

clearview

Fitness

The UK health and fitness market continues to grow, having enjoyed an increase of nearly 25% between 2011 and 2017.



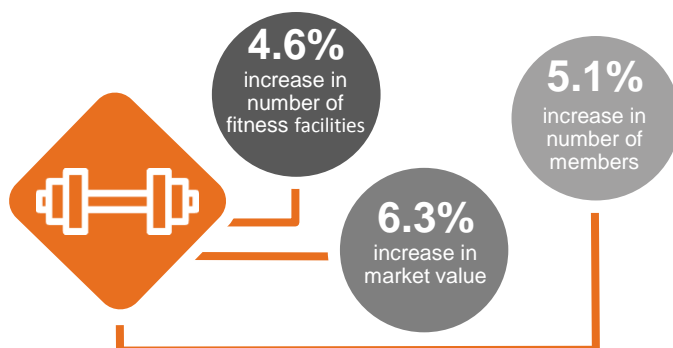
The growth of low-cost

Over the last decade the industry has been pushing in opposite directions: at one end are low-cost operators, who have taken over the sector and squeezed the mid-market, and at the other are high-end operators delivering a differentiated and premium experience.

The low-cost segment, which now accounts for 15% of the market by value but 35% by membership¹, has grown on the back of club roll-out: there were just 101 in 2012² compared to 515 in 2017³.

The segment has grown both by enticing members from mid-market chains, and by recruiting new members who have never had a gym membership before. The squeeze on the mid-market has caused a polarisation in both the UK and Europe; with those operators having been pushed out completely or having to reposition themselves. LA Fitness sold 13 gyms to Sports Direct in 2014 and then sold the remaining clubs to low-cost operator Pure Gym in 2015. Fitness First UK has also succumbed selling 62 gyms to low-cost operator DW Sports in 2016.

The growth of the low-cost segment has driven growth of the overall UK gym market with the following increases seen in the last 12 months to March 2017.



With 9.7 million members, the UK private gym market penetration rate is now 14.9%¹. This is still some way behind other comparable countries (19.4% in Norway, 16.7% in Sweden and 16.4% in the Netherlands³) suggesting there is room for growth as appetite for health and wellbeing remains strong.

While the UK market has grown significantly, the same is true in Europe. The European market has already seen consolidation with leading pan-European operators developing. German operator McFIT has c.250 clubs with 1.2 million members across five countries, and Dutch headquartered Basic-Fit has c.500 clubs with 1.5 million members across five countries. We expect to see continued roll-out of clubs and consolidation between operators.

Many consumers are drawn to low-cost however, those with higher disposable income are prepared to pay a premium for a genuinely differentiated service, high-quality facilities and a broader range of gym activities. The growth in the premium market has provided a platform for these businesses to develop.

Attractive market

Growth in both ends of the market continues to attract both trade and private equity (PE) buyers. The attractive market continues to bring additional investment from outside – often from related markets.

JD Gyms, a low-cost chain launched by retailer JD Sports, is rapidly expanding across the country. The company recently purchased the UK division of Ben Dunne Gyms, taking its total to 19, with a further 10 sites committed to open within the 2018-19 financial year. In 2017 JD also opened its first retail gym hybrid.

In late 2017, department store operator Debenhams announced a partnership with Sweat! to launch in-store gyms in early 2018. Sweat! is a budget gym operator founded by Frank Reed, the co-founder of Virgin Active. The company received a £3.75m investment from Puma Investments, a member of the Shore Capital Group, in December 2017.

Market growth will continue to create investment opportunities for PE whilst also generating consolidation opportunities. Going forward we expect to see consolidation in the low-cost segment across Europe, as larger operators battle it out to dominate the market.

¹ Leisure DB, 2017 State of the UK Fitness Industry Report

² The Gym Group plc 2016 annual report

³ The Gym Group plc 2017 annual report

Boutique fitness

An increase in consumers' interest in fitness has led to a growth in demand for boutique concepts. According to figures from the International Health, Racquet and Sportsclub Association, there has been a 200% rise in boutique studio openings in the last two years. Boutique studios now represent 23% of the UK fitness market¹.

Whilst a number of concepts are still fairly new, there have been numerous investment deals in the space recently, proving its popularity amongst PE.

- Indoor cycling company Psycle received an investment of £3m, helping it to launch three more studios in London, with a total of five new sites by the end of 2018. Psycle studios also offer Barre and yoga.
- Piper invested £6m into Frame, the company that offers 31 different classes ranging from dance to meditation across six sites. Frame has plans for two new sites in early 2018.
- Codex Capital led a £6.6m investment in 1Rebel, to expand the pay-as-you-go brand across London. The high intensity workout brand has four locations in London providing training sessions in a nightclub-inspired environment.
- Prism Finance and Pembroke VCT invested £2.1m in Boom Cycle, an indoor cycling studio operator with four locations in London. Boom has ambitions to add 10 additional studios to its offering over the next five years.

Boutique studios are successful because they are able to provide customers with something they cannot get from a standard gym – personalisation. They are able to provide a service that meets consumers' individual needs and thus gaining customer loyalty. Personalisation is a consumer trend that will continue to be a driving force over the coming year.

The market is still highly fragmented and so there are plenty of opportunities for future consolidation.

Sports nutrition

With an increase in health awareness and the growth of gyms, there has been significant expansion within the sports nutrition sector.

Euromonitor reported that the UK is the fastest growing market with retail values increasing by 14% in 2017. The market was thought to be worth £799m in 2017 – up 13% on 2016 and more than double 2012's £350m².

High growth over the past few years has driven deals and investment in the space.

- LSE-listed ABF, owner of Primark, acquired brands High 5 and Reflex Nutrition.
- PE firm Lion Capital acquired a majority stake in Grenade, valuing the business at £72m.
- The Protein Partners, owned by Country Milk Products, the dairy ingredients supplier, acquired CNP Professional, from First Milk.

Whilst historically products were used by bodybuilders and athletes, there has been a new category of users emerging. These non-traditional users – recreational athletes and gym-goers – are shifting sports nutrition into the mainstream, and also towards a younger demographic, driving growth in the space.


There has also been a big upward trend in bite-sized nutrition. On-the-go products, like protein crisps and bites, are coming to the forefront. It's likely that the market for snacks like these will continue to grow as consumers increasingly choose convenient products.

It is also no longer just about whey protein. Plant-based proteins as a whey-alternative, for example, have been growing in popularity as they cater to the ever growing vegan population, creating further opportunities for growth.

¹ Piper Private Equity

² Euromonitor International

Recent transactions



FITNESS HUT

Portugal's leading premium low-cost gym operator


Clearwater International advised Fitness Hut on its cross-border sale to Spain-based gym group VivaGym, creating the leading Iberian gym group



ARSENAL GRUPO DEPORTIVO

Spanish luxury fitness club


Clearwater advised Arsenal Grupo Deportivo on its debt restructuring



GYMBOX

Boutique gym chain

Clearwater International advised the company a growth capital investment from BGF



NUTRAMINO

Leading sports nutrition products business

Clearwater International advised the company on its cross-border sale to Glanbia



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