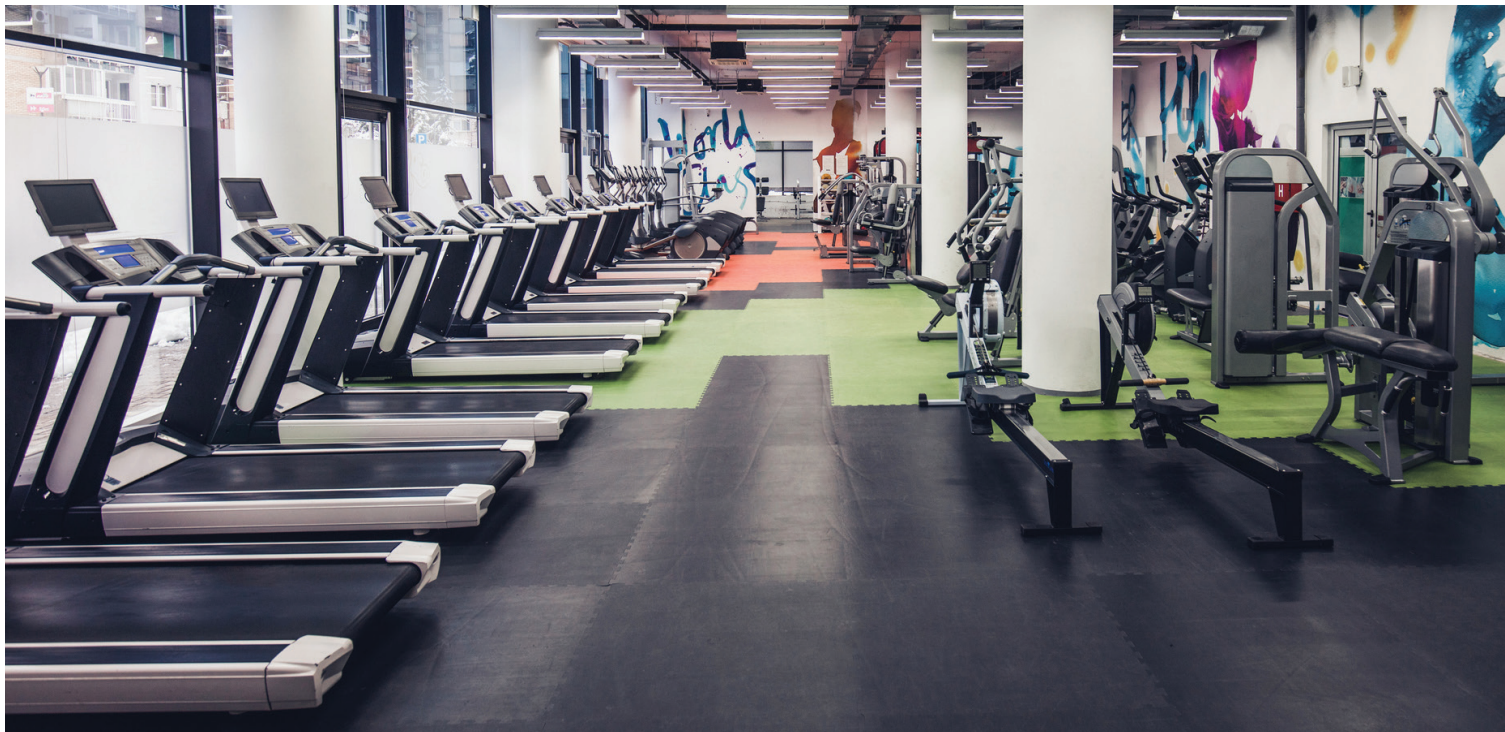


# Getting Back in Shape: Fitness Industry's Path to COVID Recovery in 2021



*Like most service industries in 2020, gym and fitness companies were severely impacted by the COVID-19 outbreak. 2020 was a landmark year (for all the wrong reasons), and the industry is working to find its way back in 2021 and beyond. Many challenges remain—including consumers who might stick with at-home options, broad losses in 2020, and the Delta variant—which is why traditional operators who had relied on brick-and-mortar facilities must look to hybrid solutions.*

## WHAT HAPPENED – A HISTORICAL PERSPECTIVE OF THE COVID IMPACT

COVID-19 created massive disruption across consumer segments, and fitness providers were among those who felt the pain, including a significant increase in Chapter 11 activity and restructurings. The International Health Racquet & Sportsclub Association (IHRSA) estimates that over 20% of clubs have closed since the COVID outbreak and that the industry lost more than \$29 billion from March 2020 to June 2021.<sup>1</sup> Many challenges remain, and some in the industry are feeling more bullish, although the rise in COVID cases due to variant virus strains is a concern.

*Roughly 9,000 health clubs—22% of the total nationwide—have closed since the beginning of the virus outbreak, and 1.5 million workers lost their jobs.*



National Health & Fitness Alliance  
Source: Club Industry (August 2021)

<sup>1</sup> Club Industry, "22 Percent of Gyms Have Closed, \$29.2 Billion Revenue Lost Since COVID-19 Hit" [August 10, 2021], available at: <https://www.clubindustry.com/industry-news/22-percent-gyms-have-closed-292-billion-revenue-lost-covid-19-hit>

In a May 2021 earnings call, Planet Fitness executives acknowledged the pandemic's effects but struck optimistic notes about their company's future, especially as the number of Americans getting vaccinated increased. "Americans are waking up to the fact that their overall wellness needs to be a top priority," said Chris Rondeau, the company's CEO.<sup>2</sup> Indeed, gym visits in March 2021 were 45% higher than a year earlier and down just 21% compared with March 2019. "Visits trends are proving that the idea that gyms somehow lost their appeal during the pandemic is fundamentally false," said Ethan Chernofsky, VP of marketing at Placer.ai, in late June 2021.<sup>3</sup>

## HOW COVID CHANGED THE BUSINESS DYNAMIC IN FITNESS

The pandemic dramatically changed consumer behavior—and not just for the fitness industry. Whether it was about **HOW** or **WHEN** consumers shopped, **WHAT** they purchased, or **WHERE** they spent, one thing is abundantly clear: online and at-home options grew and became a preferred option for many consumers, including gym and fitness customers.

For gym and fitness customers, the pandemic accelerated the shift to at-home options, including significant consumer investment in at-home equipment. Between April and June 2020, Americans invested an average of \$95.79 toward at-home fitness, with yoga mats, resistance bands, dumbbells, exercise bikes, treadmills, and ellipticals among the popular choices.<sup>4</sup> And the effects appear set to last, with the home fitness equipment market in the US expected to grow to \$14.74 billion in 2028, compared with \$10.18 billion in 2020.<sup>5</sup>

### Significant Consumer Investment in At-Home Equipment in 2020

- An average of \$95.79 was invested by Americans toward at-home fitness from April 2020 – June 2020
- 25% of Americans bought an exercise bike while 21% purchased a treadmill or elliptical
- Yoga mats, resistance bands, and dumbbells are the top fitness equipment that people invest in during the pandemic



*Freeletics*

*Source: NY Post (2020)*

In spite of the heavy investment in at-home solutions, Peloton estimates that 40% of Peloton equipment users have gym memberships.<sup>6</sup> Fifty percent of gym goers were not satisfied with their new fitness routines, and about the same percentage of those who had not returned to their gym were having a harder time motivating themselves to work out, according to an IHRSA survey in October 2020.<sup>7</sup> A high percentage (42%) of gym members went three to four days per week prior to the pandemic, and 35% of these high-frequency users will return to that level as the pandemic subsides. Clearly, as our new reality sets in, and given new complexities like the Delta variant, consumers are using 2021 to figure out their new fitness routines.

Planet Fitness' Rondeau noted that "trends in our business have tested us ... there are areas that the pandemic accelerated such as our digital strategy." The company is looking for ways to keep members engaged digitally via the web and its own mobile app. Rondeau also notes that app adoption by members is close to 60%—up from 40% in Q4 2020.<sup>8</sup>

<sup>2</sup> Motley Fool, *Planet Fitness Inc (PLNT) Q1 2021 Earnings Call Transcript* (May 7, 2021), available at: <https://www.fool.com/earnings/call-transcripts/2021/05/07/planet-fitness-inc-plnt-q1-2021-earnings-call-transcript/>

<sup>3</sup> Kelsi Maree Borland, "Gyms See Rapid Rebound in Demand as the Businesses Reopen," *GlobeSt.com* (June 21, 2021), available at: <https://www.globest.com/2021/06/21/gyms-see-rapid-rebound-in-demand-as-the-businesses-reopen/>

<sup>4</sup> New York Post, "Most Americans believe gyms will become thing of the past after coronavirus" (July 16, 2020) available at: <https://nypost.com/2020/07/16/survey-says-the-at-home-workout-is-here-to-stay-even-if-covid-19-disappears/>

<sup>5</sup> Fortune Business Insights, "Home Fitness Equipment Market Size, Share & Covid-19 Impact Analysis," available at: <https://www.fortunebusinessinsights.com/home-fitness-equipment-market-105118>

<sup>6</sup> John Seewer, "Will gyms go the way of arcades and movie rental stores?" *The Associated Press* (August 9, 2021), available at: <https://apnews.com/article/lifestyle-business-health-coronavirus-pandemic-movie-rental-54a8021207d37650b9d96e55236553e1>

<sup>7</sup> IHRSA, *The COVID Era Fitness Consumer* (October 2020), available at: <https://www.ihrsa.org/publications/the-covid-era-fitness-consumer/>

<sup>8</sup> Motley Fool, *Planet Fitness Inc (PLNT) Q2 2021 Earnings Call Transcript* (August 9, 2021), available at: <https://www.fool.com/earnings/call-transcripts/2021/09/09/planet-fitness-inc-plnt-q2-2021-earnings-call-transcript/>

## MOVING FORWARD – EVOLVING TO SUCCEED

### Will Consumers Return?

While Planet Fitness executives expressed optimism, things aren't necessarily as rosy for other companies in the industry. In fact, even for Planet Fitness, the numbers should be taken with pre-COVID numbers in mind. The company saw a huge second-quarter revenue increase (241%), but revenues were down nearly 25% compared to the same period in 2019.<sup>9</sup> Life Time suffered severe earnings decline in Q1 2021, with year-over-year revenue down almost 40%<sup>10</sup> but rebounded in Q2 and reportedly filed an S-1 in August on the heels of presumably positive reopening trends.<sup>11</sup> LA Fitness saw Q1 revenue drop nearly 36% year over year, with new membership sales down 41%.<sup>12</sup>

# 95%

*Nearly all club customers miss at least one aspect of physically being at the gym*

Have Limited Equipment at Home



Unable to Get Same Variety of Workout



IHRSA, *The COVID Era Fitness Consumer* (October 2020)

Consumers lost something too. Specifically, the social aspect, sense of community, and support from others were the top three areas consumers miss about gyms.<sup>13</sup> The challenge for the rest of 2021 and into 2022 is simple: How can operators fill the void while making consumers feel safe, even as the pandemic landscape continues to shift?

We believe the answer may lie in a hybrid model. Fitness consumers will return, and, in many cases, already have. But no one should expect things to be as they were prior to the COVID outbreak. Many industry operators shifted to deliver virtual workout classes, causing streaming and on-demand models to flourish. This growth came at the expense of traditional brick-and-mortar clubs, and consumers are not likely to shrug off their investment in equipment and other tools that allow them to work out at home. Further, streaming workout services will continue to hurt the traditional industry over the next five years.

That's where the hybrid model comes in. Fitness operators must increase their online presences to attract and retain customers who prefer the flexibility of virtual options. Many customers, especially after the events of the past eighteen months, will look past the sometimes cost-prohibitive nature of in-person gym alternatives because of their obvious benefits—namely convenience, flexibility, and privacy.

Smart gym/fitness center operators have adopted the hybrid-model mindset and are making changes that could ensure their long-term health. According to a July 2021 report by Club Industry,<sup>14</sup> in February 2020 approximately 20% of the clubs in the US offered some type of digital or virtual option(s) for their members. By July 2021, it is estimated that as many as 75% of operators provide that option in some form. The move to hybrid models is well under way and is critical in driving member retention.

<sup>9</sup> Ibid.

<sup>10</sup> Debtwire, "Life Time Fitness earnings swoon in 1Q21, but reopening offers hope" (May 26, 2021).

<sup>11</sup> Debtwire, "Life Time files confidential S-1", (August 13, 2021).

<sup>12</sup> Reorg Research, "UPDATE 1: LA Fitness Q1 Revenue Falls 35.8% YoY, EBITDA Outperforms Budget by \$5M" (May 26, 2021).

<sup>13</sup> IHRSA (2020).

<sup>14</sup> Club Industry, *The Future of Technology in the Fitness Industry* (July 2021), available at: <https://www.clubindustry.com/sponsored/club-industry-report-future-technology-fitness-industry>

## Investors' Outlook

Markets are signaling strong growth and economic outlook for at-home and on-demand-focused platforms, while predicative indicators are less bullish on the return to in-person, premium, urban platforms. The pandemic accelerated a shift to at-home workouts, and with the huge growth for Peloton and others, investors have placed bets on at-home fitness concepts. Jason LaRose, CEO of Equinox Media, noted, "The future is a blend of digital and physical."<sup>15</sup>

Blank-slate studio opportunities will emerge, as many competitors have been decimated and startup opportunities will exist. But major disruption can create opportunity for traditional operators and their investors with dry powder to capitalize on adjacent white space (e.g., at-home fitness, virtual training, hybrid business models).

Additionally, recent investor rating upgrades in Excel Fitness Holdings and United PF Holdings continue to show investor approval of the Planet Fitness concept. Excel Fitness Holdings was upgraded by Moody's in April 2021 to B3 from Caa1, with the outlook revised to stable (from negative).<sup>16</sup> Moody's noted in its analysis the resiliency of Excel's low price-point model and an active dues-paying membership that was at about 95% of pre-pandemic levels. In addition, Moody's revised its outlook for United PF Holdings from negative to stable, noting, as with Excel, the strength of the value pricing model.

But good standing for Planet Fitness isn't universal in the industry. Quoted term-loan pricing on Equinox and LA Fitness was pulling back at time of this writing (as Delta case counts increased daily). LA Fitness raised a preferred instrument earlier this year after accessing the Main Street Finance program in 2020.<sup>17</sup> Equinox reportedly was seeking investor interest in a \$1.5 billion private investment in public equity financing in connection with a potential merger with a special purpose acquisition company (SPAC), according to sources.<sup>18</sup>



*"The future is a blend of digital and physical. Despite the fact that some of the storefronts are shrinking, consumer demand is booming as people aim for a balance between mental and physical health. The stakes are higher now."*

**Jason LaRose,**  
CEO of Equinox Media

<sup>15</sup> Bloomberg, "How Covid-19 Has Permanently Changed the Fitness Industry, [January 19, 2021], available at: <https://www.bloomberg.com/news/articles/2021-01-19/fitness-industry-may-never-return-to-its-old-ways-after-covid-19>

<sup>16</sup> Moody's, "Excel Fitness Holdings, Inc. -- Moody's upgrades Excel Fitness's CFR to B3; Outlook revised to Stable," Market Insider (April 28, 2021), available at: <https://markets.businessinsider.com/news/bonds/excel-fitness-holdings-inc-moody-s-upgrades-excel-fitness-s-cfr-to-b3-outlook-revised-to-stable-1030359550>

<sup>17</sup> Reorg Research, "LA Fitness Obtains Funds From \$300M MSLP Facility, Bolstering Liquidity Amid Pandemic Headwinds" (November 10, 2020).

<sup>18</sup> Reorg Research, "Equinox in Talks With Prospective Investors for \$1.5B PIPE Investment in Conjunction With SPAC Merger; Received Equity Investment From Related Cos. in Q1" (April 26, 2021).



## NAVIGATING INDUSTRY HEADWINDS – THE KEY CHALLENGES AND STRATEGIC ISSUES

We see several key strategic issues coming into play in 2021 and beyond. Industry groups are doing all they can to prop up struggling clubs, including the IHRSA pushing Congress for a \$30 billion relief fund for the industry.<sup>19</sup> This year will be one of continued uncertainty while consumers reemerge from their homes and operators figure out how to best operate a hybrid model and bring back their customer base. To be successful, players in this space will need to address the following:



### 1. Ramping Back Up

- With much of the country open after an effective vaccine rollout, how will consumers respond, and at what rate will they return? What will be the impact of the Delta variant?
- How will companies with operations in jurisdictions with varying vaccination levels and regulations compensate?
- How can service providers monitor and staff appropriately?
- How can clubs maximize member acquisition and reverse COVID-driven attrition?
- Given consumer shifts to suburbs and working from home, what club portfolio(s) will remain viable?
- What are the best means to partner/negotiate with landlords to maintain club viability?



### 2. Products and Services

- What services should operators offer to support members' at-home fitness routines?
- How can technology improve the customer value proposition and support efficient operations?
- How can brick-and-mortar operators do more with mobile platforms to retain members?
- What pricing strategy best fits the business model in a post-pandemic landscape?



### 3. Future Growth

- What is the opportunity to grab market share, and where should management focus its time, resources, and capital?
- With increasing minimum wage rates, how do operators redefine club operations to control costs?
- How do companies secure capital to support the short-term recovery and fund long-term strategy?
- What is the right balance between physical expansion (i.e., club improvements versus technical investment)?

<sup>19</sup> Associated Press, "Will gyms go the way of arcades and movie rental stores?" [August 9, 2021], available at: <https://apnews.com/article/life-style-business-health-coronavirus-pandemic-movie-rental-54a8021207d37650b9d96e55236553e1>

In summary, fitness providers, and indeed all consumer service providers, must balance the needs of investors, consumers, and employees as they work to recover. Virus fears aren't what they were for most of 2020, and more consumers are returning to gyms, but there's still wariness about engaging in activities that involve large groups, particularly given the emergence of the Delta variant. Clearly, gyms and service providers should continue to focus on customer safety.

Perhaps the biggest challenge for retail and consumer services has been the consumer shift to technology to supplement or in many cases **replace** in-person shopping, dining, working out, etc. Gym operators must invest in and adopt technology and organizational infrastructure to support new business models.

To maintain the bottom line and satisfy investors, retailers and service providers must analyze their store portfolios, capital structure, and all costs to ensure financial viability and long-term success. For the fitness industry, the answer to the "at-home substitute or supplement" question will start to be answered through operator financial results in late 2021 and early 2022. It could be an interesting ride.

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