

## Christie + Co Market Analysis

### Fighting Fit

While transactional levels have slowed in the face of the economic downturn, demand for good quality health and fitness operations remains strong from both operators and investors alike.

Despite being one of the most active leisure markets in the early part of the new millennium, trading conditions for operators within the health club sector remain challenging.

There are a number of reasons for this including an over supply of clubs in some areas, high levels of membership attrition, significant rental and property liabilities, as well as increasing utility costs and the general economic climate.

Membership renewal levels remain an issue for almost all clubs, although there is evidence to suggest that attrition levels are much lower for family orientated racket facilities, albeit traditionally buoyant “secondary spend” levels have come under increasing pressure in 2009 as job insecurity has mounted.

The health club sector continues to face operational challenges however the last three years have delivered further major transactions including Next Generation’s acquisition of The Harbour Club from Cannons for £16.1 million, the £835 million secondary buyout of Fitness from by BC Partners from Cinven, the £141 million management buyout of LA Fitness, and Virgin’s £134.5 million buy back to regain control of its Virgin Active clubs. Elsewhere, Esporta exited its six sites in Spain, selling these and seven non-core UK clubs to Virgin Active.

Since 2006 we have seen Next Generation sold to London & Regional for £200 million, a deal followed a year later with the acquisition of David Lloyd Leisure from Whitbread for £925 million. LA Fitness acquired Crown Sports, the owner of Dragons for £38.4 million, ahead of conducting a sale and leaseback of 15 Dragons Clubs, and the 46 UK Holmes Place gyms were merged with Richard Branson’s Virgin Active chain.

Both LA Fitness and Bannatyne Fitness fought out a competitive race to win the acquisition of 24 LivingWell Premier clubs, with Bannatyne emerging as the successful party, paying a reported £90 million.

Duke Street Capital sold its Esporta chain to Simon Halabi in a £460 million deal. However, subsequent pressures on funding the acquisition saw the property billionaire fighting to keep control of the business after Société Générale, Halabi's bank, pulled the plug on its £330 million of borrowing and Esporta's holding companies, Bell I and Bell II, were put into administration.

In December 2007 Private Hospital operator Nuffield Health made a move into the private fitness market with the £170 million acquisition of 52 Cannons health clubs and 15 management contract clubs trading primarily as Courtneys, which it plans to operate alongside its existing corporate health club business and integrate a range of health screening services.

Major Private Equity players in the sector include BC Partners, MidOcean, Duke Street Capital, Royal Bank Private Equity and Legal & General Ventures.

Despite the changes in the market and the slow down in both development and transactional activity, there is still demand for good quality operations from both operators and investors alike. Where clubs can show a strong historic trading profile, or future opportunities, there continues to be strong interest in the market place. In addition, well located sites with good catchments and defensible positions are also sought after by operators.

Until the onset of the credit crunch, the UK market could be broadly divided into three main categories - value chains such as LA Fitness and Fitness First, the mid-market clubs such as Virgin, Nuffield, Greens and Bannatyne, and the premium operators including David Lloyd Leisure and Esporta.

Over the last 12 months we have seen the development of a number of "budget" concepts providing "dry" clubs with a 24-hour trading profile and offering memberships for around £10-15 per month. Examples of such operations are The Gym Group, Pure Gym, Fitness4less and Fitness4all. In addition, the recent sale of three diverse LA Fitness clubs to start up operator Nuyuu, backed by private equity outfit Hamilton Bradshaw, sees the development of a super budget concept with average monthly membership rates targeted at £20.

In summary, compared to some leisure sectors, personal health is seen as an enduring value and one to work on, particularly during an economic downturn and it will be interesting to see whether the market continues to polarise as club users seek both value and high standards of facility, equipment and service in the future.

### Major Branded Operators

Club Brand	Average Size of Club (sq ft)	Number of Clubs
Fitness First	15,000 - 18,000	164
LA Fitness	15,000 - 25,000	85
David Lloyd Leisure	100,000 with racquets	78
Virgin Active	40,000 - 50,000	72
Bannatyne Fitness	20,000 - 35,000	60
DW Sports (formerly JJB)	20,000 - 25,000	58 (+5 late 2009)
Esporta	50,000 - 100,000 with racquets	55
Nuffield Well Being Centres	25,000 - 30,000	52
LivingWell (incl. hotel clubs)	5,000 - 15,000	50
Total Fitness	65,000 - 80,000	21
Greens	30,000 - 25,000	15

### Health & Fitness Industry Sound bites

- + 12.1 per cent of the UK population are now registered as members of a health and fitness club or publicly-owned fitness facility.
- + Like-for-like membership numbers have grown by 0.8% over the 12 month period.
- + 114 new public and private fitness facilities opened in the 12 month period.
- + 119,000 new members were recruited at these new fitness sites.

### Private Sector

An additional 64 new private clubs were opened in the UK and 66,444 new members joined these new facilities during the 12 months to the end of March 2009. Private clubs have grown their memberships steadily with a 1% like-for-like membership increase. Membership fees have remained steady with the average monthly fee being £42.91 compared with an average of £42.37 for the previous 12 month period. Market value of private clubs has therefore been able to grow, up 3.2% to £2.70 billion.  
(Source: The Leisure Database)

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