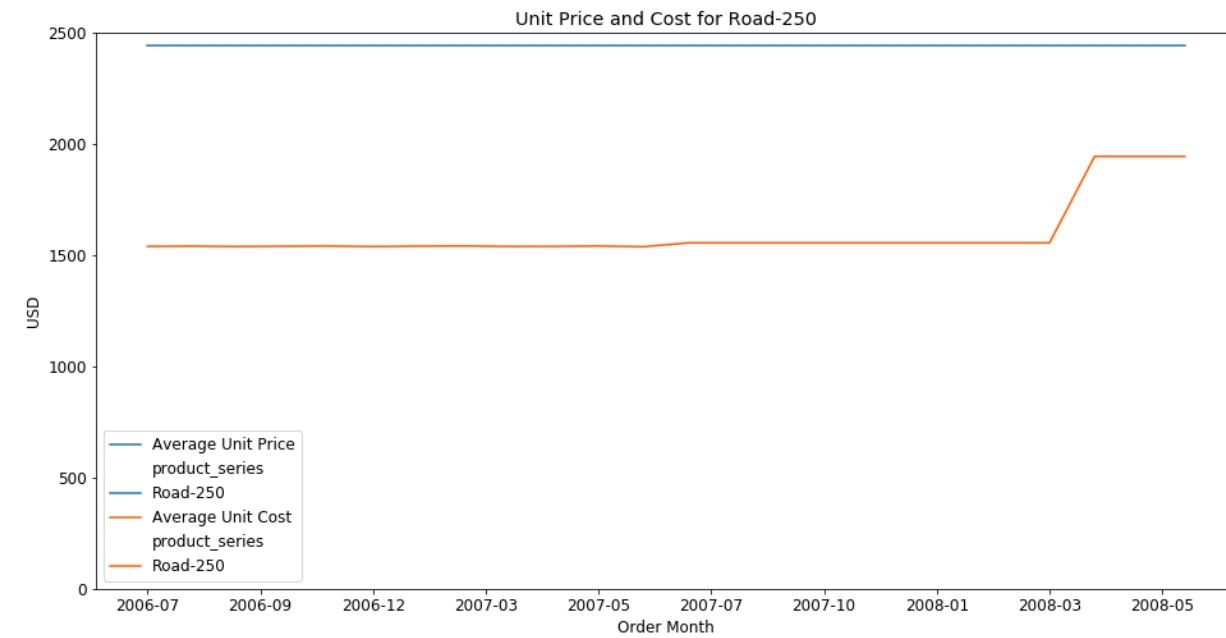
- Cost increase for all Mountain Bike series
- Largest absolute cost increase for Mountain-200

- On average, volume decrease for all Mountain Bike series
 - Mountain-200 and -500 are on a slight trend to see revenue increase

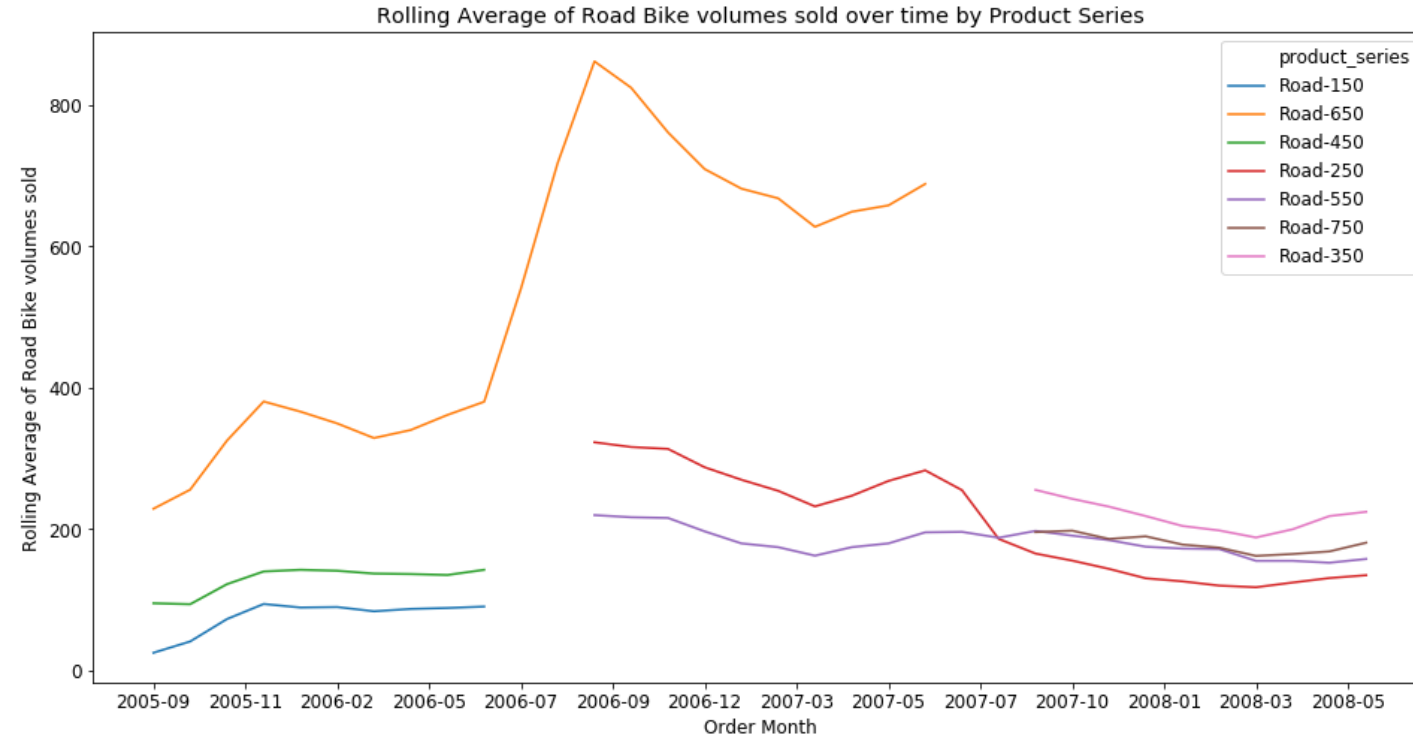


Road Bikes: Unit Economics & Volumes

- Similar pattern as in Mountain Bikes
- Increasing Unit Cost, Stable Unit Price

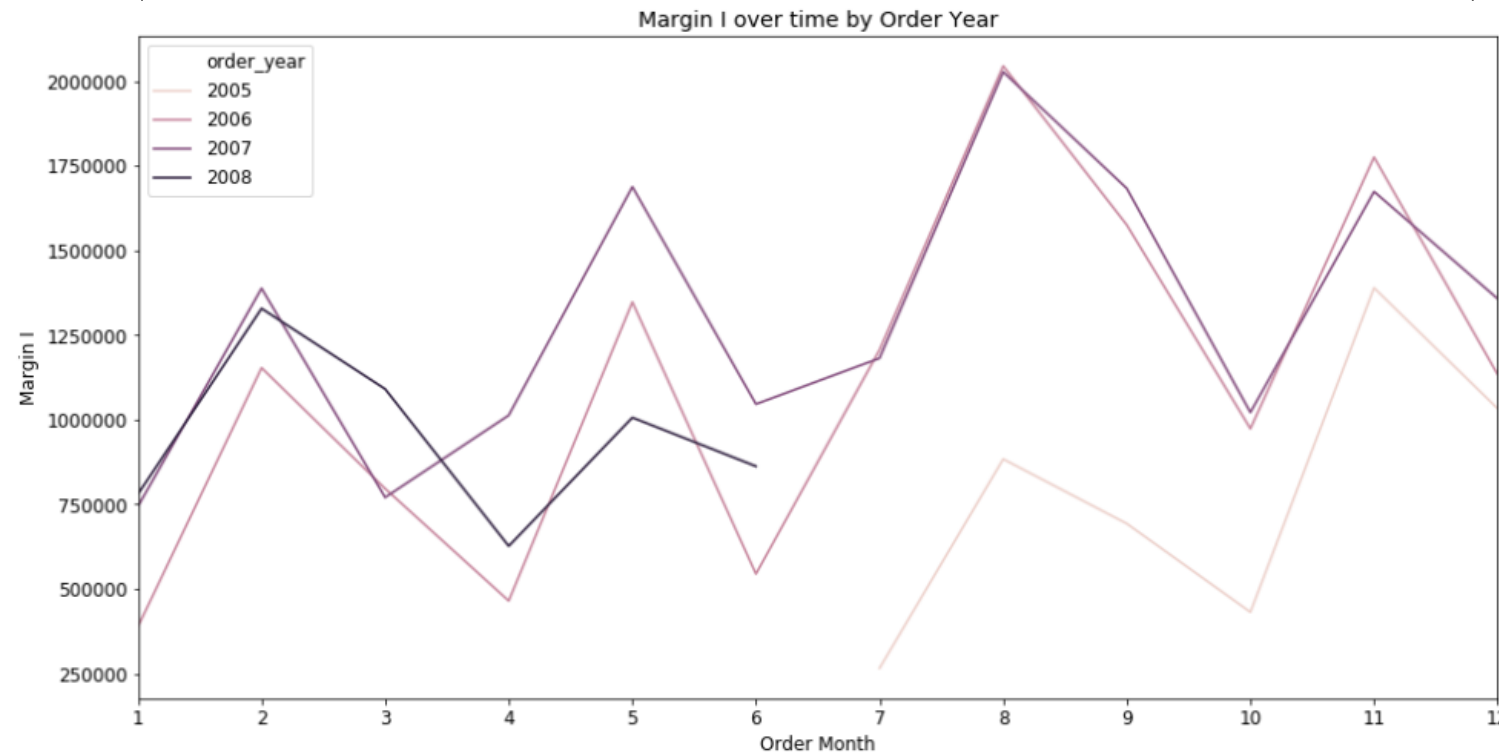


- Clear volume decrease for all Road Bike series



Seasonality

- Decrease in Margin I so far pushed by decrease in volumes sold and increase in COGS/Revenue
- Seasonality plays a role in the volume decrease:
 - YoY the first half of 2008 has seen more orders than the first half of 2007
 - 2008.04 to 2008.06 the first time that the COGS/Revenue ratio changed => decreased profitability expected despite pick-up in seasonal demand
- Margin I is however lower 2008-04 to 2008-06 compared to last two years



Recommendations for higher profitability 1/2

- Portfolio focus shifting
 - Mountain bikes are more profitable than other bike sorts: provided the customer has not made his choice beforehand, the bike assortment could reflect a higher mountain bikes' share
 - Could serve as a lever for lower Unit Bike Prices
 - Other extras, despite increasing unit costs, have currently lower COGS/Revenue, so they can be pushed more in the upcoming high season
 - Unless there is a clear market trend towards Touring Bikes in the future, the business can double-down on mountain and road bikes to arrange lower unit prices for them as Touring Bikes have so far not been as profitable
- Seasonality
 - Branching out in regions and markets possibly outside of the USA (i.e Australia), where the PPP is similar to current markets so that the business is not as impacted by seasonality as current
 - Could serve as a lever for lower Unit Bike Prices

Recommendations for higher profitability 2/2

- Price politics
 - If there is room in the market, bike prices can be increased to reflect at least a portion of the bike cost increase
 - If there are similar quality bike suppliers, price quotes should be obtained to see if bikes can be bought at better rates
- Scalability
 - Freight costs seem to remain stable despite continuous increases in volumes sold. Hence, Marginal Costs are low for this business model
 - Increasing basket size through Extras or through branching out in new provinces can provide higher margins through scale
 - In real life, Marginal Costs' calculation should include rent, salaries and other administrative costs

Thank you for your attention!

*Emiljo Jazxhi,
Berlin, 10.08.2020*