



Nautilus, Inc. (NLS: \$8.00 In-Line; \$6 PT)

Staying On the Sidelines Given Uncertain Financial Outlook—Maintaining Our In-Line Rating and Lowering Our Price Target to \$6 from \$7

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Key Data	
Symbol:	NLS
Price (2/25/19):	\$8.00
Rating:	In-Line
Price Target:	\$6
Estimates:	
2019E EBITDA:	\$17
2020E EBITDA:	\$18
2019E EV/EBITDA:	12.1x
2020E EV/EBITDA:	11.4x

Company Description
Nautilus is a fitness equipment company selling under the Nautilus, Bowflex, Octane Fitness, and Schwinn brands. The company sells directly to consumers and through a network of retailers.

Figure 1. Nautilus, Inc.—Key Company Data, Prices as of Market Close on 2/25/19

Key Data	FY: Dec	2016	2017	2018	2019E	2020E				
Price:	\$8.00									
Price Target:	\$6.00									
52-Week Range:	\$6.77-\$17.20									
Market Cap (\$mn):	239									
Shares Out. (mn):	29.9									
Avg. Daily Vol.:	450,000									
	Adj EPS:			Old	Actual	Old	New	Old	New	
	Q1	0.37	0.26	0.27A	0.27	0.09	(0.11)	--	--	
	Q2	0.12	0.08	0.03A	0.03	0.00	(0.06)	--	--	
	Q3	0.25	0.27	0.15A	0.15	0.17	0.19	--	--	
	Q4	0.38	0.27	0.04	0.05	0.13	0.14	--	--	
	Year	1.12	0.88	0.49	0.50	0.39	0.16	--	0.15	
	P/E	7.1x	9.1x		16.0x		50.0x		53.3x	
Total Cash (\$mn)*:	64	Adj EBITDA (\$mn)	61	54	29	30	25	17	--	18
Net Cash (\$mn)*:	32	EV/EBITDA	3.4x	3.8x		6.9x		12.1x		11.4x
EV (\$mn):	207	Revenue (\$mn)								
Dividend:	na	Q1	121	113	115A	115	93	89	--	--
Dividend yield:	na	Q2	79	77	75A	75	65	66	--	--
		Q3	81	88	91A	91	89	89	--	--
		Q4	126	128	115	115	120	114	--	--
		Year	406	406	396	397	367	358	--	356

*vs. S&P 500

Sources: Company data and Imperial Capital, LLC.

Financial Summary

Nautilus, Inc. (NLS) generated revenue of \$397mn and EBITDA of \$30mn in the latest twelve month (LTM) period ended 12/31/18. The company had \$32mn in net cash as of that date.

View and Valuation

We are maintaining our In-Line rating on NLS shares and lowering our one-year price target to \$6 from \$7. Our price target is based on 8x 2020E EBITDA.

Rationale

We are maintaining our In-Line rating on NLS shares given the uncertain financial outlook in both the direct and retail segments. We see limited upside until the businesses stabilize.

Quarterly overview: NLS formally released 4Q18 on 2/25/19 after pre-releasing disappointing results on 1/17/19. Our 4Q18 estimates already reflected the January announcement.

Guidance update: Management decided not to provide FY19 guidance, as is customary, due to limited visibility (especially in the direct segment). The company did provide more qualitative guidance, stating that the direct segment remains challenging and that bloated inventory at retail will pressure the retail segment through 1Q19. The company is also working to improve its cost structure.

Estimate changes: We are again lowering our estimates for 2019, as shown in Figure 1. We now estimate direct to decline approximately 23% year-over-year and retail to grow 2%. We model for G&A, R&D, and selling and marketing to decline modestly in 2019 from cost cutting and lower media advertising spend. Selling and marketing is especially challenging to model, but we note that media effectiveness trended materially lower in 4Q18 and the company plans to pull back in March. We are also introducing 2020 estimates that reflect more modest declines in the direct business and 2% growth in retail. The direct business is likely to remain pressured until Max Intelligence gets traction, or a new product launches more successfully than HVT or LateralX.

Broader market commentary: We believe NLS would benefit from added scale. There is pressure in commercial and consumer fitness (competition, technology, retail, etc.) – scale would take pressure off of the direct business and allow accelerated technology investments. Several peers in fitness equipment are reportedly for sale.

Important Disclosures, Certifications and Other Information

See the last page of this report for important disclosures, analyst certifications and other information concerning conflicts of interest that may exist between the subject of this report and Imperial Capital, LLC, Imperial Capital Asset Management, LLC and/or the author(s) of this report.

Additional information is available upon request.

Capitalization

Figure 2. Nautilus, Inc.—Capitalization as of 12/31/18, Prices as of Market Close on 2/25/19

			Debt Face		Net Debt Face		Net Debt Market			Price / YTM Analysis			Interest Exp. Analysis	
LTM Revenue	(12/31/18)	397												
LTM ADJ EBITDA	(12/31/18)	30												
LTM EBITDA %	(12/31/18)	7.5%												
LTM FCF	(12/31/18)	na												
Settlement Date	NA													
	M/S&P Rating	Balance	Cum. Debt Face	LTM EBITDA 30 Mult.	Net Cum. Debt Face	LTM EBITDA 30 Mult.	Debt Mkt	Net Cum. Debt Mkt	LTM EBITDA 30 Mult.	Price	YTM	Mat.	Rate/Coup.	Est. Int. Exp.
Cash		64												
Senior Secured Credit Facility														
Term Loan		32	32		(32)		32	(32)			12/31/20	1.68%	0.5	
Total		32	32	1.1x	(32)	(1.1x)	32	(32)	(1.1x)				0.5	
Common Equity														
Common Stock (NLS)		181												
Total Equity		181			149	5.0x	8.00	29.9					Interest 0.5	

Sources: Company data and Imperial Capital, LLC.

Figure 3. Nautilus, Inc.—Income Statement, 2016-2020E

Nautilus Inc. (NLS)	2016	2017	1Q18 March	2Q18 June	3Q18 Sept	4Q18 Dec	2018	1Q19E March	2Q19E June	3Q19E Sept	4Q19E Dec	2019E	2020E
Net Sales	\$406,039	\$406,184	\$114,813	\$75,498	\$91,057	\$115,385	\$396,753	\$88,910	\$66,048	\$88,799	\$114,058	\$357,815	\$355,561
<i>Growth</i>	20.9%	0.0%	1.4%	-2.0%	3.3%	-9.7%	-2.3%	-22.6%	-12.5%	-2.5%	-1.1%	-9.8%	-0.6%
Cost of Sales	194,514	202,302	55,942	41,850	52,551	64,670	215,013	48,233	38,791	52,297	65,752	205,073	205,104
Gross Profit	211,525	203,882	58,871	33,648	38,506	50,715	181,740	40,677	27,257	36,502	48,306	152,742	150,458
Selling and Marketing	115,437	116,222	36,763	22,084	20,635	36,438	115,920	33,786	19,154	17,760	31,936	102,636	100,355
General and Administrative	28,775	27,111	6,910	6,327	7,503	7,486	28,226	7,113	6,275	7,282	6,844	27,512	27,312
Research and Development	13,919	15,446	4,501	4,035	4,208	4,081	16,825	4,001	4,095	3,996	4,106	16,198	16,848
Other	0	8,800	0	0	0	0	0	0	0	0	0	0	0
Operating Income	53,394	36,303	10,697	1,202	6,160	2,710	20,769	(4,222)	(2,267)	7,465	5,420	6,396	5,943
Other Expenses	(1,813)	(598)	(34)	57	213	(4)	232	0	0	0	0	0	0
Pretax Income	51,581	35,705	10,663	1,259	6,373	2,706	21,001	(4,222)	(2,267)	7,465	5,420	6,396	5,943
Income Tax Expense	16,480	8,080	2,523	252	1,870	1,246	5,891	(1,034)	(555)	1,829	1,328	1,567	1,456
Income from Continuing Ops	35,101	27,625	8,140	1,007	4,503	1,460	15,110	(3,188)	(1,711)	5,636	4,092	4,829	4,487
Income from Discontinued Ops	(923)	(1,358)	(81)	(79)	(194)	(98)	(452)	0	0	0	0	0	0
Net Income	\$34,178	\$26,267	\$8,059	\$928	\$4,309	\$1,362	\$14,658	(\$3,188)	(\$1,711)	\$5,636	\$4,092	\$4,829	\$4,487
EPS	\$1.09	\$0.85	\$0.26	\$0.03	\$0.14	\$0.05	\$0.48	(\$0.11)	(\$0.06)	\$0.19	\$0.14	\$0.16	\$0.15
Adjusted EPS	\$1.12	\$0.88	\$0.27	\$0.03	\$0.15	\$0.05	\$0.50	(\$0.11)	(\$0.06)	\$0.19	\$0.14	\$0.16	\$0.15
Shares Outstanding	31,301	31,012	30,591	30,476	30,433	29,926	30,357	29,976	30,026	30,076	30,126	30,051	30,251
Adjusted EBITDA	\$61,149	\$54,047	\$13,123	\$3,262	\$8,526	\$5,039	\$29,950	(\$1,522)	\$433	\$10,165	\$8,120	\$17,196	\$18,243
FCF	\$41,195	\$31,224	\$14,334	(\$1,973)	(\$9,092)	\$1,312	\$4,581	(\$2,738)	(\$1,261)	\$6,086	\$4,542	\$6,629	\$6,287
Expense Ratios													
Gross Margin	52.1%	50.2%	51.3%	44.6%	42.3%	44.0%	45.8%	45.8%	41.3%	41.1%	42.4%	42.7%	42.3%
Selling and Marketing	28.4%	28.6%	32.0%	29.3%	22.7%	31.6%	29.2%	38.0%	29.0%	20.0%	28.0%	28.7%	28.2%
General and Administrative	7.1%	6.7%	6.0%	8.4%	8.2%	6.5%	7.1%	8.0%	9.5%	8.2%	6.0%	7.7%	7.7%
Research and Development	3.4%	3.8%	3.9%	5.3%	4.6%	3.5%	4.2%	4.5%	6.2%	4.5%	3.6%	4.5%	4.7%
Taxes	31.9%	22.6%	23.7%	20.0%	29.3%	46.0%	28.1%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%
Operating Margin	13.1%	8.9%	9.3%	1.6%	6.8%	2.3%	5.2%	-4.7%	-3.4%	8.4%	4.8%	1.8%	1.7%
EBITDA Margin	15.1%	13.3%	11.4%	4.3%	9.4%	4.4%	7.5%	-1.7%	0.7%	11.4%	7.1%	4.8%	5.1%

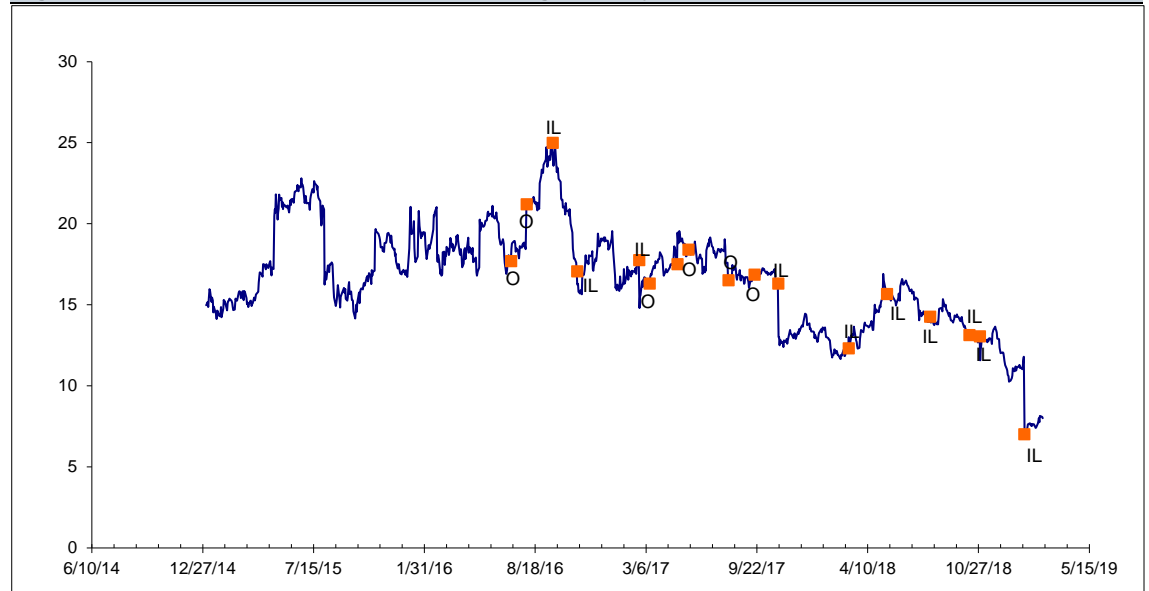
Sources: Company data and Imperial Capital, LLC.

Risk Factors

- **Max Trainer:** Max is responsible for a substantial portion of revenue and profitability.
- **Competition:** NLS operates in a competitive segment with other well-capitalized peers.
- **Technology:** Technology is becoming increasingly important in fitness equipment.
- **Credit:** Approvals are near all-time highs.

Price Chart and Ratings History

Figure 4. Nautilus, Inc.—Price Chart and Ratings History



Description	Price	IC Rating	Report Date
Common Stock	\$7.00	In-Line	1/18/19
Common Stock	\$13.04	In-Line	10/30/18
Common Stock	\$13.13	In-Line	10/11/18
Common Stock	\$14.25	In-Line	8/1/18
Common Stock	\$15.65	In-Line	5/15/18
Common Stock	\$12.30	In-Line	3/7/18
Common Stock	\$16.30	In-Line	10/31/17
Common Stock	\$16.85	Outperform	9/18/17
Common Stock	\$16.50	Outperform	8/2/17
Common Stock	\$18.40	Outperform	5/22/17
Common Stock	\$17.50	Outperform	5/2/17
Common Stock	\$16.30	Outperform	3/13/17
Common Stock	\$17.75	In-Line	2/22/17
Common Stock	\$17.05	In-Line	11/2/16
Common Stock	\$24.99	In-Line	9/19/16
Common Stock	\$21.20	Outperform	8/3/16
Common Stock	\$17.68	Outperform	7/6/16

Sources: Bloomberg and Imperial Capital, LLC.

Companies under coverage: George Kelly, CFA: Acushnet Holdings (GOLF), Brunswick Corporation (BC), Callaway Golf Company (ELY), Drive Shack (DS), Freshpet (FRPT), Haymaker Acquisition Corp (HYAC), Johnson Outdoors (JOUT), Lindblad Expeditions (LIND), MINDBODY (MB), Nautilus (NLS), National Beverage (FIZZ), Planet Fitness (PLNT), Primo Water (PRMW), Town Sports International Holdings (CLUB), YogaWorks (YOGA).

Important Disclosures, Certifications and Other Information

Ratings Distribution and Definitions

Equity Ratings Definitions (as of 7/1/09)		
Outperform	65.29%	Outperform: TRR expected to exceed basket by at least 10%
In-Line	29.75%	In-Line: TRR expected to be in-line with basket
Underperform	4.96%	Underperform: TRR expected to underperform basket by at least 10%
This Equity Ratings Distribution reflects the percentage distribution for rated equity securities for the twelve month period 1/1/18 through 12/31/18. Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Within the twelve month period ended 12/31/18, IC has provided investment banking services to 12.66% of companies with equity rated an Outperform, 0.00% of companies with equity rated an Underperform, and 11.11% of companies with equity rated an In-Line. As of 12/31/18.		
Fixed Income Ratings Definitions and Equity Ratings Definitions (prior to 7/1/09)		
Buy: TRR expected to exceed basket by at least 10%		
Hold: TRR expected to be in-line with basket		
Sell: TRR expected to underperform basket by at least 10%		
Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Please refer to our publication dated 7/1/09 for details associated with the transition of our Equity Ratings to the current definitions.		

For a discussion of the valuation methods used to determine our price target, if any, please see page(s) 1. See page 4 for the risks that may impede achievement of such price target, and page 4 for our ratings history and price chart.

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