PURE GYM

Pure Gym's survival of the fittest

When CCMP planned to snap up low-cost gym chains after the financial crisis, it hit a snag. But it changed focus and built a bigger, fitter business. By Marine Cole

40
Number of gyms on entry

196
Number of gyms at exit

200,000
Members on entry

1m
Members at exit

Sources: reports and source familiar with the deal

CCMP Capital Advisors thought it had struck gold when two UK low-cost gyms came on to the market. The European property market was struggling in the wake of the financial crisis, and the firm was already armed with experience of rolling out multi-site retailers.

"We were looking for investment opportunities that exploited a weak property market and low-cost gyms were one of these ways that retail space was getting used," says Tom Walker, a managing director at CCMP.

"When we were working through our pipeline at the time the two market leaders in the UK in affordable gyms came on the market at the same time and our original strategy was to acquire both of them."

But things didn't go as planned.

CCMP purchased Pure Gym in May 2013 for an undisclosed amount and then began discussions to buy the Gym Group, aiming to merge the two businesses. But after about 18 months of negotiating and a review by the UK Competition and Markets Authority, which referred the deal for a second review, CCMP and Gym Group's owners Phoenix Equity Partners decided to kill the merger.

"Once that merger fell apart, then for us it became obvious we were going to have to win the land grab," Walker says. "At the time, we had about 50 percent more gyms than they did. The rest of the operators were relatively small, but we and the Gym Group were both trying to open gyms, and we knew the economics of opening good gyms were very good. We knew the winner was going to be the one that got big quickly."

1 INSTITUTIONALISING THE BUSINESS

CCMP bulked up the company's infrastructure and top management. Four years after inception, Pure Gym was still being run by its founder, Peter Roberts, and needed to institutionalise the business and its team. It hired Humphrey Cobbold as chief executive, who had grown UK sports online retailer Wiggle.

"We liked that background because this business is very digital," Walker says. "In the way we approach customers, in the way we deal with members. Everything is done on your phone. You book your classes, you join, you quit, everything is done on the website or app."

Over the next two years, Cobbold recruited heavily, and built a management structure, including a larger marketing team and a chief corporate strategy person to increase corporate memberships. It also partnered with Chris Hoy, the British Olympic cyclist who became a spokesman and part of a national advertising campaign.

The existing chief financial officer stayed on and he received a larger team. The company also brought all IT functions, which had been outsourced, in-house and designed a new website.

2 THE LOW-COST GYM CONCEPT

Pure Gym, like other low-cost gyms, was considered an innovative idea at the time. With no sales people on locations, Pure Gym was a 24/7 operation, mostly web-based, with no contract. The equipment was brand new but there were no swimming pools and no saunas.

"You could join on a Monday and quit on a Friday, rejoin on a Thursday and quit again on a Friday," says Richard Zannino, a managing director at CCMP who is based in New York. "You did everything online. The reason it was so disruptive is that it was the complete opposite of the mid-tier gyms. We

A useful exercise: *CCMP learnt the importance of bulking up*

really started eating the lunch of mid-tier gym providers so much so that the acquisition activity was natural. We were able to buy those gyms at really good prices."

3 ACQUISITION SPREE

In four years, Pure Gym went from 40 gyms to 196. The bulk of the growth came organically, but part of it also resulted from acquisitions.

Initially, it bought mid-market sites that had failed or were being sold by their owners, mom-and-pop operations and some Virgin gyms. In 2015, it acquired a large chain in the UK called LA Fitness (no relation to the US-based LA Fitness chain). In one shot, it bought 40 locations mainly in central London or inside the M25, the motorway around the capital, and converted about 30 of them, selling or closing the rest.

"We grew in every way," Walker says. "We grew through small acquisitions, through this one transformational acquisition that really changed the brand in the UK. We went from being more of a northern brand and a northern business to a pan-UK business with a strong market position in London."

Walker explains that in the gym business, proximity is the most important thing when people consider a gym, even before price, and that getting well-located spaces is essential.

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>
> **Tom Walker**

£12m

EBITDA on entry

£60m

EBITDA on exit

Sources: reports and a source familiar with the deal

All the acquisitions were funded by cashflow generated by the business or by debt; no equity was put in after the initial purchase of Pure Gym by CCMP.

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In June 2016, Pure Gym was heading for a listing in London. It had hired banks and had planned to float after the referendum on whether the UK should exit the EU. "We were ready to go," Walker says, adding that the unexpected outcome favouring Brexit shut down the market for initial public offerings.

It made another attempt in the autumn but, still faced with a weak market, it eventually pulled the deal. It hired bankers and started an auction process, which ended in November with a sale to Leonard Green & Partners for a reported £600 million ($828 million; €675 million).

Opportunities for Leonard Green include further expansion in the UK but also potentially internationally. "We also had a new concept, which was small-format gyms that a new buyer may decide to exploit or not, a very credible new gym concept for the UK," Walker says. "We basically sold a business with return expectations and economics similar to what we had bought into, but four years later." ■