

OakNorth Sector Pulse

HEALTH & WELLBEING



OakNorth

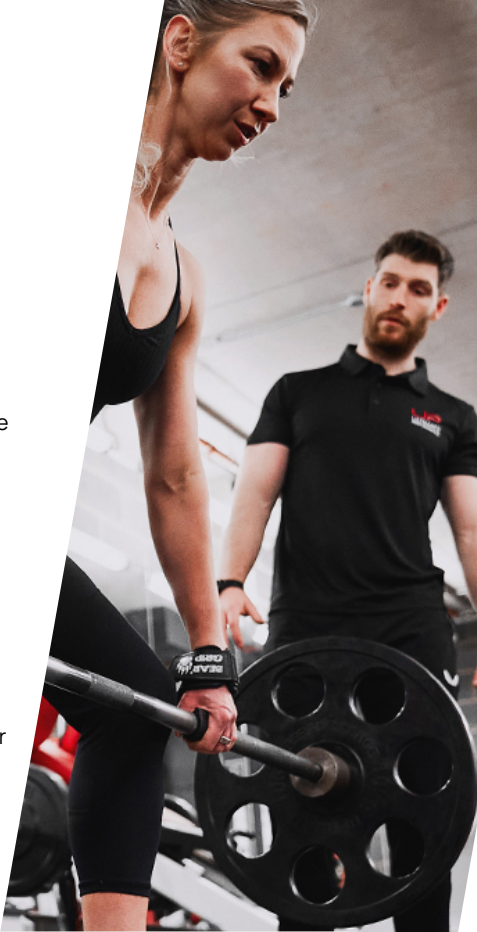


Industry overview

Over the last six months, the landscape of health, wellbeing, and physical activity in the UK has continued to undergo significant transformation. A heightened awareness of the importance of a healthy lifestyle, combined with technological advancements, continues to ignite a surge of innovation and investment within the industry.

Unfortunately, the NHS continues to face severe financial strains, with sickness benefit claims projected to rise by a third in some UK regions, increasing from £66 billion last year to £91 billion by the decade's end. Poor mental health is a key factor driving this increase. Interestingly, in 2023, mental health became the leading reason for Brits joining health clubs, overtaking weight loss, and despite the ongoing cost-of-living crisis, gym memberships seem to be one thing consumers aren't willing to give up. According to data from KPMG, 72% of UK consumers are spending less on eating out, while 44% are cutting down on groceries and leisure travel / holidays, but only 16% have cut down on their fitness and exercise spending.

With overall UK gym membership growing at 4% year-on-year and the compounded annual growth rate of the sector expected to be around 11.5% over the next three years, we see this as a good sector for funding, and are excited about its growth prospects over the next six months.



Key trends of the last six months

Holistic health

Despite operators increasing membership prices due to inflation last year, demand for gym memberships has remained steady over the last six months. This can be attributed to the growing trend of consumers pursuing "holistic health," aiming to integrate fitness and wellness into their daily lives rather than as a short, one-hour activity a couple of times a week. According to Colin Waggett, CEO of Third Space, the luxury health and fitness brand and [an OakNorth customer](#): "mental health is now the number one driver for visiting a club, overtaking weight loss."



Despite increasing membership prices, gym membership numbers remain steady

Staffing challenges

The pandemic and Brexit have made recruitment challenging across many sectors in recent years, and the health and fitness industry is no exception. With a concentration of personal trainers in London and the South East (about 47% of all PTs nationally), but gym membership numbers on the rise nationally, it has been hard for gyms in other parts of the UK to fill open positions. While providers claim to see many applicants for open roles, a large proportion don't have the necessary qualifications to justify the prices they charge.



Location, location, location

Over the last six months, we've continued to see an increase in demand for high quality Grade A office space, and have funded several transactions in this space since the start of the year. As landlords compete for tenants, amenities such as gyms are proving to be an attractive option to justify their high rents.



Increase in demand for high quality Grade A office space



The rise of super premium health and fitness brands is a trend we're seeing more of – brands such as Third Space and Ultimate Performance are flying. People can spend hours at their gyms, network, be part of a community – it's what we were all missing during lockdown and beyond, with some companies still fully remote working. But interest in fitness isn't only at the premium end, the lower-cost market is also gaining muscle, which is where we'd place Total Fitness – another of our customers. For a very reasonable monthly investment, you can go to the gym and look after your health. People are attending more often than previously too, meaning it can easily work out at just £2–3 a visit. Our view is that any clubs charging £50–£100 a month may struggle - above or below that is the growth territory. That's not to say the mid-market will disappear, but it is being squeezed and there are already fewer brands in that market segment than there used to be."

Ben Barbanel
Head of Debt Finance at OakNorth



Sector spotlight



A premium health and fitness platform

In May this year, we were delighted to support Ultimate Performance's transaction with leading mid-market private equity firm, Inflexion. Founded in 2009, Ultimate Performance employs 450 people, including 350 personal trainers, across 25 sites in the UK, US, Middle East, Asia and Australia. A visit to their website reveals numerous case studies of clients who have experienced life-changing results – both physically and mentally – from the business' personalised training programmes.



Ultimate Performance is a data-driven business – we analyse nutrition, sleep, lifestyle and training programmes - to help us build a deep understanding of every client and design a bespoke programme based on a client's goals. The end result is that every client becomes stronger, healthier, more energetic and happier. OakNorth operates in a similar way – the team uses data to build a highly granular understanding of each business, and then design a bespoke debt finance facility to support that business in its growth ambitions. The longer businesses bank with OakNorth, the stronger and healthier they become."

Steve Brice
CEO of Ultimate Performance

Outlook for the next six months

The rise of super-premium

A new category, 'super-premium,' is emerging in the fitness industry, focusing on experience-driven fitness. People are seeking more than just replicating running in the park or doing push-ups on a bench; they want a place where they can combine community, entertainment, and fitness, all under one roof. With everyone being short on time, this comprehensive approach is precisely what businesses like Third Space excels at, contributing significantly to its success to date. With falling inflation, real wage increases, and the implementation of tax cuts from April, consumer spending in the latter part of the year is expected to increase, so we could see super-premium fitness brands benefitting from this.



GPT generation

Delivering personalised programs that yield results, 'AI workouts' are a growing area of the fitness industry, seeing a 200% increase in AI workout web searches over the past year. Although AI cannot yet provide the expert guidance of a personal trainer, it can offer general advice based on an individual's input. Ultimate Performance's fitness tracking app – UP Transform – for example analyses data on diet, sleep, and heart rate to develop personalised meal plans and help users set goals. With the launch of ChatGPT-5 expected to take place later this year, we'll continue to see consumers leveraging AI to support their fitness journeys.

▲
200%

increase in AI workout web searches over the past year

The pull of the podium

In addition to the annual major sporting events (Wimbledon, The Open, The Boat Race, Six Nations, etc.), this year has also seen the T20 Cricket World Cup and the Euros, and we still have the Summer Olympics and Paralympics to come. After Tokyo 2021, businesses such as Fitness First reported significant increases – 31% in its case – in membership take-up, as the public was inspired to get fit and active. While a good chunk of this can be attributed to people craving more physical activity post pandemic lockdowns, we expect to see a spike in gym memberships in the latter part of the year spurred by the summer of sport.



Employee engagement

In a sector where most open positions are for junior-level, frontline, lower-paid roles, providers need to be honest and realistic about what working for them means. As Sophie Lawler, CEO of our customer, Total Fitness, puts it: "At Total Fitness we don't have the best or most shiny, exciting product. We don't do things the easy way and we don't get it right all the time. What we do promise is that more is possible with us, whatever that looks like for each team member. We have world class levels of employee engagement and most importantly, we have fun." With gym memberships increasing, the number of open positions will only increase in the next six months as demand for PTs grows. If gyms want to have any hope of filling these positions, they should listen to the advice of those such as Sophie.



Get in touch with the team at questions@oaknorth.co.uk or visit oaknorth.co.uk for more information.