

A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

The Gym Group Private Equity Challenge – Group F
Company and Market Overview

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A Project carried out on the Master in Finance Program, under the supervision of:

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Abstract:

The overall goal of this thesis is the evaluation of The Gym Group's feasibility as a potential leveraged buyout target. In the beginning, the firm was inspected from different angles, the market thoroughly analyzed and the company's position in the market assessed. In the following, a comprehensive appraisal of influencing factors on its financial performance was conducted and growth drivers forecasted to come up with three different cases of how the firm might develop. This knowledge was quantified and the company subsequently valued using a comparable company, a precedent transaction, a DCF valuation method as well as an LBO model. Additionally, an investment thesis and future strategy regarding the operations of the target and the responsibilities of a PE fund, such as sourcing and an exit strategy, were developed. Finally, potential returns were calculated for the different scenarios. The first part is concerned with the assessment of the company and the market.

Key words: Leveraged Buyout, Private Equity, Low-cost Fitness Market, UK

Disclaimer: I hereby declare that this master thesis is my own and autonomous work. All sources and aids used have been indicated as such. All used information are publicly available and/or information made available directly by the company. This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209). Full bibliographic details are given in the foot notes which also contain internet sources. This work has not been submitted to any other examination authority.

Marienthal, 03/01/2020,



Maria Noack

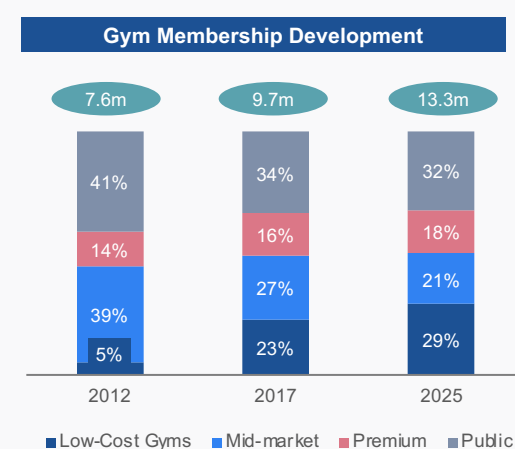
A Promising Target with Strong Financials and Bright Future Predictions

Executive Summary

Target overview

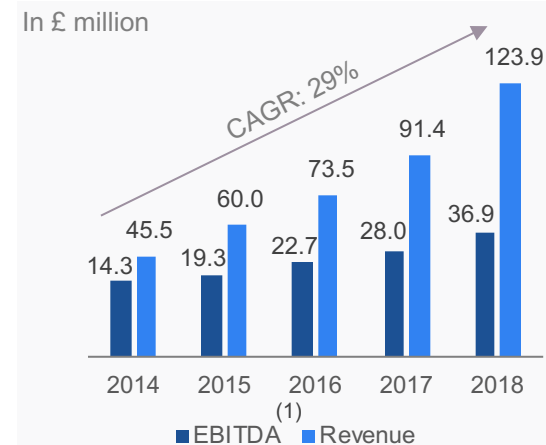
- The Gym Group operates **low-cost** health and fitness facilities in the **UK**
- Founded in **2007** in Croyden, UK
- The Gym Group is a market leader in UK in terms of a unique combination of **availability in the market and low member fee** with **24% market share** in the low-cost segment (largest competitor Pure Gym has 34%)
- It operates **165 gyms** with a total of **796,000 members⁽²⁾** and c. **500 FTEs, 1,500 part-time trainers**
- Investment Thesis:** „The Gym Group is a market-leading low-cost gym provider operating in the UK with lots of growth potential through organic and inorganic facility openings, as well as natural growth due to immaturity of the market“

Market overview



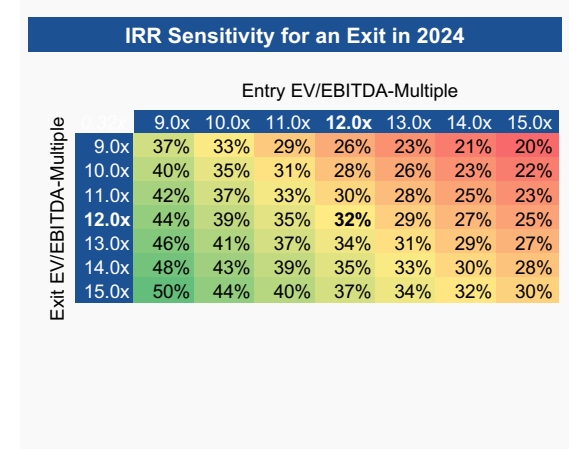
- The market displayed **tremendous growth** in recent years and is expected to continue this growth path (**low cost member CAGR 42% in UK '12-'17**)
- Growth drivers are an **increase in population penetration** (fostered by unhealthy lifestyles of the population leading to a bigger need in activity, increases in health awareness, and health insurance coverage) and population increases itself (exp. **CAGR of low-cost market value within UK '19-'25: 11%**)
- Especially the low-cost market will grow significantly due to **shifts from the public and mid-market segment** towards better dollar-value options

Historic Financials



- Significant revenue growth** over past 4 years (CAGR of 29%)
- Stable EBITDA development**
- Financial performance based on **solid increase in membership base**
- Strong financial development enables **reinvestment in technology, high quality estates and customer care to drive further growth**

Valuation and returns



- Based on conservative assumptions the case returns a **multiple of money of 5.3x** after a **holding period of 6 years** with an estimated **entry and exit multiple of 12x EBITDA**. This scenario is considered to be the most likely one, with a probability of 70%
- 6%** of the value creation are based on **cash generation, 61%** are rooted in **revenue increases and EBITDA margin improvements** account for **33%**
- Dependent on entry / exit multiple variations, the **IRR is between 20% and 50%** with an assumed entry in the beginning of 2019 and exit in 2024



1 | Company Overview

A Strong Fundament which Can be Built on, Rooted in...

Company Overview - Snapshot

Executive Summary

Business

- Operates low-cost⁽¹⁾ health and fitness facilities in the UK
- Founded in 2007 in Croyden, UK
- Leading provider for low-cost gyms in the UK and one of the biggest players in the EU
- It operates 165 gyms with a total of 796,000 members and employs c. 500 FTEs & 1,500 part time trainers⁽²⁾

Stakeholders

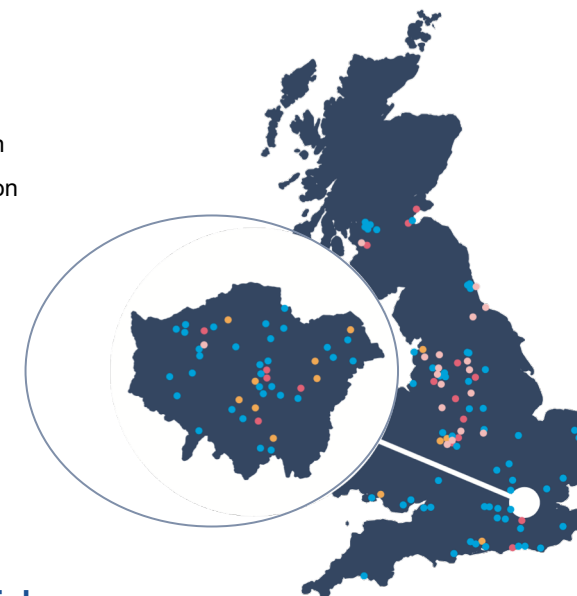
- Ownership:** SFM UK Mgmt. LLP (7.0%)
Legal & General Inv. Mgmt. (6.9%)
- Management:** Richard Darwin (CEO)
Mark George (CFO)
John Treharne (Founder Director)

News

- Aug-19:** H1 2019 in line with expectation and guidance for FY2019 is confirmed
- Jul-18:** Acquisition of easyGym (13 sites)
- May-18:** Richard Darwin is appointed as new CEO
- Sep-17:** Acquisition of Lifestyle Fitness (18 sites)
- Nov-15:** Initial Public Offering

Geographic Footprint

- Existing gym
- Organic opening
- Lifestyle acquisition
- easyGym acquisition

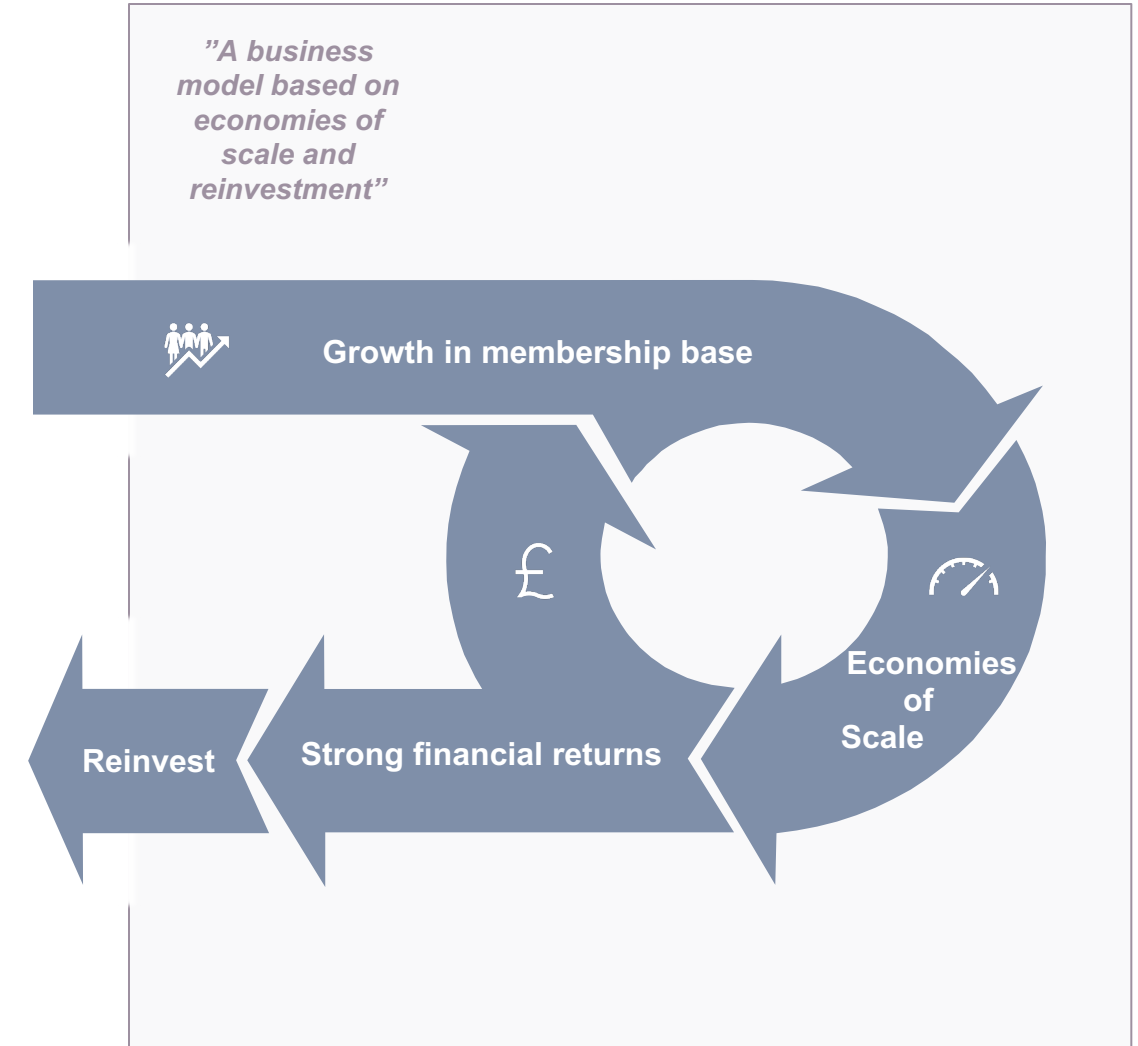
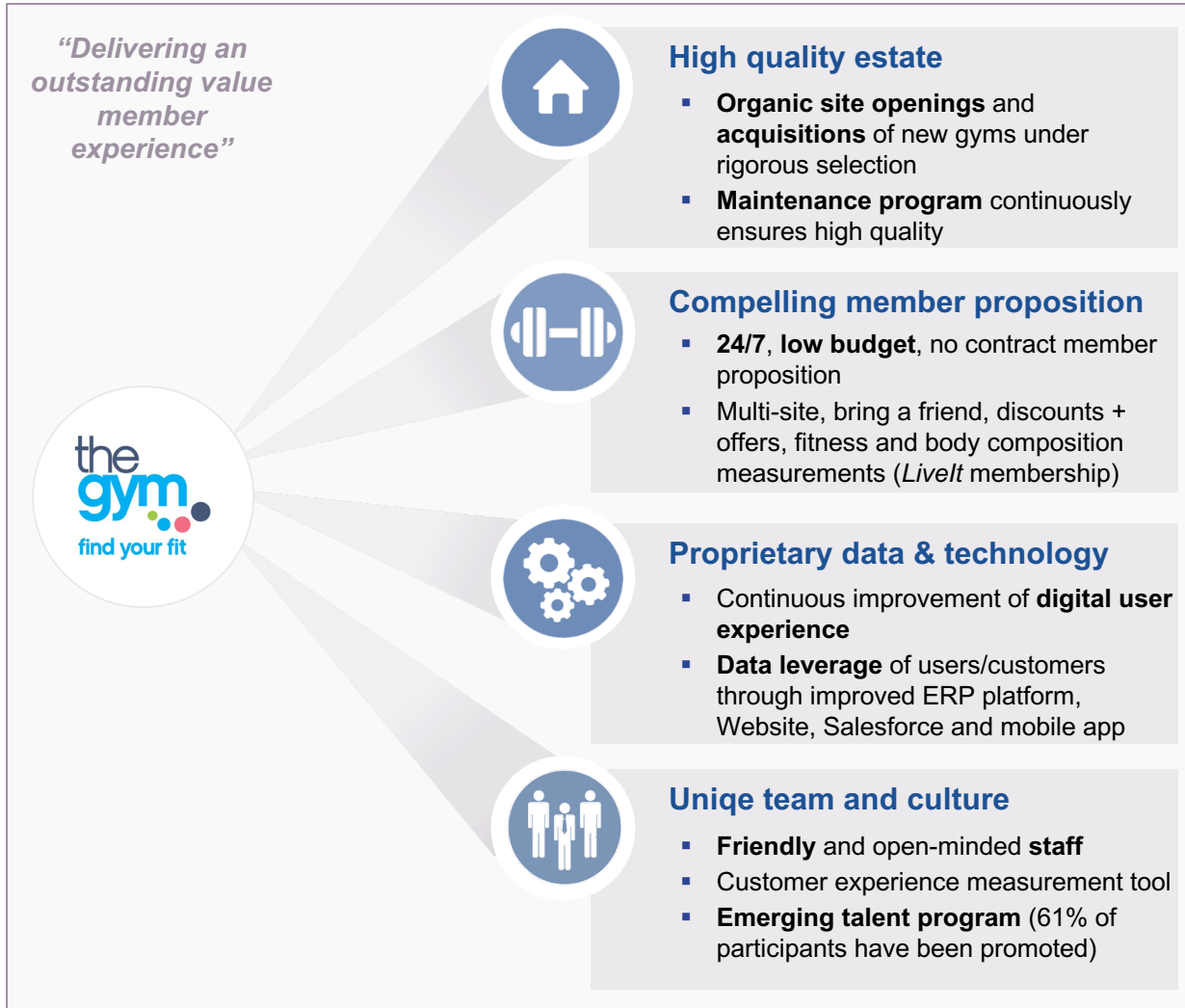


Reported Key Financials

In £ '000	FYE 31/12	2015	2016	2017	2018
	Revenue	59,979	73,539	91,377	123,884
	% growth		23%	24%	36%
	EBITDA ⁽³⁾	10,514	21,851	25,525	33,458
	% margin	18% ⁽⁴⁾	30%	28%	27%
	Net Income	(11,473)	5,703	7,171	7,206
	Operating CF	13,697	25,842	28,173	37,799
	% growth		89%	9%	34%

...A Scalable Business Model and...

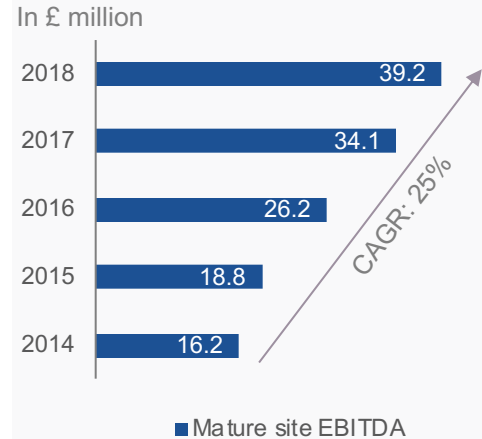
Business model



...Supported Through Solid Growth and Profitability Drivers

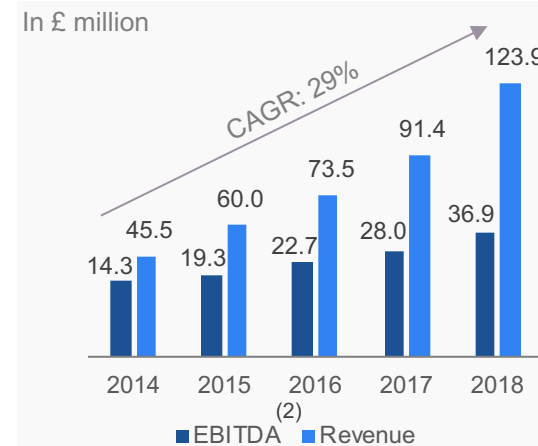
Growth and profitability development

Refining the operating model...



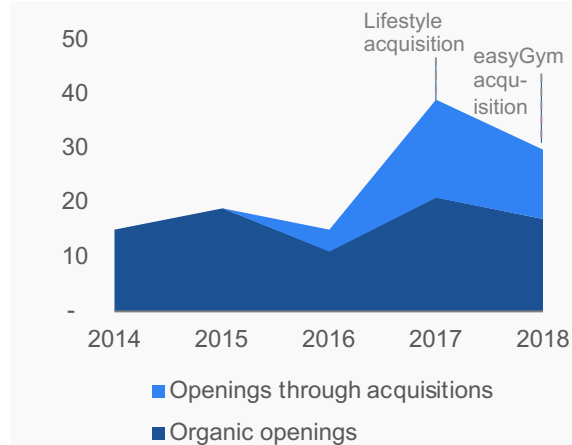
- It takes a gym **2 years in the portfolio** until it gets 'mature' and **evolves its full potential**
- Improving operating efficiency** and driving performance of mature gyms is an important profitability driver
- The target is to bring sites to maturity and achieve **high returns on capital**
- Though, **equipment and leaseholds of gyms imply a relatively high fixed cost base**, the company examines this on a regular basis in order to refine the operating model

...has led to strong financial...



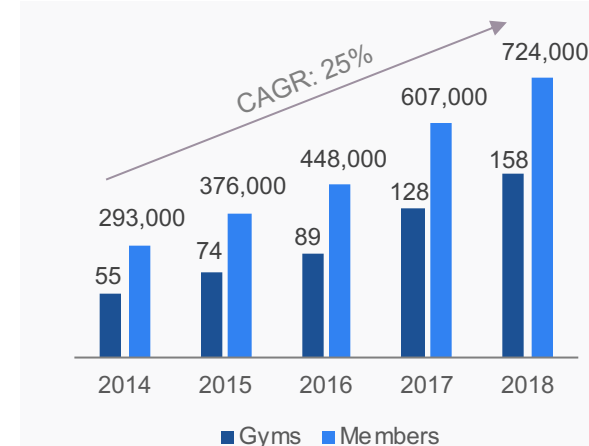
- Significant revenue growth** over past 4 years (CAGR of 29%)
- Stable EBITDA development**
- Financial performance based on solid increase in membership base
- Strong financial development enables **reinvestment in technology, high quality estates and customer care to drive further growth**

...and expansion through opening new sites...



- Expansion strategy as main growth driver
- Since 2015, solid financial development made it possible to acquire gyms from other market players
- As of then, **besides organic expansion, expansion through acquired gyms** is an important part of The Gym Groups growth strategy. **ROCE⁽¹⁾ for acquired gyms is still c.10% less (c.21% of ROCE) then for organic opened sites** (which is c. 31%) due to premiums paid for customer lists implied in acquisition prices

...and operational development



- Membership base continuously increased** with a 4-year CAGR of 25%
- This is considered as **key performance indicator for top-line development**
- Supported by 15-30 new openings of gyms per year
- On average 5,000 members per gym with gyms between 5k and 20k square feet**
- Operational development shows successful market penetration** and reveals further headroom

Significant Topline Growth can be Achieved if Customer Focus Stays Core

Revenue generation

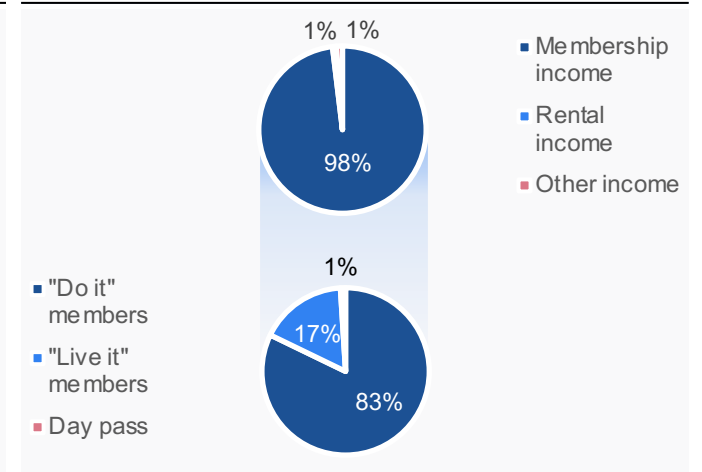
Comments

- **Top line growth drivers** of The Gym Group are the increasing **membership base** and **Average Revenue Per Member Per Month (ARPM)**
- The company offers **2 different types of memberships** including various additional services
- The basic *Day pass* is often given out for free to potential long-term customers and generates almost no revenue
- Currently **83% of membership revenue comes from the lower price product *DoIt*** but the **target is to convince more customers to subscribe for the premium membership *LiveIt*** in order to boost ARPM
- Even though the member base increased over the past 5 years, **ARPM growth was substantial due to** an improved membership proposition and the implied willingness of customers to pay more. This made it possible to **increase the average price per membership per month**
- **The boost in ARPM from H1 2018 to H1 2019 is mainly due to the implementation of *LiveIt* and the acquisition of easyGym sites** including its members with existing contracts, which are higher priced
- Also a new operating model with the opportunity for personal trainers to 'rent' gym space of TGG⁽¹⁾ slightly increased revenue and thus ARPM

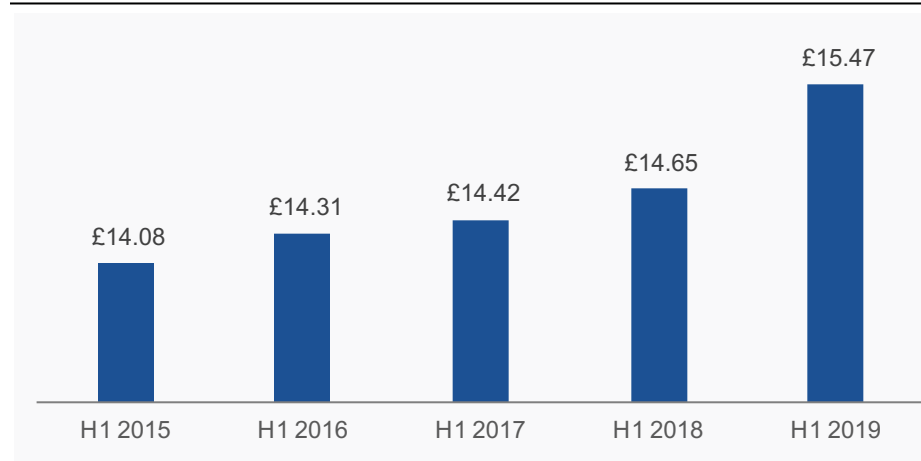
Product offering

	Day pass (from £5) ⁽²⁾	DoIt (from £12.99) ⁽²⁾	LiveIt (from £17.98) ⁽²⁾
Unlimited access		✓	✓
Free classes		✓	✓
Free-Wifi	✓	✓	✓
Bring a friend			✓
Multiple gym access			✓
Discount & Perks		✓	✓
Fitness & body composition measurements			✓

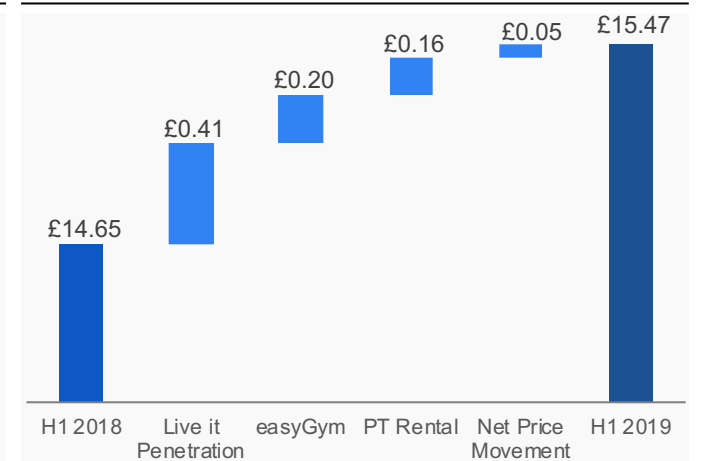
Revenue breakdown⁽³⁾



ARPM development



ARPM waterfall



...Boosted by a Great Position In the UK Market And a Strong Member Proposition

Competitive positioning



Comments

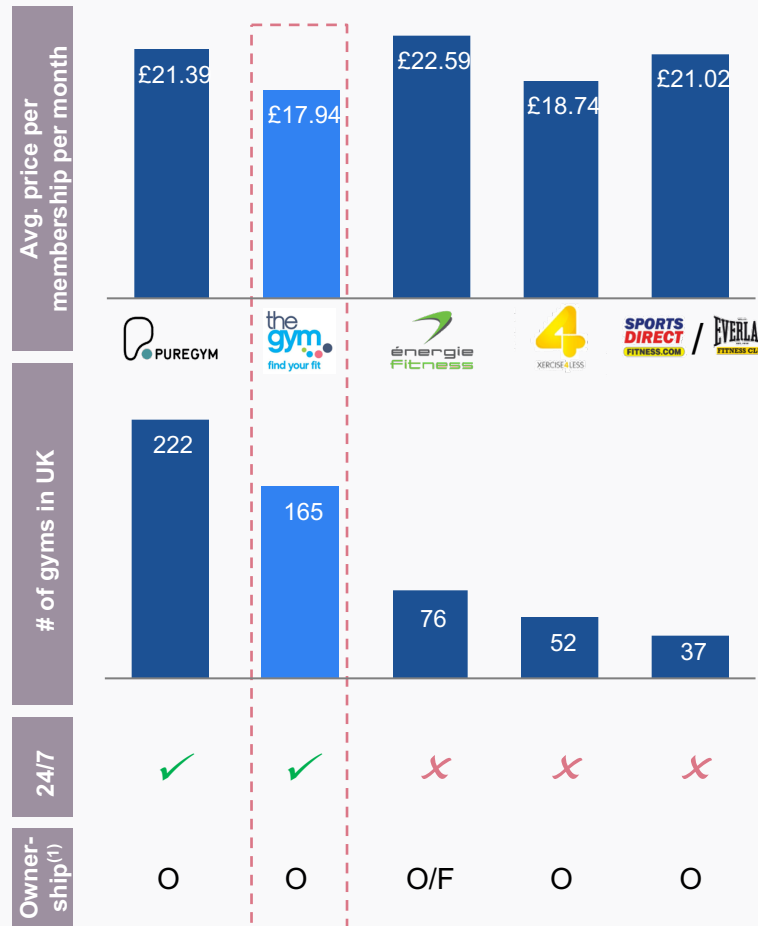
- In regards to the **combination between lowest price and highest availability in the market**, The Gym Group is **market leader in the UK**
- It has a **24% low-cost gym market share**
- The **3 biggest players** in the low cost segment have an **accumulated market share of around 70%**
- TGG targets customers within all income classes which are between 16 and 60 years old

Member proposition

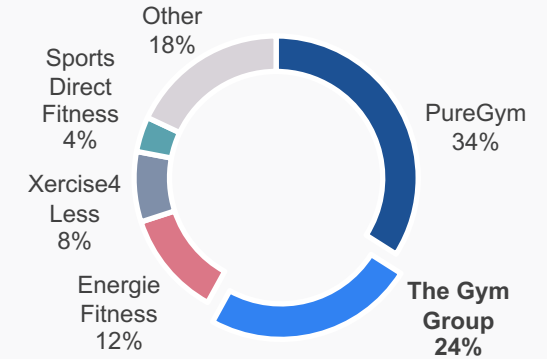
- High quality gym equipment and exercise areas
- Market-leading low price monthly membership (from £12.99)
- 24/7 access
- Convenient locations
- Free group exercise classes
- No contract
- Extra benefits with *Livelt* membership
- Online joining and member area
- Professional, helpful staff and access to personal trainers

Overview

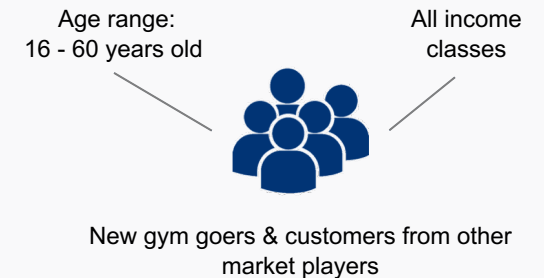
Competitive comparison of UK low-cost gym market



UK low-cost fitness market shares⁽²⁾



Target customers group



High Customer Lifetime Value and Dynamic Memberships Build Win-Win-Situations

Overview of the customer life cycle and the underlying economics

Comment

Joiners:

- Very easy to join The Gym Group (online registration)
- C.100k joiners in the last 12 month, without re-joiners
- Broadly consistent numbers from month to month
- 25% of leavers re-join within 12 month, which implies c.15k+ re-joiners in the last 12 month

Managing memberships:

- Flexibility to change or freeze membership
- Easy to transfer membership to another gym

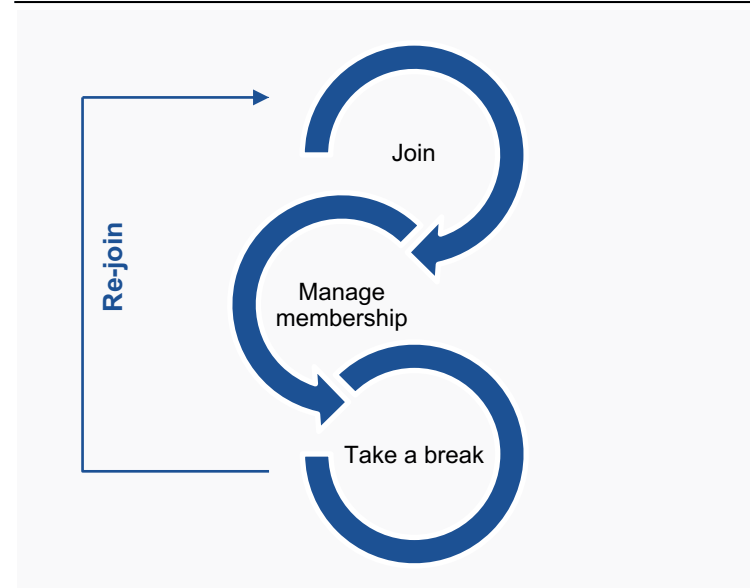
Take a break:

- Only c.60k leavers in the last 12 month
- The Gym Group makes it easy for members to quit/pause
- Ensures long-lasting and strong customer satisfaction

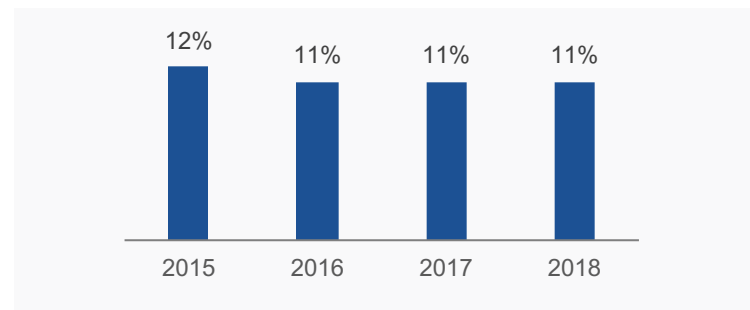
Churn:

- The churn rate describes how many members terminate their subscription each year relative to the total number of members in that year
- Providing membership / contract flexibility is an important competitive differentiator and key part of the business model to foster customer satisfaction
- Most members 'leave happy', are highly satisfied and therefore quite likely to return

Circulation based business model

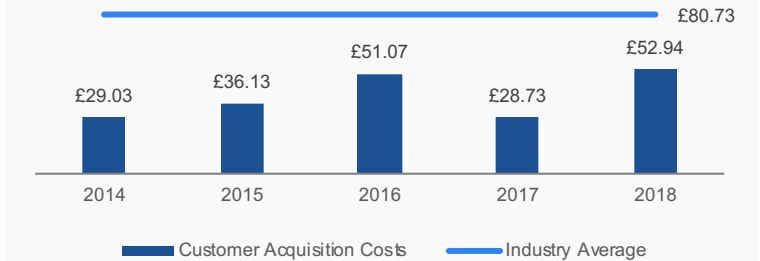


Historic membership churn rate

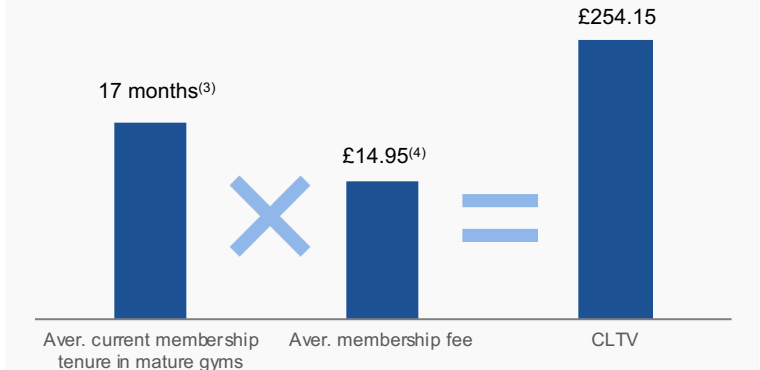


Customer economics

Customer Acquisition Costs (CAC)⁽¹⁾:



Customer Life Time Value (CLTV)⁽²⁾:



Customer acquisitions costs are significantly below industry average with high potential to decrease further due to growing overall brand awareness, indicating robust ROI on marketing spend and tremendous growth potential

A Capable HR Basis Supports Growth of a Scalable, Innovative Business Model

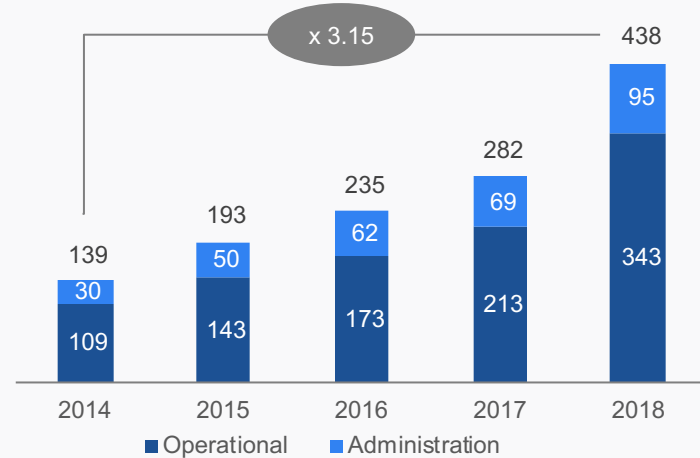
Human resources



Summary

- In 2018 the company successfully **launched a new HR and finance platform**, called 'Workday'. Since then, efficiency in accounting and personnel distribution management could have been increased
- The Gym Group offers its assistant general managers within each gym an **Emerging Talent development program**. The program aims to develop the future leadership team of the company. In 2018 61% of participants have been promoted
- **Currently the company rolls out its new operating model**. If **personal trainers** work more than 12 hours a week they now have **the opportunity to pay for accessing the gym and work on a self employed basis on top**. This improves customers satisfaction with regards to time flexibility and **adds an additional revenue stream**. The Group states that this will attract approx. 1,500 additional personal trainers in 2019
- In May 2018 Richard Darwin was promoted from CFO to CEO. The founder John Treharne stepped back and now holds a position in the Board of Directors. Darwin has been working as a Chief Financial Officer for over a decade. He joined The Gym Group in 2015
- After Darwin's promotion, Mark George joined the Gym Group and since then serves as CFO. It is his first fix position in an executive board
- Penny Hughes holds several board appointments in international large cap companies and has respectable experience as Chairwoman of the Board of Directors.

FTE Development



- In 2018 **employees of easyGym and Lifestyle Fitness were successfully integrated** into the day-to-day business of The Gym Group
- The number of **full time employee (FTEs) more than tripled within the last 5 years**. This reflects the overall growth of the company
- Since 2014 there has been **simultaneous growth in operational and administrative employee base**

Management



Richard Darwin
Chief Executive Officer

- Former CFO of the Gym Group, Essenden plc and Paramount Restaurants
- Chartered accountant with Coopers & Lybrand.



Mark George
Chief Financial Officer

- Previously held strategic and financial senior management roles at ASOS, Tesco and Autotrader
- Started his career with McKinsey & Co.



Penny Hughes
Non-Executive Chairwoman

- Member of several board positions in consumer, media, technology and finance sectors
- Former President of Coca-Cola Britain & Ireland



2 | Market Overview

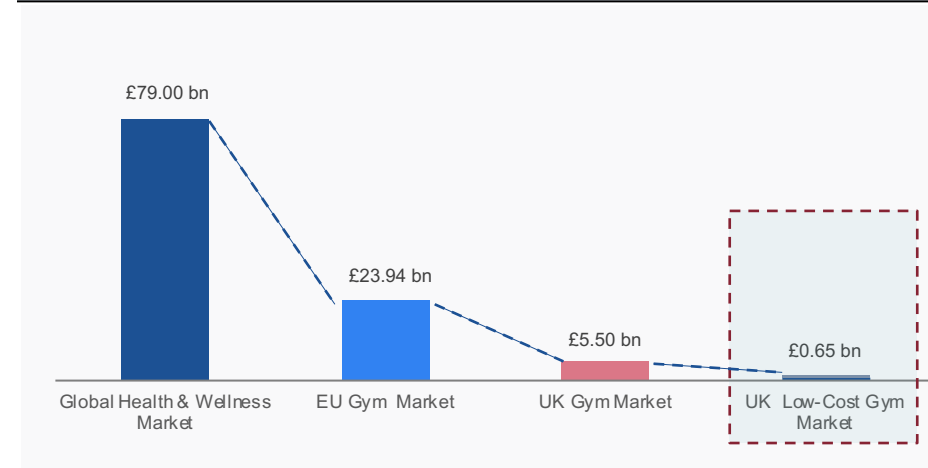
UK Gym Market is Growing Fast Driven by the Low-cost Sector

Global market breakdown and key indicators of the UK low-cost gym market

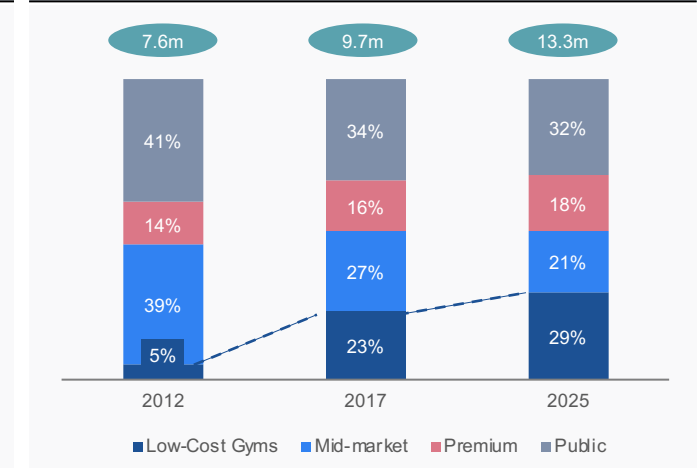
Comments

- The **global fitness and health market** is expected to reach **£79bn in 2019**, and is **estimated to grow c. 10% from 2018-2023**. Thereof, the **European Gym Market accounts for c. £24bn (30.3%)**. The **UK, one of the most attractive European gym markets, is figured by £5.5bn with a low-cost gym market share of 11.8%** with high potential for future growth
- Top five European gym markets cover 65% of the EU market** and are selected by market size, relative penetration of the overall population and the YoY growth of 2017/2018. **UK is currently placed as second most attractive gym market. Compared to the US as a more mature gym market** with a penetration of 20%, the **UK market implies a lot of headroom** until it reaches that benchmark
- The sector evolution of the **UK gym market constitutes clear growth in terms of overall gym memberships** and shows a **significant shift towards the low-cost gym segment**. The **low-cost gym market is estimated to increase by 9% in terms of members per year from 2019 to 2025**, applying a **conservative estimation approach**
- The UK low-cost gym market is highly fragmented and has **two key players: Pure Gym and The Gym Group**. After a rejected merger by the authorities in 2014 both players fostered significant growth

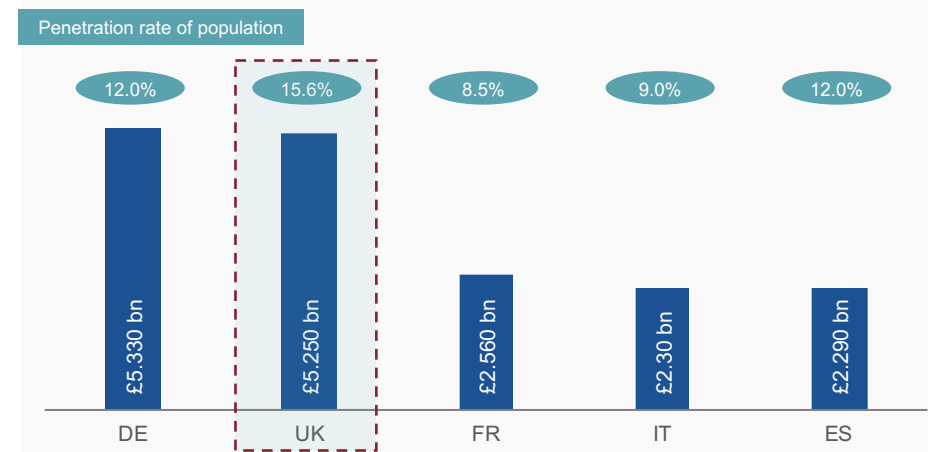
Market breakdown to serviceable market as of 2019



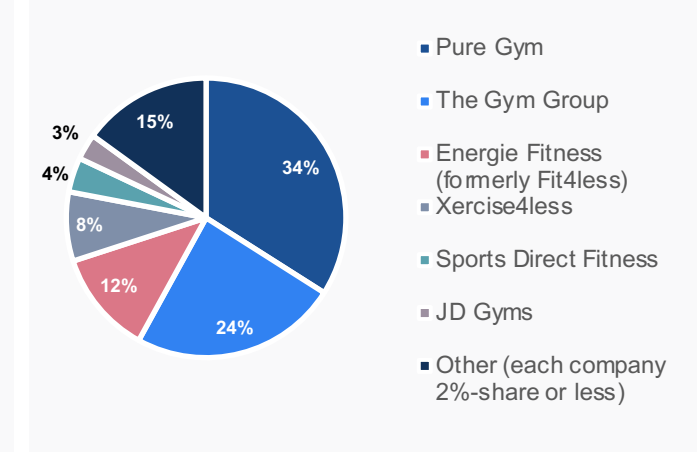
Sector evolution in the UK gym market by members



Top 5 EU gym markets by revenue and penetration as of 2018



UK low-cost gyms market shares as of 2018

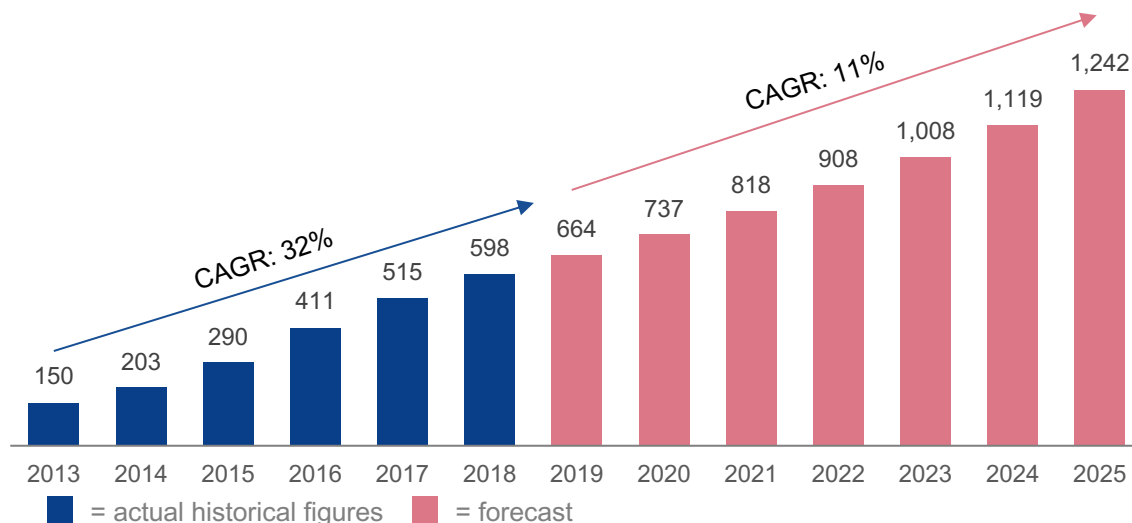


Steady Growth in UK Market is Reinforced by Reliable Mega Trends

Historic market size, growth drivers and growth

Historically the market has shown strong growth...

UK: Sales in the low-cost fitness group sector (in £m)



- Sales in UK's low-cost fitness sector increased by 32% CAGR between 2013 and 2018
- PwC estimates the total low-cost market potential (in # of facilities) within 1,200 – 1,400 gyms which would involve an annual growth rate of 9% until 2026
- Own calculations involving population growth, membership penetration increase, and the market share of the low-cost segment resulted in a similar growth rate of 9.0% until 2025 (in comparison with PwC estimate, growth beyond 2025 can be implied)
- Further accounting a 2% price increase to offset inflation leads to an average yearly growth rate of 11%, between 2019 to 2025⁽¹⁾

...triggered by promising growth drivers

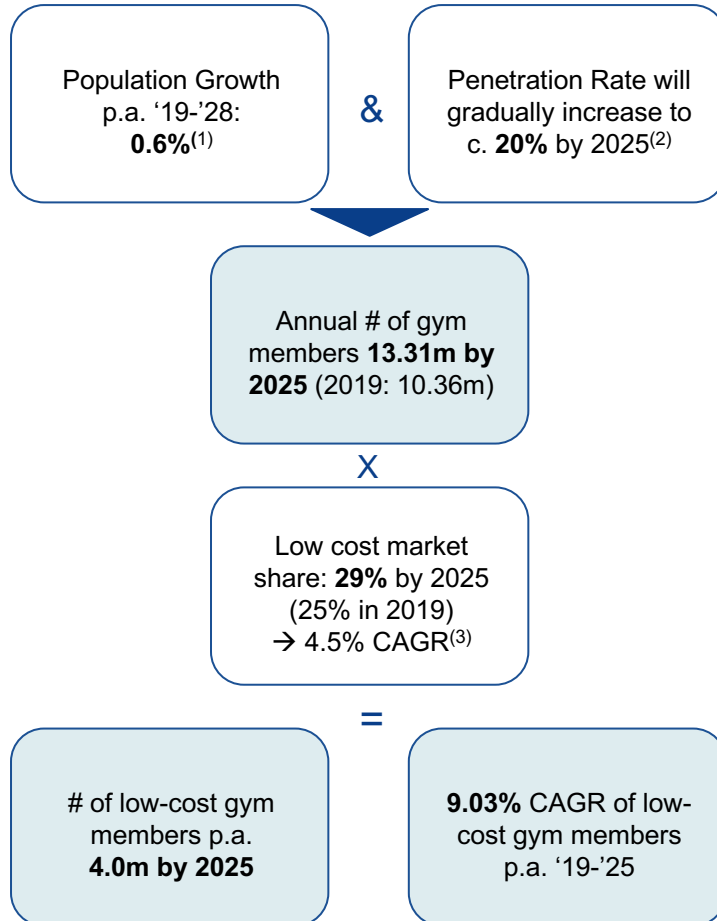
Growth driver	Expectation	Relevance
Gym penetration level (overall)	In the US the penetration level is 20% (compared with 15.6% in the UK) in line with PwC, the penetration level is expected to increase to c. 20% until 2025, leading to a 4.5% gym penetration rate CAGR	●
Population increase	Even with a constant penetration rate, an increase in population would lead to an increase in gym memberships. Based on governmental data, the population CAGR is expected to be at 0.6% until 2028	●
Switch to low-cost facilities of current mid- and high-end members	Since the strong trend towards low-cost gyms persists, the market share of low-cost facilities is expected to increase by 1pp annually from currently 25% to 33% in 2028 (in terms of members)	●
Penetration of rural areas	Operators' tendency to open new facilities in areas with lower population density offers access for new customers who previously did not have the opportunity to visit a gym frequently	●
Health Insurance coverage ⁽²⁾	Increasingly unhealthy lifestyles, obesity and lack of movement cause higher sickness rates in many ways. Researchers found that regular sport activities can prevent or even heal many health issues. In recent years, more research studies around mental health problems and treatments showed that physical activity is a highly effective measure	●

Both, Top down and Bottom Up Calculations Lead to Promising Growth Rates

Growth rate derivation

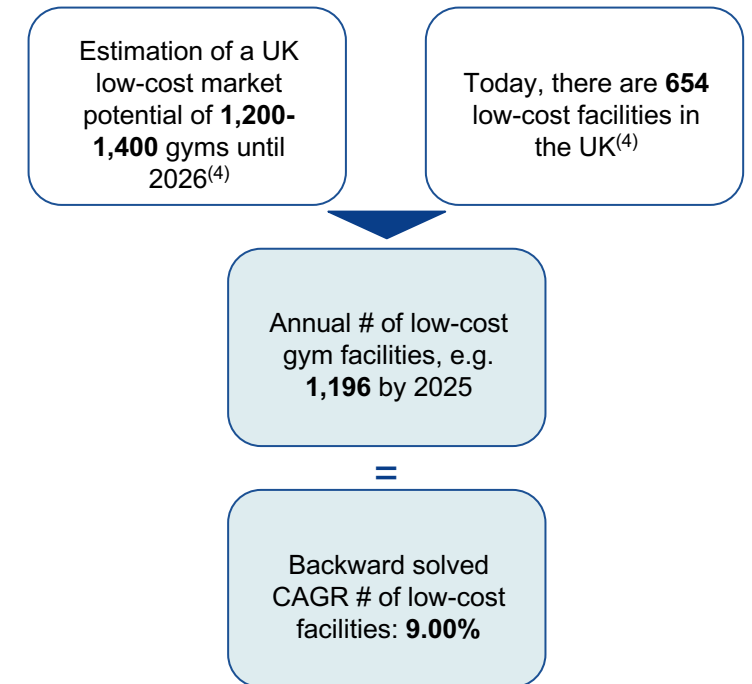
Top Down

- One way of looking at market growth is to examine the **population growth** and the **fraction of the inhabitants** who will be **members at low-cost gyms**
- Due to the numerous health benefits, the percentage of gym-users is expected to increase
- Since the middle-segment will decrease (same perceived value as low-cost but higher price), the low-cost fitness market share will increase⁽⁵⁾



Bottom Up

- PwC conducted a study on the topic of the UK low-cost market
- The **same factors as in the top down analysis** will lead to a higher number of low-cost facilities
- With each publication of the PwC study, the expected market potential increased, thus there is a probability that the market potential is even higher

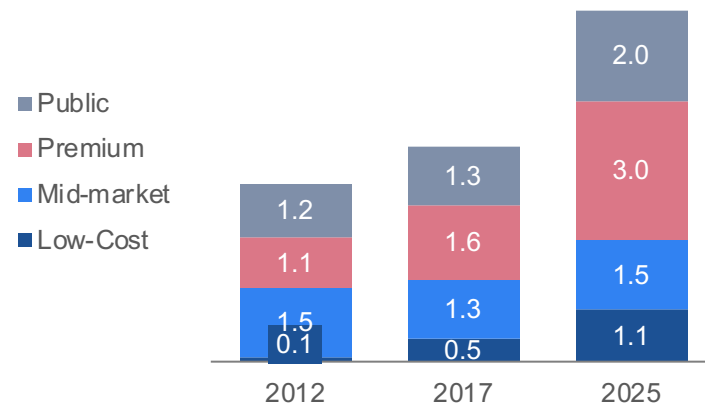


Market growth was estimated in a two-fold way, each coming up with a similar number: **9.03%** top down and **9.00%** bottom up, providing confidence in the calculations

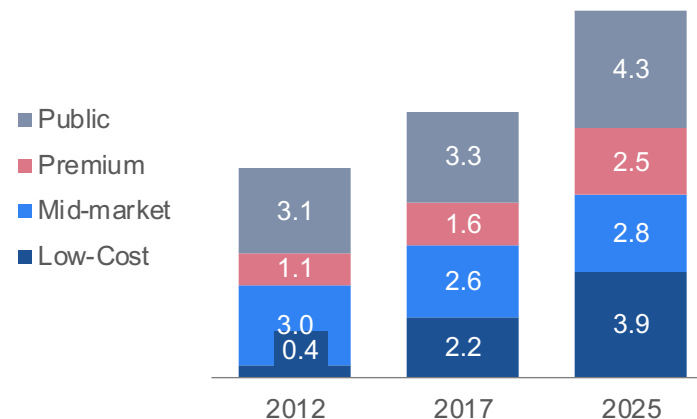
Future Segment Shift and Further Growth Define the Attractive Market

Overview of market KPIs and segments

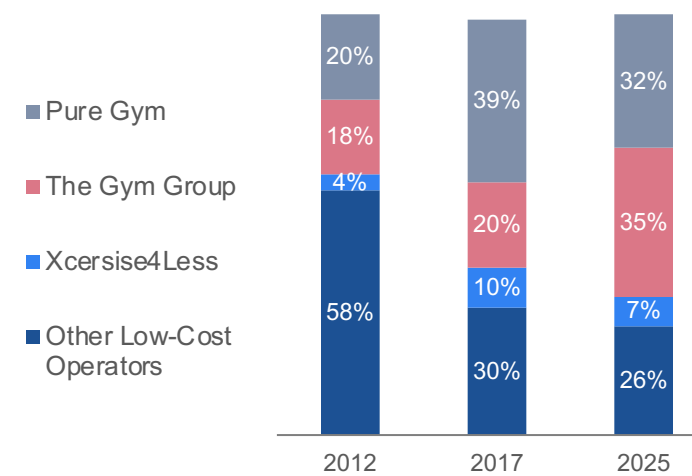
Market value evolution (in £bn)



Member development (in # m)



LBF⁽¹⁾ low-cost gym market share distribution



- UK is the second largest market in Europe
- Health & Fitness is a long-term growing global macrotrend**
- 2012-2025 estimated UK market value CAGR of 2.3%
- UK penetration has grown with a CAGR of 4.5% over the period to c. 19% until 2025

- Low-cost segment becomes growth driver in the market and takes over market share from other segments**, due to enhancement of affordability, accessibility and flexibility of gyms
- Low-cost segment CAGR over the period of 9%
- Contraction of mid-market segment will continue** due to shifts in customer preferences (e.g price sensitivity)

- The Gym group is one of the market leaders in this sector and will defend its position with further achieving its target of opening at least 10-20 gyms per year
- The Group is well placed to extend its position due to valuable expansion strategy and leveraging technology**

Underlying Assumptions – Conservative Approach

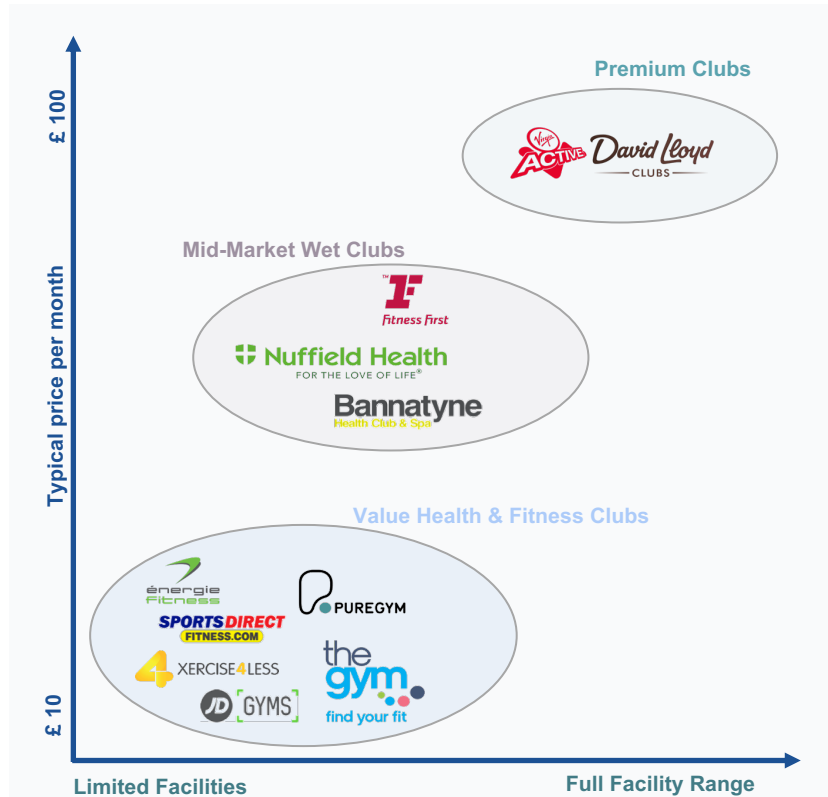
- Low-cost market member market share will grow by 9p.P. by 2025
- Mid-market member market share will shrink 6p.P. by 2025
- Premium market member market share will increase 2p.P. by 2025
- Public market member share is expected to shrink by 2%p.P. by 2025
- In 2025 market share of The Gym Group is assumed to grow to 35p.P.
- In all segments, the prices are expected to increase by 2% annually (inflation offsetting)

Competitive Positioning and Industry Trends are Favorable for Low-cost Providers

Market landscape and market shift implications

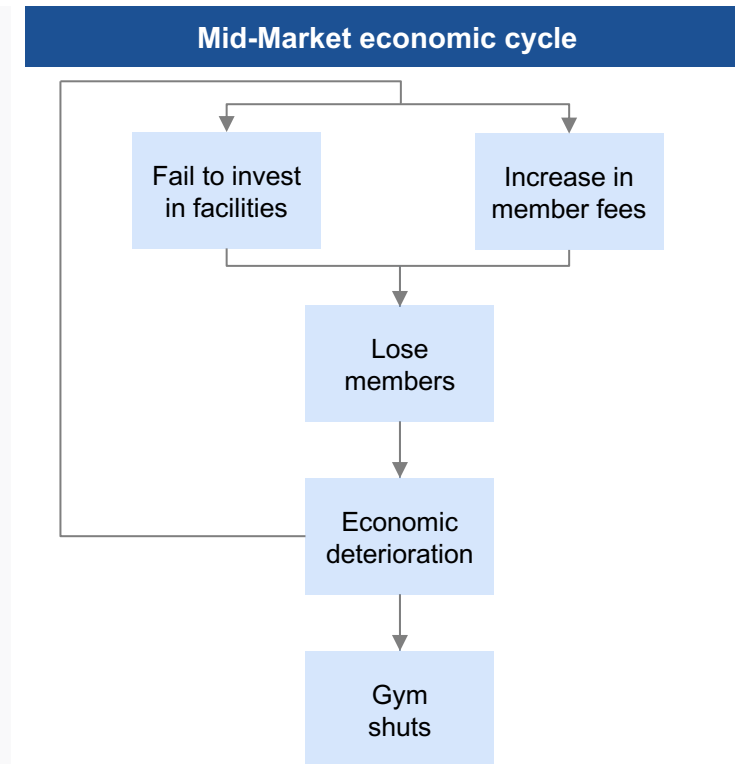
UK Market Landscape and competitive positioning

- The **premium club** segment is driven by two large and many mid- and small size players. Prizes **start from £60+**. Premium Clubs generally provide high-end wet facilities (sauna etc.) and additional services e.g. towel services
- The **mid-market** has one large public player and two major chains and is very fragmented. Gyms sometimes provide wet facilities. **Prices range from £40 to £60** in the upper mid-market segment and **c.£30 to £40** in the lower mid-market segment
- The **low-cost gyms** provide all necessity that a member needs for a proper work-out. To be characterized as low-cost gym the **prizes range up to £25⁽¹⁾**



Decline of the Mid-Market

- Mid-market gyms are **struggling** from a combination of both **decreased membership** and a **poor economic proposition**
- This membership fall leads to **decreasing revenues**, which in turn means **mid-market gyms fail to reinvest in facilities** which **deteriorate** over time
- **Users are then squeezed out of the mid-market with many switching to cheaper**, more flexible and well-maintained low-cost gyms and the **remainder transitioning towards premium gyms** with more comprehensive propositions
- A very **stricken player in the market is Fitness First**, whose number of clubs declined steadily after the financial crisis, driven by membership losses and the like for like increase of membership fees



Gyms **differentiate** themselves mainly through **price**, the **available facility ranges** and its variety in their **quality**. **Customers price sensitivity** towards gyms leads to a **differentiation of social classes** and depicts a **correlation** between **low cost gyms** aim mainly for fitness utilization, whereas **premium clubs** provide a **socially selective training environment**

The **cycle of membership loss and increasing prices** has put the **mid-market chains** under increasing **pressure**. It is expected that **low-cost gyms** gain a **major market share** of the mid-market sector **due to millennials** as increasing member group and their **price sensitivity** towards **substitutable service utilization**. Furthermore, a **potentially upcoming recession** will harm the **mid-market sector** most

The Low-Cost Gym Model has a Significant Structural Advantage vs. Trad. Operators

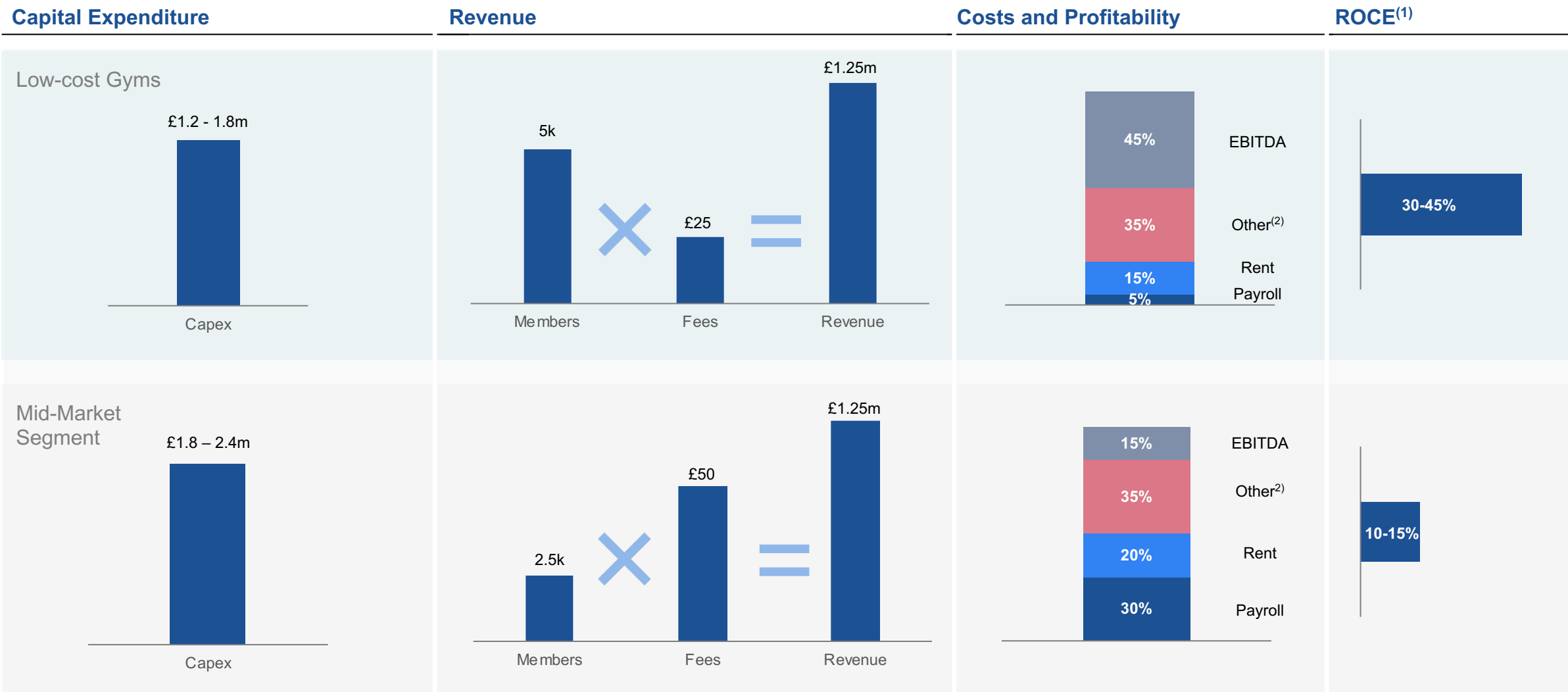
Low-cost gyms vs. traditional gyms



Advantage	Low-cost gyms	Traditional gyms	Structural Advantage / Comment
Consumer proposition	<ul style="list-style-type: none"> High quality facilities Low membership fees No contracts 	<ul style="list-style-type: none"> Mixed quality facilities High membership fees Contracts (12-months) 	<ul style="list-style-type: none"> Superior value proposition giving consumers what they actually want at an affordable price
Fit-out Capex	c. £1.0m-£1.5m	c. £1.5m-£2.5m	<ul style="list-style-type: none"> Lower fit-out capex due to lack of high cost, low utilization amenities (e.g. pools, spas, reception areas) Lower ongoing maintenance and refurbishment Capex
Average monthly fee	c. £20	c. £40-£50	<ul style="list-style-type: none"> Low-cost gyms typically cost about 50% less than traditional operators Removing the requirements for a contract turns a £480 decision into a c. £20 decision
Members per gym	c. 5.000	c. 2.000 – 2.500	<ul style="list-style-type: none"> Strong value-for-money offer attracts a broader demographic More efficient gym lay-outs and longer opening hours mean low-cost gyms are better able to handle larger membership volumes
Revenue per gym	c. £1.0m-£1.2m	c. £1.0m-£1.2m	<ul style="list-style-type: none"> Both models achieve broadly the same level of revenue
Gym cost base	c. £550k-£750k	c. £850k-£1.050k	<ul style="list-style-type: none"> Use of technology significantly lowers the payroll cost – only 2-3 FTE per gym, supplemented by self-employed PTs, online joining (no sales force) and electronic access (no reception staff) Lower utility and maintenance cost (no expensive to maintain and energy inefficient amenities)
Gym EBITDA (Margin)	c. £450k (45%)	c. £150k (15%)	<ul style="list-style-type: none"> Significantly higher margin given similar revenue levels and lower cost base
ROCE	c. 30%+	c. 10%+	<ul style="list-style-type: none"> Significantly higher and more sustainable ROCE driven by lower Capex and higher EBITDA margin

Low-Cost Gyms Have an Economic Value Proposition Due to More Target Customers

Illustrative comparison of the return on invested capital implications for mature gyms in both segments



Promising Market Dynamics Lead to Sustainable Competitive Advantages

Industry trends

Trends	Description / Consequence	Reaction Gym Group	Impact	Relevance
Tech enablement & interconnectedness	Technology influences the fitness and health market in many ways. Besides others, there are watches and mobile applications which track your body functions (activity level, heart rate,...), electronic gym equipment which adjusts to your body type and preferences, applications to book classes, VR classes and many more	The Gym Group offers a mobile application , where you can book classes online, electronic check-ins and VR classes. The strategy will be focused on increasing the level of technology in diverse areas , such as connectivity of fitness apps with the Gym Group app		
Fitness at home	The offers of 'at home training' are broadening. From YouTube tutorials to gym equipment, yoga mats and interactive workout applications. However, studies show that motivation levels are higher when working out in proximity of physically active people	Home workouts are perceived rather as supplements than substitutes of gym membership. Increasing the social aspect and emotional connection will prevent substitution of traditional memberships. Thus, penetration is expected to increase and stay unaffected from this trend. Its an option to offer videos for members.		
Boutique Studios	A boutique fitness studio is generally viewed as a small gym (800 - 3500 square feet) that focuses on group exercise and specializes in one or two fitness areas. Due to the small size and the high level of trainer attention per participant these can be quite expensive	Classes can cost up to £30 , which means that these gyms are operating in the high-end of the market . Since the Gym Group is active at the low end it is not directly competing with such gyms, even though it operates some small box facilities (SBFs)		
Increasing mobile population (living and working arrangements)	People are getting more dynamic in terms of housing and working locations. Business and leisure trips are increasing, leading to a need for multifacility operators and flexible contractual conditions	The operation of >165 clubs throughout the UK , provides the Gym Group with the opportunity to offer this flexibility to their customers . The premium tariff named "move it" includes the option of multi-facility usage, leading to higher customer satisfaction on one hand and upsell potential on the other		
Gym as social club	Especially in high population areas, people are living increasingly isolated from each other . The number of single households is also rising. One of the reasons that enabled the hype of Boutique gyms is the social factor	With the new marketing campaign and the broad offering of gym classes, the Gym Group already taps on this trend . It could boost members' sense of belonging by offering group activities such as running teams and competition nights		

The Gym Group as Most Appealing Provider Within the Sector

Comparison of competitors business models

	the gym find your fit	PUREGYM	XERCISE4LESS	Franchise énergie fitness	SPORTSDIRECT FITNESS.COM EVERLAST FITNESS CLUB
Combined >55% market share					
Revenue	£147.9m	£257.8m	£48.9m	£82.4m	£0.3bn
# of Gyms	165	222	52	76	37
# of Members	796k	1,130k	218k	304k	52.5k
Gym Format	Large Box Small Box	Large Box Small Box	Large Box Small Box	Large Box Small Box	Large Box Small Box
∅ Members per Gym	4.82k	4.80k	4.2k ⁽¹⁾	4.0k	1.5k
∅ monthly Price	£17.94	£21.39	£18.71	£22.59	£21.02
Services	24/7 open Free Classes Online cockpit Access to prof. stuff Extra benefits for nutrition etc.	24/7 open Free Classes Online cockpit Access to prof. stuff Extra benefits for nutrition etc.	24/7 open Limited Classes Online cockpit Access to prof. stuff Extra benefits for nutrition etc.	24/7 open Limited Classes Online cockpit Access to prof. stuff Extra benefits for nutrition etc.	24/7 open Limited Classes Online cockpit Access to prof. stuff Extra benefits for nutrition etc.
Footprint in UK					
Brand recognition	●	●	○	○	○ ⁽²⁾
Technology enabled Customer Journey	Highly data driven and fully fledged digitized customer journey – fully automated	Highly data driven and fully fledged digitized customer journey – fully automated	Fully digitized contract procurement	Fully digitized contract procurement	Fully digitized contract procurement
Strategic Direction	Delivering best dollar value for everyone, everywhere and without contingencies	Delivering easy access everywhere and customer pays what he needs	Low cost gym provider, providing extra area for combat sports and separate ladies area	Franchising as expansion strategy to marginally own company operated gyms	Gym fashion seller that operates gyms, also in mid-market segment

Strictly Confidential

Source: Company information for H1 2019 extrapolated on year basis, reported or via expert calls;

Notes: (1) Assumption: Slightly lower than big players due to growth strategy and lower density,

(2) Brand recognition high due to fashion brand but misbranding for gyms,

● = High ○ = Low

Leveraging the Gyms Value Chain to Foster Differentiation from Pure Gym is Key

Competitive dynamics and value generation

Industry Rivalry⁽¹⁾



Threat of new entries:

- Low pricing strategies, innovation in sport activities and changes in best-practice activities are offering new value propositions to customers
- Nevertheless, high capital requirements to establish similar business



Threat of substitution:

- Mega trends for healthy lifestyle minimize threat
- Price sensitivity of customer pushes low cost gyms



Bargaining Power of Suppliers:

- Low in the gym inventory segment apart of a few big players, which ultimately leads to a certain decrease in the margin of a gym, but switching costs and strategic relevance are low
- Depending on the location and the competition for certain real estate landlords have high bargaining power and can demand heavy covenants



Bargaining Power of Customers:

- Low bargaining power of the individual customer



Industry Rivalry:

- High rivalry in the segment within a very fragmented market
- One major competitor *Pure Gym*



How to build barriers to safeguard competitive edge:

- Foster target customer understanding and increase differentiation
- Increase customer satisfaction, so customer defection decreases
- Build economies of scale to receive cost leadership with a decreasing fix cost base

Value Chain

Equipment and prime locations are key resources of every gym

Infrastructure:

- Technological infrastructure and programs such as Salesforce are crucial to operate smooth and efficiently
- Efficient and high quality maintenance of facilities ensures quality standards

HR:

- Capable board ensures successful steering of execution
- Continuous education of operating staff ensures great customer experience
- In-house IT department secures efficient, streamlined processes and data generation for innovation

Procurement:

- Fully digital procurement process establishes ease of customer access

Technology:

- Most crucial component in the business model, provides streamlined processes for procurement, billing, gym organisation, customer data analysis as well as identification of further growth potential
- Technology is key overhead reduction driver towards competitor and main driver for future competitor differentiation potential identification

Operations:

- Gym staff ensures quality standards, personal trainers enhance customer experience
- High quality of gyms, facilities and cleaning contractor also ensures customer experience

Marketing & Sales:

- Referrals, SEO marketing highly efficient with low dispersion; Tele-, TV- and Print-Marketing raises brand awareness
- Variety in memberships with incentives in online shop
- Cross-selling to PTs

Service:

- 24/7 access
- (Personal) Trainer care if necessary
- Transparency in Gym selection
- 50+ courses
- Online booking and tracking of personal performance per app
- Buy Equip. online

Profit margin enhancement

A Compelling and Attractive Growth Case in a Promising Market

SWOT

Strengths

- Strong financial development over the past years, clear growth case reinforced by economies of scale and additional cross-selling potential
- Clear value proposition as cost leader in the UK in the low-cost gym market and second biggest player in the market (24% market share) regarding members and number of gyms, together with Pure Gym over 55% of market share
- Strong financial stability with high growth potential, recently pursued expansion strategy shows trackable profitability due to very favorable shifts in the market and efficient organizational structure

Opportunities

- Current market penetration bears large headroom for further growth as aging population, shifts in chronic disease, due to societal working behavior change, offers high growth potential for market growth. Additional price sensitivity of millennials are leading to segment shifts in the gym market, favoring the low-cost segment.
- Further digitalization of the industry can lead to more efficient cost structure and an increase in margins
- Highly fragmented market bears great consolidation potential with further look-out to international expansion

Weaknesses

- If future innovation, digitalization and utilization of technology is not efficiently applied, competition can move ahead
- Business model highly depends on customers willingness to pay for the service and to invest in their health
- In case of a sudden sales drop, costs can only be cut with a time delay (e.g. lease contracts and equipment need to be sold)
- Access to capital, proper real estates and capable management with appropriate leadership in execution are crucial to foster growth
- Access to skillful and durable operational staff can be a barrier

Threats

- High industry rivalry, especially with one major competitor Pure Gym that is larger in number of members and gyms, past merger was aborted by authorities in 2014
- Expansion is key to maintain and enhance market share, major merger or acquisition of large competitors could harm business
- Uncertainties like Brexit could harm potential pursued international expansion strategy

Skills Developed

Since I had never conducted a project independently of such a long time horizon before, one of the main learnings was how one distributes tasks evenly over time and sticks to this timeline. I am glad it worked out well for our group in the end, but I found it really difficult in the beginning to estimate how long the tasks will take and how deep you have to go into each issue.

This brings me to my second key learning: In Private Equity you can always bring more color to any attribute of the target. The depth is unlimited. Finding a good balance between a thorough evaluation and avoiding to lose time by overanalyzing is a tough matter. It was very helpful to learn this through a hands-on approach and I think we found a satisfying degree. In this context, the thesis really taught me to work highly efficient and make decisions on what are more and less important issues, having the overall goal in mind. Content-wise, it was highly interesting how the real-world experience differs from the text-book version. Besides others, how to handle different accounting methods used by the company, adjusting reported EBITDAs to modeling needs, or how to quantify the diverse qualitative factors diverging into a revenue growth rate are hurdles that one can only learn to overcome in realistic projects such as our thesis. On top of that, I learned something very technical: additional functionalities and features of Excel.

Team Approach

Our team had a really efficient process of initially deciding on a company, even though this was tougher than expected. Criteria were defined and companies evaluated in their respect. After agreeing on a target, two team members comprehensively analyzed the market while one team member conducted a thorough company analysis. For the final part of the project, it was decided that only two members should be modelling and the other one should take care of non-model related tasks. This decision was really hard to make since all members were highly motivated to do the modelling because it provides the crucial key learnings. However, reflecting on the group project, our main mistake was thinking that there is any information / content unrelated to the model. The excel model represents only a quantification of qualitative facts and cannot be perceived as an independent „island task“. In the future, I would suggest splitting tasks in terms of knowledge fields (e.g. market, company, sources) and gathering and quantifying knowledge in the model as a responsibility and opportunity for all members. It would have also helped to communicate the reasons and thought process behind work steps to the other group members more often. Overall, we learned a lot for future team work and are all content with the results and thus very grateful for the experience.

Learnings Applied

Starting from the very basics, accounting knowledge from any finance class was very helpful as well as the general business sense one developed throughout 4.5 years of business studies. In general, the learnings from my recent internship with Partners Group in combination with the theoretical knowledge I gained from taking finance classes, especially Private Equity and Corporate Valuation, represented a solid fundament to understand and solve any challenge we had to face. The Nova PE class provided us with a strong general understanding of and reason for the way investment professionals approach Investment Committee submissions and investment decisions. This was crucial in being able to fulfill this task. For the selection of the companies, the criteria for a good target we learned in the PE class were very helpful. The area we were least familiar with was the structuring of the deal, especially regarding management and institutional equity. In this field, the examples provided by Prof. Luis Mota Duarte were crucial to come up with the final sources and uses structure. The relatively valuation using comparable companies and precedent transactions was also influenced by input we received from the valuation course, PE classes, and our supervisors. All in all, it was a great and valuable experience of gathering theoretical knowledge during the courses and being able to apply it in a somehow realistic way in our thesis project.