

Harrison Co. COVID-19 Fitness Survey Finds:

May 2020



Fitness will become a heightened focus for maintaining a healthy lifestyle yet up to **\$10 billion** annually may transition from the club sector to home fitness and other alternatives

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Streaming, Safety and Reinvention are the New World Order

Prior to the black swan event known as COVID-19, both health clubs and home fitness had been enjoying steady growth driven by a number of trends that pointed to a continued upward trajectory.

Growth as well as innovation in the health-club industry were built primarily within a framework of favorable demographics and the desire for a more personalized exercise experience. These overarching drivers spawned industry-wide segmentation defined by narrowly targeted boutique studios and bifurcation of the big-box concept into two categories: budget and premium.

The home-fitness market was also posting impressive gains through 2007, until being brought to a halt when the 2008 financial crisis descended on the industry and consumers. It was not until 2015 that the economic cloud lifted, and connected fitness emerged to deliver a more motivating and satisfying home-fitness experience.

While NordicTrack offered the first connected exercise bikes, an argument could be made that the at-home revival and accompanying rally can be credited to Peloton. The company's technology created a never-before-seen experience that was convenient, compelling and immersive, placing an exclamation point on the power and promise of streaming.

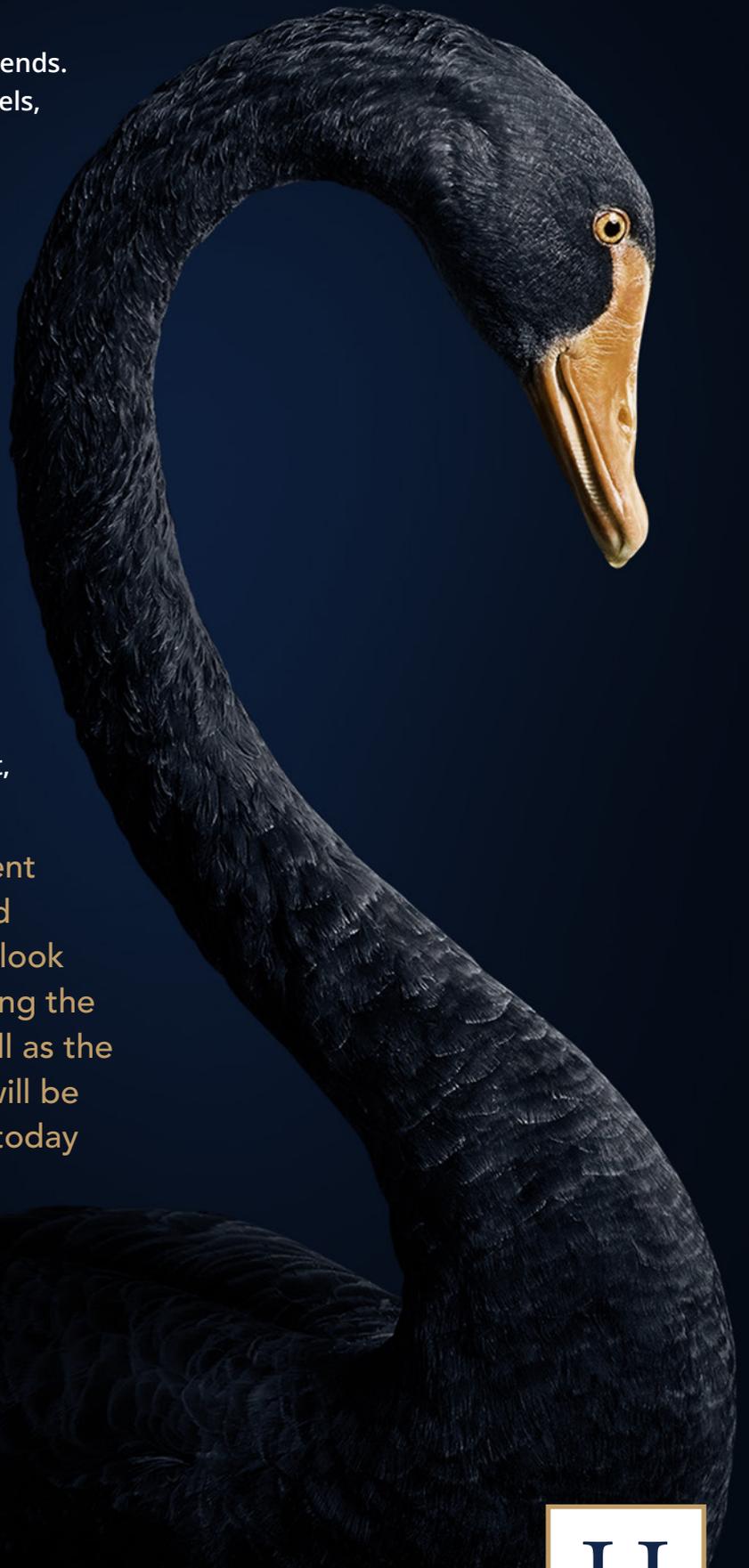


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COVID-19 is unlikely to derail those trends. However, it will impact business models, practices and behaviors affecting health clubs and suppliers alike. At the same time, it will accelerate the existing momentum in home fitness. Broadly speaking, the consumption of fitness will change post-COVID-19. The question is how, by how much and for how long.

Harrison Co. offers valuable insights into those very questions. Insights include key results from the firm's ongoing research project that uses proprietary survey data to study trends in the fitness industry. Detailed data will be provided in an upcoming webinar and, upon request, a customized data pack.

The findings of the most recent survey, which are summarized in this report, offer an inside look into how COVID-19 is recasting the competitive landscape as well as the technology and trends that will be steering the fitness industry today and in the years ahead.





EVOLVED FITNESS JOURNEY

The U.S. fitness industry has progressed through evolutions, challenges and revivals since its modern-day roots tracing back nearly 60 years. During that time, the industry advanced through economic upswings and downturns, trends and fads, and unpredictable consumer tastes. Each time, it emerged with the added strength, energy and determination needed to overcome whatever challenges may have arisen, and created experiences meeting the most evolved consumer needs.



PRIMED FOR GROWTH AND REINVENTION

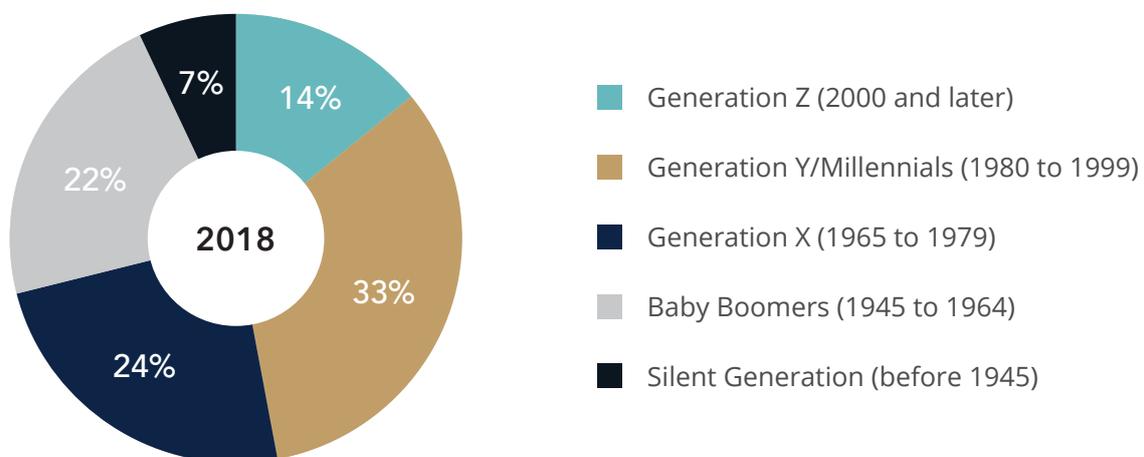
For a complete picture of the fitness industry in the time of COVID-19, it is helpful to understand the industry's position before the virus took hold, and the underlying trends that are now playing a critical role in fitness's new chapter.

- 2018 International Health, Racquet & Sportsclub Association (IHRSA) data shows that the U.S. is the world's largest health and wellness market, with over 38,400 fitness clubs and an annual growth rate of 4.5%. Industry revenue was climbing at a slightly higher rate of 6.7% and estimated at \$32 billion. ¹ Revenue was expected to reach \$43 billion by 2023. ²
- Over 62.5 million Americans belonged to at least one health club, many of whom held memberships at both clubs and boutique studios. ³
- Visits to health clubs, gyms and studios surpassed 6 billion, with an average retention rate of 72.4%. ⁴
- Almost two-thirds of regular exercisers were, or had been, a member of a fitness club. ⁵

Waves of record-size demographic cohorts, from Baby Boomers to Generation Zs, have powered the industry's growth since the late 1970s. These populations were raised with an appreciation for a healthy and fit lifestyle, and wield the resources needed to pursue it.

Multiple industry sources report that among demographic groups, Millennials and Generation Zs surpass all others in industry participation and spend, in terms of both fitness clubs and boutique studios.

HEALTH CLUB MEMBERS BY GENERATION IN 2018



Source: IHRSA, *Fitness Industry Roundup: Millennials Are Good for Business*, October 4, 2019

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SUPERCHARGED INFLUENCE OF MILLENNIALS

The industry's record-breaking growth was occurring alongside a rising consumer push for fitness innovation and reinvention. The distinct population at the helm was 83 million Millennials strong. In fact, Millennials' decade-long preference for experience-focused fitness has been responsible for the majority of new and often boutique-style workout concepts. They range from Pilates, yoga and High Intensity Interval Training (HIIT) to Zumba, bootcamps and CrossFit. It has also been the momentum behind Orangetheory Fitness, SoulCycle, Barry's and other industry phenomena.

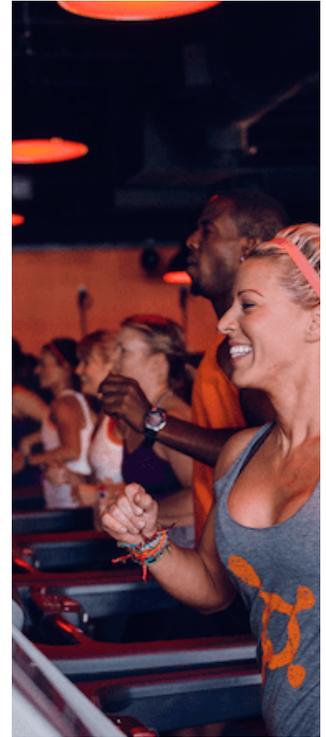
Social media put the wave of innovation into hyperdrive and Millennials gave it wings. They were empowered to impassion their followers to join them in broadcasting enthusiasm for next-generation workouts. New industry entrants could be quickly infused with tremendous word-of-mouth buzz, powerful and emotive brand strength, and a tribal energy that was out of reach for competing traditional big-box clubs.

Social media put the wave of innovation into hyperdrive and Millennials gave it wings.

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BEYOND ONE-SIZE-FITS-ALL

The new dynamism that was taking hold of the fitness industry led to the rise of four distinct types of fitness havens offering something for everyone



HIGH-VALUE, LOW-PRICE (HVLP)

Typically novice and casual gym-goers who prefer a low-cost, no-frills, non-intimidating exercise experience, without compromising workout options and access.

Spotlight: Planet Fitness and Crunch

TRADITIONAL BIG BOX

Members of diverse fitness levels who take an all-purpose approach to their workouts, and value high-square-footage floor space, broad access and a more premium experience than HVLP clubs, though at a still-affordable membership fee.

Spotlight: 24 Hour Fitness and Town Sports International (TSI)

PREMIUM

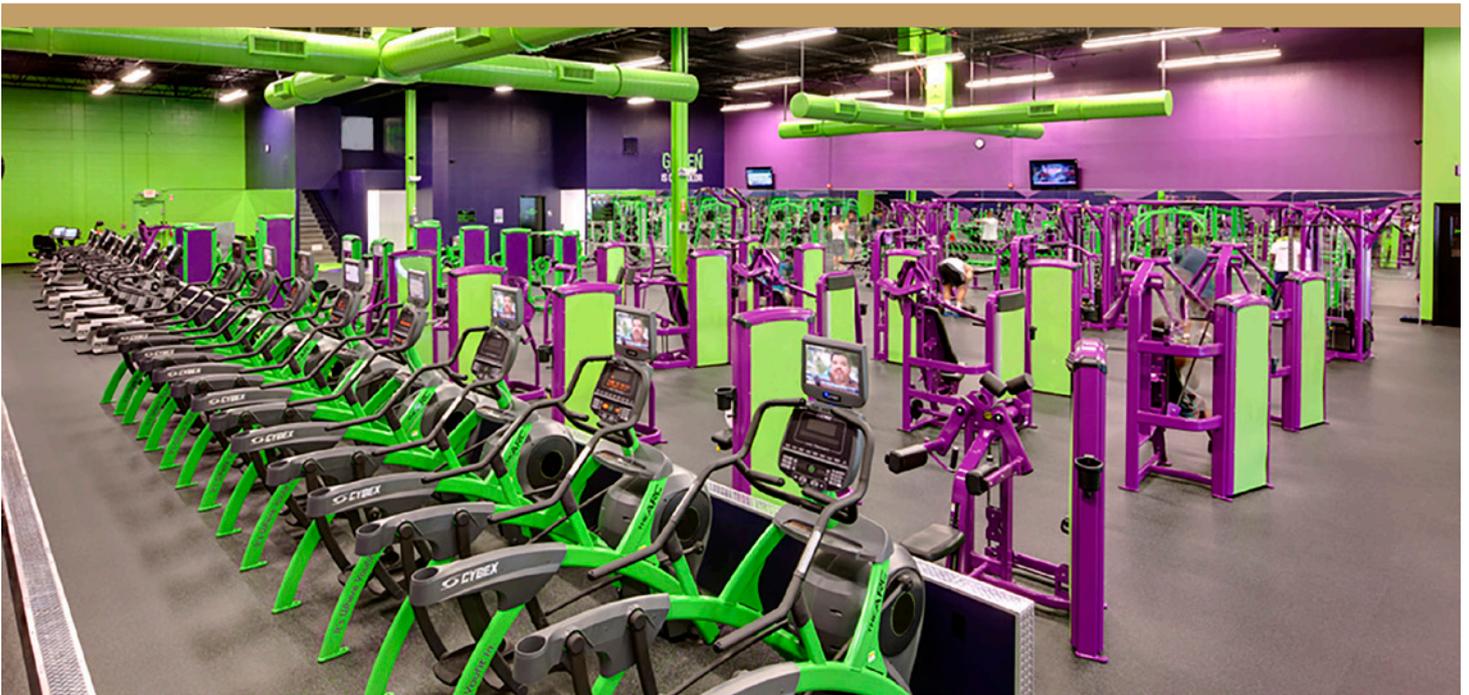
More experienced fitness enthusiasts who prioritize equipment, programs, classes and amenities that power a premier fitness experience at a high cost.

Spotlight: Equinox and Life Time

BOUTIQUE STUDIOS

Exercisers who are interested in small, friendly, on-trend and specialized group classes in relatively small spaces, and similar to premium clubs, that carry a luxury price tag.

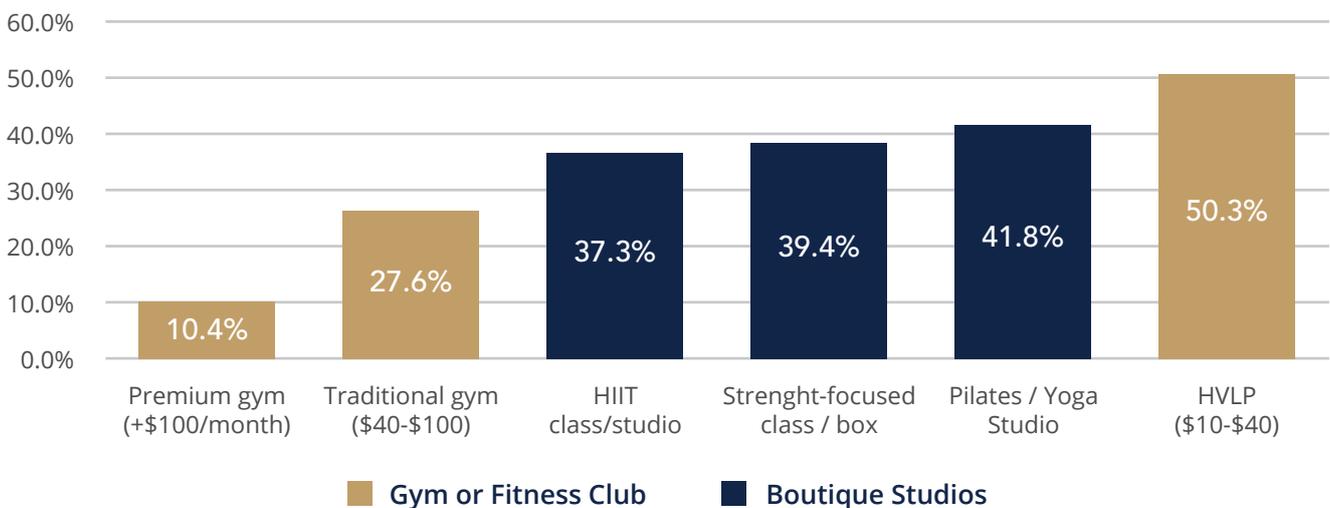
Spotlight: Orangetheory Fitness and Barry's



HVLP fitness clubs were among the key momentum-drivers for industry growth, with Planet Fitness emerging as the undisputed juggernaut, as the majority of gym members were choosing low-price options. Planet Fitness’s membership base has historically grown at a CAGR of 19%, and has surpassed the competition in terms of brand awareness and club memberships.

As the exercise experience grew in terms of quantity, quality and diversity, consumers were presented with an embarrassment of fitness riches. No longer limited by workout or club type, fitness consumption became more fragmented. Consumers, particularly Millennials, blended fitness-club workouts with boutique-studio classes, which along with HVLP clubs were top growth creators. They also attended classes at different studios.

MEMBERSHIP BREAKDOWN AMONG CONSUMERS WHO EXERCISE AT LEAST TWICE PER WEEK



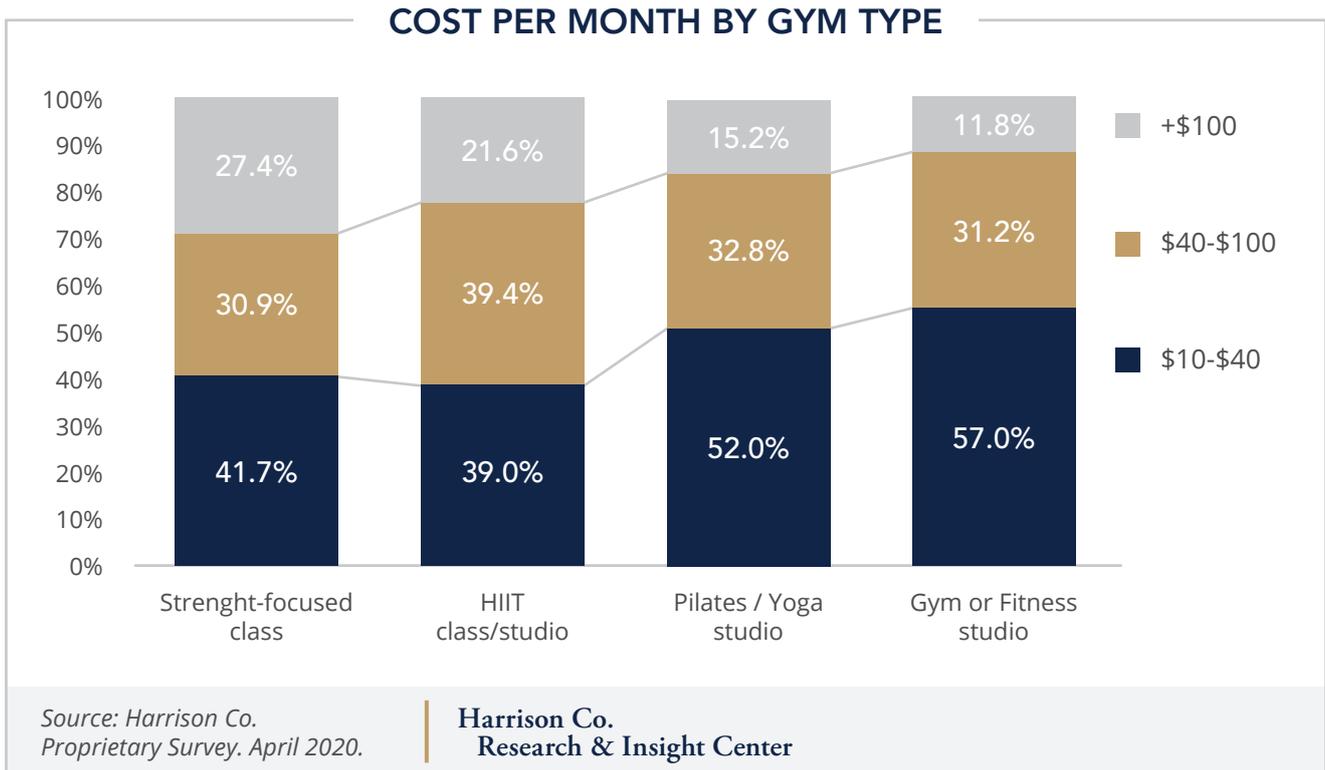
Source: Harrison Co. Proprietary Survey. April 2020.

Harrison Co. Research & Insight Center



INDUSTRY SEGMENTATION

Growth, innovation and reinvention were not the only trademarks of fitness pre-COVID-19. A bifurcation of clubs into HVLP and premium categories had segmented much of the industry, with business models positioned at opposite ends of the fitness-experience spectrum.



Similar to their role in driving a more personalized fitness experience, emboldened Millennials were also among the forces behind bifurcation. Their desire for a highly customized experience was at odds with traditional big-box brands' vanilla approach. When combined with the natural maturation of consumer retail, middle-market brands such as 24 Hour Fitness and TSI were left struggling to differentiate themselves.





STREAMING THE WAY FORWARD

Along with the rise of boutique studios and the migration toward low-cost and premium fitness clubs, streaming emerged as a powerful underlying industry trend.

Live and on-demand services, which stream to personal devices and fitness equipment, were welcome options for a broad base of consumers. Technology-enabled classes for multiple types of workouts provided the guidance and motivation needed for a complete and uncompromised home-fitness experience.

From yoga and cardio to strength training and HIIT, streaming's popularity skyrocketed for a number of reasons:

- Avoid costly monthly memberships.
- Eliminate the time and expense of traveling to and from a club or studio.
- Offer workouts whenever: morning, noon or night
- Offer workouts wherever: living room, bedroom or hotel suite
- Extend the reach of fitness clubs, particularly boutique studios, and further galvanize their brand.



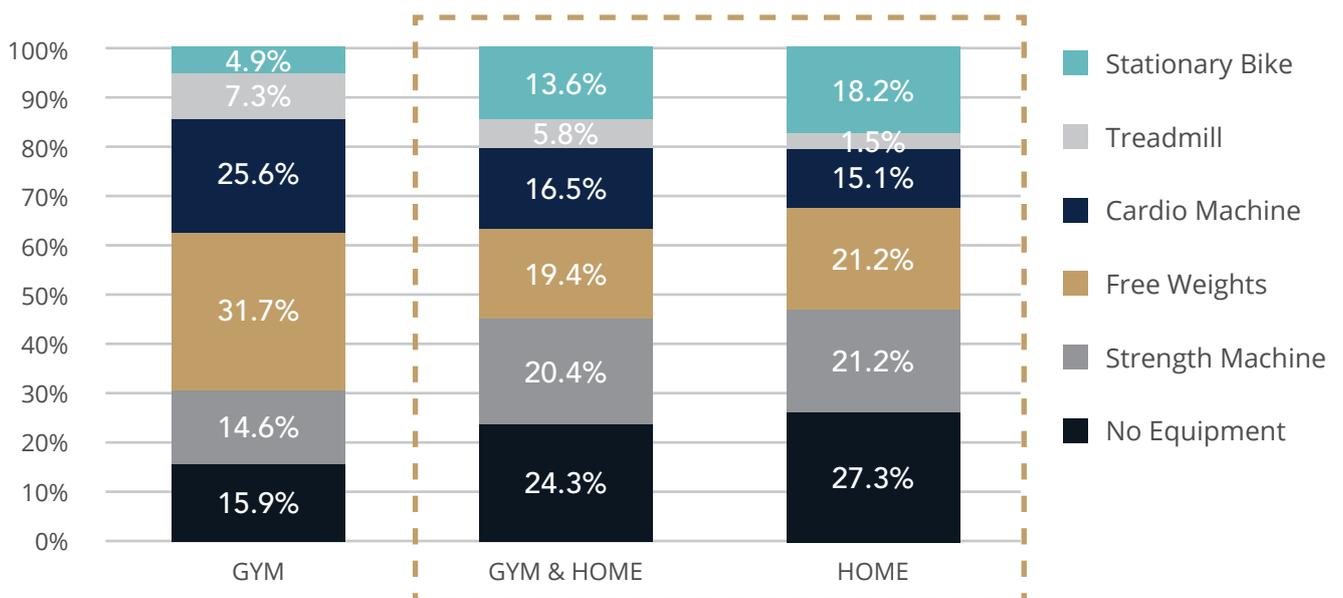
Peloton and its luxury stationary bikes, treadmills and yoga classes, and Beachbody, with its wide variety of workout programs, were sector trailblazers. Mirror, Tonal and Obé were also among the new wave of entrepreneurial-minded entrants that used technology to significantly enhance the at-home fitness experience.

The streaming category was without doubt showing tremendous growth potential, particularly as maturing Millennials reached adulthood and pursued at-home fitness options more in line with personal and work responsibilities. However, even the most astute industry members could not have predicted the changes in consumer consumption of streaming services – and sector growth – that were to come next.



Of the people who have purchased, or plan to purchase a fitness app or subscription, those who primarily worked out at a gym before Coronavirus, use free weights and cardio machines significantly more than people who work out at home and at the gym and home.

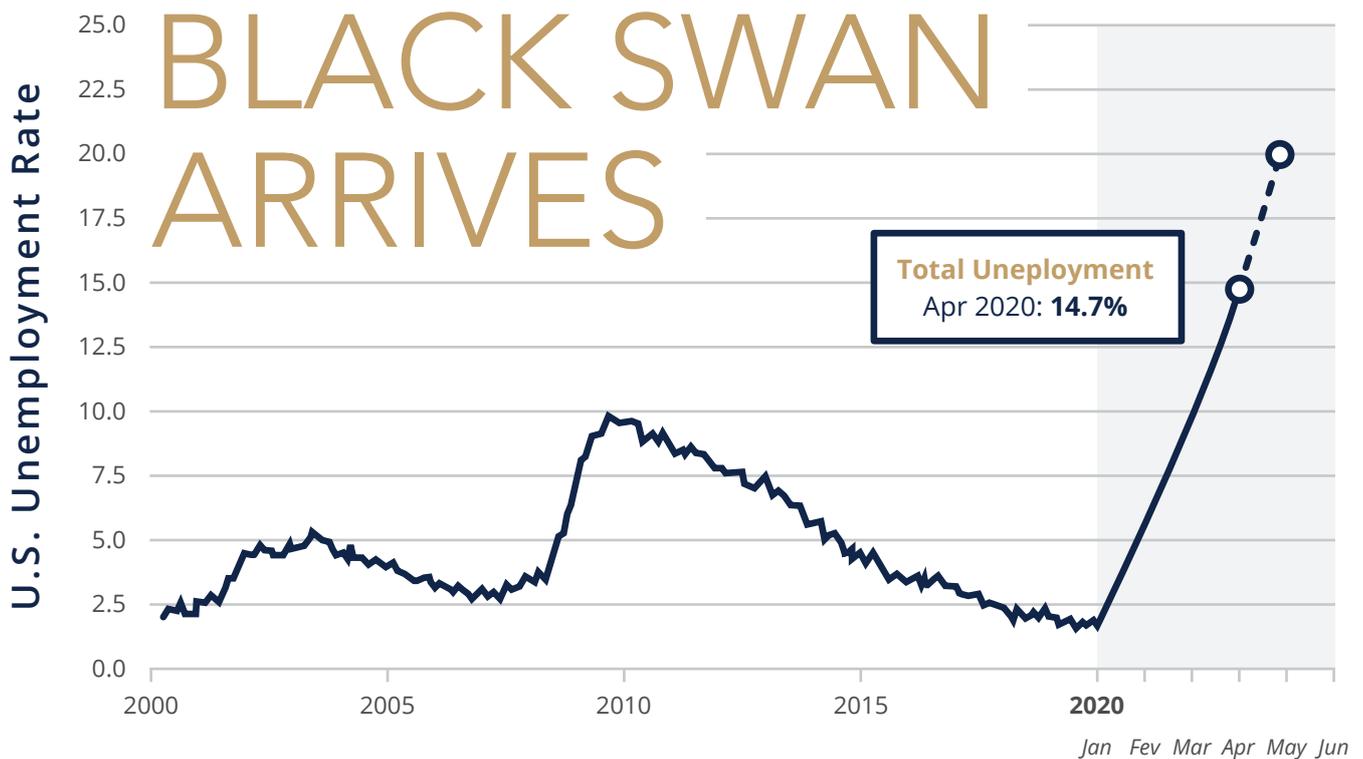
TYPE OF EQUIPMENT USED WITH FITNESS APP OR SUBSCRIPTION



Source: Harrison Co. Proprietary Survey. April 2020.

Harrison Co. Research & Insight Center





Our survey reveals that 34% of gym exercisers have either canceled or plan to cancel their memberships.

Fitness is among the industries reeling most from the COVID-19 pandemic. Thousands of fitness clubs and boutique studios, regardless of size, location and category, abruptly closed their doors to slow the spread of the virus, and protect the health and safety of their members, staff and communities.

Lost revenue, furloughed and laid-off staff, and plunging compensation are left in the wake of the virus, and at a time when there were high expectations for continued industry growth and profitability. Many clubs and studios, particularly smaller operations, are on the brink of shutting down, with revenue declines estimated to reach 80% to 90%, and 100% in some cases.

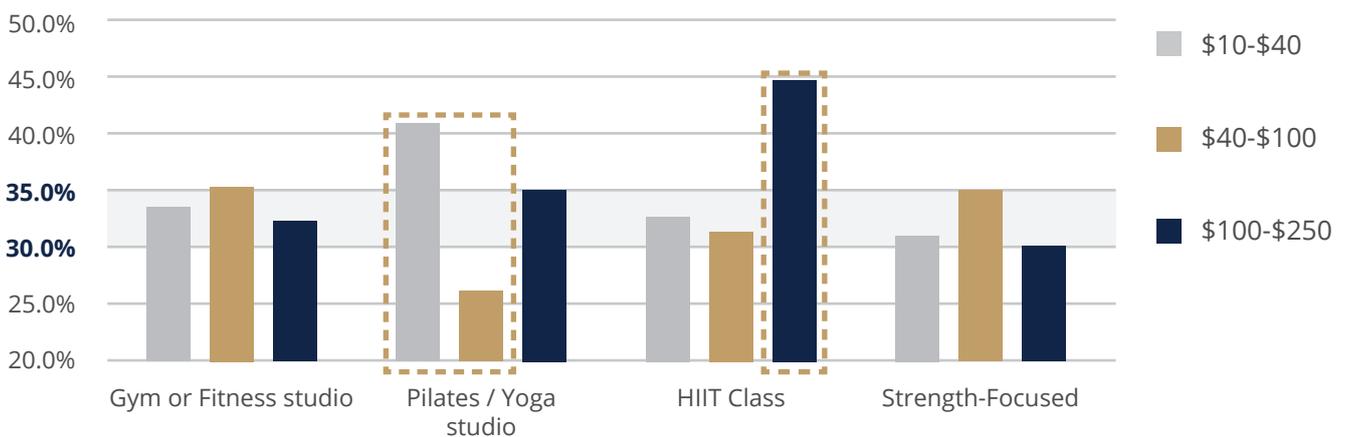
Even without shelter-in-place restrictions, a return to pre-COVID-19 conditions is unlikely in the near- to mid-term, and perhaps beyond.

Our survey reveals that 34% of gym exercisers have either canceled or plan to cancel their memberships. Cancellations are largely across segments and price points. However, Pilates and yoga studios charging \$10 to \$40 per month, and HIIT studios charging \$100 to \$250 per month, appear likely to be hit hardest by cancellations. If these numbers are extrapolated to the U.S. population, more than 20 million gym memberships could be canceled across all segments due to COVID-19.

More than 20 million gym memberships could be canceled across all segments due to COVID-19.

CANCELED

% WHO HAVE CANCELED, OR PLAN TO CANCEL, THEIR GYM MEMBERSHIP



Source: Harrison Co.
Proprietary Survey, April 2020.

Harrison Co.
Research & Insight Center

For brands such as 24 Hour Fitness and TSI that are carrying high debt loads and are likely to restructure under Chapter 11, persevering through the pandemic has become an exceedingly serious and immediate challenge.

The industry's top premium clubs are also not immune from the effects of COVID-19. Equinox and Life Time had their debt downgraded due to the cloud of uncertainty regarding revenue and profitability forecasts going forward.

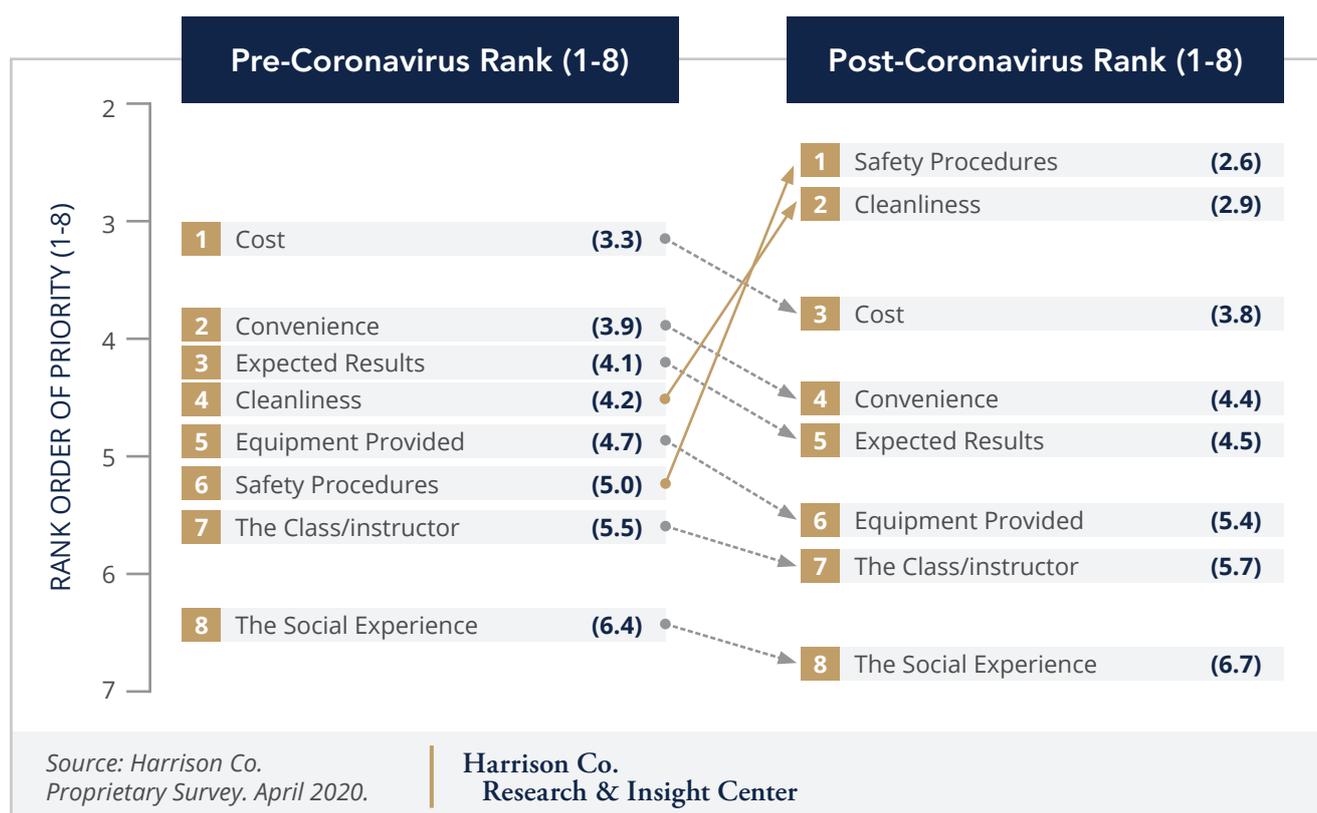
As Jim Collins exhorts in his best-selling book *Good to Great*, it is time to face the brutal facts.



RETHINKING CLUB AND STUDIO EXPERIENCE

Fitness clubs and boutique studios have a monumental task before them – right-sizing their business while conforming to capacity-reducing constraints. At the same time, they are swimming against the rapidly incoming tide of at-home fitness that is attracting and will continue to attract current and prospective members. In many cases, reduced capacity may force member-price increases as well as creative options such a-la-carte and peak and off-peak pricing.

A return to clubs and studios will be further gated by consumers' safety concerns. Not surprisingly, our research indicates consumers expect visible cleanliness and safety procedures to become the two most important criteria when selecting a gym or club after reopening.



The result may be a clinical and in many ways off-putting experience, complete with temperature checks and face masks that are unlikely to motivate return-to-exercise routines. Although strict safety measures are both prudent and necessary, they hold the potential for reinforcing members' safety concerns and the enduring COVID-19 risk.





GYM SUPPLIERS CAUGHT IN THE WAKE

Equipment manufacturers who supply gyms are even more firmly in the grip of the COVID-19 devastation. With gyms shut down nationwide, demand is expected to decline precipitously as they delay or cancel existing orders. Long-term demand will also fall off as some close permanently. Gold's Gym recently filed for Chapter 11 bankruptcy protection, while Crunch and other franchise brands have shuttered multiple locations. Other gyms will no doubt follow as liquidity issues may leave them with no other option.

Social-distancing regulations are another setback for manufacturers. At least for the near future, mandatory spacing between exercisers will reduce gym capacity and space utilization by 50% or more. For the long term, consumer attitudes toward hygiene and safety will likely lead to a reduction in equipment footprints as more space between equipment will be required to allay concerns.

Equipment manufacturers must respond by right-sizing their business and preserving capital to survive the crisis. Those that serve both gym and at-home markets may generate a reasonable amount of revenue depending on their customer mix. Suppliers that exclusively serve the gym market are in a much more difficult situation.

Looking ahead, equipment manufacturers will need to determine how they add value in a new world order driven by digitally powered fitness solutions and exercisers' safety concerns.



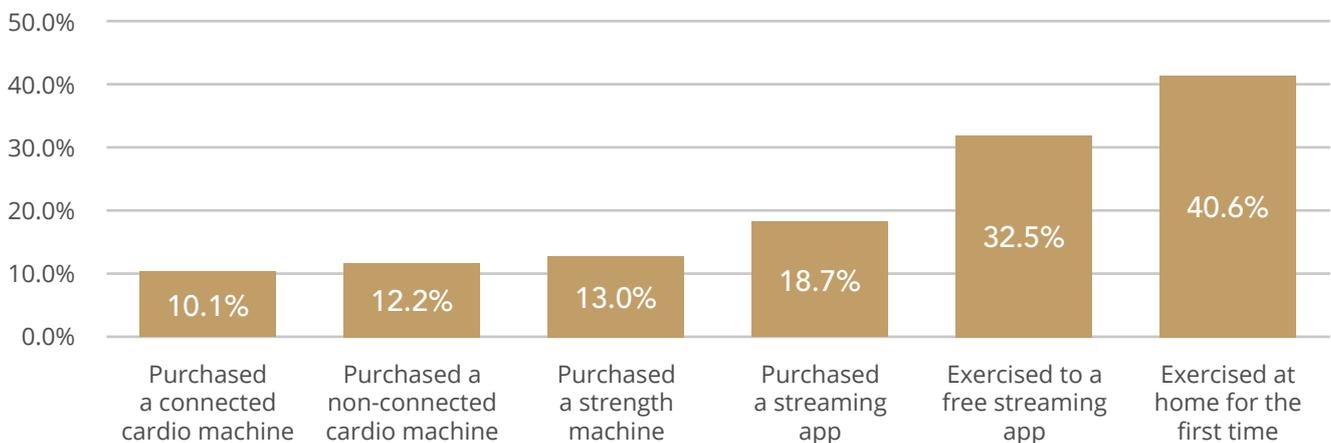
CONSUMER AWAKENING

As consumers across the U.S. make hygiene and safety higher priorities, they are looking outside the gym for fitness routines, and increasingly turning to on-demand and live-streaming workouts. Many are also reevaluating exercise's role in their lifestyles. In the process, they are being more flexible and receptive to different options:

- At-home routines are less intimidating than club and studio environments, motivating people to move from their comfort zones and avoiding barriers for the rising population of first-time exercisers.
- Workout spaces come in all shapes and sizes, from a living-room niche to an unused basement space, and levels of sophistication, from dumbbells and wearables to exercise bikes, ellipticals and multi-function home gyms.
- Communities of like-minded people are brought together and share positive experiences at a time of unprecedented uncertainty.

Among the revealing findings of our survey is the full extent and degree to which regular exercisers are looking outside the gym, and giving free rein to creativity and experimentation when devising new fitness routines. After being sheltered-in-place, and as a result of Coronavirus:

AS A RESULT OF CORONAVIRUS...



Source: Harrison Co.
Proprietary Survey, April 2020.

Harrison Co.
Research & Insight Center

As home fitness and streaming services become increasingly entrenched in not only fitness but also consumers' personal lives, sector growth will continue to intensify in both size and ongoing innovation.



RISE OF HOME EXERCISE

Rather than launching a new trend, the pandemic accelerated an established industry sector that was prepped for growth and here to stay

Home fitness was readily available and widely expected to grow before COVID-19 put a stop to on-site workouts at thousands of fitness clubs and boutique studios, and made scores of homes go-to fitness locations.

Rather than launching a new trend, the pandemic accelerated an established industry sector that was prepped for growth and here to stay – transforming it from a nice-to-have to a need-to-have routine. In fact, CNBC reported that while spending on fitness classes and gyms grew only 5% in 2019, on-demand fitness spending climbed nearly 60% – and has surged approximately 130% since 2017.

Combining our research data with IHRSA statistics, we can begin to quantify the at-home opportunity that will be fueled by dollars previously spent on gym memberships. If we assume the cancellation rate will be 34%, as our research suggests, that means approximately 21 million members, - spending approximately \$500 per year each on dues, are likely to cancel or shift their spend away from clubs. This represents \$10 billion in lost revenue for clubs annually. We conservatively estimate that 15% of people cancelling their club membership will shift to at-home fitness over time, representing a nearly \$1.5 billion opportunity per year.

Against this backdrop, fitness clubs and boutique studios everywhere are going virtual for exercisers across ages, genders, physical conditions and lifestyles. Many are offering free trial periods, hoping to convert complimentary users to paid subscribers. Workout options, including minimal- and no-equipment-needed routines and how-to tutorials, range from strength and cardio to recovery and mobility. They also reach across the instructional and individual programs – yoga, HIIT and barre, among others – that evolved and later thrived before COVID-19.

Club and studio websites and social-media channels are delivering the at-home experience, only with a renewed frequency and intensity:

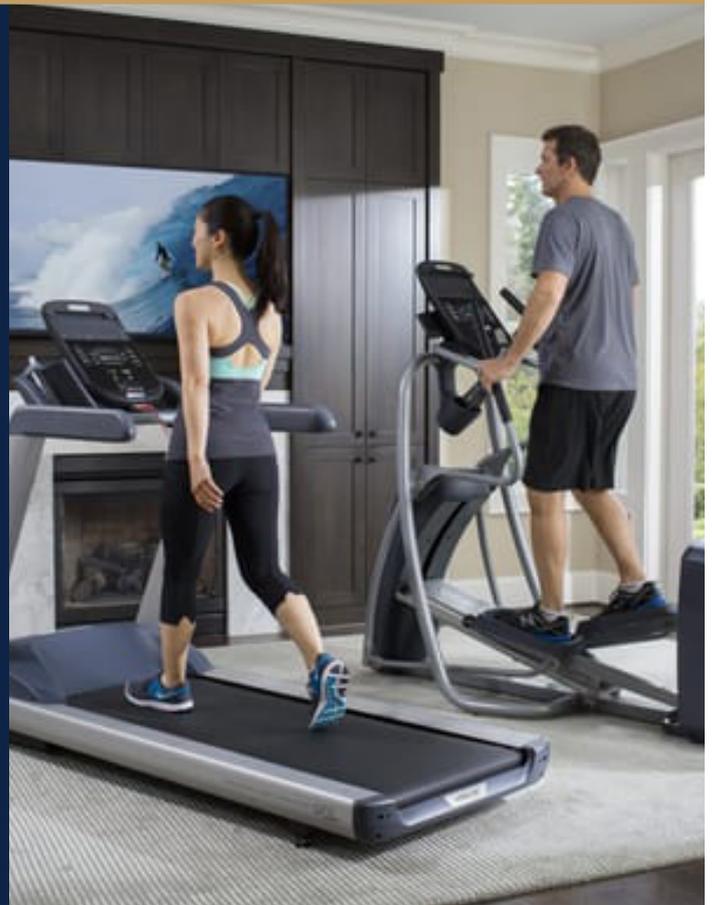
- Fitness and wellness apps
- Facebook and Facebook Live
- Instagram and Instagram Live
- Zoom
- YouTube
- Intelivideo
- Amazon Prime
- Vimeo

Based on our research, clubs may lose up to \$10 billion annually and at-home exercise and other fitness alternatives are positioned to capture some of that revenue.



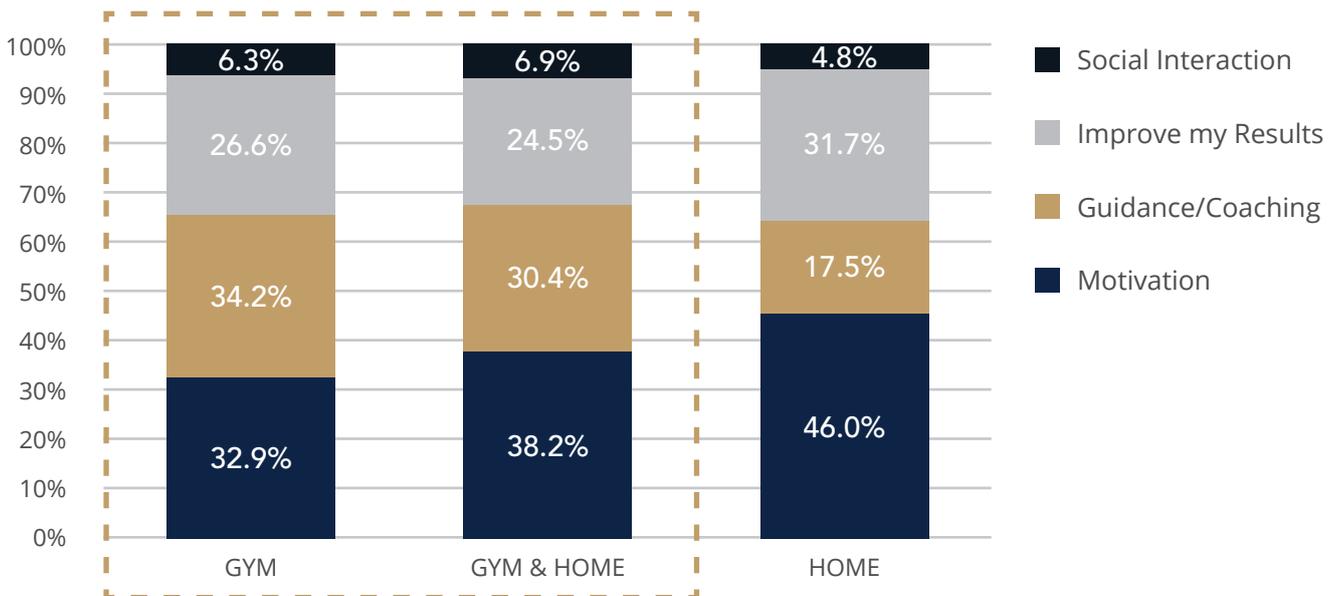
There is no growth slowdown for at-home exercise in sight. In fact, our survey indicates growth is expected to stay strong. For example, among the combined group of gym exercisers and dual gym and home exercisers who were surveyed, 39% expect to work out more at home (35% of gym exercisers and 43% of dual exercisers) and 12% expect to purchase a non-connected treadmill, elliptical or other cardio equipment.

Winners in the at-home sector extend beyond Peloton and other direct-to-consumer suppliers. Manufacturers such as Inspire and Bowflex, as well as specialty retailers such as Precor Home Fitness, have experienced significant year-over-year increases. In many cases, demand has outstripped supply.



Winners are taking advantage of consumers' motivation for connecting online, and buying a streaming fitness app or subscription.

PRIMARY REASON FOR BUYING A STREAMING FITNESS APP OR SUBSCRIPTION



Source: Harrison Co. Proprietary Survey. April 2020.

Harrison Co. Research & Insight Center



SEIZING THE DIGITAL OPPORTUNITY

With home increasingly becoming the go-to place for fitness, streaming has never had broader avenues for service diversity, expansion and growth. Almost any class, particularly those not relying heavily on equipment or outdoor environments, can be configured for streaming. If configured correctly, a class that was once limited by space can be transformed into a fitness experience for an unlimited number of participants.

Companies such as Peloton, Mirror, Obé and Beachbody, whose core business has always been on-demand and live-streaming workouts, are early movers with distinct marketplace advantage. Their advantage will only build as they amp up their business and win new clients.

Beachbody experienced its highest streaming week in its history for the sixth consecutive time during the week of April 20, 2020 as nearly 1 million subscribers logged in to view 4.8 million videos. For Peloton, which had a 94% annual customer-retention rate pre-pandemic, downloads of its app were five times higher in March 2020 than in February. Sign-ups at Obé grew tenfold during the same period, while sales at Mirror more than doubled in the months following the advent of COVID-19.

Streaming also presents a unique opportunity for fitness clubs and boutique studios. They can build their brand and further monetize their services beyond their four walls, which is a highly attractive option at a time when revenues will be jeopardized by social-distancing requirements.

Planet Fitness and Equinox are among the brands with less digitally based business models, though they are fast-tracking an omnichannel approach that more aggressively expands at-home capabilities and creates a one-stop-shop fitness experience.

PLANET FITNESS: Through a partnership with iFit, a leader in home-streaming workouts, Planet Fitness has strengthened its digital offering and expanded its United We Move “Home Work-Ins” campaign. The HVLP chain is offering a series of streaming home workouts for people of all fitness levels. Workouts, which are available exclusively on the Planet Fitness app free of charge, range from cardio and strength training to stretching. They also include beginner and intermediate levels.

EQUINOX: Private equity firm Silver Lake provided funding to Equinox to help build the luxury brand’s digital platform and expand the reach of its home-fitness offering pre-COVID-19. Also, SoulCycle’s at-home bike streams routines from SoulCycle, Equinox, Pure Yoga, Precision Run, Myodetox and HeadStrong. The bike, powered by Equinox’s fitness app Variis, was made available for pre-ordering during the first days of many state-mandated self-quarantines.

As established streaming brands and their rapidly adapting competitors intensify their commitment to the digital market, and ramp up investments, the only direction for growth is up. For instance, 31% of the dual gym and home exercisers we surveyed expect to purchase a streaming app, and 21% are planning on purchasing a Peloton or other connected equipment.



STAYING ON COURSE THROUGH UNCERTAINTY



Although it remains unclear how fitness clubs and boutique studios will adapt going forward, it is certain that the industry will experience an innovation-fueled evolution and that at-home digital capabilities will play a critical part in it. However, before club doors are opened and boutique studios are booked, there are steps clubs and studios can take to prepare for their return to pre-COVID-19 performance and profitability.

- Review cleaning policies, procedures and systems, including hard-to-clean equipment and accessories.
- Identify common member touchpoints and prioritize them in cleaning protocols.
- Inspect equipment and make “add,” “remove” and “update” decisions.
- Revise budgets, particularly cleaning, technology and membership, to ensure optimum health and safety goals are met, virtual and on-premises experiences are equally satisfying, and members equate fees to value.
- Ensure branding identity aligns with mission and values.
- Determine capacity requirements, class sizes, usage levels and the balance between on-premises and virtual offerings.
- Reassess business model and strategy, bolstering revenue and profit contributors, addressing improvement areas, and eliminating underperforming capabilities and services.
- Examine programs, classes, amenities and other services, including those that are complimentary, to ensure they meet member needs and are on-trend.
- Evaluate full-time, part-time and contractor staffing, along with job descriptions, performance evaluations, training and compensation.
- Review leadership-development programs.

Through reassessment and dedicated follow-through, fitness clubs and boutique studios can advance from survival to thrive mode, and meet members’ evolved safety needs, fitness goals and expectations for a healthier life.

THE WAY FORWARD

It is difficult to understand the full impact of COVID-19 on the fitness industry without focusing on the negative – more than 38,000 clubs and studios shut down, at least 500,000 industry members lost their jobs, revenues for many operators plummeted to zero, and suppliers were similarly affected as club and studio openings were postponed or canceled.

Not every business will make it to the other side. For some, such as struggling traditional big-box chains, COVID-19 will accelerate the inevitable. For others, including undercapitalized boutiques, COVID-19 will deliver a fatal blow despite strong underlying consumer demand.

In the midst of so much negativity, it is important to highlight areas for optimism, the most notable of which are identified in our research report. For instance, when asked whether they expect to work out more, less or about the same when restrictions are lifted, 37% of all survey participants indicated they would work out more, and over 50% of them said they are motivated to do so by a renewed appreciation for their health and well-being.

Considering the enthusiastic adherence to exercise routines during shelter-in-place periods, and heightened appreciation of and concern for health and well-being, the fundamentals appear to be in place for the fitness industry to resume an upward trajectory to levels beyond what it had enjoyed pre-COVID-19.



ABOUT THE AUTHOR



PAUL BYRNE

Paul Byrne is a leader that helped shape the direction of the fitness industry. Early in his career he cofounded the first chain of franchised exercise equipment stores pioneering a new channel in fitness equipment distribution. Later, he joined Precor, a rapidly growing startup in fitness equipment manufacturing, soon after it had been acquired by Kraft, a Fortune 100 company. Over his thirty year career he played a leadership role in transitioning Precor from a one product one channel company to a premier international fitness brand serving club, home and vertical markets. During that period he oversaw the development and introduction of the world's first elliptical trainer, establishing Precor as a leading innovator. After being acquired by Amer Sports in 2002 Paul made three small strategic acquisitions that fueled a rapid growth phase and put Precor on the leading edge in connected devices and personal entertainment in clubs. Paul also served on the Amer Executive Board that developed strategy for ArcTeryx, Atomic, Mavic, Salomon, Suunto and Wilson, brands widely recognized as industry leaders and pioneers in athletic footwear, apparel and equipment. Paul is currently a senior advisor to Proteus Motion and UnSit.

UPCOMING WEBINAR:

Complete Survey Results:

COVID-19 Impact on the fitness industry

The findings of Harrison Co.'s most recent fitness survey, which analyzes the impact of COVID 19 on the industry, are summarized in this report. Our team will be hosting an upcoming webinar to walk through all of the insights and key takeaways from our proprietary research in greater detail.

If you would like to be notified when the date is set, please email:

webinar@harrisonco.com

and you will be notified when the webinar date is confirmed





ABOUT HARRISON CO.

Harrison Co. is a consumer-focused investment bank, purposefully built, working exclusively with business owners and operators, helping our clients make and effect the right strategic business, M&A, and financing decisions needed to capitalize on the rapidly changing consumer economy.

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ENDNOTES

¹ Wellness Creative Co., Fitness Market 2020, January 8, 2020.

² Jaewon King: "No Frills Gym Chain Bulks Up Thanks to Workout Boom", The Wall Street Journal, March 19, 2019.

³ Wellness Creative Co., Fitness Market 2020, January 8, 2020.

⁴ Wellness Creative Co., Fitness Market 2020, January 8, 2020.

⁵ Christina Gough, "Health & Fitness Clubs – Statistics and Facts", Statista, August 2, 2019.



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