FOREWORD

Dear Reader/client,

After the sharp market recovery in the second half of last year, volatility re-emerged as speculation moved from vaccine roll out to longer term economic policy. In equities there was a notable shift from lockdown winners to sections of the market more sensitive to economic re-opening and recovery.

This is positive. This time last year we were grappling with the unknown implications of the Covid-19 pandemic - people were becoming seriously ill, economies around the world were collapsing in lockdown and equities were some 50% lower. We are not out of the woods yet a year later but there is clear momentum towards a resumption back to life pre-Covid.

Inflation and the interest rates have come to the forefront of market outlook. As we write in this quarterly, an easing of lockdown should lead to an economic rebound to support rising yields and inflation rates. Domestically we are optimistic that UK equities will move out of the shadows of Brexit uncertainty and, taken together with a successful vaccine roll out, this presents interesting opportunities not seen for some time.

It has been a promising start to 2021 and we continue to be watchful of any risk of derailment. Our portfolios need to remain adaptable to any change in circumstances.

Yours sincerely,

Richard Brass
Head of Wealth & Asset Management, UK

ADVISORY

IN A NUTSHELL

- Positive market sentiment continues despite rising inflationary concerns
- High proportion of US and UK population have been vaccinated and lockdowns are easing
- Global savers have amassed an extra USD 5.4tn since start of pandemic which should bolster short-term consumption
- Added AstraZeneca and TechnoGym to portfolios

Overview

Falling infection rates and rapid vaccination resulted in a strong positive shift in sentiment, not just in equities but also in economic surveys. Investors expect that large scale re-opening of economies will begin in the summer, making this a strong year for GDP growth. Consequently, inflationary concerns have been the main driver of volatility over the quarter, which has been further fuelled by the recent USD 1.9tn US Fiscal Stimulus package. Growth stocks in particular have been lagging during this period as their future cashflows are more tilted towards the long end and will be worth less in Net Present Value terms if interest rates were to rise. Our portfolio holdings at large have lower valuations, reasonable organic growth rates of up to 10% and strong pricing power. Hence, we believe we are well positioned even if inflationary concerns will materialise in the future.

As optimism grows, we sought the addition of positions that stand to recover from the easing of lockdown measures and rollout of the vaccines, namely TechnoGym (which is further discussed in the Thematics section). In addition to that, we bought an initial position in AstraZeneca in January as the valuation has become very appealing following a c.20% drop since July. Whilst AstraZeneca has received a lot of media attention over the last months on the basis of its vaccine, our investment is based on the existing strong product suite that promises double digit organic growth per annum over the next years. The company is not planning on making a profit out of its Covid-19 vaccine.

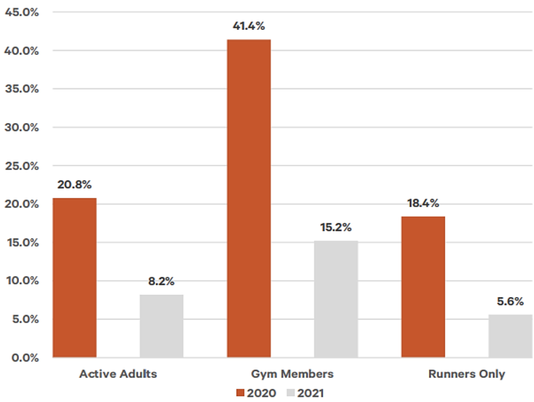
Two of our portfolio holdings stood out during the Q4 reporting season: Criteo and Under Armour. Whilst we have argued for a long time that the former is grossly undervalued, recent results have been promising and eased some of the concerns about the headwind that is obvious due to the gradual abolition of third party cookies. The stock rallied nearly 70% YTD. After years of restructuring, Under Armour's efforts seem to bear fruit and the profitability of the company has improved a lot. The decrease of inventory combined with higher pricing and subsequently gross margins in addition to a nimbler cost base and increased eCommerce sales are promising. We believe the company is able to enhance its product offering and grow organically by 5-10% p.a. over the years to come.

THEMATICS

As indicated in our initial Quarterly Review, every quarter we discuss a key topic within one of the four core themes[1] to raise the awareness of them and display how these trends feed into our stock selection. For this quarter we delve into the theme of Future Health & Wellness, namely the trend of at home fitness.

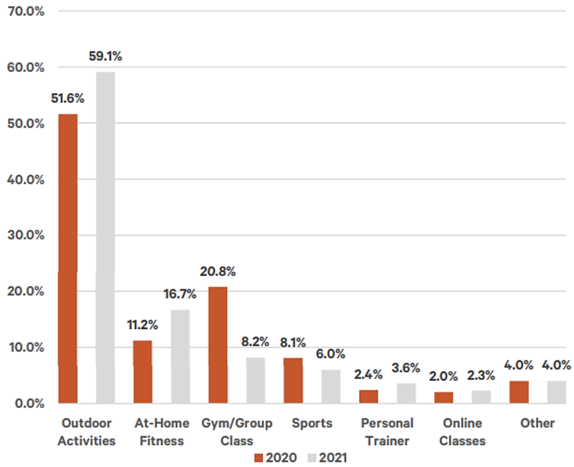
Working it out

Following lockdown restrictions, most gyms were forced to close, thus prompting gym-goers to find alternatives to maintain their fitness. As found by Berenberg (2021) and RunRepeat below, gym visitation has consequently decreased:



Source: RunRepeat, Berenberg Capital Markets

Further, of these consumers, many seem to have broadly shifted their activities to the outdoors and at-home fitness activities:



Source: RunRepeat, Berenberg Capital Markets

Interestingly, it is not only the closure of gyms that has affected visitation, but the underlying motivations of gym-goers have played a part also. Berenberg Capital Markets Research (2021) discussed a study conducted by The Wall Street Journal whereby consumers were more willing to travel further to more expensive and/or boutique gyms as opposed to cheaper offerings.

The weight is over

With the trends above in mind, we believe TechnoGym is well positioned to benefit from the easing of lockdown measures as well as growing its direct to consumer sales.

A Selection of TechnoGym's Products

Source: Company reports, Berenberg Research

TechnoGym is a leading player in the fitness equipment market. Since its foundation in 1983, the company has rapidly grown to become the market leader in the European fitness sector with a 13% market share, 2x larger than US-based Life Fitness/Cybex. TechnoGym also benefits from a leading position in the commercial segment, which represents c.63% of the global fitness equipment market. TechnoGym's strong competitive edge and premium positioning can be seen, in our view, by its above average margins and capital returns.

[1] (i) Demographic change (ii) Innovative and disruptive technologies (iii) New energy and resource management (iv) Future health and wellness

What is also apparent, is the increasing demand for consumers to track their health progress. TechnoGym was one of the early providers of a digital offering with the launch of its TGS Key, the world's first wearable device, in 1996 (Berenberg Equity Research, 2018)[2]. Since then, TechnoGym has developed a 'Total Wellness Solution' which encompasses equipment and portable devices that are integrated with the 'MyWellness' cloud open platform to facilitate the monitoring of users' progress and customisation of workouts.

In terms of the broader market the company has significant potential to outgrow its peers. While Peloton has garnered more attention, we note the following comparable metrics.

	Peloton	TechnoGym
Market Cap (GBP)	24.0bn	1.7bn
Enterprise Value (GBP)	22.9bn	1.6bn
Revenue (GBP)	1.3bn	0.4bn
Adj. EBITDA margin	6%	19%

Source: Factset and Bloomberg as at 31 March 2021, Peloton Annual Report (2020), TechnoGym FY20 results
Note: Figures are rounded to the nearest whole number or 1 decimal point.

We expect revenue to grow at least by c.5% p.a., driven by: a) a leading position in higher growth product segments such as treadmills; b) further market share gains in Europe as it continues capitalising on the sector transition to digital wellness; and c) the ongoing implementation of its new marketing strategy in the US.

With positive growth prospects, margin expansion should provide support to strong cash generation. We expect EBITDA margins to increase driven by operating leverage, better product/service mix and an improvement in TechnoGym's sales-force productivity. In our view, rising profitability will be the main driver behind a higher free cashflow. This will support an average dividend yield of 2% and will also leave some room to de-lever its already solid balance sheet. We currently do not cover the stock via our equity research department but believe the increasing trend towards fitness at home is an attractive opportunity. TechnoGym's Live solution will be a key competitor to Peloton.

[2] Please note TechnoGym is currently not covered by Berenberg Equity Research.

AUTHORS

Matthias Lehleiter, CFA
Head of Investment Advisory UK,
Wealth & Asset Management UK

Christelle Perera
Associate,
Wealth & Asset Management UK

IMPORTANT INFORMATION

Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested. This marketing communication is not, nor is it intended to be, a personal recommendation, advice on investments or an offer or solicitation to buy or sell financial instruments or other investment or banking products. Nothing in this document is intended to constitute, or be relied upon as, financial, investment, legal or tax advice. You should consult your own advisers on such matters as necessary. All reasonable care has been taken to ensure that the facts stated in this document are accurate and that any forecasts, opinions and expectations are fair and reasonable. In preparing this document we have only used information sources which we believe to be reliable. However, the information contained in this document has not been independently verified and accordingly we do not warrant or represent that it is complete or accurate. No reliance should be placed on the accuracy or completeness of the information. Please note the stated date of preparation. The information contained in this document may become incorrect due to the passage of time and/or as a result of subsequent legal, political, economic or other changes. We do not assume responsibility to indicate or update you of such changes and/or to prepare an updated document. We do not assume liability for the realisation of any forecasts contained in this document or other statements on rates of return, capital gains or other investment performance. By accepting this document and/or attending this document, you agree to be bound by the provisions and the limitations set out in, or imposed by, this document and to keep permanently confidential the information contained in this document or made available in connection with further enquiries to the extent such information is not made publicly available (otherwise than through a breach by you of this provision). The distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and persons into whose possession it comes should inform themselves about, and observe, any such restrictions. This document is for distribution only as permitted by applicable law and in particular not available to residents and/or nationals of the US. Any failure to comply with these restrictions may constitute a violation of laws of any such other jurisdiction. Nothing contained in this Important Notice shall exclude or restrict any liability for which we are not permitted to exclude or restrict by the Financial Conduct Authority, under the Financial Services and Markets Act 2000, or any other applicable regulatory authority or legislation. Berenberg is deemed authorised and regulated by the Financial Conduct Authority (firm reference number 222782). The nature and extent of consumer protections may differ from those for firms based in the UK. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website. For the explanation of used terms please visit our online glossary at http://www.berenberg.de/en/glossary.

Copyright

As of: March 2021

.