

DECALIA MILLENNIALS

The DECALIA Millennials strategy invests in companies that will structurally benefit from changes in consumption habits of the Millennials generation.

The Millennial generation (born between 1980 and 2000) is the largest generation - estimated to be 2bn people worldwide. They are creating a major global consumption trends shift.

Digital, sharing economy, education, wellness, fintech: these are some of the major Millennials trends that will have implications on the economy.

DECALIA'S INVESTMENT THEMES

The strategies developed by DECALIA focus on four investment themes deemed promising in the long term:

- Quest for yield
- Disintermediation in the banking sector
- New consumer trends
- Market inefficiencies

DECALIA ASSET MANAGEMENT

Established in Geneva in 2014, the DECALIA group is active in private and institutional investment management. DECALIA manages CHF 3.5 bn of client assets with a staff of 40 people.

Geared to practical solutions, DECALIA constantly looks for solutions able to generate a higher risk-adjusted performance for its clients, while ensuring the highest level of service. Its investment philosophy is based on several fundamental principles: stringent risk management, capital preservation, an active management style and selection of the best talent.

A member of the Swiss Association of Asset Managers (SAAM), DECALIA is regulated by FINMA through a collective investment manager's license (LPCC).

Information www.decaliagroup.com

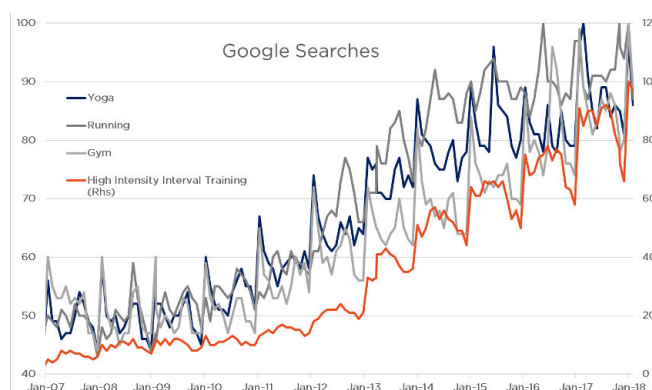
Fitness Generation

OCTOBER 2019

TREND FOCUS

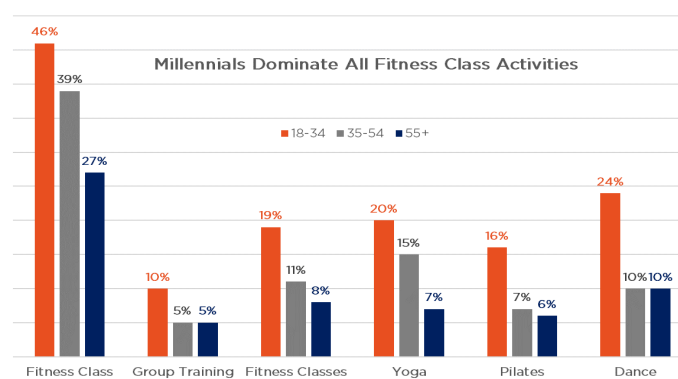
Fitness has known an unprecedented boom over the latest few years as the health and wellness trend boomed globally. **This trend was driven by the rise to power of millennials**, to date the healthiest modern generation to grace the earth.

Suffice to look at the recent google search trends when it comes to some hot topics in today's fitness world to see that there is a quite visible craze coinciding with the coming of age of millennials.



Source : Google Trends

Indeed, **this generation is expected to spend more on sports and apparel throughout their lives (Around \$112,000) than they are expected to spend on their college education in tuition and annex fees.** On top of that, they are the most active generation actually, as they comfortably dominate all fitness class activities.



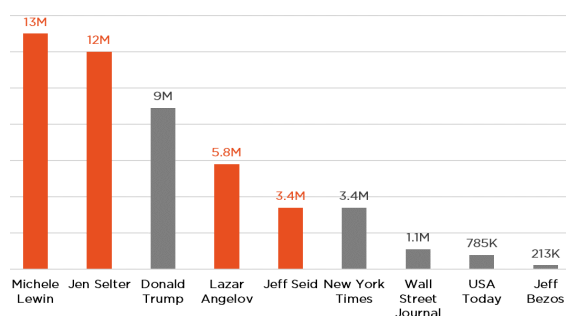
Source : Newzoo

Not only millennials worship exercising for its health benefits, but also they embrace sports simply to look good, as nowadays, fit is perceived as pretty, appealing and attractive. This is the direct resultant of social media, where perfect (or up to today's standards bodies) are exposed 24/7 and in numerous shapes. **The main catalyst? Instagram, the land of influencers.**

Some of those influencers came so famous that their popularity exceed the likes of Donald Trump and Jeff Bezos. Through sharing their routines, advertising their health supplements, sportswear and even sometime cosmetics, sports influencers have become marketing machines thanks to their wide audience, which mainly comprises of millennials.

* (i) Professional investors, as defined in Annex II to Directive 2004/39/EC, who are established in another Member State of the European Union; (ii) Swiss qualified investors, as defined in Article 10(3), (3a) and (3b) of the Collective Investment Schemes Act (CISA).

Number of Followers on Instagram



Source : Instagram

In other words, millennials, by emulating their idols have made of Instagram a platform to show off their progress in terms of fitness as well as their routine and their sportswear.

Finally a big contributor to this boom in fitness is the social aspect apps and internet gave it. Social sports are taking an increasingly big place at the heart of fitness as nowadays there are social networks based on sports activities. In other words people can compete with each other earning points and thus pushing each other to the limits.

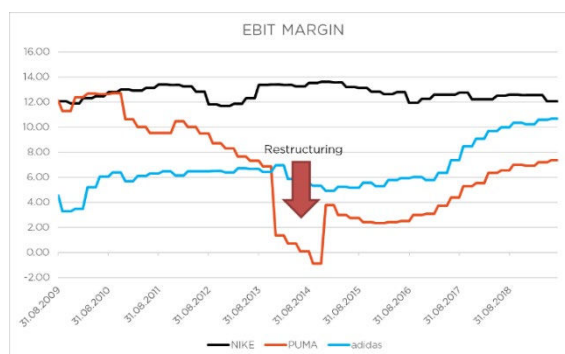
One stock that appears particularly well-positioned in this universe is PUMA, one of the fastest growing sporting goods companies worldwide.

The company is staging a global comeback after staying in the shadows of the likes of Nike and Adidas. Recent marketing efforts are starting to pay off as the company continues to grow across the globe, unlike its main peers.

Puma engaged in a deep restructuring starting 2014 with a mission: To be the fastest growing sports brand in the world, and they succeeded!



Source : Puma



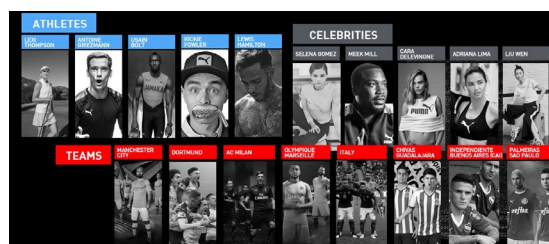
Source : Factset

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After this first step was completed, Puma became a well-oiled machine ready to step up its game. The restructuring hit profitability and since 2016 the company seems to have started its road to recovery.

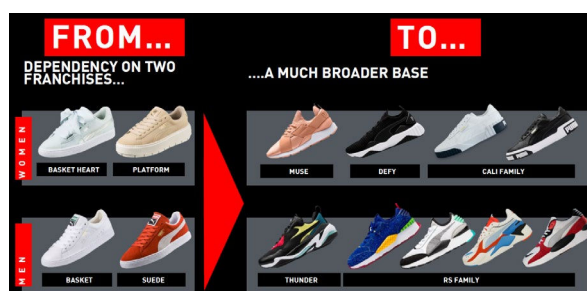
What is causing this fast ramp up of puma's sales and margins?

- **Focusing highly on sponsorship:** Many new ambassadors and sports teams are being signed in a timely manner. On top of that, puma started relying on celebrities, especially on their woman brands that gave a new life to brand.



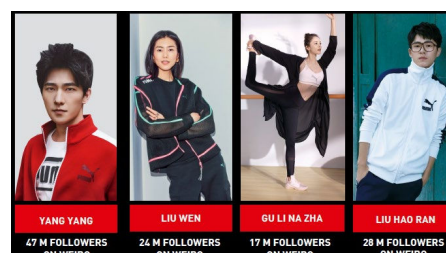
Source : Puma

- **Diversifying product portfolio to satisfy an ever changing customer:**



Source : Puma

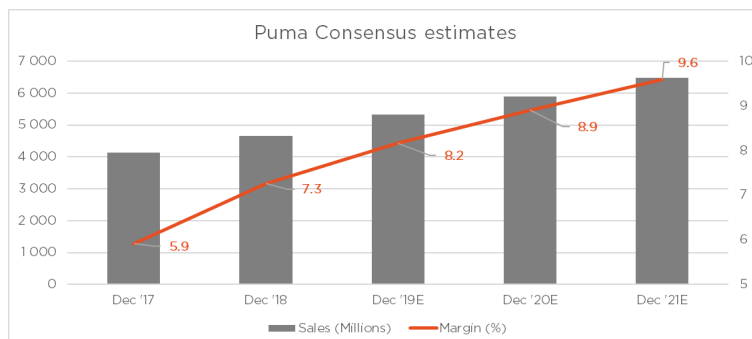
- **A comeback on basketball**, with high profile team-up. Puma teamed up with Jay Z to engineer their comeback into basketball. This enables puma to further penetrate the US market where they still have low market share.
- **Direct-To-Consumer model adoption:**
 - 24% of sales (76% for wholesale)
 - 24% growth YoY (16% for Wholesale)
- **A shift from global marketing to local marketing : Mainly in China**
 - Example: Moving marketing from Instagram to WeChat, YouTube to Youku, Facebook to Weibo
 - Improving marketing reach
 - Utilizing local influencers



Source : Puma

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Combining all of these measures Puma should be able to match its peers in terms of profitability according to the consensus. Catching up with Adidas first but might take more time to reach Nike's operating profitability.



Source : Factset

EBITDA, EBIT and Net inc. growth all outpacing sales.

	FY		
Income Statement (M)	Dec '18	Dec '19E	Dec '20E
Sales	4,648	5,328	5,895
Growth (%)	12%	15%	11%
EBITDA	419	590	698
Growth (%)	33%	41%	18%
EBIT	337	435	525
Growth (%)	38%	29%	21%
Net Income	187	258	319
Growth (%)	38%	37%	24%

Source : Factset

Looking at the latest earnings growth has been stellar:

Sales YoY: +15.7% Organic growth

- EMEA, 36% of sales : +8.4%
- Americas , 37% of sales : +19.7%
- APAC , 27% of sales : +21.6%

In comparison, Q2 organic sales growth for peers: Nike +10%, Under Armour +3% and Adidas +4.1%; and by products:

- Footwear: +14.5%
- Apparels +22.7%
- Accessories +6.3%

Margins have continued their expected expansion, pointing out to the winning aspect of the strategy that the management put in place. Ebit margin went from 5.5% in Q218 to 6.5% in Q219.

	PUMA	adidas	NIKE
P/E LTM	41.1	26.5	31.9
P/E NTM	32.9	24.2	26.5
P/Bk	5.5	7.7	13.8
EV/EBITDA	24.3	15.4	22.7
EV/Sales	1.9	2.2	3.2

Source : Factset

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Puma's valuation seems demanding, but rare are the companies that offer this much potential as well as an organic growth that is that impressive. As long as the company keeps on surfing on the global sports and athleisure wave it should be able to justify such a valuation.

The company has a good management and communication. The street seems to be acknowledging the company's sound strategy and hence there is still some way to go for the company.

Authors and strategy managers



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Clément Maclou joined DECALIA in 2016. He is specialised in consumer trends and the lead portfolio manager for DECALIA Millennials and DECALIA Silver Generation. Prior to joining, Clément spent 11 years with CPR Asset Management (Amundi group). He co-managed for 7 years one of the largest ageing thematic equity funds in the world.



Walid Azar Atallah, Analyst/Portfolio Manager

Walid Azar Atallah joined DECALIA in 2016. He works as portfolio manager for DECALIA Millennials and DECALIA Silver Generation. Prior to joining, Walid spent 3 years at CPR Asset Management within the Thematic equities team. Walid obtained a Masters in trading and risk management from INSEEC Business School in Paris and a Bachelor in Economics from Saint Joseph University in Beirut..

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