SPECIAL ANALYSIS

Fitness Industry

Key Takeaways

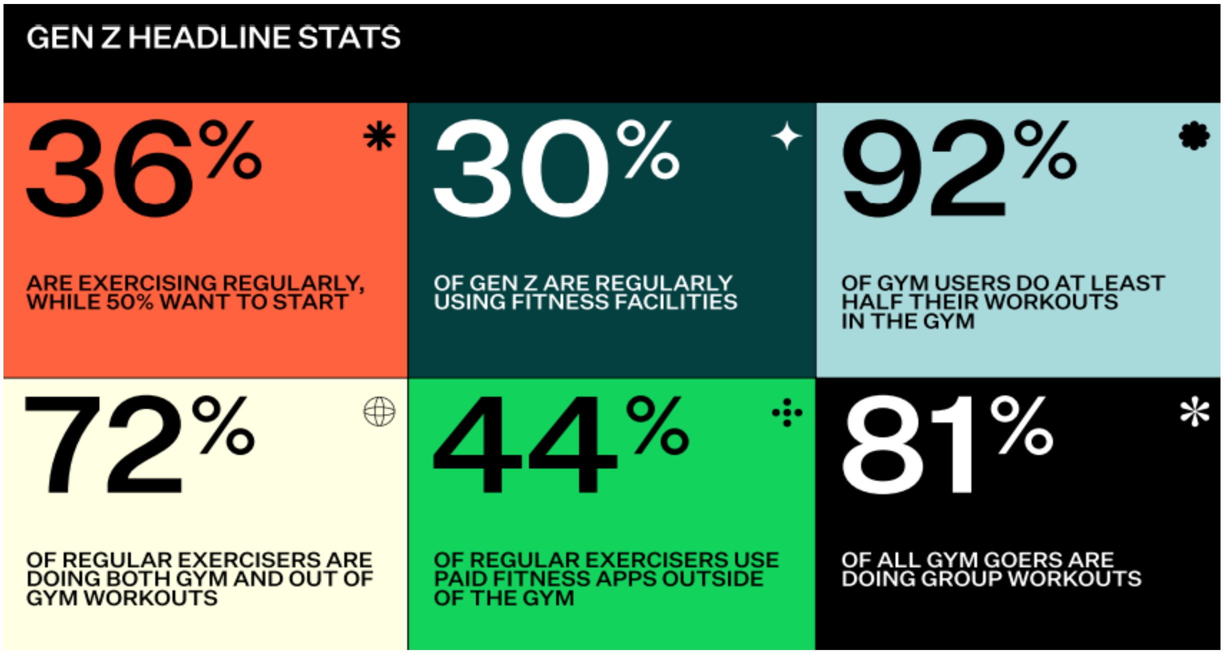
1	Fitness operators are focused on expansion to capture market share and capitalize on strong industry tailwinds
2	High-Value Low-Cost are capturing market share from Mid-Tier operators
3	Experiential and boutique formats have opportunity to grab further market share
4	Generation Z will be a major driver of fitness memberships over the next decade

Industry Overview

The Fitness Industry is thriving post-pandemic, as a growing population prioritizes their overall health and wellbeing. The pandemic itself brought about new trends in the industry as well, which included fitness operators placing greater emphasis on omnichannel offerings. Additionally, the increased prevalence of working from home has led to gyms becoming a social hub for individuals who would otherwise have limited social interactions during the day. According to Mordor Intelligence, the Global Health and Fitness Industry has a total market size of $87.07 billion in 2023 and is anticipated to grow 77% to approximately $154.21 billion by 2028. North America, the largest market, accounts for roughly $32 billion of the total market. Of the total U.S. population, 19%, or approximately 64 million Americans, are currently active members, and this percentage is expected to more than double over the next decade, primarily driven by a widely untapped GenZ generation (see LesMills GenZ data below) that is larger and more health-conscious than previous generations.

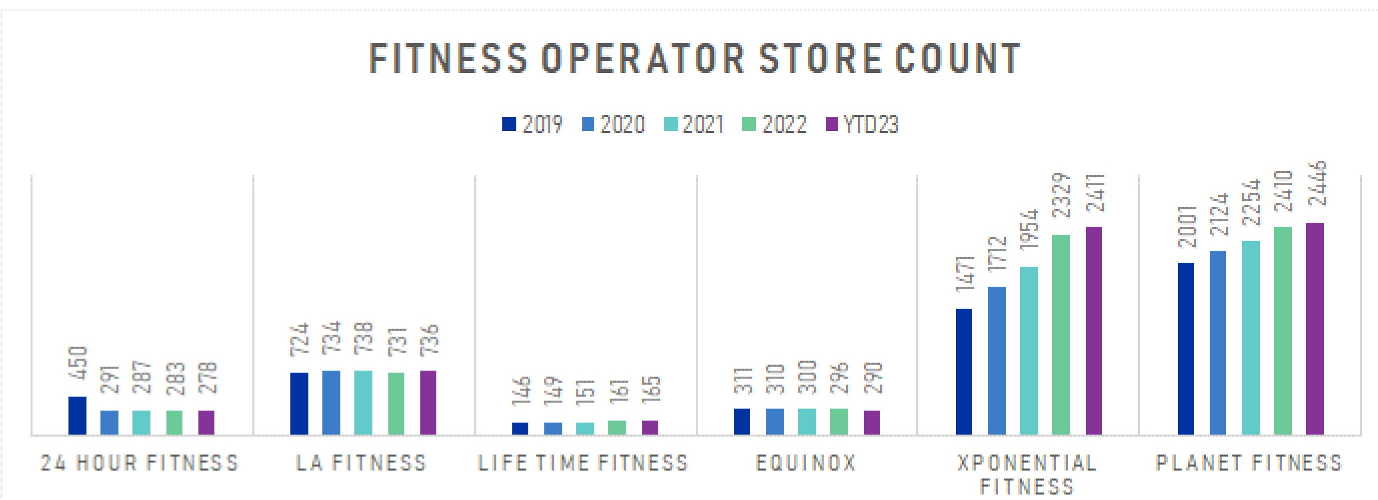
Adding fuel to the fitness fire, the proliferation of fitness trackers has made individuals more aware of their health and personal biometric data. This has coupled with On-demand streaming exercise classes, which surged during the pandemic and continues to hold interest even as gyms have reopened and are mostly above pre-pandemic membership levels. This demand for omnichannel fitness solutions is expected to persist in coming years due to expectations primarily of younger generations growing up in a world of flexibility (e.g., Amazon, Uber Eats, Netflix).

Of the eight fitness operators RetailStat monitors, the strength and speed of the recovery has been mixed, as Equinox, with its urban concentration, and 24 Hour Fitness, which already went through a restructuring in 2020, struggle to recover membership levels and carry leveraged capital structures. These issues have now become major concerns given the current economic climate and the level of interest rates compared to pre-pandemic. The winner's column includes operators across various formats including High-Value Low-Plan operator Planet Fitness, Experiential and Boutique operator Xponential Fitness, and Luxury operator Life Time Fitness. These three operators have experienced significant improvements in both revenue and membership growth, along with consistent expansion.



Generation Z, born between 1997 – 2012, has an approximate population of 72 million.

Similarly, although Fitness International (LA Fitness) took longer to see operating performance improvements, the Company expects to surpass pre-pandemic membership and topline sales this fiscal year. Additionally, the Company launched Club Studio in February 2023, its new luxury offering. Planet Fitness has effectively captured 9% of the millennial and GenZ markets. This success is particularly promising with the GenZ cohort, as they are a younger group that still has significant growth potential. These individuals, aged 9 to 24, are just beginning their fitness journeys and have already embraced a healthier lifestyle. As they continue to age, there is ample opportunity to capture an even larger share of this market. Xponential's experiential formats are benefiting from aforementioned industry tailwinds as well as the changing consumer spending patterns. Mastercard's spending data from February 2023 showed a significant rise in spending on experiences, a trend that has persisted throughout the year so far. Management believes the Company is benefiting, evidenced by increased visitation rates and membership count. Overall, though, the fitness industry is experiencing strong tailwinds as consumers are prioritizing their health and investing more in fitness. This trend is expected to benefit multipurpose fitness operators, who can offer free weights, cardio equipment, group fitness classes and other personalized services to their members.



Includes RetailStat estimates; all brands under each operator; North America locations only for Xponential Fitness

Planet Fitness

Planet Fitness is making significant strides in expanding its footprint across the nation, as well as reporting strong profitability and record membership numbers quarter-after-quarter. Looking back at FY22, sales increased 60% to $937 million, driven by an 11% increase in system-wide comparable sales. Membership has also continued to climb, most recently at 18.1 million members, as management has tapped into the Gen Z and Millennial markets.

During the year, the Company opened 144 new franchise clubs and 14 corporate-owned clubs in addition to acquiring Sunshine Fitness Growth Holdings, LLC, owner and operator of 114 Planet Fitness clubs in the Southeast, in a cash and stock transaction valued at more than $800 million. So far in FY23, the Company has continued to expand, opening 36 new clubs (35 franchise clubs and one corporate club) and completed the acquisition of four franchise clubs operating in Florida for $26.3 million. Profitability has also improved, primarily due to strong top-line trends as EBITDA advanced more than 50% in FY22.

The improved profitability has led to stronger debt metrics, although the balance sheet remains leveraged. As of 1Q23, debt to TTM EBITDA improved to 5.3x and the Company had more than adequate liquidity. Due to shifting tides in the fitness industry, Planet has begun retooling new builds and remodels, designating more square footage to weight and functional training areas while slimming down cardio space. As of March 31, 2023, the Company operates 2,446 locations, consisting of 2,211 franchisee-owned units and 235 corporate-owned units (90% franchised). Looking forward, management expects to open roughly 200 locations per year over the next three years but expects to fall shy of that mark in 2023 due to HVAC supply issues. Management remains committed to its long-term plan of expanding to over 4,000 locations.

Store Count
2,446

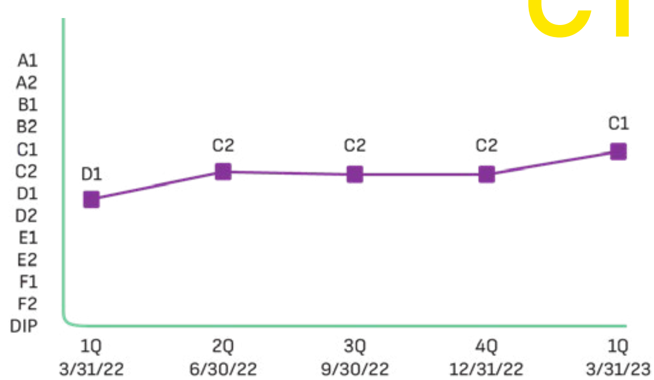
Average Store Size (Sq. Ft.)
20,000

2023 Expected Openings
200

> "Our strong momentum from the end of 2022 continued into the first quarter, driving membership to more than 18.1 million, which reflects the Company's highest quarterly net member growth since the first quarter of 2020. Our business continues to rebound from the impact of COVID-19 shutdowns with more than 50% of our U.S. stores opened prior to 2019 back to or above pre-pandemic membership levels, with member growth driving our 9.9% increase in system-wide same stores sales."
>
> CEO Chris Rondeau commenting on business trends

Credit Rating

C1



Life Time Group Holdings, Inc.

Store Count
165

Average Store Size (Sq. Ft.)
99,000

2023 Expected Openings
10

Life Time Group Holdings, Inc. closed out a strong FY22, with notable growth across various metrics. Sales advanced 38% to $1.82 billion, driven by 33% unit comp growth. Top-line strength flowed down to profitability as EBITDA jumped 250% to $281 million with a margin of 15.4%. Though leverage remains elevated, coupled with improved profitability as well as an ongoing sale-leaseback strategy, total debt to TTM EBITDA has been reduced to 5.2x in 1Q23 from 22.4x at FYE21, marking the seventh consecutive quarterly decline.

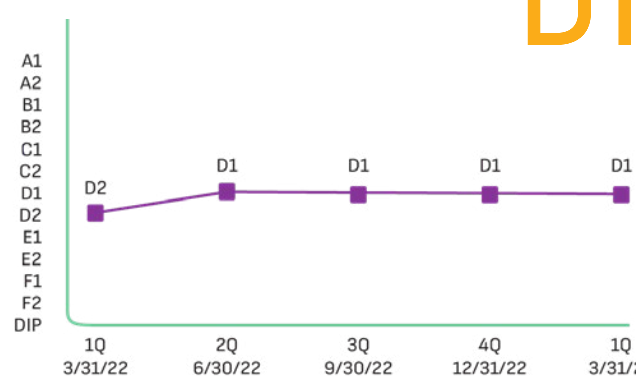
As of May 31, 2023, the Company operated 165 centers in 29 states and one Canadian province. In terms of offerings, since early 2022, Life Time began constructing indoor and outdoor pickleball courts capitalizing on the exponential growth the sport has witnessed in the last few years. As of April 2023, the Company reported more than 500 courts in operation with intentions to exceed 1,000 by FYE24, building on the country club-like offerings. Over the next two years, the Company plans to open 18 to 20 new centers in affluent areas and plans to lease a majority of its new centers.

Management has differentiated itself from other formats due to its country club offerings and sheer size, which is five times the size of an average Planet Fitness. Life Time facilities, in addition to general gym offerings, include two floors of training space, studios for pilates, cycling and yoga, a kid's academy, and four different types of saunas. The Company also offers pools and beach club passes which include outdoor and indoor water slides and lifestyle spaces which include LifeCafe with poolside and table service, a bar and lounge. In addition to personal training, the Company offers personalized services such as Lab Testing, Health assessments, nutritional coaching, and LifeClinic (rehabilitation and chiropractic services). Thus, not only does Life Time offer a wide array of services but also offers a lifestyle for all age groups.

> "We are very pleased with our start to fiscal 2023. We delivered record levels of revenue and Adjusted EBITDA for the first quarter. We also delivered sequential revenue, profit and margin improvements over our strong fourth quarter 2022 performance. All of our strategic initiatives, together with our rewiring of the Company, are delivering increasing revenue and higher margins. We are successfully opening new clubs, with faster ramping, in desirable locations across the country. With the solid momentum in our business, we are raising our full year Adjusted EBITDA guidance to $470 to $490 million."

Bahram Akradi, founder, chairman and CEO
commenting on 1Q23 results

Credit Rating
D1



LA|FITNESS

Store Count
736

Average Store Size (Sq. Ft.)
40,000

2023 Expected Openings
6-10

Fitness International (LA Fitness)

Despite setbacks from the pandemic, and then a slow restart after the pandemic, Fitness International (LA Fitness) has continued to see a rebound with sales now estimated to be about 10% above pre-pandemic levels. That said, given inflation dynamics, we think profitability still trails pre-pandemic levels. Additionally, the Company continues to face competitive challenges from HVLP gyms like Planet Fitness; more than 90% of its clubs (726 clubs) are located within 5 miles of a Planet Fitness. In response to these threats, the Company introduced its lower-price point Esporta Fitness banner in 2019, operating approximately 135 locations today.

Though many LA Fitness Facilities were converted to this format; lately it has been converting several of its Esporta locations back to LA Fitness gyms, including all locations on Long Island, NY. We estimate debt-to-EBITDA is now around 4x, which is satisfactory. Though leverage is not a near-term concern, the bulk of the Company's debt is set to mature in 2025, which could present a challenge if interest rates remain elevated. In February 2023, LA Fitness opened a luxury concept under the name Club Studio, operating three locations in Irvine and Long Beach, CA, and Vienna, VA. The Company expects to open another location in Miami, FL, in early 2024.

Club Studio incorporates boutique fitness studio classes and traditional offerings such as free weights, strength, cardio areas, and swimming pools, while also offering specialty services such as cryotherapy and a recovery lab which imitates similar offerings from Equinox. The new offering aligns with the evolving industry trends towards luxury, as consumers seek more personalized services. Additionally, in May 2023, the Company opened two new LA Fitness locations in New Rochelle, NY (36,000 square-feet) and Nottingham, MD (34,000 square-feet). As of June 2023, the Company operated approximately 736 locations under the LA Fitness, City Sports Club, Esporta Fitness, and Club Studio banners.

24 HOUR FITNESS

Store Count
278

Average Store Size (Sq. Ft.)
35,000

2023 Expected Openings
0

24 Hour Fitness

24 Hour Fitness has been facing financial challenges despite its emergence from bankruptcy in December 2020 which eliminated $1.20 billion of funded debt from its balance sheet. The Company burned cash in 2021 and reportedly saw minimal membership growth in 2022, despite the overall recovery of the fitness sector. Part of this challenge may be attributable to the Company's less in-demand mid-tier offering, which is saddled between more favorable value priced (e.g. Planet Fitness) and premium chains (e.g. Life Time).

The Company operates approximately 278 clubs in 11 states (with 60% of its locations in California), which is down substantially from its pre-restructuring 450 locations in 2020. Liquidity is reportedly tight and considering the challenged economic outlook, the Company's already shaky operating performance could be further pressured as more members make the switch to lower-cost alternatives.

Though there are no near-term maturities, it seems doubtful that the Company will be able to successfully address its balance sheet when the debt starts maturing in 2025, especially considering today's tighter credit markets and interest rate environment.

EQUINOX

Store Count
290

Average Store Size (Sq. Ft.)
38,000

2023 Expected Openings
1

Equinox

Equinox has been slow to regain its membership numbers due in part to the fact that most of its clubs are situated in large urban areas. Nearly 40% of its clubs are in New York City, which because of the pandemic, witnessed a significant number of its residents relocating to the suburbs. The more recent headwind has been the slow return of workers to offices; the in-office usage is averaged still only around 50% (see Kastle image). During 2022, the Company closed roughly 20 soul cycle locations amidst weak demand in certain markets, including the New York City area, California, Washington, D.C., Massachusetts, Illinois, Florida, and Georgia.

Due to this and the Company's already leveraged capital structure, Equinox faced a cash crunch in 2021, leading to a $255 million debt raise in the 2H21 and a $135 million equity injection from owners in the first three quarters of 2022. Though membership is now on the rise, with management noting in late 2022 that it had seen record membership sales in recent months, membership count as of FYE22 still trailed FYE19 by 10%. Sales have followed a similar path; revenue totaled $850 million in 2022, up from $536 million in 2021, but down from $1.17 billion in 2019. Despite the recent performance uptick and capital raises, balance sheet and cash flow concerns remain. The Company was able to push through a short-term extension of its almost fully drawn $71 million revolver from March 8, 2023, until November 8, 2023, as it continues to try and improve its business before facing major debt maturities in March 2024.

Growing Operators

Xponential Fitness

U.S. Store Count
2,411

Average Store Size (Sq. Ft.)
2,000

2023 Expected Openings
550

Xponential Fitness manages a diverse portfolio of franchised small-format fitness brands, that has experienced strong post-covid results as its boutique community-based fitness model took off. Club Pilates, Pure Barre, CycleBar, Stretch Lab, BFT, Yoga Six, Row House, AKT, Rumble, and Stride are the brands included in Xponential's portfolio, providing an extensive range of workout offerings. In FY22, sales advanced 58% to $245 million, with franchisees averaging $542,000 in studio volume, marking 11 straight quarters of unit-level growth. EBITDA has similarly expanded, up nearly 174% to $75 million in FY22.

During the past fiscal year, the Company opened 375 new studios throughout North America and so far in 1Q opened 82 new locations, ending the quarter with 2,411 U.S. locations (2,756 Globally). For FY23, management is targeting 540 to 560 new studios and over the long term, estimates that it can expand to 7,900 locations in the U.S., reflecting 225%-unit growth from 1Q23.

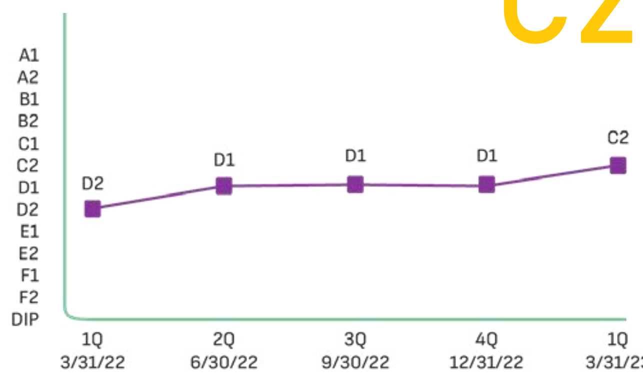
In January 2023, Xponential borrowed an additional $130 million to repurchase some convertible preferred shares, almost doubling debt to around $260 million. That said, due to sustained operating improvements, credit metrics generally continue to trend in the right direction, with debt to TTM EBITDA at 3.1x in 1Q23. The Company does not maintain a revolver but at quarter-end had $28 million in cash balances, which is adequate for ongoing operations due to its franchised financed expansion. Historically, the boutique fitness segment was known to be unstable though as of now, Xponential is firing on all cylinders; membership levels continue to climb, reaching 665,000 in North America at quarter-end, up roughly 31% over the prior-year quarter.

> "The growth in our North American AUVs and same store sales during the quarter is compelling, indicating consumers continue to prioritize spending on our experiential offerings. The results speak to the strength of our brands, the quality of our franchisees, and the support they are receiving. We are seeing momentum continue through the first part of the second quarter; with this growth, we are raising our annual guidance expectations."

CEO Anthony Geisler commenting on 1Q23 results

Credit Rating

C2



Store Count

425+

Average Store Size (Sq. Ft.)

21,000

2023 Expected Openings

6-10

Crunch Fitness

Crunch Fitness operates an edgy, hip brand across 37 states and five countries in both the HVLP and premium segment and has grown operations to more than 425 clubs (approximately 90% franchised) under its Crunch Fitness and Crunch Signature offerings (28 Signature Clubs).

The Company states it has 1,000+ commitments for new franchise locations; typical clubs are located in suburban areas while its signature clubs are targeted towards metropolitan areas. The Company offers a variety of workout classes including its popular "HIITZone," personal training, traditional weightlifting areas, and accommodations such as tanning and massages. Management noted that recently they have expanded its weightlifting areas to include more power racks in part due to the growing amount of women now interested in strength training.

In June 2022, the Company reached two million members and in YTD23 is expected to have grown past that mark due to new clubs in operation and industry trends. In YTD23, Crunch opened two new facilities in Pennsylvania and Virginia Beach, with four more clubs set to open during the calendar year (one in VT, one in FL, and two in MA).

Store Count

75

Average Store Size (Sq. Ft.)

50,000

2023 Expected Openings

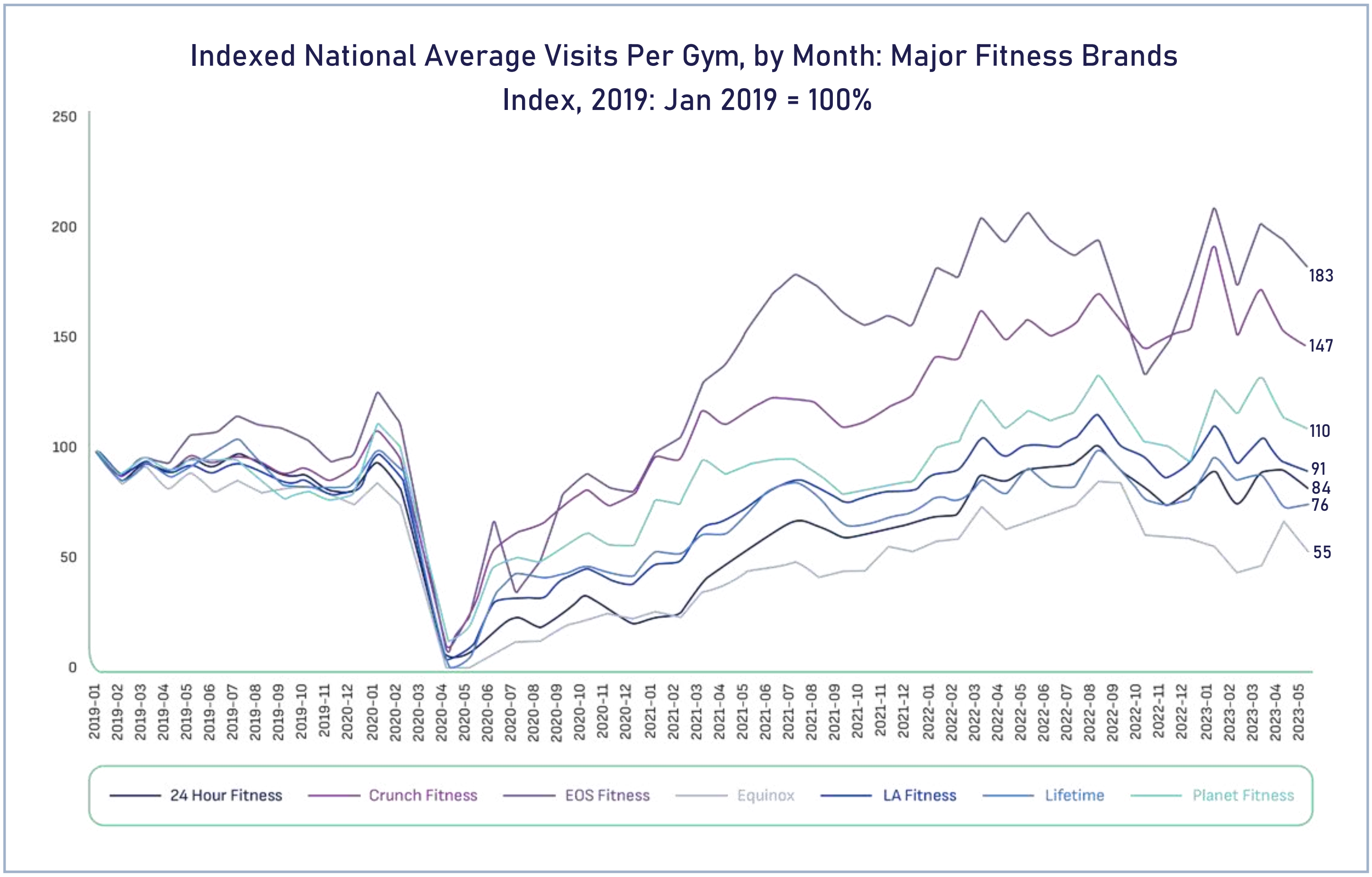
5-7

EoS Fitness

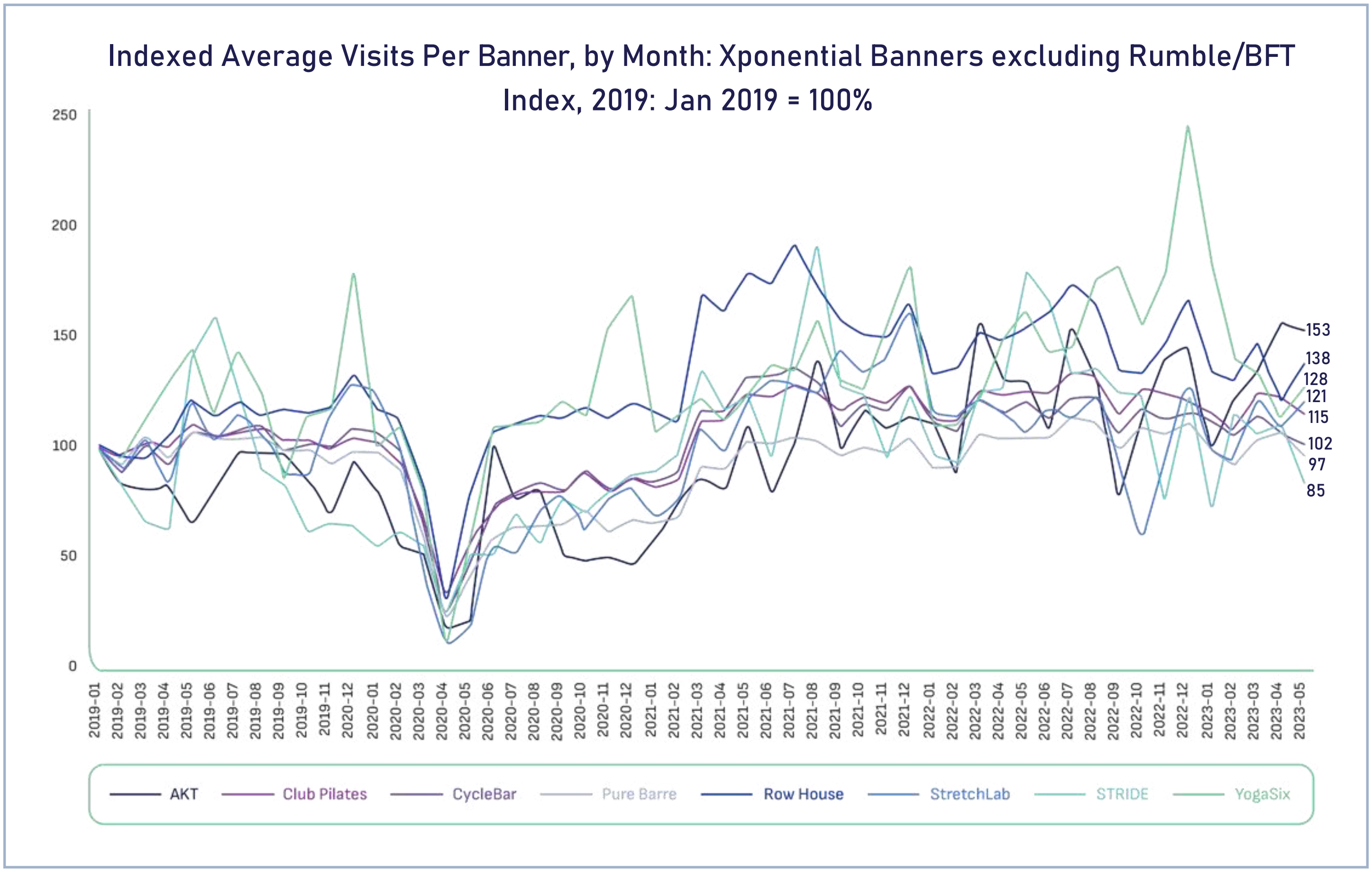
EoS Fitness, another HVLP operator with 75 gyms nationwide, has recently garnered attention in the fitness industry. While financials are limited, the Company operates a similar business model to Planet Fitness, with memberships starting at $9.99/month. However, EoS distinguishes itself by focusing more heavily on traditional strength training, while still providing amenities such as pools, saunas, and child accommodations.

The Company plans to expand to over 100 locations in the years ahead. Currently, EoS has a presence in Arizona, Florida, Nevada, Southern California, Texas, and Utah.

REI Trends & Traffic



As evidenced by our RetailStat foot traffic data, emerging from the pandemic lows High-Value Low-Plan (HVLP) operators witnessed the strongest month-over-month percentage growth led by EOS Fitness (183), Crunch Fitness (147), and Planet Fitness (110). Life Time (76) and LA Fitness (91) mirrored each other at first until Life Time tapered off, which could be attributable to trade downs as consumers seek to stretch each dollar. Meanwhile, Equinox (55) showed the slowest recovery which is not shocking given its concentration of clubs in urban areas. As consumer discretionary spending shifts, it is likely we will continue to see HVLP operators leading with traffic and growth trends as consumers focus on stretching their budgets while also focusing on experiences such as travel and dining.



Focusing on Xponential's various small-format class type offering, Row House (138), YogaSix (128), and AKT (158) led the way out of the pandemic lows with strong monthly traffic growth. This was followed by Cyclebar (102), Club Pilates (115), Stride (85), StetchLab (121), and Pure Barre (97).

Industry Outlook

As we barrel further into 2023, the industry so far is not showing any signs of slowing down. In addition to an increased focus on health, with more employees working remote or hybrid schedules, going to the gym is increasingly finding utility as a social tool as well. This is one of the main reasons Xponential Fitness has been able to be so successful, in that it has an option for every consumer (personalized), and it has become a social event (building community). While it's easy to trade down from mid-tier to low-cost operators during tough economic times, it is much more difficult to trade a lifestyle which makes the offering sticky. Those operators that can offer much more personalized services and community will thrive over time. That said, there is some significant economic uncertainty starting in the last part of this year including with the restart of student loans, which have been paused since March 2020.

It stands to reason that consumer budgets will need to balance with these added payments which would likely result in a steep pullback in discretionary and experiential type of expenditures including for gym memberships among younger gym customers, who also retain the largest percentage of membership. Ultimately though, the sector overall continues to ride tailwinds putting it in a stronger position than pre-pandemic and except for weakness with a few operators, is capable of sustaining a pull-back.

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