



## Company Overview

Landice, Inc, or the "Company" is a privately held family business based in Randolph, NJ (Northern NJ) which designs, assembles and produces cardiovascular exercise equipment, primarily treadmills, which consistently has ranked for over ten years as the #1-rated treadmill by Consumer Reports and other user-focused reviews. While Landice specializes in treadmills, the Company also produces and sells high quality ellipticals and exercise bikes.



In its latest twelve months (LTM 6/30/16), Landice recorded approximately \$12 million in revenue – 80% of which was treadmills and the balance in exercise bikes, ellipticals and parts. The company has been family-owned and operated for nearly fifty years (2 different families), has a tremendous record of quality assurance and safety. Landice sells primarily through the specialty dealers in the US many of whom have carried their products for well over decades.

While Landice sources components globally, the vast majority of the treadmill itself is from the US and all of the final products are assembled exclusively in the NJ plant. The Company leases approximately 35,000 sq ft leased office and production space where the Company employs approximately 30 total employees, including hourly production staff (non-union) of approximately 20 that can be managed on a flexible on- demand schedule (adding a shift or simply adding trained assembly-line production staff).



## Investment Highlights

- **Consistently top-ranked and highly regarded producer of durable exercise equipment.** For over 10 years, Landice Treadmills has consistently ranked as the #1 ranked treadmill by Consumer Reports, an unbiased, third-party organization.
- **Large and ever expanding exercise equipment market.** The US exercise machine market is estimated to be a \$3-4 billion market, with cardio being over 50% and treadmills the largest category of over \$1.2 billion and is estimated to be growing at 3-4% annually. While Landice sells primarily through dealers, the institutional markets ( health clubs, rehab facilities, workplace, schools, hospitals apartments, etc) is in a secular growth phase that the industry and Company is just beginning to penetrate.
- **Industry recognized & highly experienced management team.** The senior management team has over 75 years of combined industry experience in manufacturing, distribution and sales management and has consistently been recognized for a #1-ranked product and a very loyal dealer and customer base.
- **Profitable business with robust barriers to entry as an attractive add-on acquisition.** Landice has been consistently profitable on an Adj. EBITDA basis (as an S Corp all earnings are paid out to avoid double taxation). While foreign manufactures consistently attempt to enter the US market- most are face an uphill battle competing against the reliability of the US manufacturing and the DECADES of top-ranked product quality, lifetime warranty guarantees and the high consumer brand awareness of the Landice brand.
- **Tremendous upside available.** While the traditional focus historically for Landice is selling direct to dealers, the institutional market represents an opportunity to double or triple sales. Additionally, the Company is launching its new product line of three new treadmills (equaling 16 different configuration options) and this, combined with new product extensions, international and institutional sales opportunities, the Company expects to see robust sales increases.

## I. Financial Summary

LANDICE, INC.								
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>6 mos ending</u>		<u>LTM</u>		
				<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2016</u>		
Revenue	\$ 14,303,628	\$ 14,003,431	\$ 13,492,914	\$ 7,341,435	\$ 5,814,403	\$ 11,965,882		
Gross Profit	3,924,994	3,914,241	3,524,735	2,810,540	1,970,701	2,684,896		
<b>Gross Profit Margin</b>	<b>27.4%</b>	<b>28.0%</b>	<b>26.1%</b>	<b>38.3%</b>	<b>33.9%</b>	<b>22.4%</b>		
EBITDA	656,395	409,380	(121,798)	159,898	(374,845)	(656,541)		
EBITDA Margin	4.6%	2.9%	-0.9%	2.2%	-6.4%	-5.5%		
(Add-backs)								
Executive Compensation	1,007,853	1,296,331	1,364,216	725,114	436,431	1,075,533		
One-time legal expense	0	0	150,000		150,000	150,000		
R&D	0	0	150,000		150,000	150,000		
IT upgrade	0	0	60,000		60,000	60,000		
PF SG&A reductions					225,000	225,000		
Adj EBITDA	\$ 1,664,248	\$ 1,705,711	\$ 1,602,418	\$ 885,012	\$ 646,586	\$ 1,003,992		
<b>Adj EBITDA Margin</b>	<b>12%</b>	<b>12%</b>	<b>12%</b>			<b>8%</b>		
Units # (using ASP)	6,811	6,513	6,133	3,337	2,643	5,439		
<b>Balance Sheet</b>								
A/R					\$ 2,100,000			
Inventory					\$ 800,000			
Book Value					\$ 2,590,500			

### The Transaction

Landice Treadmill is currently considering its options in terms of a strategic sale to an appropriate financial sponsor or strategic purchaser. Landice believes that tremendous synergies can be created by combining its Top-Rated, high-quality treadmills with a partner that can sell a suite of equipment to robust end – user markets on the commercial and residential side.

Please direct inquiries to the following individuals at Cottage Capital: Daniel J. Mackell or Tom Schwartz

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## APPENDIX A

### Sales and Marketing

Landice sells its products exclusively through a network of approximately 75 independent fitness specialty dealers with approximately 150 retail locations. The company has three sales people whose primary task is to train the approximately 300 sales people working at these locations on how to sell Landice products to end users. The company focuses most of its time and effort on educating these sales people on the superiority of the Landice product which, in-turn, sells itself once the value proposition of the Company's product is properly explained. As a US east coast based company Landice has been traditionally been able to spend more time visiting and training East Coast dealers. This is where Landice's presence and brand is strongest and maintains high brand awareness with dealers separated by no more than 30 miles in most East Coast metropolitan areas.

Landice engages the service of an outside graphics design and firm which manages the Company's website and produces the Company's marketing materials. In addition, this outside marketing company is provided with a limited budget for maintenance of the Landice social media channels.

Approximately half of the Landice independent dealers have some form of commercial presence. This combined with approximately ten dedicated independent commercial dealers comprise Landice's institutional sales network which accounts for approximately 40% of Landice's annual sales. The company has no direct commercial sales force, GSA contracts or national accounts. Currently, less than 5% of the Company's sales are to customers outside the United States.

The Company has a modest budget for print advertising, media advertising, or direct internet marketing. Generally, sales are driven by the Company's fifty-year legacy, independent unsolicited product reviews, and extra financial incentives to the dealers' 300 person sales force in the dealer stores. As the Landice product is often the highest dollar margin item on a dealer's show floor, Landice and dealer interests are aligned when Landice directly incentivizes the dealers' sales force. The same cannot be said about lower margin products offered by the company's competitors.

Because only Landice uses the same components for both our commercial and residential treadmills, only Landice can offer a Lifetime Warranty on all parts when the product is sold into a residential setting. This warranty affirms and wraps all of Landice's manufacturing commitments and efforts to uncompromised quality into a single easy-to-understand marketing feature.

## Landice Production Process

Landice designs and sources the approximately 150 parts that comprise a Landice treadmill. These parts are manufactured by vendors located throughout the United States and abroad and then shipped to Landice's facility in Randolph, NJ for assembly. Over 90% of the Landice parts are made in the USA. Landice is highly efficient in its assembly of the product adding only two man-hours of labor while ensuring tight quality control of every single part. As direct labor accounts for only two percent of the product's cost of goods sold, Landice is able to pay higher and highly competitive wages in return for a very loyal labor force, all who have been with the company for over ten years further contributing the quality of the product.

Utilizing similar interchangeable parts across all SKUs, Landice is able to produce a full range of home, light commercial and heavy commercial treadmills that all travel down the same single production line. This enables the Company to maintain a production process and line that is highly scalable. Generally, the Company runs at a 30% capacity in the summer months, and the production can scale up to as high as 150 treadmills per day with no incremental manufacturing space or added overhead cost. Because the assembly line consists of simple jig fixtures and hand tool assembly, the production line can be easily expanded and replicated for added capacity.

With the addition of elliptical trainers and exercise bikes to its offerings, Landice has developed a valuable long term working relationship with a seasoned overseas fitness equipment manufacturer. To guarantee the highest quality control, the elliptical and bikes are delivered to NJ where the Company unpacks, tests, and re-assembles each product into larger sub-assemblies making customer installation simple and quick while avoiding any improper final customer assembly error.

Additionally, the new residential product lines the L-7 & L-8 are being assembled currently on the same lines in NJ and the commercial machine, the L-10 will be added to the production line beginning late fall 2016. . In fact, Landice's outstanding long-term relationship with its' overseas vendor is allowing the Company to seamlessly source its largest treadmill to date. Named the L10, this is a 5-horsepower, full commercial, AC treadmill designed for premium quality health clubs and wellness facilities. Designed to sell in the \$4,000 price range the Company believes the L-10 will outperform the comparable competitor's models costing anywhere between \$5,500 and \$7,000. Production begins late fall 2016.

## Landice Warranty Policy and Warranty Reserve

Landice designs and sources the various parts (approximately 150-200) that comprise a Landice treadmill. These parts are manufactured by vendors located throughout the United States and abroad and then shipped to Landice's facility in Randolph, NJ. Landice stocks all parts for treadmills manufactured after January 1, 2000 and is able to ship any replacement part within seventy-two hours of receipt of an order. All parts are packaged to UPS standards and therefore can be shipped quickly and safely to a service company overnight, or Second Day or ground, thereby minimizing the "down time" of the treadmill.

Landice treadmills are generally sold to three different markets, residential, light commercial defined as five hours of use per day or less and Club defined as unlimited usage in pay for membership facilities. The warranty for each is:

- 1) Residential – lifetime for all parts including wear items, one (1) year labor.
- 2) Light commercial – Five (5) years for all non-wear parts, two (2) years wear items and one (1) year labor.
- 3) Club – Five (5) years for all non-wear parts, two (2) years wear items and one (1) year labor.

Landice's experience has shown that the majority of treadmill warranty claims occur in the first seven (7) years of ownership. Occasionally there are warranty claims for treadmills older than seven (7) years and these claims are resolved using the Company's stock of parts. In the event a part for an older model is not available Landice will ask for the defective part and forward the part to the supplier for repair. To date we have been able to address all parts requests without issue.

Landice has maintained a warranty reserve of approximately \$650,000 -700,000 covering an annual expense in that same range and the Company has found this level adequate to cover annual warranty expense(s). Additionally, Landice's warranty cost assumes no parts are returned to stock. In fact, Landice requires many repairable parts such as expensive electronic assemblies to be returned for repair. Landice repairs these parts and recycles them back into warranty stock reducing the stated warranty parts cost.

**Landice's new product line-up (using interchangeable control panels) offers 16 configuration options:**

The company has been very successful gaining dealer floor space through its interchangeable control panel program. For the residential/ retail consumer the Company offers two treadmill frame sizes "L7" and "L8". Each frame is available with the same four control panel options "Pro", "Pro Sports", "Cardio" and "Executive", and as shown on our residential treadmill brochure (Appendix B) below.

Treadmill frames are shipped LTL common carrier and can take up to five days to arrive at a dealer's warehouse. Treadmill control panels, however, can be shipped separately by UPS overnight freight. This means a dealer virtually has eight treadmill models in stock by carrying only two treadmill frames in their warehouse.

More importantly, most Landice dealers display only three floor models but smaller stores or product "crowded" stores readily sell across the full 8 SKU Landice treadmill line (\$3,200 to \$5,550) by displaying only two models - specifically the L7 Cardio and L8 Executive. Tailoring sales at different price points is easily done by selecting one of the different control panels found in the sales brochure.

Finally, approximately fifty percent of Landice dealers sell a commercial Landice product, the "L9" (light commercial) and the "L10" (full commercial), both with the interchangeable control panel options. Because there is no difference in the components between a Landice residential treadmill and a Landice light commercial treadmill, any dealer can "upgrade" a residential treadmill they have in stock for light commercial usage by registering the product with Landice and paying the designated fee to convert the warranty to Light Commercial.

## APPENDIX B



# TREADMILL PANEL OPTIONS

## PRO TRAINER



## PRO SPORTS



<b>Display</b>	Digital Display	LCD
<b>Programs</b>	5 Built-in programs 2 User-defined programs	5 Built-in programs 5 User-defined programs
<b>Keypad</b>	Numeric keypad with express and incline keys	Numeric keypad with express and incline keys
<b>Heart Rate</b>	Wireless chest strap and contact heart rate to display heart rate	Wireless chest strap and contact heart rate to display heart rate
<b>Warranty</b>	Lifetime Parts	Lifetime Parts

## CARDIO



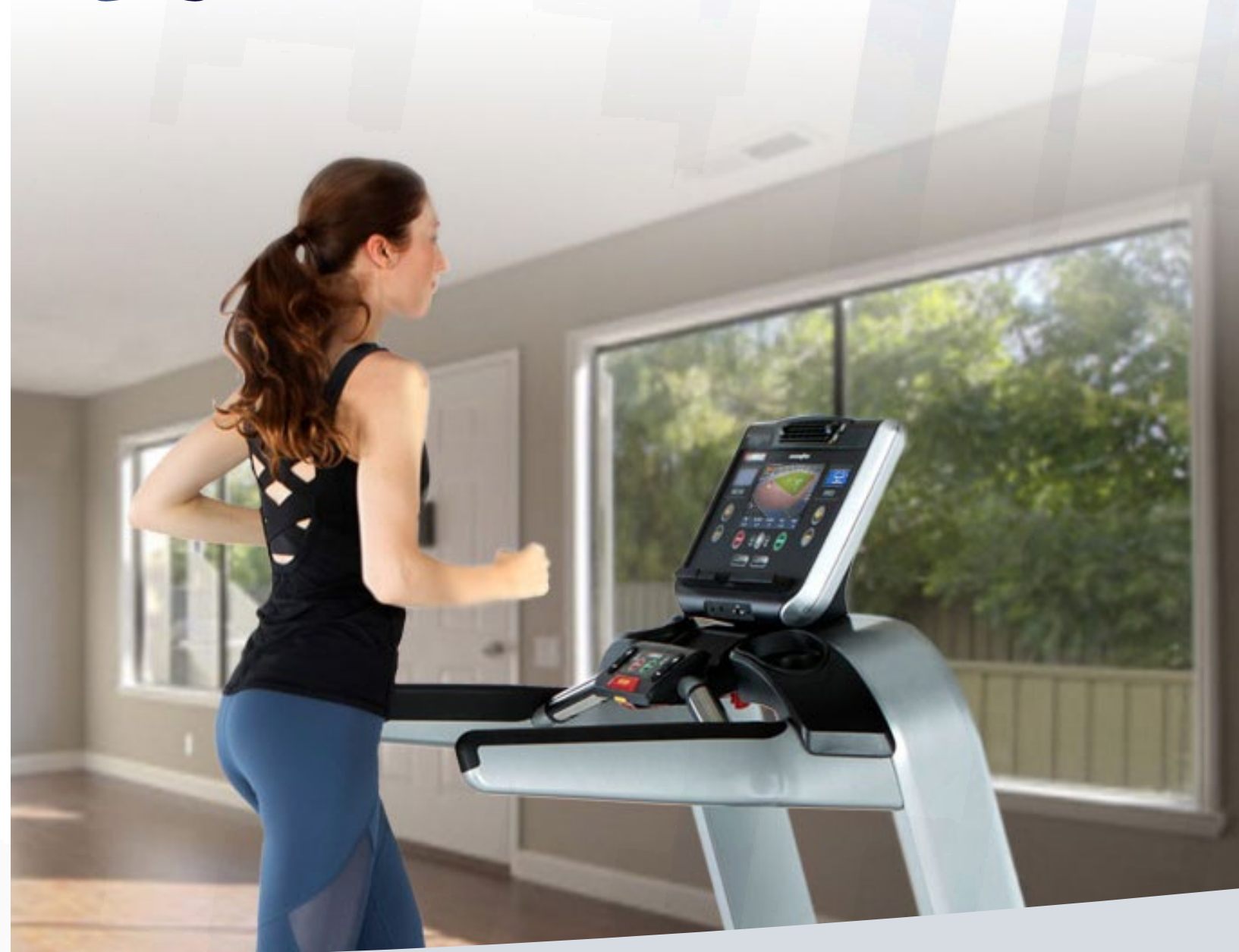
## EXECUTIVE



<b>Display</b>	LCD	TOUCHSCREEN
<b>Programs</b>	13 Built-in programs 7 User-defined programs	21 Built-in programs 10 User-defined programs - 5 users
<b>Keypad</b>	Numeric keypad with express and incline keys	Numeric keypad with express and incline keys
<b>Heart Rate</b>	Heart rate control (wireless-chest-strap & contact heart rate)	Heart rate control (wireless-chest-strap & contact heart rate)
<b>Profiles</b>	2 User profiles	5 User profiles
<b>Bluetooth</b>	Transmit workout information to Landice app (see website for details)	Transmit workout information to Landice app (see website for details)
<b>Warranty</b>	Lifetime Parts	Lifetime Parts



**HOME TREADMILLS**  
THE #1 RATED TREADMILL IN THE WORLD



Our reputation at Landice has been built on the quality and craftsmanship of our treadmills. Since 1967, we have continuously engineered the most innovative and durable fitness products in the industry, here in the USA.





# EXPERT CRAFTSMANSHIP SINCE 1967

## A SMOOTH RIDE

Landice is the industry leader in treadmill shock absorption. Our standard VFX Shock Absorption System provides optimum comfort while reducing impact on your joints. It is 5 times softer than running on grass and great for runners and walkers seeking impact reduction. For those users looking for an even softer landing, try our Orthopedic Suspension System which is 7 times softer than running on grass and further reduces the impact on joints and knees.



## THE FINEST TREADMILLS

Our treadmills have been placed in the most demanding commercial environments around the world where our fitness equipment has proven its strength and endurance. We use the same commercial components in our home treadmills, so you can be confident of its longevity and reliable performance.

## LIFETIME WARRANTY

We are so confident in the workmanship and quality of our equipment that we provide one of the industry's best warranties for our residential treadmills. Just like our machines, our warranties are built to last.

## RESIDENTIAL WARRANTY

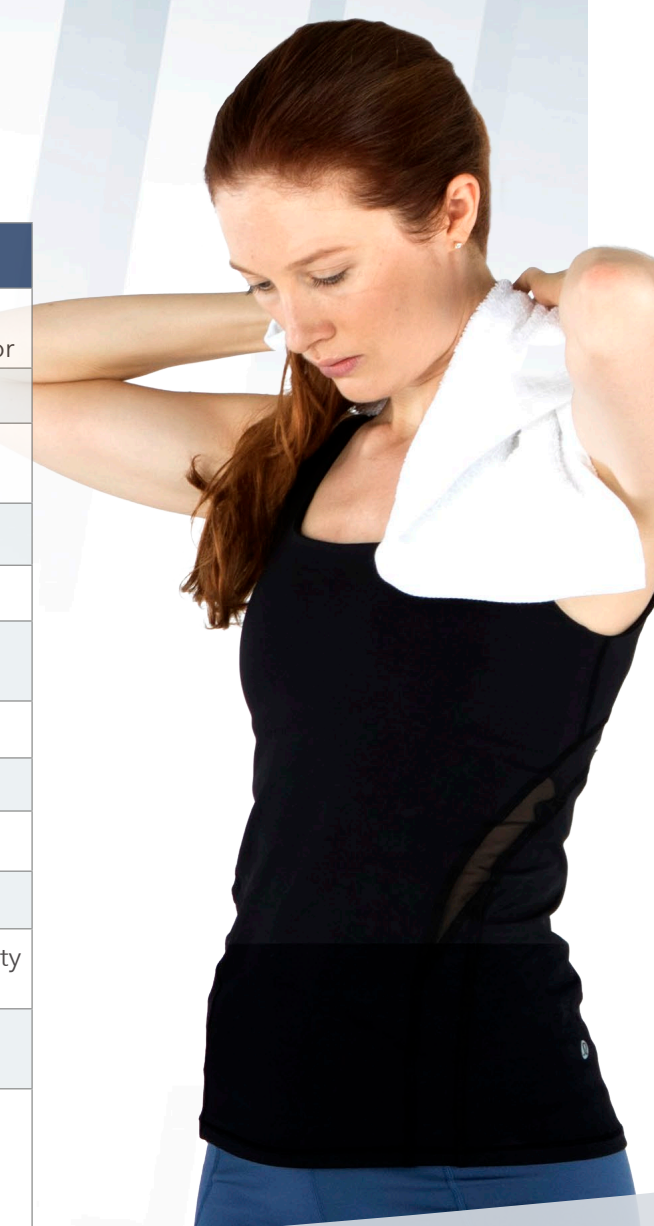
Lifetime parts and wear items, 1- year labor

# THE BENCHMARK FOR FITNESS

## TREADMILL FRAME COMPARISON

Solid aluminium construction - rust free and durable

	L8	L7
<b>WARRANTY</b>	Lifetime parts and wear items, 1yr. labor	Lifetime parts and wear items, 1yr. labor
<b>User Capacity</b>	500 lbs.	400 lbs.
<b>Equipment Weight</b>	340 lbs.	300 lbs.
<b>Dimensions</b>	35" W x 83" L x 61 H	35" W x 76" L x 59 H
<b>Running Surface</b>	22" W x 63" L	20" W x 58" L
<b>Power</b>	110 VAC 60Hz, 15A	110 VAC 60Hz, 15A
<b>Roller</b>	3 1/2" 22lbs.	2 1/2" 14lbs.
<b>Step-up Height</b>	7 1/2"	5 1/2"
<b>Speed</b>	0.5 to 12 mph	0.5 to 12 mph
<b>Incline</b>	0% to 15%	0% to 15%
<b>Drive System</b>	4 HP Continuous duty motor	4 HP Continuous duty motor
<b>Deck</b>	1" - Reversible Maintenance-free	1" - Reversible Maintenance-free
<b>Control Panels</b>	Pro Trainer Pro Sports Cardio Executive	Pro Trainer Pro Sports Cardio Executive



**L7** Representing the very latest in treadmill innovation, the Landice L7 is ideal for walkers, joggers, and serious runners alike. From the whisper-quiet 4 HP continuous duty motor to its rust-free aluminum frame and 20-inch wide by 58-inch long running surface this treadmill accommodates the active user.

**L8** The Landice L8 treadmill is designed for the treadmill enthusiast who needs to stretch out or for someone looking for a health club experience in their home. The L8 offers one of the most spacious surfaces in the industry, ideal for users over 6 feet tall, marathoners, tri-athletes and competitive runners. The L8 simulates a true outdoor training experience.

