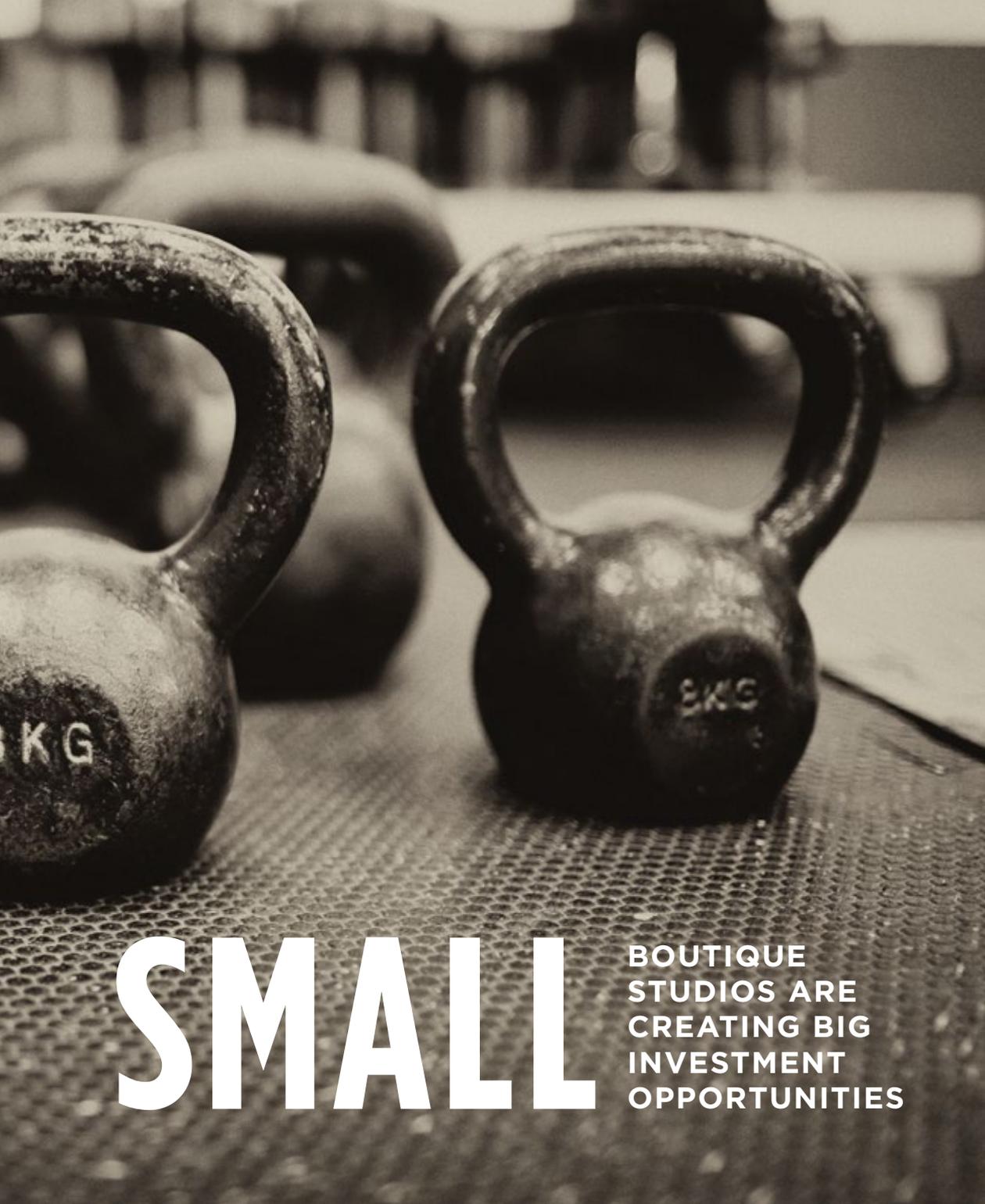




SWEATING



SMALL

BOUTIQUE
STUDIOS ARE
CREATING BIG
INVESTMENT
OPPORTUNITIES

Just like consumers in other consumer sectors, fitness consumers are looking for customization, variety and a unique experience.

As a result, treadmills are giving way to trapeze classes, and barbells, to ballet bars.

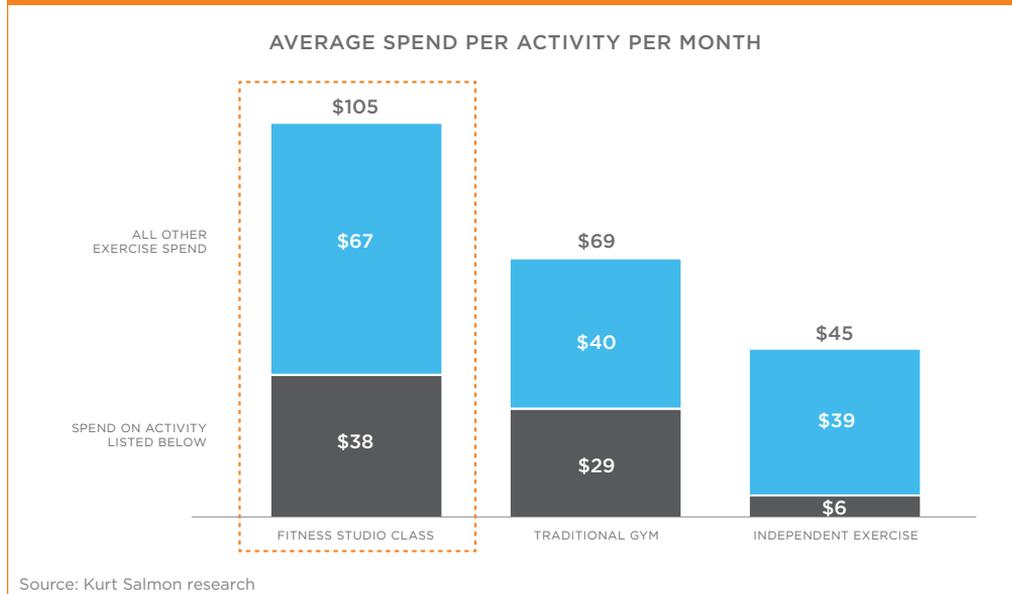
In fact, small-box fitness studios are driving the majority of growth in the \$22 billion fitness club and studio market. From 2012 to 2013, small-box formats with less than 20,000 square feet outpaced their larger

counterparts, with median chain net membership growing 16.7% and 0.9%, respectively, and revenue growing 8.6% vs. 1.9%.¹

This growth is driven by an influx of young, wealthy and enthusiastic consumers.

Kurt Salmon consumer research shows that fitness studio members are 26% more likely to be women vs. traditional gym members, are roughly four years younger and have higher household incomes.

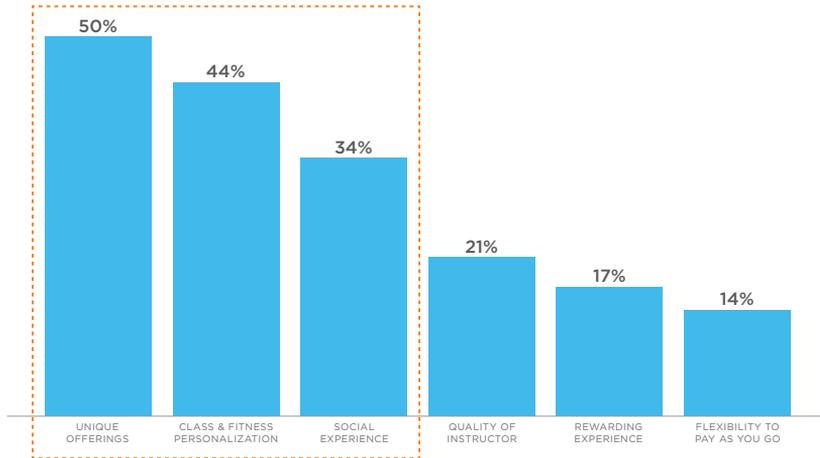
EXHIBIT 1: Small-studio buffs spend more—on exercise in general.



Source: Kurt Salmon research

EXHIBIT 2: Consumers flock to smaller studios for experience, unique and personalized classes.

**REASONS WHY PEOPLE CONSIDER FITNESS STUDIOS
(TOP TWO REASONS SELECTED)**



Source: Kurt Salmon research

These exercise enthusiasts also spend 17% more time working out and, most importantly, spend 51% more—on monthly memberships, classes and other exercise activities. (See Exhibit 1.)

These consumers are using studios as a workout substitute for a variety of different fitness activities. For example, 35% of consumers are switching to small studios from non-gym-based workouts (like running, biking and team sports), 30% from larger gyms and 13% from non-traditional

fitness workouts, while 22% are visiting studios as a way to start or increase their level of exercise.

Why are small studios winning with these consumers? The short answer is that many consumers—43%, in fact—feel traditional gyms don't meet their workout needs.

Specifically, these small-box converts are seeking three key elements: unique offerings, a personalized workout and a social experience. (See Exhibit 2.)

35% of traditional gym members said they planned to try a small-studio class in the next year.

This small-studio momentum shows no signs of throwing in the towel anytime soon.

In fact, 35% of traditional gym members said they planned to try a small-studio class in the next year, while 14% said they planned to cancel their traditional health club membership during the same time period.

In response, many traditional health clubs are beginning to adapt their strategies to cater to changing consumer fitness needs. Some are opening their own studios, like Town Sports International's new BFX Studio line, which opened in 2014 and is adding three new doors in 2015. Others are offering their proprietary classes in existing studios, like Equinox, which launched its popular 30/60/90 high-intensity interval training class at BeFitNYC studios in spring 2015.

Other larger gyms are incorporating specialized equipment and classes into their traditional format. For example, Gold's Gym is adding CrossFit-style equipment, like ropes, cables and bands, while Crunch has started offering boutique classes, including barre, TRX and bootcamps.

Still, there are plenty of opportunities for investors to take advantage of the growing fitness studio space.

Brands to Watch

The Bar Method. Like other barre classes, this chain of studios caters to fitness consumers who aspire to be long, lean and graceful like a ballerina. The class, which comprises a series of muscle-shaping and muscle-toning controlled micro-movements, is hosted in a carpeted ballet studio. Since opening their first studio in 2001 in San Francisco, The Bar Method has doubled its footprint over the last 12 months to over 75 studios in the United States and Canada, and in 2012 it reported revenues of \$35 million.

Koko FitClub. Koko is a studio-format gym that leverages technology to provide customized, efficient and appropriate exercises for everyone. Before using a machine, members input a digital key containing detailed user data, which lets the machine record activity and give custom recommendations—think working out with a personal instructor at a fraction of the cost. Founded in 2004, Koko FitClub now has over 130 locations across the United States.

Orangetheory Fitness. Established in 2010, this tech-friendly studio chain offers trainer-led, small-format classes that rely on a variety of exercises to build strength, energy and cardiovascular fitness. Partici-

pants use treadmills, rowing machines, TRX bands and free weights while wearing a heart-rate monitor, which displays each person's maximum heart rate and training zone on screens in the studio. The brand has more than 200 studios, most through a franchise model, in the United States, Canada, England and Australia. Orangetheory has nearly doubled its footprint in the past 16 months and is on track to open an additional 100 stores in 2015.

Flywheel. This indoor cycling class lets spinners tap into their competitive natures, giving them the option to compete under a screen name with fellow class members. A large-screen display, called the Torqboard, occasionally flashes their performance on a leaderboard, which motivates in-class performance and tracks progress over time. Flywheel has grown to 35 locations in the United States and Dubai since it was founded in 2010, and it received a strategic investment from Catterton Partners in April 2014.

Surfset Fitness. This innovative concept lets consumers ride the waves without getting wet, offering group classes on proprietary indoor surfboard-trainers. Surfset has rapidly grown since its inception in 2011 and is offered in over 200 studios—15 are “Surfset”

banner studios, but the brand sells equipment directly to all locations. Initially gaining traction on *Shark Tank* in 2012, Mark Cuban currently holds a 30% equity share. Surfset generated an estimated \$5 million in 2013 revenues and has greatly increased distribution within the last 18 months, partially due to partnerships with major players such as Anytime Fitness, Crunch and ClassPass.

ClassPass. This online-driven service is shaking up the industry. ClassPass offers unlimited classes at local studios and select health clubs across the nation for a monthly \$99 membership, letting consumers try a wide variety of small-studio classes ranging from yoga to trapeze. Founded in New York in 2013, it has since expanded to 32 cities in the United States, Canada and the United Kingdom and will grow even bigger thanks to its recent acquisition of competitor Fitmob. ClassPass has a reported \$60 million revenue run rate based on February 2015 sales and was valued at over \$200 million in its January 2015 Series B financing. ❖

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