



GLOBAL
PLATINUM
SECURITIES™



Weight Watchers International Inc. (WW)

Recent turmoil distracts from long-term potential



Janet Huang
June 2, 2019



GLOBAL
PLATINUM
SECURITIES™

Weight Watchers (WW) International

Off to a slow start for stronger returns in the future

- WW, previously known as Weight Watchers, is a global wellness company and commercial weight management program
- Increasing focus on overall health and wellness and providing programs that maximize livability
- WW-branded services and products include digital offerings, in-person workshops, and consumer products
- Company's revenue is driven by subscriptions

Reason Mispriced

- Short-sighted investors have driven the stock price down in light of the company's disappointing performance in the crucial Q1
- Rebranding efforts are weakening the brand but will position the company well for future competitiveness
- New initiatives will drive retention and recruitment once they are adopted by consumers

Company Ticker

Units: USD

| | |
|----------------------------|---------|
| Price (as of 04/20/2000) | 19.07 |
| Diluted Shares Outstanding | 67.0 |
| Market Cap | 1,277.3 |
| (-) Cash | 237.0 |
| (+) Debt | 1,782.3 |
| (+) Preferred and Other | (35.6) |
| Enterprise Value | 2,787.0 |

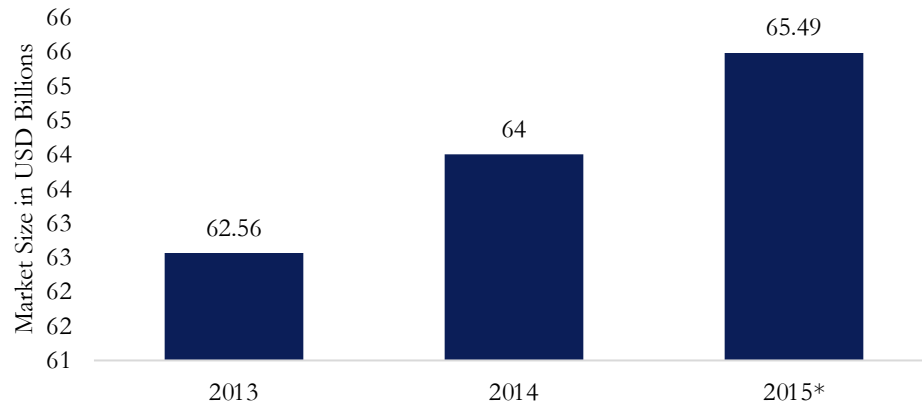
Key Financials / Multiples

| | |
|---------------------------|-------|
| EV / LTM EBIT | 7.3 |
| EV/ LTM EBITDA(R) | 7.1 |
| P/LTM LFCF or EV/LTM UFCF | 18.54 |
| P/E | 6.9 |
| Gross Margin | 57.2% |
| EBIT Margin | 25.7% |
| EBITDA Margin | 28.6% |

Weight Loss and Obesity Management Market

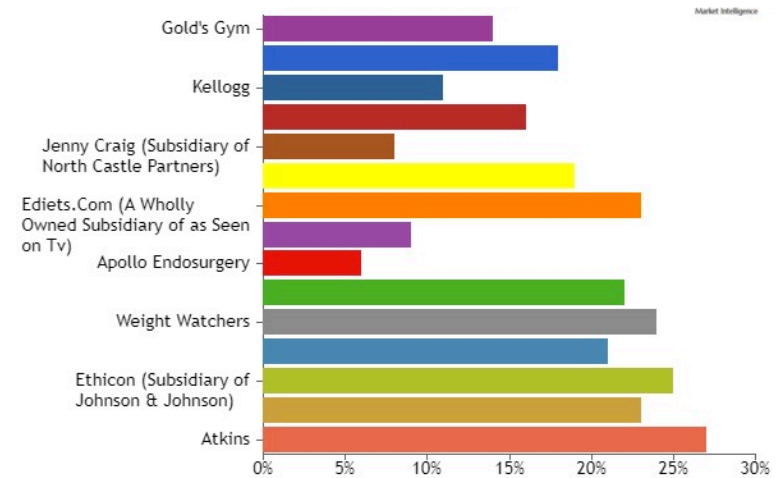
Major growth potential due to lifestyle/health trends

Size of U.S. Weight Loss Market (2013-2015)



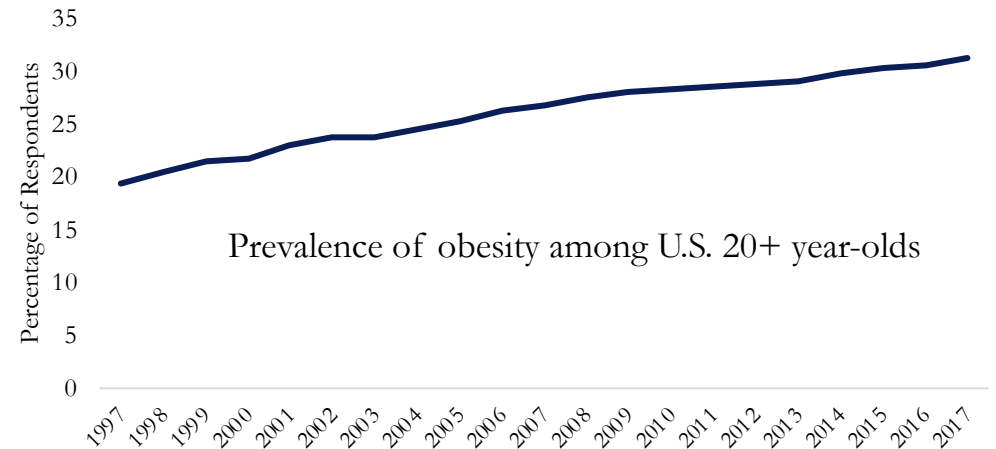
- Global market expected to exceed more than US \$253.1 Billion by 2024 at a CAGR of 6.2%

Market Share by Major Players



Key Market Drivers

- Rising rate of obesity & chronic diseases
- Growing health concerns amidst increased intake of high-calorie food and beverage
- Technological advancement leading to reduced physical activity and other unhealthy behavior

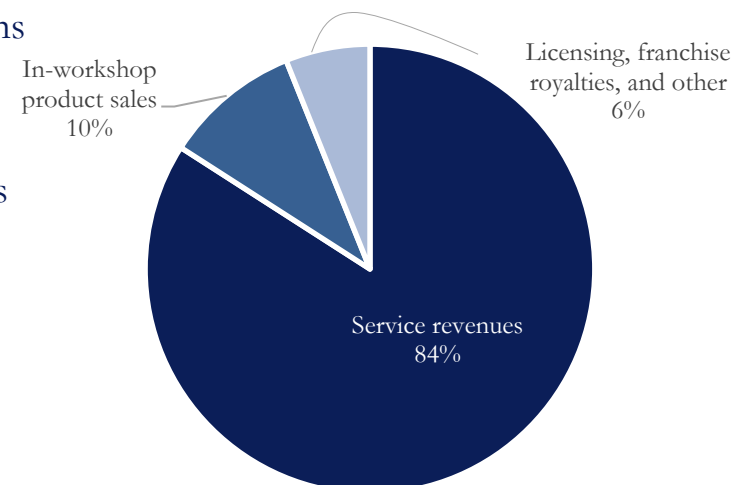


Business Overview

Plan-driven revenues + shifting demand to digital

Revenue Streams (CAGR)

- **Service revenues (15.8%):** revenues & fees associated with subscriptions
 - Digital: interactive and personalized resources that allow users to follow weight management program via web-based & mobile app
 - Studio + Digital: digital tools along with regular weekly workshops facilitated by wellness coaches
- **In-workshop product sales (8.9%):** snacks, cookbooks, kitchen tools and other products sold through workshops and ecommerce platforms
- **Licensing, franchise royalties, & other (1.0%):** license intellectual property to and co-brand with branded consumer products and services

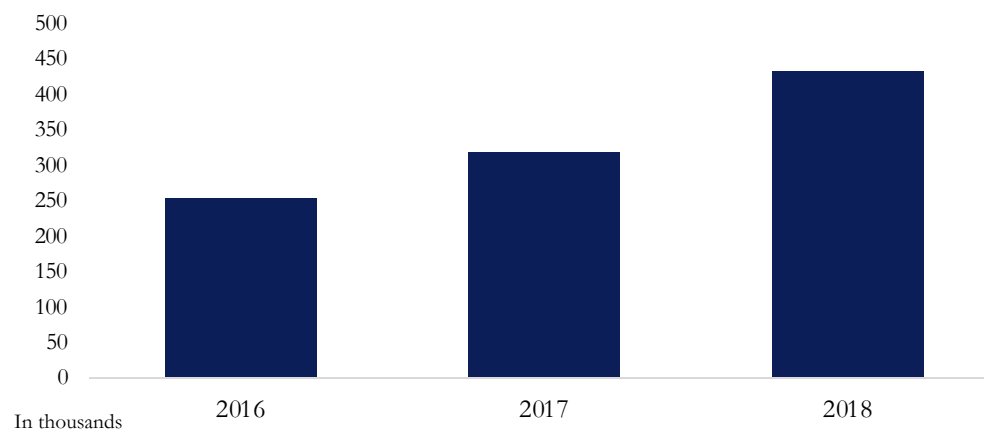


Operating Segments

Each reportable segment provides similar services and products:

- **North America:** United States and Canada
- **Continental Europe:** Germany, Switzerland, France, Belgium, Netherlands and Sweden
- **United Kingdom**
- **Other:** Australia, New Zealand, Mexico, and Brazil

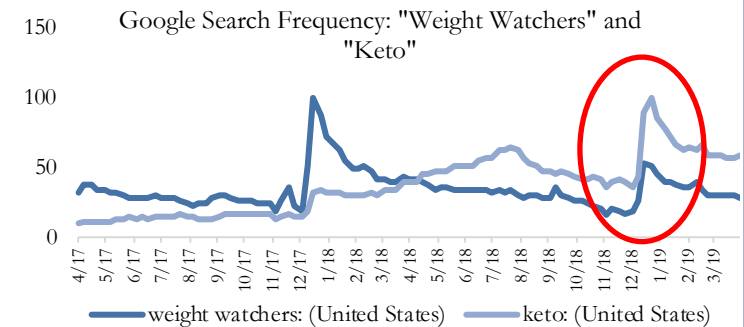
LTM EBITDA (2016-2018)



Potential Thesis

Overblown response to disappointing Q1 results

- Major success of Q1 2018 makes for a difficult comparison
- Trending Keto diet during recruiting season threatens short-term success
- Marketing focused on rebranding rather than recruiting (+ dropping “weight” from company name)



Rebranding efforts will eventually pay off

- Consumers are trending away from fad diets towards a more holistic view of weight and wellness
- Expanding ecosystem of products and services will allow WW to keep up with shifting preferences and to differentiate itself from competitors



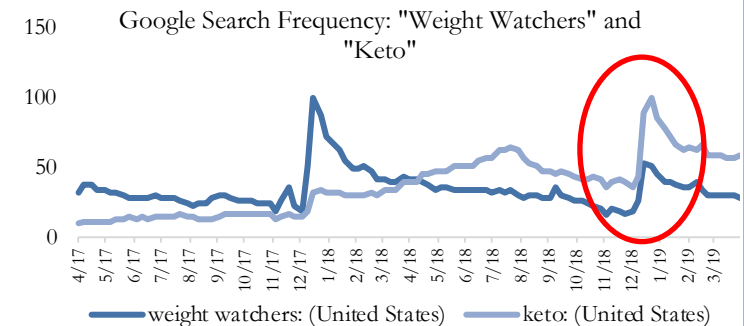
New initiatives will drive retention & recruitment

- Recently launched referral (Invite a Friend) & rewards program (WellnessWins)
 - In 2019, 15% of global recruits came from Invite a Friend & in-app purchase channels
 - WellnessWins has already increased engagement in its early stages
- Upcoming partnerships with Kohl's, Amazon, and Blue Apron will reinforce WW's unique digital + in-person package experience

Potential Thesis

Overblown response to disappointing Q1 results

- Major success of Q1 2018 makes for a difficult comparison
- Trending Keto diet during recruiting season threatens short-term success
- Marketing focused on rebranding rather than recruiting (+ dropping “weight” from company name)



Rebranding efforts will eventually pay off

- Consumers are trending away from fad diets towards a more holistic view of weight and wellness
- Expanding ecosystem of products and services will allow WW to keep up with shifting preferences and to differentiate itself from competitors



New initiatives will drive retention & recruitment

- Recently launched referral (Invite a Friend) & rewards program (WellnessWins)
 - In 2019, 15% of global recruits came from Invite a Friend & in-app purchase channels
 - WellnessWins has already increased engagement in its early stages
- Upcoming partnerships with Kohl's, Amazon, and Blue Apron will reinforce WW's unique digital + in-person package experience

Valuation

Discounted Cash Flow Analysis

| Gordon Growth | |
|--------------------------------|-----------|
| Implied Firm Value | 3,351,048 |
| Cash on Balance Sheet | \$236,974 |
| Book Value of Debt | 1,669,708 |
| Implied Market Value of Equity | 1,918,314 |
| Market Value/Share | \$27.36 |
| Share Price | \$17.29 |
| Growth Rate | 1.00% |

| Multiples Method | |
|--------------------------------|-----------|
| Implied Firm Value | 3,194,120 |
| Cash on Balance Sheet | 236,974 |
| Book Value of Debt | 1,669,708 |
| Implied Market Value of Equity | 1,761,386 |
| Market Value/Share | \$25.12 |
| Share Price | \$17.29 |
| Terminal Multiple | 8.7x |

WEIGHTED AVERAGE COST OF CAPITAL (WACC) CALCULATION

| Cost of Equity | | Cost of Debt | |
|------------------------------|-----------|--------------------------------|-----------|
| Shares Outstanding | 70,115 | Book Value | |
| Share Price | \$17.29 | Long-term debt, net | 1,669,708 |
| Market Value of Equity | 1,212,288 | Weighted average interest rate | 7.46% |
| Unlevered Average Comps Beta | 0.91 | Pre-Tax Cost of Debt | 7.46% |
| Tax Rate | 25.00% | After-Tax Cost of Debt | 5.60% |
| Debt/Equity Ratio | 137.73% | | |
| Implied Levered Beta | 1.85 | | |
| Risk-Free Rate | 2.19% | | |
| Equity Risk Premium | 4.99% | | |
| Cost of Equity | 11.42% | | |
| WACC | 8.05% | | |

Implied Share Price: \$26.24
Upside: 52%

Risks

Paradoxical business amidst growing competition

- As WW's program and products improve, people may feel less inclined to continue paying for its services as they have already achieved the results they desire
 - Recently launched referral program could replace these successful cases with new clients
 - Customer testimonies, especially from high-profile individuals, can boost WW's credibility
- WW may struggle to compete with the increasing number of free and convenient applications + consumers face low switching costs when it comes to wellness goods and services
 - Company is continuing to develop its competitive edge by combining the digital experience with an in-person community
 - Recently launched rewards program can raise switching costs and build up moat

Next Steps

Further exploration to flesh out the thesis

- Clarify the extent of the “difficult” nature of the comp that resulted in the subpar Q1 figures
- Analyze the impact of changing from “Weight Watchers” to “WW” in relation to recruitment
- Look at how other weight management companies are faring amidst the shifting consumer preferences and how they plan to address the different demands
- Determine what improvements in KPIs can be attributed to the new initiatives