



HOULIHAN LOKEY

Consumer, Food, and Retail The Future of Fitness

MARKET UPDATE | COVID-19



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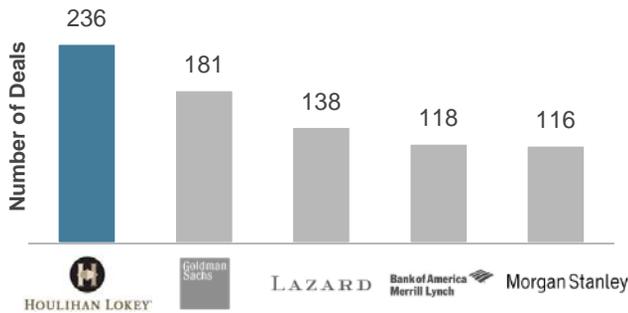
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- ✓ **1,000 Clients Served Annually**
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- More than 60 dedicated consumer products bankers located in New York, London, Chicago, Dallas, and San Francisco
- Strong “pulse” on the market with 200+ deals closed since 2010
- Detailed sector coverage and experience

Dedicated Fitness Industry Coverage

We maintain a unique, differentiated focus on advising premium fitness companies in the health and wellness, sports nutrition, and sporting goods sectors around the world:

- ✓ **Health and Fitness Clubs**
- ✓ **Fitness Technology**
- ✓ **Active Lifestyle**
- ✓ **Recreational and Outdoor Pursuits**
- ✓ **Team and Individual Sporting Goods**
- ✓ **Cycling, Running, and Endurance**
- ✓ **Climbing and Hiking**
- ✓ **Action and Snow Sports**



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Select Fitness Industry Transaction Highlights

 has sold a minority interest to Sellside Advisor	 has completed a financing consisting of Series A Convertible Preferred Stock Placement Agent	 has been acquired by Financial Advisor	 has acquired a franchisee of Financial Due Diligence	 has been acquired by Sellside Advisor	 a portfolio company of has been acquired by Seller Financial & Tax Diligence	 has agreed to merge with Sole Advisor*	 a portfolio company of Morgan Stanley Capital Partners has acquired JACS Development, LLC a franchisee of Financial & Tax Due Diligence
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Ranking Source: Refinitiv (formerly known as Thomson Reuters).
Tombstones included herein represent transactions closed from 2008 forward. * Selected transactions were executed by Houlihan Lokey professionals while at other firms acquired by Houlihan Lokey or by professionals from a Houlihan Lokey joint venture company.

Spotlight on COVID-19: The Future of Fitness

- The COVID-19 pandemic represents an unprecedented challenge to the global economy, and the fitness industry has emerged as one of the sectors experiencing the greatest adverse impact.
- As governments around the world continue mandating that fitness centers and gyms remain closed in response to the pandemic, operators are faced with tremendous uncertainty surrounding the timing of reopening facilities, as well as operational changes that will need to be made to maintain a safe, healthy environment going forward.
- Given the glimmers of hope seen in the gradual restart of the global economy, Houlihan Lokey is pleased to present its thoughts on the upcoming challenges the sector may face and the broader implications of this health crisis.

Near-Term Considerations for the Fitness Industry

1 *Staged Openings*

2 *Social Distancing and Size Limitations*

3 *Sanitation Requirements*

4 *Consumer Safety*

5 *Cancellations and Downshifting*

6 *Fitness Durability During Recessionary Times*

7 *Undesired Weight Gain*

8 *Near-Term Path Forward for the Fitness Industry*



Near-Term Considerations for the Fitness Industry: Staged Openings

As government officials begin to focus on safely reopening the U.S. economy, gyms and fitness centers must realize that their ability to restart operations largely depends on government regulations and proclamations at the federal, state, and local levels.

Texas' Phased Approach

MAY 1, 2020 (PHASE I)

Specific non-essential businesses were allowed to open at 25% capacity.

MAY 18, 2020 (PHASE II)

Those same businesses can increase their capacity to 50% while a new set of specified non-essential businesses, including fitness centers, will be allowed to open at 25%.

PHASED APPROACH

A Pragmatic Method of Restarting the Economy

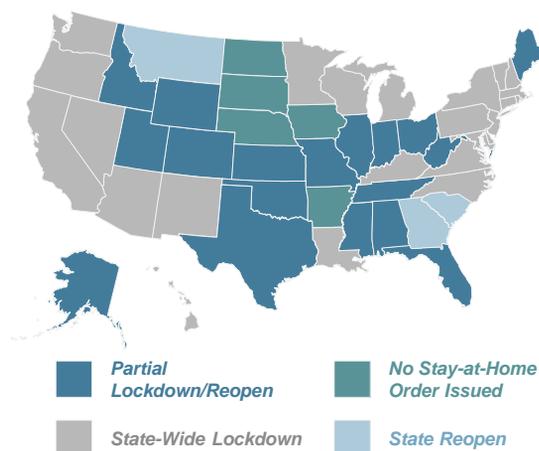
- The majority of states appear to be embracing a phased approach to reopenings, representing a more pragmatic method of restarting the economy while simultaneously considering the potential health implications of these actions.
- In most instances, openings of gyms and fitness centers are being considered during the second and third phases of state-by-state reopening efforts.
- In Texas, one of the first states to reduce shelter-in-place restrictions, gyms are expected to begin reopening during phase II of the phased approach.

Regardless of approach, operators will need to consider numerous implications as facilities begin to reopen.

GYM AND FITNESS CENTER IMPLICATIONS

- Operators must consider that they will likely face mandates surrounding business capacity, and these enforced capacity constraints will result in a number of considerations:
 - Will businesses open knowing they will be forced to operate at a suboptimal level?
 - Will businesses be willing to incur the cash burn of the full or near-full cost of operations to support suboptimal revenues?
- Although the vast majority of Americans are eager to return to their pre-COVID lives, the economics of such decisions must be considered.

Recent Lockdown Status by State⁽¹⁾



(1) Business Insider, as of May 5, 2020.

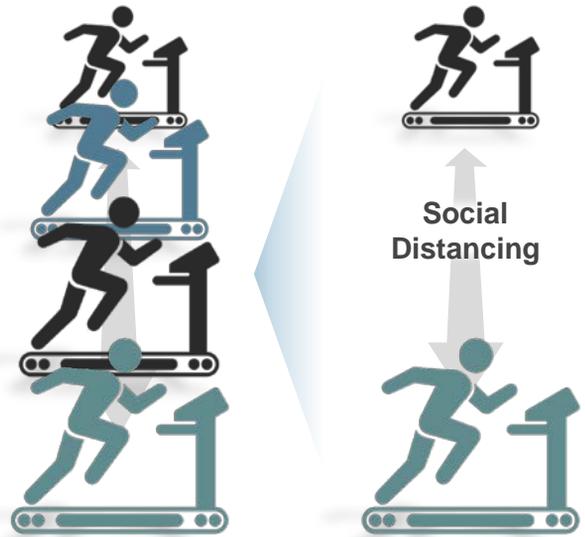
Near-Term Considerations for the Fitness Industry: Social Distancing and Size Limitations

Social distancing, the government or society enforced spacing of 6 feet (or more) between individuals, and limitations on the number of individuals permissible in a facility at one time will meaningfully impact financial performance and operations across the industry.

SOCIAL DISTANCING

What If It's Here to Stay?

- Many gyms and fitness facilities feature spaces that will likely require heavy modifications to meet social distancing requirements.
- Although simple changes such as “roping off every other treadmill” may suffice, the implication this has on overall equipment placement and class sizes for certain fitness modalities could represent an entire evolution of certain business models.
- Larger gym footprints may be able to more easily adapt; however, smaller gyms may be forced to reconfigure their entire layout.



Key Questions to Consider

- *How does a spin class designed to host 30 participants succeed with just 15?*
- *How does a highly interactive and team oriented fitness modality of 14 people change to just 7 people?*

SIZE LIMITATIONS

- It is highly likely that government regulations will severely limit the number of individuals permitted in a facility at any one time. Gone are the days when the local fire code specified the permissible limit, which will likely now be replaced by stringent health codes further restricting the number of permitted fitness participants at any given time.
- The near-term potential of such regulations means fitness facilities must quickly adapt to a new reality, where they will be forced to consider countless factors, such as facility layouts, hours of operation, and staffing, as well as class sizes, frequency, and intensity.
- Even with the potential passing of constraints associated with phased openings, there is a high likelihood that facilities will continue to face a number of restrictions that will greatly limit their ability to operate at pre-COVID capacity levels.

Near-Term Considerations for the Fitness Industry: Sanitation Requirements

SANITATION REQUIREMENTS

A New Set of Government Regulations

- Gyms and fitness facilities will likely face stringent government regulations specifying the required cleaning regimes that must take place hourly, daily, and weekly.
- As governments, health departments, and consumers look to contain and prevent the spread of the COVID-19 virus, sanitation will be a key component in that fight and a key area of focus of all involved.

Key Sanitation Considerations for Operators of Gyms and Fitness Facilities



Higher staffing needs to complete the cleanings.



Higher costs of cleaning equipment and supplies.



Increased frequency of cleaning, impacting equipment availability and causing greater downtime.

- The new reality of having to clean equipment and spaces more frequently, and at a deeper level, will meaningfully impact operational costs, facility staffing levels, and equipment utilization levels.
- This new reality may even completely restrict the availability of equipment that can't be disinfected to a satisfactory level based on imposed social and regulatory expectations.



Near-Term Considerations for the Fitness Industry: Consumer Safety

CONSUMER SAFETY

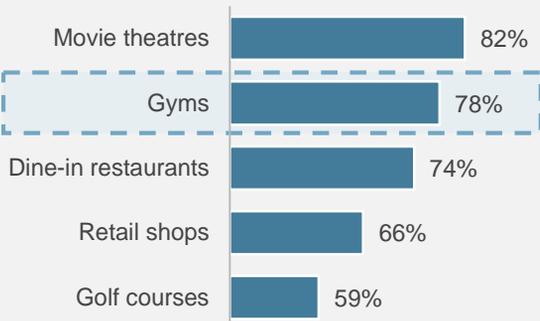
The Consumer Psyche Is the Great Unknown

- Although some have taken the COVID-19 pandemic in stride, others have lost loved ones, contracted the virus themselves, or otherwise experienced significant adverse impacts to their daily lives.
- Will consumer behavior be fundamentally altered to the extent that the choice of exercising where strangers of unknown health breathe heavily and sweat is no longer a consideration?
- We believe consumers will require deeper assurances around the safety of commercial fitness participation. It is not outside the realm of possibilities that consumers will not engage in commercial fitness activities unless they have satisfactory assurances that those surrounding them are healthy.
- We contemplate the following questions:
 - Do virtual classes now offer a more attractive value proposition than in-person classes? Will consumers feel safe to return? And what does it take to make consumers feel safe?
 - Will fitness providers be required to test the temperatures of potential participants to ensure they are healthy before engaging in commercial fitness activities?
 - Will temperature checks be permitted, or will they be restricted due to health regulations and privacy laws under the Health Insurance Portability and Accountability Act (HIPAA)?

Skeptical Consumer Sentiment Towards Gyms and Overall Safety

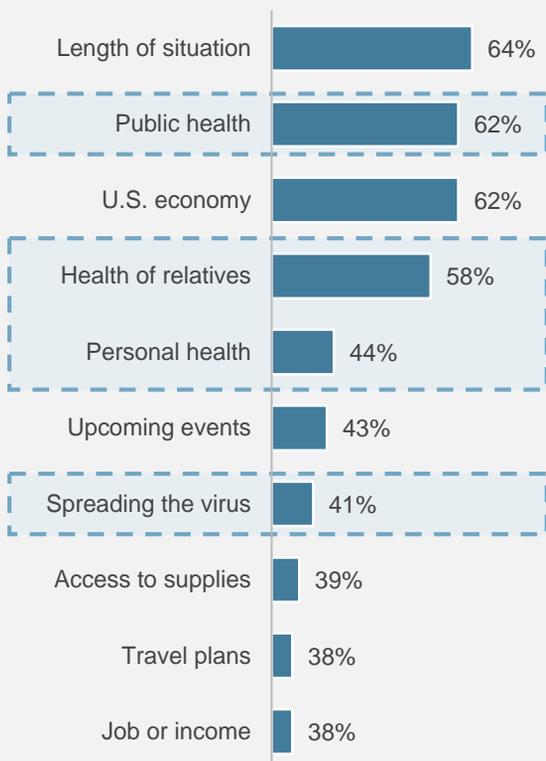
In your opinion, should your state allow the following to be open now, or not? (May 3, 2020)

■ Should not be allowed to reopen



What concerns you most about the COVID-19 situation? (April 20-26, 2020)

■ Very concerned/extremely concerned



Near-Term Considerations for the Fitness Industry: Cancellations and Downshifting

CANCELLATIONS AND DOWNSHIFTING

The New Cost-Conscious Consumer

- We believe there is a strong possibility fitness users may not return to their “traditional” gyms and classes in the near term. Whether it is due to continued concern for their health, financial reasons, or a preference for at-home workouts, the likelihood of cancellations or significantly limited participation is a real and meaningful concern for operators.
- We also believe that a number of fitness users will likely “downshift” their memberships to less costly choices as they become more cost-conscious in the current economic environment with high unemployment. Providers offering tiered pricing may experience a more dramatic financial impact as even the most dedicated users shy away from premium membership levels.
- There is also a possibility that consumers will shift away from more expensive boutique offerings or full-service gyms to those offering a high value, low price (HVLP) model. This migration will likely be felt by premium/luxury providers, middle-market providers, and boutiques as consumers evaluate cheaper options. We believe the largest influx to HVLP may occur in the fall/winter months as consumers become less likely to exercise outdoors.

Premium/Luxury (Traditional Gym)

Monthly Price: \$70–\$250+

Focus on premium experience, offering high-end equipment, personal training, and spa services.

Middle Market

Monthly Price: \$20–\$70

Typically big-box gyms that offer a more premium experience and facilities (e.g., sporting courts, saunas, and other amenities) compared to HVLP.

Boutique Fitness Studios

Price per class: \$10–\$40

Small facilities offering a niche/specialized workout, typically class-structured and led by an instructor.

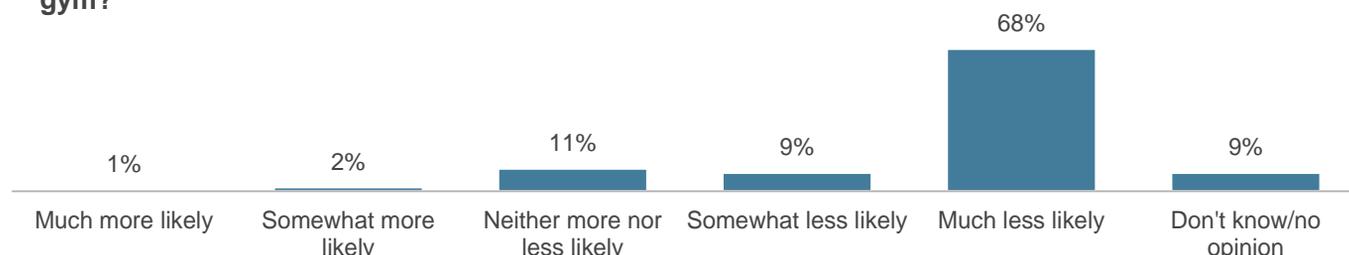
HVLP

Monthly Price: \$10–\$30

High value, low price model for medium-to-big-box gyms offering a variety of equipment along with some classes and amenities. Generally “no frills.”

Threat of Prolonged Cancellations Given Consumer Safety Concerns⁽¹⁾

- Based on what you know about the coronavirus, are you currently more or less likely to go to the gym?



(1) Statista; Survey of 2,200 respondents aged 18+, conducted from April 3-5, 2020.

Near-Term Considerations for the Fitness Industry: Fitness Durability During Recessionary Times

Although the fitness industry faces a number of near-term challenges, the sector also features numerous positive qualities that are expected to help stabilize the industry in the medium- to long-term.

FITNESS RESILIENCE TO RECESSIONS

Strong Track-Record of Recession Proof Growth

- The fitness industry has historically outperformed other service sectors during recessionary times. Fitness represents a healthy activity, one designed to support the wellness of the participant.
- Fitness is essential to helping support a healthy immune system, a characteristic emphasized during the COVID-19 pandemic.
- Fitness also helps reduce stress, which is often common during recessionary times.

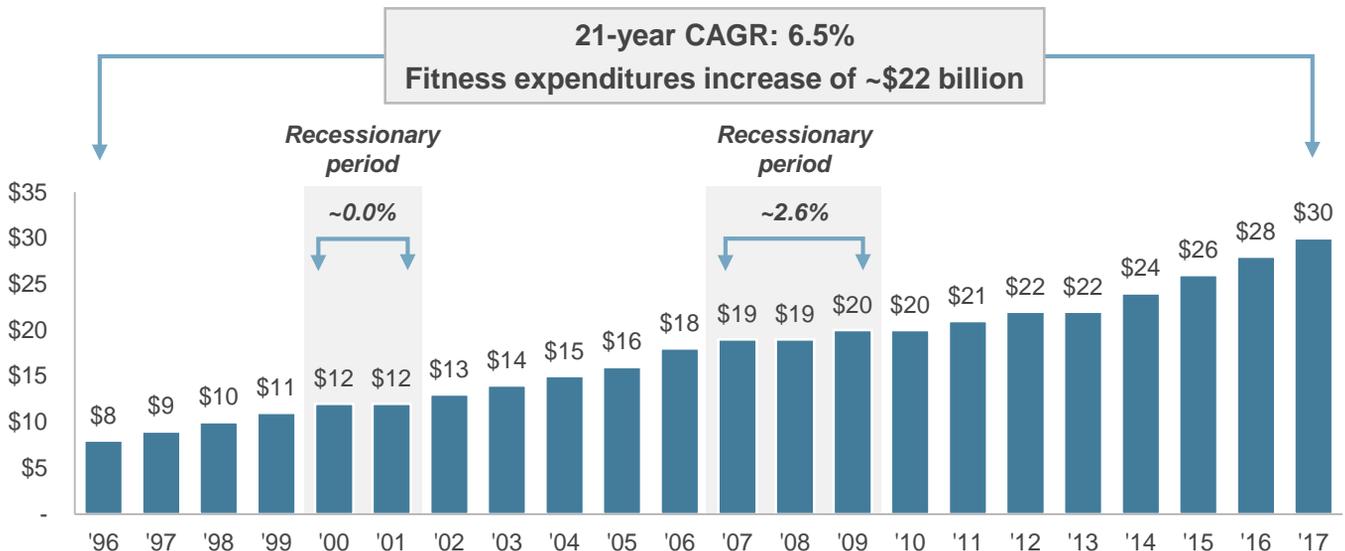
FITNESS AS AN ESSENTIAL ACTIVITY AND IDENTITY

- Fitness is viewed as a core part of everyday life for many participants.
- For these individuals, fitness is part of their routine and part of their identity, which is unlikely to change even during a recessionary market.

U.S. Fitness Industry Has Shown Stable Performance During Past Recessions⁽¹⁾

(\$ in billions)

- Total U.S. Fitness Industry Revenue



(1) IHRSA, Wall Street Research.

Near-Term Considerations for the Fitness Industry: Undesired Weight Gain

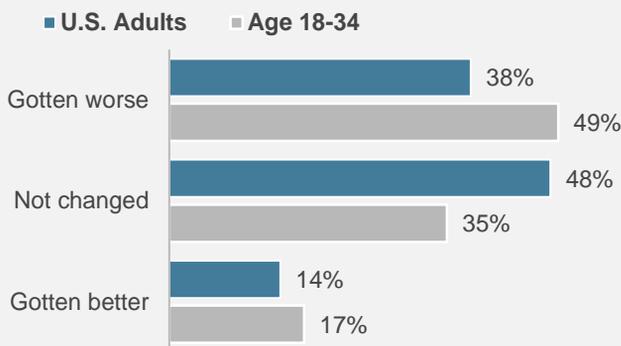
UNDESIRED WEIGHT GAIN

The 'Quarantine 15'

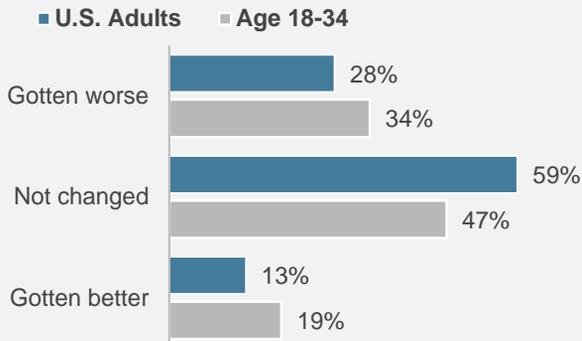
- Shelter-in-place orders appear to have helped fitness gain wider acceptance and understanding among a broader audience.
- Many people without a regular fitness regime before the pandemic have realized the benefits and importance of exercise and are expected to become new participants in the market.
- Furthermore, widespread shelter-in-place requirements have caused stress eating and increased alcohol consumption, with less than 15% of U.S. adults stating their diet has improved during the pandemic.
- Dubbed the "Quarantine 15," we believe a number of individuals may have gained unwanted weight during the pandemic and exercise will become a key part in restoring their health and desired weight.

Few Americans Have Improved Their Diet and Exercise During the Pandemic⁽¹⁾

During the coronavirus pandemic, the amount of exercise I get has:



During the coronavirus pandemic, my diet has:



(1) Gallup, survey conducted from March 27-29, 2020.

Near-Term Path Forward for the Fitness Industry

Given near-term risk factors and broader industry considerations, Houlihan Lokey believes the fitness industry will face challenging but dynamic times going forward as consumers and operators alike continue to adapt to a post-COVID-19 environment.

Bankruptcies and Restructurings

- The realities of the economy and new government health regulations may represent too much of a financial burden on certain fitness companies, ultimately resulting in bankruptcies or financial restructurings.
- Even companies with a “re-workable” economic model may still be too burdened by the loss of income and added costs incurred during mandatory shutdowns and unable to meet financing obligations.

Consolidation

- We believe the disruption in the fitness industry will be met with wide consolidation.
- Companies able to best weather the storm with sensible capital structures or other access to capital will be better positioned to provide service offerings to clients, thereby gaining market share at the expense of others.
- We believe certain fitness providers and/or financial investors will seize the opportunity to acquire companies at discounted valuations when compared to those observed before the crisis.

Online Fitness Offerings

- Shelter-in-place requirements created significant demand for online fitness platforms, as well as influential and highly regarded fitness trainers.
- The ability to reach a captive consumer that was eager to exercise was met by a vast offering of digital media and other fitness advice, free of the constraints of fitness offerings requiring in-person use.

How Houlihan Lokey Can Help

Our firm is extremely well-equipped to help our clients navigate uncertain times. We respond quickly to challenging situations and are constantly helping clients to analyze, structure, negotiate, and execute the best possible solutions from both a strategic and a financial perspective.

What We Offer

1 Corporate Finance

Mergers and Acquisitions

Capital Markets

Private Funds Advisory

Board Advisory Services

2 Financial Restructuring

Company Advisory

Distressed M&A

Liability Management

Creditor Advisory

3 Financial and Valuation Advisory

Portfolio Valuation and Fund Advisory

Transaction Opinions

Corporate Valuation Advisory Services

Transaction Advisory Services

Real Estate Valuation and Advisory

Dispute Resolution Consulting

Corporate Finance

We have been among the most active advisor to the active lifestyle industry and have long-standing relationships with capital providers, including private equity funds, family offices, commercial banks and other senior credit providers, insurance funds, asset managers, and mezzanine fund investors.

Financial Restructuring

We have the largest restructuring practice of any global investment bank. Since 1988, we have advised on more than 1,000 such transactions (with aggregate debt claims in excess of \$2.5 trillion). We served as an advisor in 12 of the largest 15 bankruptcies from 2000–2019.

Financial and Valuation Advisory

Our team has performed financial and tax due diligence as well as valuations for multiple fitness concepts. Our experience in the fitness sector provides us with a deep understanding of four-wall and pro forma EBITDA attributes. We understand the issues and value-drivers from both buy-side and sell-side perspectives.

Why We're Different



Most Active Advisor in the Relevant Sectors



Significant Experience With Financing Markets



Dominant in Special Situations and Restructuring



Deep, Industry-Specific Expertise



Superior Work Product/Technical Abilities



Creativity, Imagination, Tenacity, and Positivity

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