

UK HEALTH AND FITNESS

Following another year of continued growth, the UK health and fitness industry provides attractive investment opportunities. The market is worth c.£5bn and has grown 20% over the last five years.

But what are the trends driving both the overall market and differentiation among the successful operators? Our research says five factors will be important in 2019.

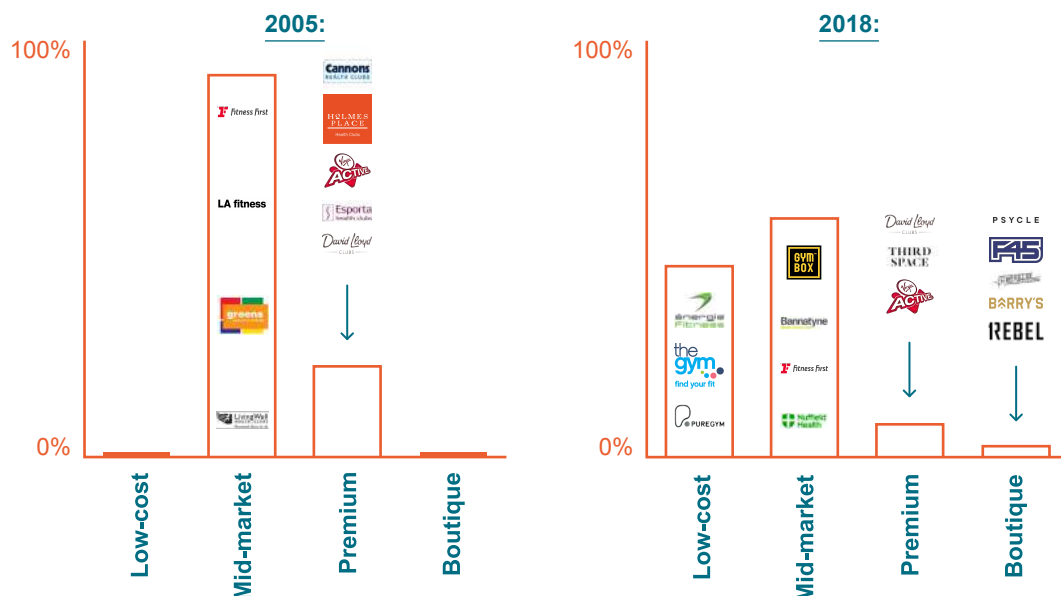
1. Ongoing polarisation (and structural change):

The structure of the UK health and fitness industry is evolving to better reflect consumer preferences. Low-cost gyms (e.g. Pure Gym, The Gym Group, Xercise4Less) will continue to take share, while the current London-focused dynamic of boutique, class-based studios (e.g. Barry's Bootcamp, F45, Frame) and more upmarket offers (e.g. Gymbox, Third Space, Equinox) have the potential to properly expand outside of London if the strategy is right. On the latter, we have identified upwards of 25 locations across the UK that could

accommodate new or more premium propositions.

However, while structural change is occurring and much of the industry commentary has focused on the rise of the low-cost segment, it is interesting to note that mid-market remains the largest category by sites. The segment itself, though, is transforming, shifting towards the premium end of the market. For example, some would argue that Gymbox blurs the boundaries by price point and proposition, while present day Fitness Firsts look nothing like the 2005 version.

Illustrative UK health and fitness competitor map by number of sites



Sources: Company websites, CIL analysis

2. Differentiation within the low-cost segment:

As the low-cost segment becomes increasingly competitive, operators are striving for differentiation. Beyond further lowering price, the training offer and technology are both effective ways of creating better consumer experiences. For example, Energie launched a new group-based training concept called the YARD in 2017, while Xercise4less has a timetable of over 30 classes more typically expected of a premium offer. On technology, The Gym Group has launched its LIVE IT platform (with online member perks, body measurement data, etc.) and Crunch Time system (which provides immediate information on the member experience). Pure Gym has made similar steps in both areas, with its Les Mills and new digital studio classes particular differentiators. Others will have to follow suit.

3. Social fitness becomes the norm:

It is well known that consumers generally are increasingly prioritising social experiences, and this is becoming ever more common in the fitness industry. Across all types of gym, our research shows that 40% of consumers consider the social scene an important part of their selection process. This is closer to 50% for premium gym-goers and nearly 60% for those that attend classes. And it's not just about meeting people and socialising – the key factor is people are more motivated working out in a group. Outside of gyms, CrossFit continues to boom, participation in adventure races like Tough Mudder has grown, events like the weekly Park Run go from strength to strength and park-based operators like BMF (recently rebranded as Be Military Fit) remain popular. Standout operators will leverage the social fitness trend in their proposition.

Why gym goers attend fitness classes:

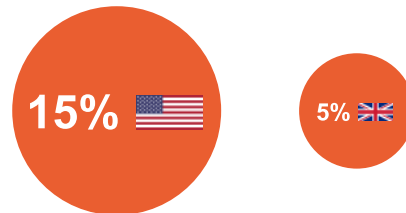


Source: CIL research

4. Franchising bolsters the low-cost and boutique segments:

Franchise business models have been a key driver of growth in the US and we expect this trend to become more apparent in the UK. Whether big-box type operations (e.g. Anytime Fitness, Snap Fitness, Planet Fitness) or boutiques (e.g. Orange Theory, Core Power Yoga, 9 Round), franchise operators are leading new site count in the US. How this plays out in the UK remains to be seen, but Energie, Anytime Fitness and Snap Fitness have already made headway in the market, while London has seen an influx of Australian-founded F45 studios.

Estimated penetration of franchise operators by number of locations, US vs UK:



Sources: Company websites, CIL analysis

5. Digital aggregators provide assistance to the class-based studios:

ClassPass and PayAsUGym have been in impressive growth over the last few years, with both attracting a series of investments from institutional funds. Particular beneficiaries are the class-based studios, who use such platforms to source new (and ideally potentially committed) members and fill empty spaces. Each of these platforms offers consumers a pick and mix and on demand approach to accessing a gym, trends we have seen take place in other consumer sectors (think Deliveroo, Uber, etc.). Such platforms should become more commonplace over 2019 – our research suggests that only 5% of the current UK gym-going population subscribes. However, there remain concerns about the economic sustainability of such models and the viability in the UK to scale operations outside of London. We believe the traditional gym model will remain the strongest channel.

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