BAIRD PERSPECTIVES

Cycling Industry Outlook

How the micro-mobility and fitness revolution is impacting the bike industry.

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Executive Summary

There is a micro-mobility and indoor fitness revolution unfolding. On the surface, these appear to be separate revolutions, but they are interrelated and have important implications for the bike industry. The way consumers transport themselves, the way they experience purchasing and using a bike and the way they train on a bike is undergoing a radical transformation. As a result, consumer perceptions and the definition of a "bike" will likely never be the same. As the bike industry undergoes tectonic shifts, new and innovative entrants will emerge and consumer preferences and expectations will change, which will redefine the competitive landscape.

Key factors impacting the bike industry are the following:

- The rise of the indoor bike training and electric bike ("e-bike") categories,
- A growing need to reduce purchase experience pain points for all consumer segments, especially millennials,
- The rise of Direct to Consumer ("DTC") oriented models with inherent competitive advantages,
- A pronounced wealth "multiplier phenomenon" driving above average growth in the high-end / premium segments of the outdoor market, and
- An increasing perception that fitness, wellness, access and connectivity are the new luxury.

Given the rapid pace of industry change, there will undoubtedly be winners and losers. While it will be difficult to determine how things unfold, several industry actors will likely emerge big winners, including Specialized, Trek, Canyon and Wahoo.

For the winners, there will likely be multiple options for adjacent strategic partnerships or exit opportunities. We will explore several potential options at the end of this report.

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Important Trends Impacting the Cycling Industry

1) INDUSTRY CONSOLIDATION IS LIKELY TO ACCELERATE

The Big Four U.S. bike brands — Trek, Specialized, Giant and Cannondale are currently represented in more than half (52 percent) of U.S. independent bike dealers ("IBD" or "IBDs"), according to Georger Data Services, and likely account for a much higher share of sales. These Big Four brands have forged a dominant market position by establishing exclusive or semi-exclusive positions with select IBDs which limits consumers' brand and product choices at retail. However, they do not behave collectively (invoking antitrust issues) and fiercely compete among themselves and with numerous smaller performance bike brands. This status quo competitive dynamic has been ongoing since the late 1990s.

The traditional (human powered or "acoustic") bike market is essentially flat to declining, and there are limited ways any one brand can increase sales and profit:

- Make the pie bigger by increasing the size of the consumer base,
- Expand product offerings, either by entering new categories or creating new niches within existing categories,
- Bypass the traditional supply chain, by end-running retailers and selling products direct to consumers,
- Win market share from competitor, and / or,
- Increase the retail footprint, a difficult and expensive move given how power is balanced in the supply chain.

None of the above options are possible without significant investment or impacts to long-run profitability. For now, the market appears stable, at least for the top players. So, what is next? To paraphrase author Joseph Heller:

"Things right now are about as good as they can possibly be without getting a whole lot worse than they already are."

There are several important unfolding dynamics that could disrupt the industry, accelerate consolidation and, perhaps, unseat the incumbent players. The upcoming contraction and consolidation in the supplier side of the industry will be defined by five important factors:

- A finite and declining number of IBDs,
- The rise of direct e-bike competitors and the electric bike dealer

("EBD" or "EBDs") channel,

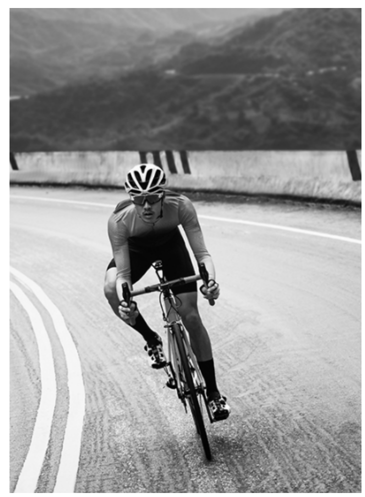
- The rise of internet commerce,
- Increasing product complexity, and
- A shortage and fierce fight for intellectual talent.

2) E-BIKES ARE COMING

"In five years, ten years customers will come in (our stores) saying 'I'm looking for a bike' and they'll mean an e-bike." — Noel Kegel, resident of Wheel and Sprocket Group

For more than twenty years the primary factors driving the premium traditional bike market segment have been increasingly lighter and higher performing bike frames and components. This trend is expected to hold for the foreseeable future and continues to be an important driver of differentiation. However, a significant shift in consumer perceptions and technology in the e-bike segment is changing the conversation. How and why bikes are marketed and sold to consumers has been impacted and former strengths are now vulnerabilities for both manufacturers and IBDs wedded to the acoustic only bike segment. The key to future success will be innovation and design that addresses changing consumer needs and demands. This will include advanced e-bike features that ensure a high-quality outdoor experience; longer battery life, more power and improved acoustic-like ride feel will be critical factors. In addition, e-bike suppliers are adding integrated cutting-edge GPS and proprietary software, including artificial intelligence ("AI") capabilities that balance remaining battery with mapping and topography capabilities to ensure ride completion prior to battery life expiration. For the e-bike segment, the old acoustic gold-standard attributes of lower weight and increased stiffness will no longer be key consumer drivers since greater power and battery life are the more prominent differentiators. This shift is also impacting micro-mobility with companies like Cake, founded by POC founder Stefan Ytterborn, creating unique electric motorcycles that blend the best of e-bikes and trail motor bikes.

Advancements in e-bike technology are rapidly changing consumer perceptions of e-bikes and the total available market. No longer are e-bikes clunky and devoid of snappy road or trail feel. Instead the latest crop of e-mountain, road and gravel bikes are virtually indistinguishable from their acoustic counterparts. The advantages of an e-bike are undeniable and significantly decrease the barriers to cycling and create opportunities to explore for a much larger population. In the past, a 20 to 30-mile ride may have seemed daunting and unattainable, but now a much longer ride is possible. E-bikes also allow older cyclists to join their local group rides and remain engaged in cycling communities, helping to promote the spirit of cycling and open longer more adventurous rides to more people with disparate abilities and fitness levels.



There are also added benefits for the avid cyclist, including the ability to complete a great workout while moving faster, meaning more ground covered with the same physical benefit in an increasingly busy and hectic world. They also serve as a great form of physical therapy and recovery. For example, pro freeride mountain biker Paul

Basagoita, who was paralyzed after a crash at the 2015 Red Bull Rampage, has turned to e-bikes to help with therapy and give him the freedom he once felt riding trails. Although there may always be select places cyclists cannot ride an e-bike due to legislation, category growth has become a virtuous cycle. As usage increases, so does demand for more places to ride.

Broader non-cycling trends are also creating a perfect inflection point for the e-bike segment. Generations of casual enthusiasts and competitive amateur athletes are changing the way they think about exercise and the long-term impact on their joints. The popularity and boom in running participation has recently leveled off as older generations deal with injuries from years of constant pounding and younger generations become more attune to the potential toll. Given the reduced physiological impact of cycling, the category is experiencing increased indoor and outdoor consumer participation.

Despite these positive secular trends, including growing consumer acceptance of e-bikes and strong product offerings from reputable bike brands, there are still lingering doubts in some IBD circles. However, the e-bike market has already built access for consumers to the products they want to buy through the e-bike only dealer network, and e-bikes represent a much-needed growth opportunity for IBDs. Given these many advantages and trends, according to Rick Vosper of Bicycle Retailer, e-bikes are not the "Next Big Thing" they are the "Right This Minute Big Thing" and gaining momentum quickly. The U.S. is at the beginning of the e-bike revolution that represents a potentially enormous market opportunity.

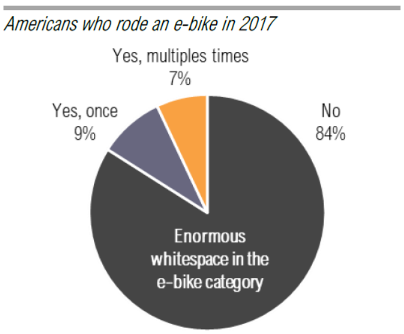
Currently, China is the most dominant market for e-bike sales, representing approximately 90 percent of the global market, while the U.S. represents between 1 and 2 percent, per Deloitte. While the global e-bike market is large at approximately $16 billion, the U.S. e-bike market is still small and fragmented, based on Allied Market Research. However, the U.S. market is beginning to heat up. According to NPD data, U.S. e-bike sales jumped more than 91 percent from 2016 to 2017 and then another 72 percent from 2017 to 2018. Even more, in 2023, e-bike sales are expected to top 40 million global units, generating about $20 billion in sales, per Mordor Intelligence. The growth and scale of the e-bike market has caught the attention of the Big Four bike brands, with Trek President John Burke addressing it in his open letter to the bike business in February 2019:

"America is just at the beginning of its E-Bike Revolution… In good retailers in the U.S., e-bikes now represent more than 10 percent of total sales. We could be looking at a business in the near future where e-bikes represent 30 percent or more of sales. It is safe to say that e-bikes could represent a greater growth opportunity than mountain bikes did in the late 80s and early 90s or carbon road bikes in the early 2000s."

In addition, e-bike growth is largely incremental, meaning access to a larger consumer base and new sales opportunities for all players in the supply chain. Except for Specialized, Trek and Canyon, the dominant traditional bike brands are far less dominant in e-bikes as compared to their traditional bike share position, and that could stay that way for the foreseeable future. This means top bike brands could lose control of floor space at IBDs as e-bikes grow in popularity. Additionally, competitors from the motorcycle, automobile and electronics industries are multiples larger than the biggest bike companies and bring astonishing resources, R&D, quality and value to their products. However, they lack a clear understanding of how to reach and connect with consumers which gives incumbents an advantage.

While the category is growing nicely, it is just the tip of the e-bike iceberg, and there is substantial upside growth floating just beneath the surface. Based on industry surveys, 84 percent of Americans have never ridden an e-bike, which represents enormous upside for discoverability.
See Exhibit 1.

EXHIBIT 1
Have You Ever Ridden an e-Bike?



Source: Statista Survey, n488. Respondents who rode their bike more often than "never."

3) KEEPING PACE WITH CHANGING CONSUMER PREFERENCES

Over the last decade, the way consumers interact with brands has rapidly changed and independent bike shops are losing prominence with the rise of competing DTC platforms. This change has accelerated and is fueled by the growth of the millennial generation who now outnumber baby boomers and are expected to soon outspend them. This transformation in spending power and preferences is forcing brands to radically rethink product creation, distribution, marketing and customer connectivity and service.

Today, online shopping is a lifestyle and growing quickly. Consumers are impatient and more demanding, and many incumbent cycling brands are scrambling to find ways to reduce pain points for consumers. DTC companies like Canyon are leapfrogging ahead by providing compelling products and value propositions, including price transparency, highly effective fit solutions and efficient last mile customer service.

In addition, consumers desire a more personal dialogue with brands and are more skeptical of marketing and advertising. According to a recent study by the McCarthy Group, more than 80 percent of millennials do not trust traditional advertising. Therefore, user generated content is critical to provide credibility: nearly all millennials read online reviews before selecting a product, and almost 90 percent trust those reviews, according to a recent Bright Local survey. These online marketplaces have enabled customers to perform more research and determine perfect price transparency.

Cycling enthusiasts are typically wealthier than the average consumer, highly competitive and willing to spend more to access the most advanced equipment available to improve performance and the riding experience. In addition, less affluent but still aspirational-minded consumers who have a fierce passion will happily save up to purchase premium performance bikes and components. This trend of increased spending on performance enhancing equipment started in the late

1980s and has forced brands to continuously invest in R&D and expand into new and adjacent categories. Today, bike performance (primarily focused on weight and componentry) is no longer the only factor as consumers explore alternative cycling forms including e-bikes and bike sharing. Cyclists also expect the ability to customize and personalize their equipment, which is increasing demand for custom paint jobs from boutique artists and driving larger brands like Trek to offer custom options through programs like the Trek Project One.

All of this suggests that bike brands and retailers must stay nimble to compete. Native DTC brands like Canyon have a built-in advantage to more quickly address changing consumer demands and preferences. This puts the Big Four and smaller bike brands in a weaker position, forcing them to play catch up to stay relevant with modern consumers.

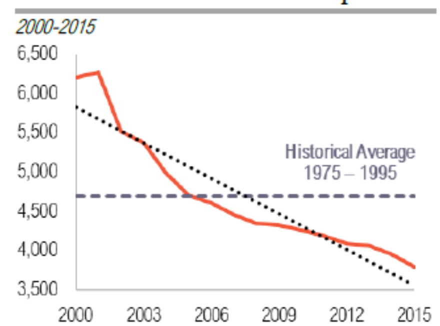
4) DTC CHANNEL IS WARMING UP

U.S. e-commerce sales are now more than 10 percent of total retail sales and expected to reach $1 trillion by 2025, according to FTI Consulting. Similarly, we expect DTC bike sales to move from low single digits today, to 10 percent or more by 2025. As the e-commerce experience continues to improve, including the integration of 24/7 chat tools, sizing solutions, sophisticated video, product reviews and return / money back guarantees, consumers will increasingly shop online when they have free time. Limited store hours, subpar retail staffing and few display models combined with rapid expansion of flexible at home customer service options, like Velofix, a mobile bike repair service, further eliminate the need for store visits. As the consumer gets more comfortable purchasing larger ticket items like automobiles (Tesla) and other high-end products online, DTC bike sales have the potential to grow.

The Big Four bike brands have a strong foothold with the majority of the IBD network and have secured floor space in store. Given this position, they have been cautious to pursue an aggressive DTC strategy without risking their entrenched market position or alienating their IBD partners. Until recently, they have not been pressured to shake things up since they were secure in their position with IBDs. The net result was reduced consumer choice at brick and mortar retail and inconsistent customer service.

The Big Four bike brands' strategy has been to increase market reach by simply selling into more retailers in any given geography. The IBD strategy was to sell as many bike brands as possible to increase consumer options and better compete against other bike shops. However, the model relies on steady growth of IBDs. Since 2000, the number of IBDs has declined significantly. See Exhibit 2. At the same time, the rise of e-commerce sellers gutted the average shop's most profitable revenue stream, aftermarket equipment and accessories.

EXHIBIT 2
Number of U.S. Retail Bike Shops



Source: NVDA / The Bike Shop List.

Bike brands were forced to look for new strategies and shifted focus from the most retailers per market to deeper relationships with the most successful retailers. In parallel, the most successful retailers strived to be allied with the most successful bike brands. The name of the game was controlling the most floor space at the best shops, effectively locking competing brands out of premium stores and forcing them to marginal alternatives. Given the close ties between bike brands and IBDs, the brands have been cautious to pursue DTC strategies to avoid alienating their IBD partners. Consequently, instore service quality, breadth and depth of product offering and shopping experience has declined, increasing consumer pain points.

However, despite the shrinking number of IBDs and pressure from e-commerce, there is still a subset of highly successful shops that are investing in both the acoustic and e-bike categories and finding success. They are doing this by providing exceptional customer experiences, cutting edge fit services, offering high-end custom options from brands like Moots, Parlee and Seven and creating a sense of community through group rides and trips.

In contrast to the conventional bike brands, like the Big Four, DTC bike brands are not encumbered by legacy operating models and are able to embrace an entrepreneurial culture that is more agile. They can move through ideation, design and implementation to launch new products at a faster cadence. Unlike the legacy bike manufacturers, who rarely retain an active dialogue and relationship with the end consumer, DTC bike brands can better control the customer experience, including direct contact and transparency with consumers through every stage of the sale process. Importantly, by cutting out the bike shop middlemen, DTC brands can deliver a compelling value proposition to consumers while maintaining superior margins. In addition, proprietary in-house production enables greater product customization and lower inventory risk.
It also creates the opportunity to provide compelling personalization options for the consumer while tracking who is buying, what they are buying and how often they are buying, enabling customized engagement. Finally, without the millstone of legacy IBD relationships, the DTC brands can pursue attractive strategic collaborations and partnerships including category expansion opportunities and last mile partnerships.

5) INDOOR TRAINING SEGMENT IS GROWING EXPONENTIALLY

“The associated equipment has improved dramatically and never were riders able to train so targeted in such an easy way and use time far more efficiently.” — Bas Holtkamp, Author of Tacx blog

The at-home training segment is in the beginning of a long-term, upward trajectory. One of the biggest motivators for the migration is time — as consumers’ daily lives have gotten progressively busier, they have turned to more convenient forms of exercise. The growth in indoor bike training reflects this trend.

While no one debates the idea that riding outside is generally preferable, indoor training is a more strategic way to improve bike fitness in order to be better prepared when riding outdoors. Today, an indoor cyclist can ride and feel a realistic pedaling action and even experience the bike move under them to reflect actual road grade changes. Safety is also an important factor driving the indoor training market. While the overall number of bicycle accidents in the U.S. is declining, the number of fatal bike accidents is expected to rise by 10 percent, according to NHTSA data.

There is also an increasing social aspect to the rise of indoor cycling. Consumers' desire to participate in social activity feeds such as Strava and MapMyFitness drives community engagement, increases training frequency and fuels the competitive spirit. These dynamics are driving increased consumer willingness to pay for technology and subscription services that track progress, structure workouts and provide nutrition guidance. Not only do virtual training platforms engage the eyes and mind to further immerse a rider into their workout and nutrition, but also allow virtual rides with friends and cyclists from around the world. This has spawned the era of social riding and racing indoors, which is a powerful force helping drive growth in the indoor cycling category.

There is no denying the power of virtual platforms to enhance the indoor experience, and there is a wealth of choice on both the hardware and software side. Zwift, a virtual world that mimics outdoor riding, is the obvious industry leader on the gamification front, but other training platforms — where the software actively controls the resistance on the smart trainer — such as The Sufferfest, FulGaz, TrainerRoad, Rouvy, TrainingPeaks, Stages Link and others provide a quality of training that cyclists could only dream of a few years ago. Zwift raised $120 million in Series B growth equity in late 2018 and since its launch has gained over 1 million registered users. Zwift users have also clocked more than 200 million miles of riding and more than one thousand races were hosted in 2019 alone. Despite its growing popularity and intuitive gamification of exercise through cycling, Zwift remains virtually unknown outside cycling circles. But, increased consumer discoverability through social media and word of mouth is rapidly heating up demand in the category.

The indoor training experience, like the outdoor segment, is powered by technologically advanced smart training products dominated by brands like Wahoo (Norwest portfolio investment) and Tacx (recently acquired by Garmin). Cyclists increasingly seek out the best and most reliable equipment, valuing features like software compatibility and ease of setup. The most closely watched category, however, is arguably the dedicated indoor smart bike. These are high-end machines similar in theory to Peloton and other traditional exercise bikes but designed to feel more like an outdoor machine with customizable touch points, realistic gear shifting and dynamic resistance, intended to pair with your choice of virtual training platform. These dedicated indoor bikes can be expensive, rivaling the cost of a good acoustic bike, owing to the advanced technology used. The new Wahoo KICKR Bike ($3,499.99 MSRP), Tacx NEO Bike ($3,199.99 MSRP) and Stages Bike ($2,600 MSRP) are dynamic and exciting to ride and, despite the high price tag, are expected to increase sales both indoors and outdoors.

In addition, Wahoo, Stages and Tacx (through parent Garmin) offer a growing assortment of high-quality outdoor GPS cycling computers. Although Garmin is currently the undisputed juggernaut of the GPS cycling computer world, Wahoo's innovative and user-friendly product offering is quickly challenging Garmin's supremacy.
Given how engaging and realistic the experience can be on these new high-end indoor bikes, it could have a positive effect on the demand for outdoor cycling as these indoor riders decide to capitalize on their improved fitness to explore the outdoors by bike. There is little doubt that the indoor bike category trend is real and becoming a more prominent component of an outdoor cyclist's product and training experience. Finally, the category lends itself well to a DTC strategy, including price transparency, last mile setup and customer service and connectivity.

6) INCREASED PRODUCT COMPLEXITY AND A SHORTAGE OF TALENT FAVORS MORE SOPHISTICATED ACTORS

With the rise of composite materials and new component standards, the relationship between bicycle frames and the equipment that goes on them significantly changed in a very short period. An advantage of the rapid advancement was an ability on the part of bike brands to command higher prices from the consumer. This simultaneously created an expanded class of performance-oriented enthusiast cyclists willing to pay for new technology if it meant going faster. But as the evolution of frames and components continued, and the market for them evolved linearly, the R&D time and expense necessary for innovation increased exponentially. Given the level of advancement across the spectrum, the days of back-of-envelope product design are over and the number of players with sufficient resources to meet the new R&D requirements has shrunk. This has further empowered the largest and strongest brands and increasingly squeezed smaller brands.

These advancements in materials and components, particularly electronic shifting, hidden brake cable routing and e-bikes, have caused bike maintenance to become increasingly labor intensive. As the installed base of sophisticated products in different proprietary formats grows, the demand for skilled labor, especially mechanics, exceeds supply. As the industry consolidates, companies at the bottom lack the resources to hire skilled staff, broadening the gap between the top brands and the rest. The sophisticated operators at the top — larger and often more agile players — are sourcing talent from outside the traditional industry recruiting pool.

7) WELLNESS IS THE NEW LUXURY

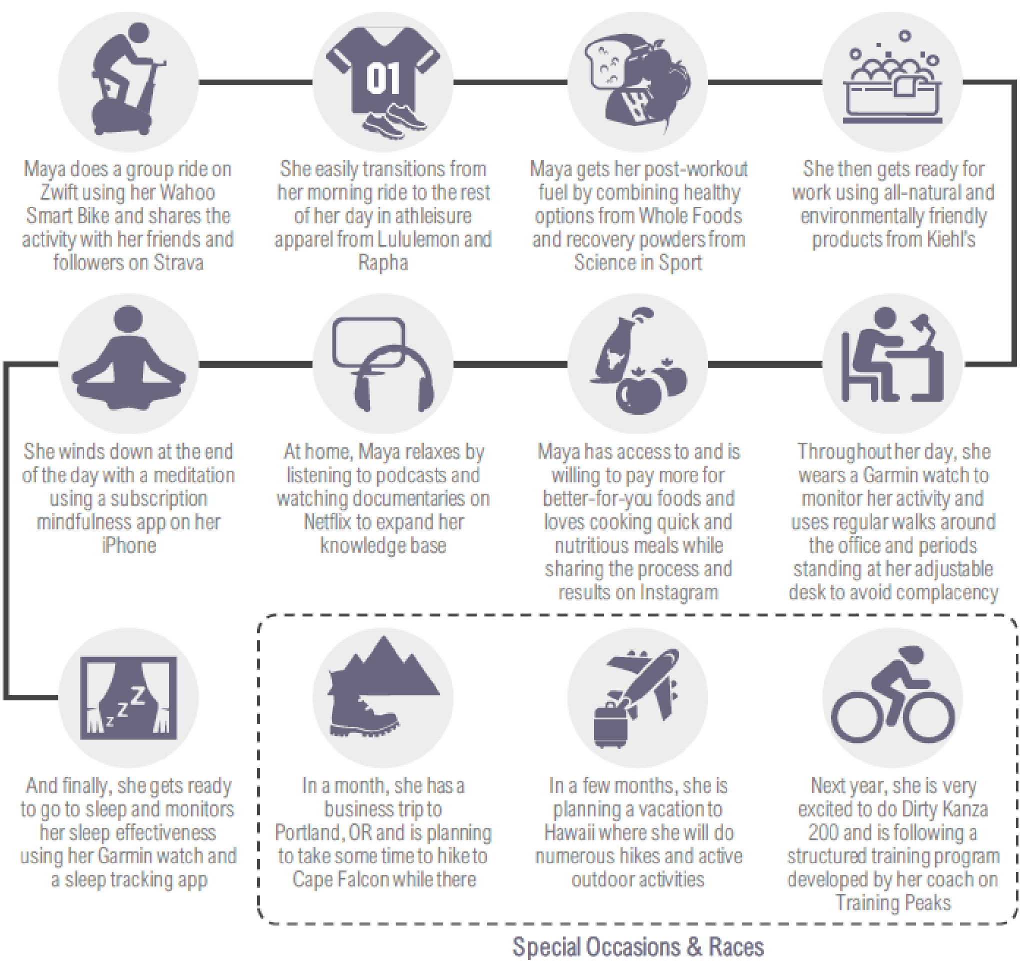
"Today's customers want to be healthy and happy, no matter who they are. Owning the most expensive or the latest goods has taken a back seat to looking good and feeling good, and consumers are showing an increasing preference for participating in activities and indulging in experiences that promote their well-being—and sharing those experiences with their friends." — Jack Ma, Chairman and Founder of Alibaba

Modern consumers are placing more value on health and wellness than on material objects, and the definition of health and wellness has evolved. The phrase no longer refers simply to a lack of illness, but to a more holistic state of being, where one's mental, physical and emotional health are in sync. And in an era where so many people continuously catalog and display their lives on social media, looking great, feeling good and sleeping well are the new luxuries that consumers want to enjoy and flaunt. See Exhibit 3.

According to the Global Wellness Institute, the global wellness economy was $4.5 trillion globally in 2018, and the physical activity economy is expected to grow by more than 6 percent annually, significantly faster than global GDP. This secular trend has multiple positive "halo" implications for the bike industry, too many to discuss in this report. Biking provides attractive opportunities for improved fitness, community and connectivity, as well as "escape value" for consumers to avoid destinations overcrowded due to tourism, urban congestion and increasing traffic. Cycling elevates focus from being experiential to being transformative, this is especially true for the gravel, mountain bike and e-bike categories, which promote personal exploration and drive consumer motivation and demand.

EXHIBIT 3
Day in the Life of the Wellness Minded

Modern consumers are placing more value on health and wellness and spending more to improve performance



Source: CB Insights and Baird insights.

8) "WEALTH MULTIPLIER" PHENOMENON IS REAL

We believe that the global consumer market is in the early stages of a pronounced "wealth multiplier" phenomenon, which is expected to accelerate growth for high-end and premium sports and outdoor equipment across categories. One striking analog is the rapid growth in private jet ownership which has grown in both the new and used categories. According to the General Aviation Manufacturers Association, private jet sales were up 15 percent in Q4 2019 over the same period last year. While private jet ownership represents the pinnacle of the consumer market, we believe the same consumer drivers trickle down to the outdoor and sports equipment markets, including hard and soft good products. In the outdoor and sports equipment markets, consumers increasingly seek out the latest products and technology to enhance their user experience, for both themselves and their family.

Affluence, technology and increased accessibility are all converging to create a perfect storm of increased consumer demand. In addition, improved outdoor activity access, like dedicated up-mountain activities, new trails and forest roads are driving niche segmentation and expanding demand for the *"right"* equipment within each specific activity. In the bike category, many avid cyclists own three or four bikes, each for a specific purpose like road rides, cyclocross races or doing loops at a local mountain bike trail. Most recently, growth in sales of gravel grinders like the Canyon Grail are exploding as cyclists seek out long fire road rides and bike-packing adventures. In 2019, sales of Specialized's flagship S-Works road bike were eclipsed for the first time by its S-Works gravel product line, based on Baird estimates. If this phenomenon is multiplied out over a similarly large base of affluent consumers in the U.S., it does not take a leap of faith to foresee continued growth at the high end of the bicycle market.

The Competition Is Mobilizing

As these industry changes unfold, the sophisticated and innovative operators will get stronger and gain share, creating risk and opportunity. Specialized, Canyon, Trek and Giant continue to invest heavily in talent, infrastructure and product R&D, fueling strong growth. Based on Baird estimates, Specialized, Canyon and Trek all generated double digit revenue growth in 2019.

Specialized's growth was driven by its successful e-bike and gravel bike categories. Specialized CEO and founder, Mike Sinyard is a bike industry visionary, and he is more energized and open-minded to ideas and strategic opportunities than ever. Specialized is proactively pursuing partnerships and new ideas especially in the electronics / digital, e-bike and smart trainer categories. Specialized has also successfully partnered with Zone 5 Ventures, an investment vehicle designed to help identify and invest in new cycling technology. Chris Yu, Zone 5 co-founder, also heads technology and innovation for Specialized. Finally, John Rangel, CFO, rejoined the company in early 2019 and is helping to reignite Specialized's M&A initiatives.

Canyon's DTC business continues to gain momentum and the brand, product offerings and value proposition are rapidly winning consumer adoption. Importantly, Canyon's DTC model and strategy are not encumbered by channel and industry relationships, allowing it to pursue a wider range of strategic options to advance competitive differentiation and improve market share.

Trek continues to invest heavily in innovation and building its e-commerce program enabling consumers to purchase online and pick up their assembled and tuned bikes at a local Trek dealer. Based on Baird estimates, Trek and Electra branded e-bikes continue to achieve low double-digit revenue growth.

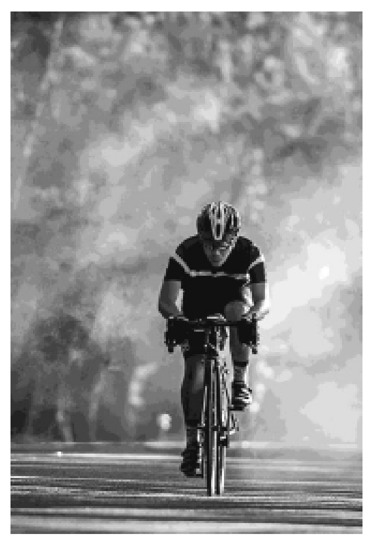
Although Giant continues to invest substantial resources in engineering and production, its marketing and distribution strategy remains unchanged.

On the other hand, some large and medium sized competitors continue to generate mixed results in terms of revenue performance and profitability and are struggling to maintain market share. This is partly due to a lack of focus on R&D investment and issues with the breadth of their product portfolios. Meanwhile, the smaller niche players are undergoing various stages of consolidation, but despite the influx of investment capital and increased velocity of transactions, some of these recent acquisitions have not worked out relative to initial expectations. In short, the incumbent leaders are not going to relinquish their entrenched market share positions without a fight, and a few are beginning to move away from the pack and create competitive separation.

Winning Brands Will Break Away From The Peloton

The bike industry is at an important inflection point and the traditional bike, e-bike and indoor training segments are colliding and disrupting the status quo — winners and losers will emerge. We believe the winners will possess the following qualities:

I. Global brand legitimacy and authenticity,
II. Developed trust and loyalty with the consumer,
III. Sophisticated and rapid R&D capabilities and expertise with a reputation for high quality engineering and reliability,
IV. Superior value proposition, best-in-class customer service model and ongoing end-user connectivity,
V. Sophisticated and sustainable last mile capabilities,
VI. Support from top athletes,
VII. Employer of choice for recruiting and retaining industry talent,
VIII. Proprietary production capabilities and sophisticated infrastructure, and
IX. Multiple growth opportunities.



POTENTIAL STRATEGIC OPPORTUNITIES

1) Acquire Or Partner With A Cycling Technology Company

Cycling technology — like GPS computers, smart trainers and bikes, virtual training platforms, power meters and aero sensors — continues to play an important and ever-evolving role in how cyclists explore and train on their bikes. In particular, the smart trainer / bike category is in the early stages of long-term growth, driven by consumer demands for flexibility in how and when they train. As daily lives get progressively busier in step with consumer desires to stay active and project wellness, cycling enthusiasts are demanding better and more engaging ways to train at home.

This is happening as virtual training platforms, like Zwift, The Sufferfest, FulGaz, TrainerRoad, Rouvy, Stages Link and others are offering increasingly engaging and effective ways of training indoors. This has spawned an era of social riding and racing indoors, which is a truly powerful force helping drive growth in the indoor cycling category. This social aspect to indoor riding has also given virtual training platforms and smart trainer / bike producers, like Wahoo, Tacx (acquired by Garmin) and Stages, a closer connection with the end consumer and a broader opportunity to track and engage with cyclists.

Cycling technology companies that make both smart trainers / bikes and GPS computers, like Wahoo, Garmin (through its acquisition of Tacx) and Stages have a unique advantage and create compelling acquisition, investment or partnership opportunities. For instance, smart trainers complement bike manufacturer offerings by creating opportunities to form stronger and stickier relationships with consumers. In addition, GPS computer technology can be integrated into acoustic bike cockpits, creating an ever-sleeker bike profile.

But GPS computer technology is most compelling when integrated into the e-bike cockpit to provide riders better data on how long the battery will last based on GPS and topographical data, prompting the rider to reroute if they are in danger of running out of battery. Finally, technology provider growth can be supercharged once plugged into the distribution network and built in customer base of an industry leader.

2) Forge Partnerships With Leading E-Bike Technology Innovators

The bright line between traditional bike and e-bike segments is blurring quickly as e-bike technology improves, frequency of use expands and e-bikes gain acceptance and popularity. Currently, there are a dozen or more e-bike competitors originating from the automobile, motorcycle and electronics industries, including General Motors, Toyota, Ducati, Porsche, Yamaha and BMW. If they can create workable distribution channels, they have the potential to significantly disrupt the current bike supplier and retailer markets. But, so far, they have not been successful. Each of these companies represents a formidable e-bike competitor and they will go head to head not only with traditional bike companies but also with the established e-bike only brands like Pedego and Rad Power. These companies also bring astonishing resources, R&D, quality and value to their bicycle products, but they are not adept, at least not yet, in selling bikes to consumers. In addition, they have enormous channel resources through their dealership networks, but their dealer base has yet to jump at the opportunity despite e-bikes having higher margins than some small sedans.

Similarly, there are several industrial motor companies that have entered the e-bike motor and battery market, leveraging their expertise in designing efficient and powerful motors in a small package. Major players include Bosch, Yamaha, Panasonic, Shimano, FAZUA, Brose and TQ Group, all of which are dedicating time and resources to improving power and the e-bike experience. Display and remote capabilities are critical with most major manufacturers offering dedicated smart phone apps that allow cyclists to adjust the motor characteristics to their preferences. This creates a further opportunity to combine technology expertise in GPS computers with the technology developing around e-bike motors.

3) Take Advantage Of Channel Convergence

While the IBD channel has continuously contracted over the last 20 years, many consumers still rely on bike shops to provide maintenance and advice on aftermarket modifications or components. Depending on the complexity, much of the routine maintenance a bike requires is better done by a trained mechanic. While there are pockets of enthusiasts that enjoy doing their own maintenance, they are the minority. Far more common are consumers that would prefer to spend time riding their bikes than fixing or maintaining them. The rise of popularity of e-bikes is contributing to the growth of e-bike focused bike shops that are experts in e-bikes models and the maintenance that e-bikes require.

Up until now, the traditional bike shops and e-bike shops have been separate and distinct, but we expect them to increasingly become one and the same. The convergence of these channels will create unique and valuable opportunities for bike and accessory companies. It will also impact the actual accessories that cyclists need for their chosen form of riding. For example, a mountain bike purchaser will need different accessories than an e-bike commuter. This would include specifically designed helmets, gloves, racks, locking systems, clothing options, packs and many others.

Concurrently, the rise of the DTC bike channel, with companies like Canyon leading the way, creates a unique set of services DTC consumers need. While much of the maintenance a bike needs has historically been done at bike shops, unique business models like Velofix, a mobile bike repair service, are offering consumers a very convenient alternative that comes right to their door. This is especially attractive as more consumers buy frames, components, wheels or full bikes online and need help assembling them, or when a consumer does not feel comfortable taking a DTC brand bike to a local shop because of antiquated stigmas about where bikes should be purchased. This could change the way all bike companies market to and interact with consumers through DTC channels.

Shareholders Will Have Attractive Exit Options

We expect the industry winners to have exit and capital raise options that are attractive and diverse. The winners will generate considerable competitive "heat" within the private equity community for both minority and majority transactions. Private equity firms will be excited about short-to-medium-term value-creation opportunities, as well as attractive downstream exit options, including a potential IPO. In addition, the relevant post-IPO performance success of Fox Factory, Yeti and Peloton, among other aspirational and enthusiast brands, will increase this category's visibility and interest from traditional private equity firms and family offices but also potentially with a finite group of public institutional investors and late stage venture firms, similar to the Peloton pre-IPO Series E consortium.

Over the past 4 years, strategic buyer interest has increased in all bike segments, especially if a target provides a compelling approach to providing a solution to a problem, enables access to unique know-how and / or an attractive growth opportunity. As a result, we expect potential robust strategic buyer interest including from some adjacent categories like:

- The established e-bike only brands (Pedego, Rad Power), and
- The leading automotive, motorcycle and electronic e-bike competitors (GM,
- Toyota, Ducati, Porsche, Tesla, Polaris, BRP).

Conclusion

As the bike industry undergoes significant changes and disruptions, winners and losers will emerge. We believe the winners will have brand authenticity and the trust of consumers through leading innovation expertise. Consumers will increasingly seek to deal with the companies that offer best-in-class customer service and provide transparency on products and pricing. Another key attribute will be the flexibility and agility to react to a rapidly changing industry while providing consumers the personalization and customization options they desire.

BAIRD TEAM: 2019 IN CYCLING

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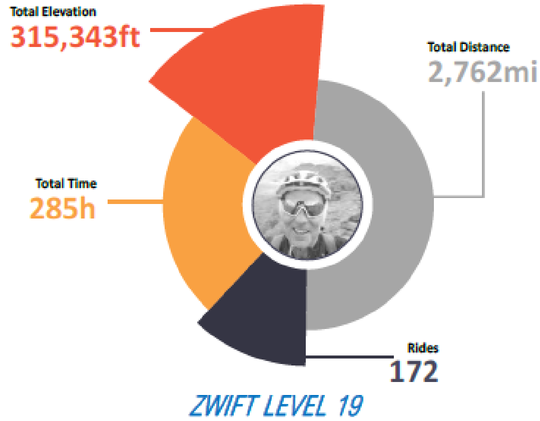

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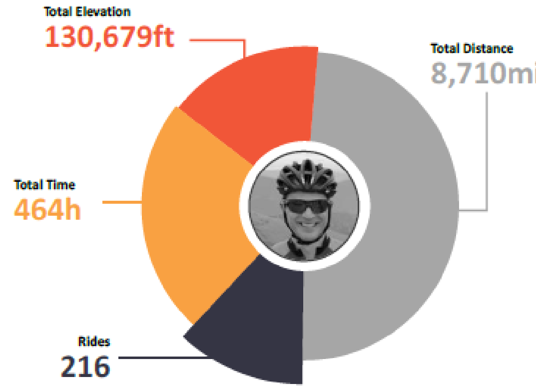

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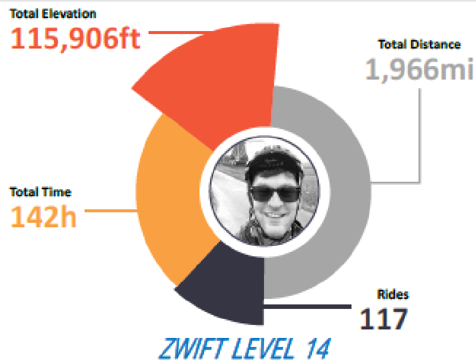

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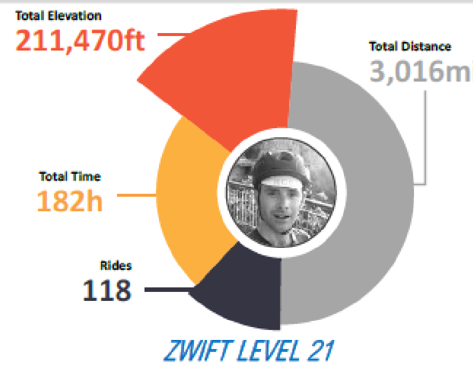

Note: Activity levels from Strava and Zwift.

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