

FITNESS WORLD

Gør noget godt for dig selv

2018 CASE MATERIAL



CBS FINANCE
COMPETITION

INTRODUCTION

In early September 2018, Thomas Broe- Andersen, Partner at FSN Capital, was overlooking the busy streets of Kongens Nytorv from his office along with the Investment Director, Kasper Sørensen. For the past many years, the iconic square had been subject to the noisy construction of the new metro, which was finally coming to an end. Thomas smiled, as it reminded him of the very active investment market and the great success FSN Capital had experienced in the past years. Recently, they listed the IT services consultancy Netcompany A/S on the Danish stock exchange at a market cap of more than DKK 8bn, and it was not much more than a year ago that they had divested Lagkagehuset, a premium bakery chain. There was no doubt the M&A market was booming, which was reflected by the large number of transactions and the high valuation multiples of companies in the market. But how long would the exit environment continue to be this favourable?

Although, the team at FSN Capital had been opening bottles of champagne just months earlier, when they celebrated the Netcompany IPO, their focus had already shifted to the next potential divestment – Fitness World Group A/S. FSN Capital had acquired Fitness World in April 2015 and since then driven the company to become the nationwide success, it is today. Many initiatives have been launched to increase growth and profitability for the company, e.g. opening centres, announcing new brands and products, as well as an overall professionalising the organisation. There is no doubt that Fitness World still has many interesting, unexploited opportunities for growth. The key question is now whether FSN Capital should pursue these opportunities themselves or leave the task to propel Fitness World into the next era to a new owner and begin the exit process immediately. Thomas and Kasper agreed that it was time to review the possibility for a change in ownership of the company and decided to invite potential advisors to assist them in making the best decision.

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REQUEST FOR PROPOSAL

REQUEST FOR PROPOSAL TO ACT AS ADVISOR TO FSN CAPITAL¹ IN RELATION TO THE DIVESTMENT OF FITNESS WORLD GROUP A/S

FSN Capital hereby invites you to bid for the position as Advisor in the potential divestment of Fitness World Group A/S (“Fitness World” or “the Company”). The presentation is expected to include considerations on the following areas, but not necessarily in the given order:

STRATEGIC CONSIDERATIONS:

A 5-year strategy plan for Fitness World including views on the following:

- ▶ An international expansion strategy
- ▶ A full potential plan for Denmark
- ▶ Your view on how they should achieve the international and domestic strategies, i.e. through organic and/or acquisitive growth

VALUATION CONSIDERATIONS

- ▶ An intrinsic valuation (discounted cash flow) of Fitness World based on the strategic plan
- ▶ A relative valuation of the Company based on relevant peer companies and comparable transactions

TIMING CONSIDERATIONS

- ▶ Your views on the current exit climate and on the ideal exit timing

INVESTOR CONSIDERATIONS

- ▶ An identification of the elements, which make Fitness World an attractive investment case
- ▶ An overview of the most likely financial and strategic buyers

PROCESS CONSIDERATIONS

- ▶ Your views on the key success factors and critical issues in a successful exit process
- ▶ An indicative and generic time plan with main work streams and responsibilities for the exit process

SELECTION CRITERIA

When deciding which bidders that will be invited to present in the finals, the proposals will be evaluated based on three overall criteria with the following illustrative weights:

- ▶ Financial concepts and valuation (40%)
- ▶ Strategic considerations (25%)
- ▶ Process, legal considerations and risk assessments (15%)
- ▶ Quality of solution (20%)
 - ▶ The visual appeal of the presentation
 - ▶ A convincing and easily understood storyline

TIME TABLE

STEP	DEADLINE
Delivery of tender material (cash launch)	September 28, 2018, at 3 pm
Delivery of proposal	September 30, 2018, at 4 pm
Indication of the bidders that have been chosen to proceed to the semi-finals (9 teams)	October 1, 2018
Semi-finals presentations	October 4, 2018, at 9 pm
Indication of the bidders that have been chosen to proceed to the grand final (3 teams)	October 4, 2018, at 2 pm
Grand final	October 4, 2018, at 6 pm
Appointment of Advisor (selection of the winning team)	October 4, 2018, at 9 pm

Note: 1) Throughout “FSN Capital” refers to FSN Capital GP IV Limited in its capacity as general partner of FSN Capital IV LP, FSN Capital IV (B) LP and FSN Capital IV Invest LP (“Fund V”), advised by FSN Capital Partners AS, and the sub-advisors FSN Capital Partners GmbH, FSN Capital Partners ApS, and FSN Capital Partners AB.

THE FITNESS WORLD HISTORY

In 2005, when Fitness World was founded by Henrik and Sophie Rossing, the Danish fitness market was very different to the one it is today. At that time, it was common to commit to 12 months of membership, which was a lucrative business model as many members would sign up in the beginning of the year and then give up on their exercise goals after a short period. Fitness World challenged this practice and disrupted the Danish fitness market in terms of price, quality, effectiveness, and product offering. Fitness World was the first to eliminate the long subscription periods and offer non-binding fitness at affordable prices. The business model quickly gained popularity in the Danish market, and Fitness World is today recognised as the market leading fitness chain in Denmark.

“The historical success of Fitness World can be ascribed to three key factors: Firstly, the strong network, secondly, the low price and subscription model, and thirdly, a strong focus on cost”

Niels Meidahl, CFO, Fitness World

Since the beginning, Fitness World has followed an aggressive expansion strategy with a large focus on acquisition-based growth. This strategy has created an even stronger network of fitness centres building on one of the primary reasons for the company’s historical success. In addition to the benefit of being close to the customers, the large size enables Fitness World to offer a wider range of group fitness activities, better facilities, and more membership benefits than competitors. Today, Fitness World is much more than a fitness club operator. The company is recognised as

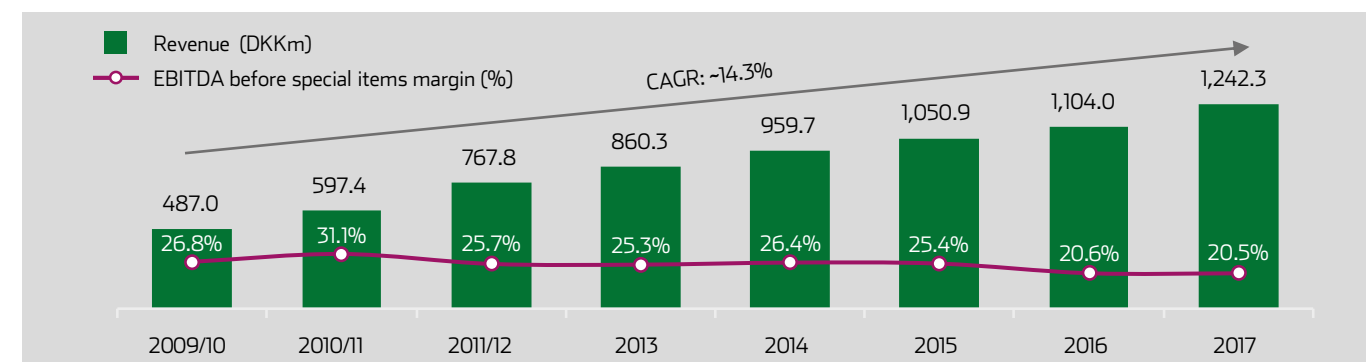
a fitness retailer which offers a wide range of additional services such as tailor-made training programs, fitness merchandise, body trackers and nutritional supplements. In addition, Fitness World is continuously investing in digital assets to motivate and retain members.

In 2015, the Rossing family divested a majority stake in Fitness World and the private equity firm, FSN Capital, became the controlling shareholder. In the years following the acquisition, more than eight members of the management team was replaced, including the CEO, CFO, and COO. The organisational changes were accompanied by the introduction of the new “FUEL19” strategy which marked a new era for the company. Today, Fitness World has developed from being a disruptive budget player to becoming a diversified market leader with multiple brands. In 2017, one of Denmark’s largest private investment funds, KIRKBI, became coinvestor in Fitness World. The investment illustrates the continued attractiveness of Fitness World’s business model and its ability to generate strong returns and high growth, both domestically and internationally. Following the investment, FSN Capital continues to have the active ownership role of the company whereas KIRKBI takes the role of a strategic investment partner.

“At the time when FSN took over, Fitness World was a classic, family-owned company where many decisions were based on rule of thumb principles. We have gone through a heavy professionalisation of the organisation and broadened the management team”

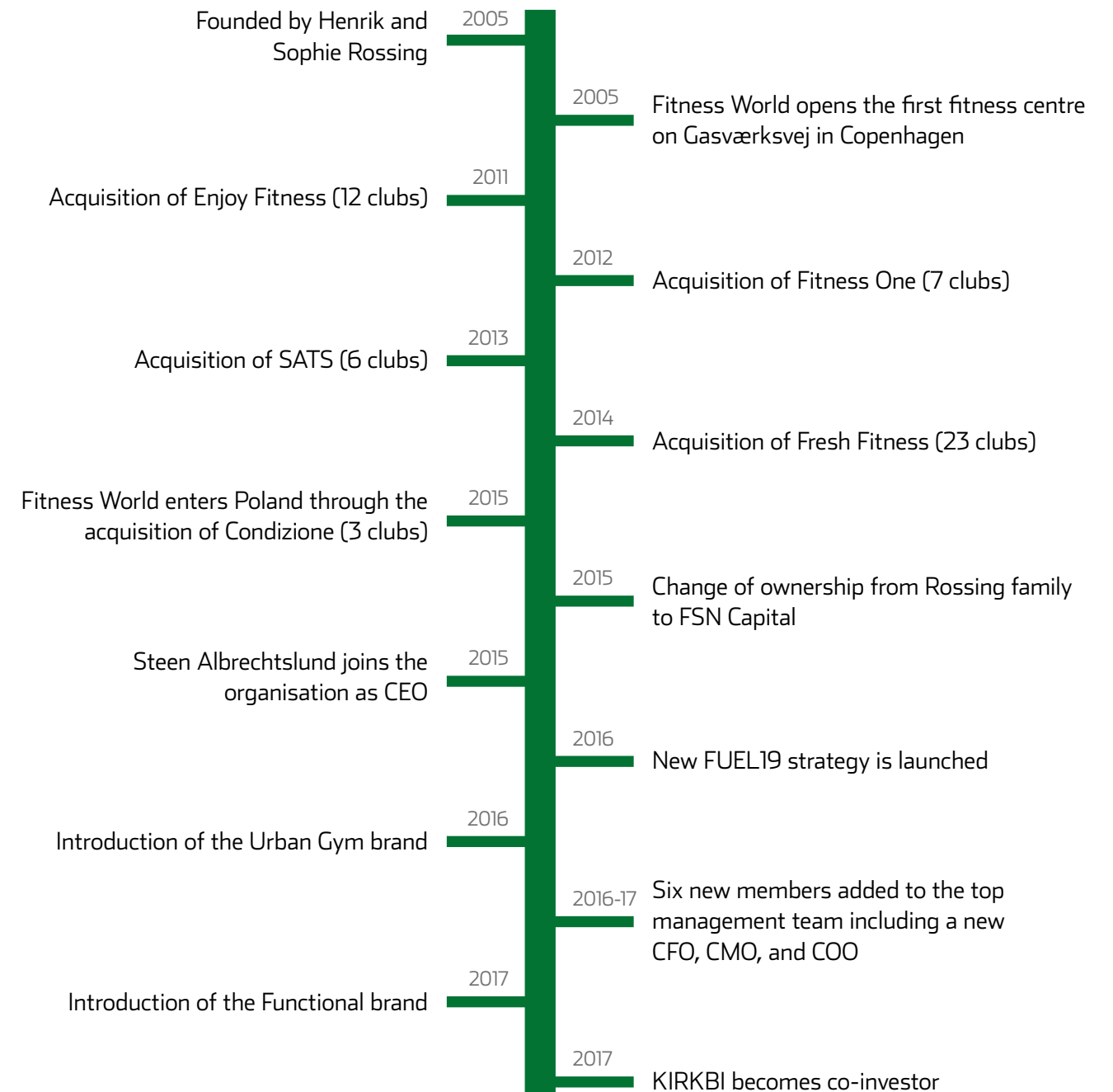
Steen Albrechtslund, CEO, Fitness World

FINANCIAL DEVELOPMENT OF FITNESS WORLD¹



Note: 1) Reflects Fitness World A/S from 2009/10 to 2015, and Fitness World Group A/S in 2016 and 2017. Financial year end changes from 31/10 to 31/12 in 2012. Source: Company annual reports

THE FITNESS WORLD REVOLUTION



Based on a strong home market position, Fitness World’s goal is to be one of Europe’s five largest fitness operators. We intend to achieve this by providing as many people as possible with the opportunity to live a healthier life through fitness, at a price that is accessible to all

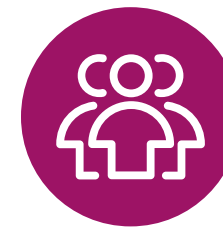
– Fitness World Mission Statement



FITNESS WORLD TODAY



186
FITNESS CLUBS
IN DENMARK AND
POLAND



476
THOUSAND
MEMBERS IN
DENMARK AND
POLAND¹



25.8
MILLION VISITS
IN 2017



4,300
EMPLOYEES



55
PCT. MEMBER
MARKET SHARE
IN DENMARK

Today, Fitness World has expanded to 186 fully-owned fitness clubs, with ~476,000 members¹. Fitness World is by far the largest fitness club operator in Denmark with 171 clubs and ~452,000 members in its domestic market who visit close to 26 million times per year. Including part-time workers, Fitness World has approximately 4,300 employees in Denmark. In addition, the company operates 15 fitness clubs in Poland with ~24,000 members.

BRANDS

FITNESS
WORLD
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Fitness World offers well-invested fitness clubs with state-of-the-art equipment and a comprehensive range of group training classes in convenient locations and at non-binding, affordable prices. The brand is market leading in the mid-tier segment with a high quality offering.

URBAN
GYM

The Urban Gym brand was launched in 2016 and currently includes 10 fitness clubs with a basic product offering (no group training, wellness, or personnel) in major Danish cities. The brand is aimed at the growing low-price segment, complementing the mid-tier Fitness World brand.

FUNCTIONAL

The Functional brand was launched in 2017 and includes tasty and functional sports products and dietary supplements. The working title of the brand is I AM FUNCTIONAL, which is the DNA of the brand and of the communication platform for customers and athletes.

Note: 1) The 475,000 members represents the total membership base for the company. Approximately 90% of the total membership base is allocated to Fitness World Denmark, 5% to Fitness World Poland and 5% to Urban Gym
Source: Company annual reports



THREE MAIN TRENDS SHAPE THE FITNESS INDUSTRY IN EUROPE

Health has in the last decades emerged as one of the most noticeable global macro trends. The effects have been seen in how people eat, drink, and live all around the world. It has also given rise to a commercial fitness industry where customers pay to get

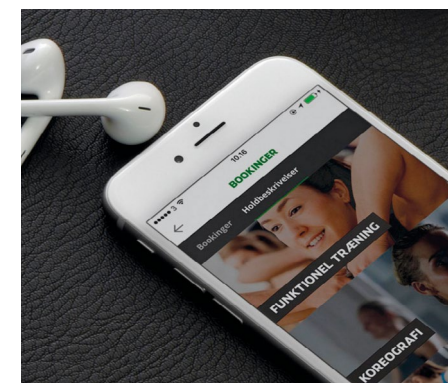
access to various training facilities. In recent years, three main trends have shaped the fitness industry: 1) Expansion of the low-price value segment, 2) new digital solutions, and 3) an integration of the health and wellness industry.

EXPANSION OF THE LOW-PRICE SEGMENT



Low-price operators have emerged across Europe and attracted customers with innovative concepts and new value propositions. The strong segment growth since 2014 has been key in spreading fitness to a larger share of the population, increasing overall penetration in many countries. New members and migration from the mid-tier segments has also led to a reduction in market wide average revenue per member (ARPM) by ~11% since 2014.

NEW DIGITAL SOLUTIONS



Fitness habits have been changed by digital solutions launched by both incumbents, seeking to reinforce their position, and entrants, trying to disrupt the market. Training apps, online communities, and ever smarter devices allow for increased tracking and sharing of fitness activities as well as increased interaction between fitness companies and consumers.

INTEGRATION WITHIN THE HEALTH AND WELLNESS INDUSTRY



The health and wellness industry is becoming increasingly integrated with boundaries breaking down between different types of offerings and with new and different players entering the ecosystem. This is associated with a higher focus on giving customers an all-encompassing health and wellness experience where companies seek to personalise their offerings to the needs of each customer.

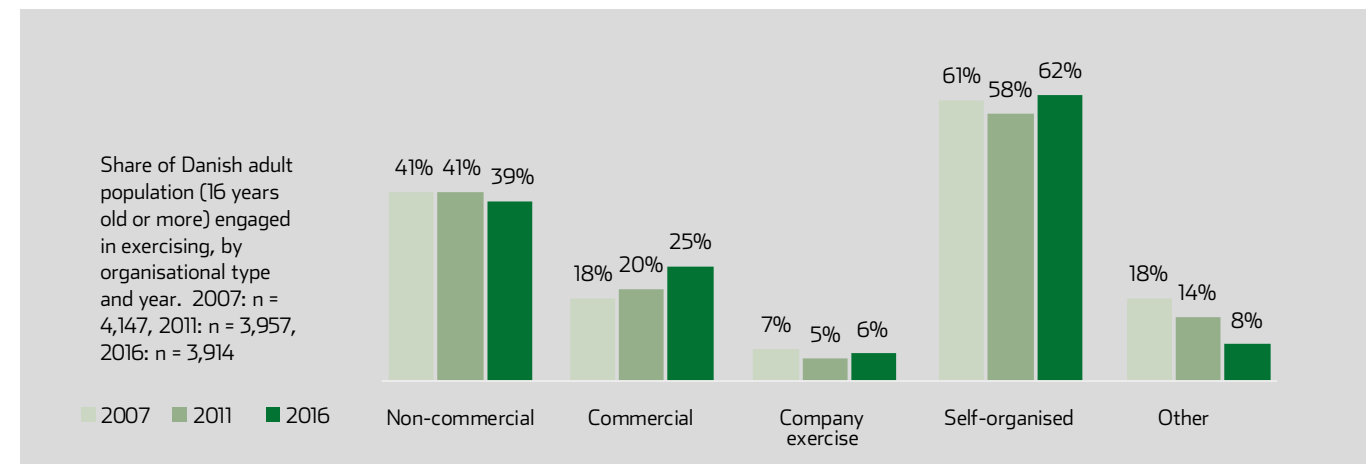
HEALTH AND FITNESS TRENDS IN DENMARK

EXERCISING IN DENMARK

With increasing focus on health and wellness in Denmark, more than 68% of the Danish population engage in sports and exercise activities on a regular basis. In contrast, this number is 48% in Europe. In 2016, strength and weight training were the Danes' preferred way of exercising, closely followed by running. Fitness activities are offered through both commercial and non-commercial channels, where commercial channels include Fitness World, for example, and non-commercial channels include exercising in voluntary associations, such as local sports clubs.

Even though local associations have always been a central part of exercising in Denmark, the popularity of commercial fitness has increased significantly the past 10 years. From 2007 to 2016, the share of Danish adults engaged in commercial fitness activities increased from 18% to 25%. For people engaged in commercial exercising, it is especially strength training, indoor cycling, and yoga that are increasingly popular activities. Commercial fitness is also more widely used in Denmark than in the rest of Europe. In Denmark the share of the total population engaging in commercial fitness, also referred to as the penetration rate¹, is at 15% compared to the European average of 12%.

DANES INCREASINGLY USE COMMERCIAL FITNESS OFFERS



MOTIVES FOR COMMERCIAL EXERCISING

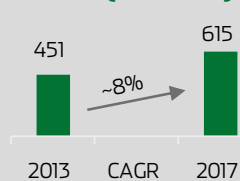
The Danes' motives for exercising in a commercial fitness centre vary widely. A recent survey found that the main attraction is the possibility to strengthen and exercise the body, but also that long opening hours and convenient locations are important. Crucially, the Danes are often more attracted by such flexibilities rather than the opportunity to socialise or experience improvements. In contrast, people using fitness offerings of non-commercial associations are more motivated by the social aspects and less by timing flexibility.

MOTIVES FOR EXERCISING COMMERCIALLY (N = 3,914)

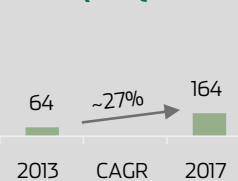


THE DANISH COMMERCIAL FITNESS MARKET IS GROWING

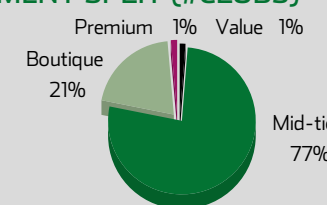
MID-TIER (#CLUBS)



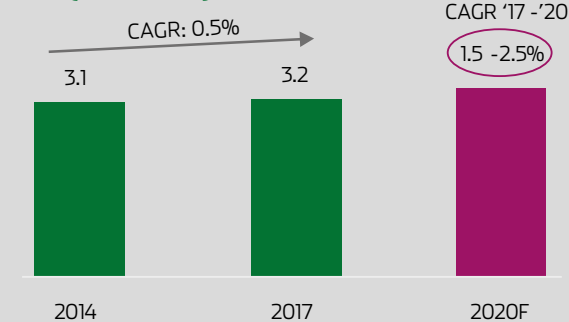
BOUTIQUE (#CLUBS)



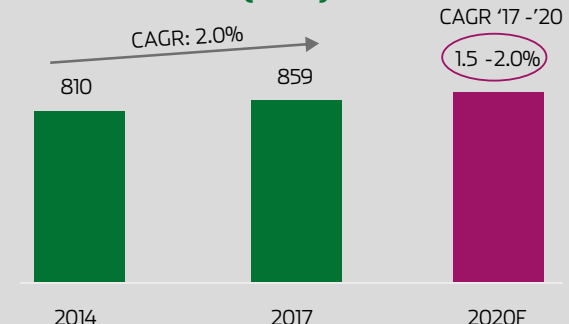
2017 SEGMENT SPLIT (#CLUBS)¹



ARPM (DKK'000)



FITNESS MEMBERS ('000)



MARKET VALUE (DKKBN)



A GROWING MARKET

The commercial fitness industry in Denmark is maturing and is now experiencing a steady growth in the number of fitness clubs, members and average revenue per member (ARPM). In 2017, the total estimated market exceeded DKK 2.7bn in revenue. The compound annual growth rate (CAGR) over the past 3 years is ~2.5% and is thus in line with Danish nominal GDP growth. Market growth is driven by two factors: An increase in ARPM and an increase in members. In the period 2014-2017, ARPM increased by an average ~0.5% and members increased by an average of ~2%. In the years 2018-2020, ARPM is expected to increase by ~1.5-2.5%, which is in line with the expected Danish inflation. Likewise, it is expected that members will continue a growth of ~1.5-2%, hence revenue is expected to increase by 3-4% to a total market size of estimated DKK ~3bn in 2020.

STRONG CLUB GROWTH IN MID-TIER AND BOUTIQUE

In the period 2013-2017, the number of commercial fitness clubs increased from 515 to 800, or by 11.6% annually¹. By August 2018, the total number of commercial fitness clubs reached 813². The growth is especially driven by the increase of boutique fitness clubs, which grew ~27% annually to a total of 164 fitness clubs and mid-tier clubs, which grew ~8% annually to a total of 615. The growth in the boutique segment is especially driven by the increased interest in yoga and cross-fit clubs. In the same period total members grew to approximately 860,000.

COMPETITION PLAYS OUT ACROSS FOUR MAIN SEGMENTS...

FOUR MARKET SEGMENTS

The fitness market in Denmark is competitive and consists of multiple chains and hundreds of single and small fitness club operators. Fitness club operators tend to either compete on price and availability or seek a niche market where competition is based on quality and specialised exercise opportunities.

The market can be divided into four main segments: premium, boutique, mid-tier, and value. In Denmark, the mid-tier market accounts for roughly 85-90% of the market and mainly comprises large chains. While the mid-tier segment dominates the Danish fitness market, the premium and boutique segments experience the highest growth rates. The value segment was first introduced in Denmark with the opening of five Urban Gym clubs in Denmark in 2016 why no growth rates exist.

The premium segment offers luxury facilities and value-added services such as wellness and spa. The segment serves a niche market in Denmark where the price point is high, but where the market size is low.

The boutique segment has specialised offerings where yoga and cross-fit have become some of the most popular. The segment has experienced a high growth and CrossFit Copenhagen is now the fifth largest fitness chain in Denmark, measured on the number of clubs.






The mid-tier segment is by far the biggest segment and is characterised by mid-ranged prices and offerings, which comprise individual strength and cardio training as well as various types of group trainings. Most mid-tier brands compete on price and availability/location due to a lower degree of diversification. Therefore, it is important for the mid-tier segment to manage costs and attract new customers to stay profitable. Due to the segment's wide definition, it can be divided into an upper and lower mid-tier based on the subscription price. In Denmark, fitness dk is the only chain operating in the upper mid-tier.

The value segment has recently been introduced in Denmark and has become very popular in Europe. Competition in the segment is mainly based on prices and players manage costs by decreasing staff, removing shower facilities, or digitalising manual tasks, for example.

Segment	Typical value proposition and offering	Typical price¹	Main brands	Share of DK market
Premium	<ul style="list-style-type: none">High-end offering at premium prices, differentiated through costly add-ons, such as high staff levels, luxury facilities, and value-added services	600+	WELLCOME	~1%
Boutique	<ul style="list-style-type: none">Specialised offering on one or a few specific types of training, e.g. cross-fit, yoga, or cyclingOften centred around group training and with strong social/community (sometimes cult-like) atmosphereUsually presenting their workouts as particularly refined/rigorous/effective, coupled with a strong brand narrative – defending their often higher price points	300-1000+	LOOP crossfit Copenhagen	10-15%
Upper Mid-tier	<ul style="list-style-type: none">Upper mid-range priced offerings for the “masses”Typically offering a broad variety of equipment and group fitness classes, targeting a variety of needs and customer segmentsOften less differentiated/more functional brand narratives compared to higher-end players	300-500	fitnessdk	85-90%
Lower Mid-tier	<ul style="list-style-type: none">Similar to upper mid-tier but at a lower priceThe biggest segment in Denmark	150-300	REPEAT SPORT OG FITNESS fitz FITNESS WORLD fair	
Value	<ul style="list-style-type: none">Value proposition centred around low-cost convenience:<ul style="list-style-type: none">Affordable price points, often contract-free or pay-as-you-go modelsOften convenience-focused offering, e.g. through 24-hour access or integration of new digital solutionsTraining facilities with good equipment variety, centred around individual training (some “premium budget” models offer live or virtual group trainings)Often few/no staff and limited value-added-services	100-150	URBAN GYM	~1%

Note: 1) In DKK per month, reflecting a typical segment price; some players might price out of range (e.g. for specialty services). Ranges vary across markets
Source: Case team analysis

... AND IS DOMINATED BY A FEW KEY PLAYERS

Company	#Fitness clubs	Subscription price (DKK)	EBITDA (DKKm)	Description
	2018 2013		FY2017 FY2013	
	164 112	159 - 399	254.8¹ 217.4²	Wide offering of training activities. Targets the broad population. Often located in central locations
	85 35	169 - 199	n.a.³	Effective and quick circle training. Targeting elder customers. Often in smaller towns
	41 41	249 - 399	-18.3 52.2	Upper mid-tier brand with a wide product offering of high quality. Often located in bigger cities
	34 23	175 - 269	n.a.³	Fitness in collaboration with local swimming and sports halls
	23 8	389 - 469	14.5 4.3	Specialised in cross-fit group training. Raw design and more expensive than mid-tier competitors

FEW PLAYERS DOMINATE THE MARKET

The Danish fitness market is largely dominated by a few players, especially in the mid-tier segment. Fitness World is by far the biggest player, but it also faces competition from fitness dk and Loop Fitness. Today, the five largest players account for ~42% of the fitness clubs in Denmark. Loop Fitness has had great success with a franchise model in which it offers circle training at a low and standardised price. Loop Fitness aims to grow to 120 clubs by the end of 2019. On the other hand, fitness dk has not seen the same success and has experienced negative net income for four consecutive years. In June 2018, fitness dk was sold at an enterprise value of DKK 100m to Altor and Tryghedsgruppen who together owns the Swedish fitness chain SATS. fitness dk markets itself as upper mid-tier with high-end interior such as cleaner showers, saunas, and high quality equipment.

DIFFICULT MARKET TO COMPETE IN

The fitness market is characterised by reasonably low switching costs for customers, low entry barriers,

and high fixed costs, which make it crucial for fitness operators to constantly attract new customers to remain profitable. Moreover, customer churn is often high making customer retention a focus for many fitness club operators. The industry is influenced by seasonality trends such as New Years resolutions and summer breaks which causes many customers to train periodically during the year. Some fitness operators try to offset the low switching costs and increase revenue by having a sign-up fee around DKK 300, but this is often slashed as a welcome offer. In addition, the relatively low entry barriers provide many private entrepreneurs the opportunity of opening up their own fitness club or engage in the franchise model of a larger brand. Furthermore, a high fixed and semi-fixed cost base makes it necessary to have a certain level of members to break-even. These costs are fitness equipment, interior maintenance, rent, water, power, and staff costs. Therefore, the marginal cost of a customer is minimal, and the additional revenue impacts the bottom line to a very high degree.

Note: 1) EBITDA before special items for Fitness World Group A/S; 2) EBITDA for Fitness World A/S; 3) Only reports unconsolidated financials on a per club basis
Source: Company annual reports and websites, case team analysis

THE EUROPEAN FITNESS MARKET

GROWING MEMBER BASE AND DECREASING ARPM

In the period 2014-2017, the total European fitness market has grown by 2.1% annually to a total market size of EUR 26.9bn. As opposed to the Danish market, the growth is driven by new fitness club members, but it is offset by a decrease in ARPM. Overall, the number of fitness members has increased from 50.1m to 60.0m. In contrast, ARPM has decreased from EUR 503.9 to EUR 447.5. This development is largely driven by the expansion of the value segment which has gained popularity in several markets.

“2017 was another year of strong growth in terms of both membership and market value. This shows that the products and services of our sector remain highly attractive to consumers across Europe and makes us confident to reach the industry goal of 80 million members by 2025”

Herman Rutgern, EuropeActive

LARGE DIFFERENCES ACROSS COUNTRIES

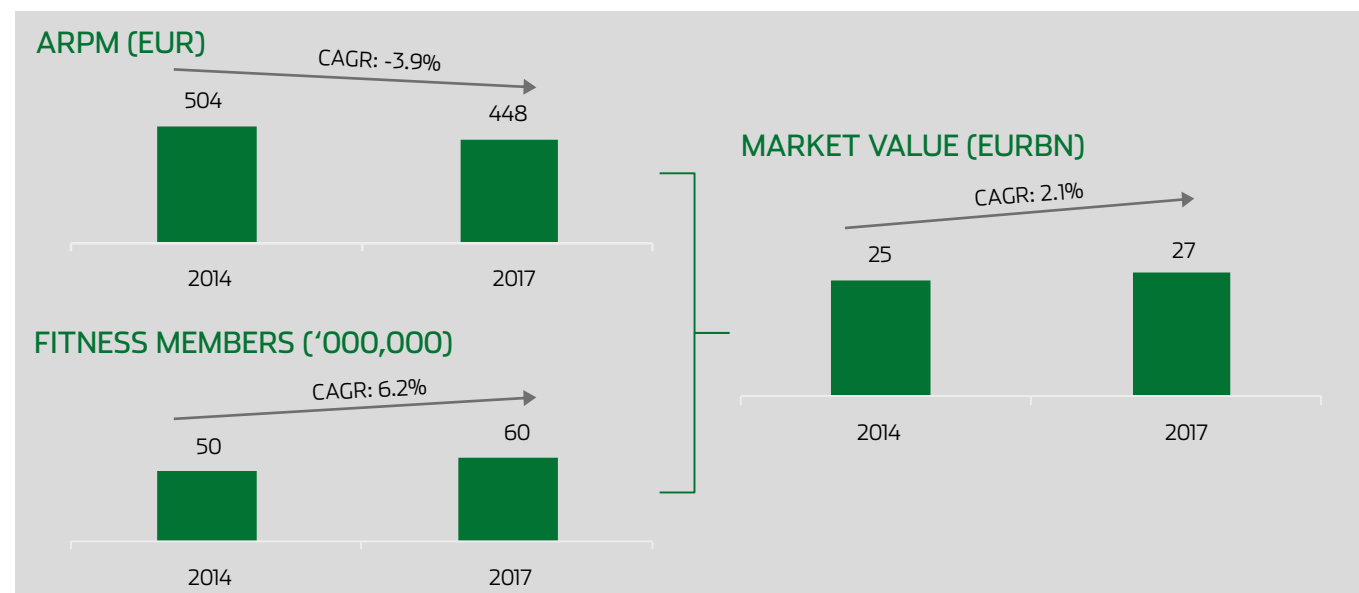
The individual countries within the European market differ on key parameters such as the 1) market size, 2) level of physical activity and membership penetration, 3) prices, and 4) the minimum subscription period.

► **Size:** The two biggest markets, the United Kingdom and Germany, account for ~38% of the total European market size. Both countries have mature markets with steady growth rates and large fitness chains, e.g. McFIT Group, Clever Fit, and Pure Gym.

► **Physical activity and penetration:** Scandinavian countries are among the most active with 65-69% of the population being physically active, whereas Portugal and Italy are among the least active with ~28% being physically active. This is reflected in the membership penetration with ~21% of the Swedish and Norwegian populations having a fitness membership, whereas penetration is ~5% and ~9% in Portugal and Italy. In addition, Sweden has had the largest percentage point increase in penetration in Europe in the period.

► **Prices:** Membership subscription prices range from Poland in the bottom with an average price of EUR 27/month and Switzerland in the top with an average price of EUR 68/month.

► **Subscription period:** Another big difference is the minimum subscription period. In Denmark, it is common to have a one month subscription period, but in many other countries a 6 or 12 month subscription period is the only choice available to customers. Even in Sweden, the subscription period at Fitness24Seven is two months, and at SATS it costs an additional EUR 10/month to change from an annual to a monthly subscription.



Country	Market revenue 2016 (EURbn)	Physically active 2016 (% of pop.)	Membership penetration 2017 (% of pop.)	Δ Penetration 2013-17, pp	Average price per month 2016 (EUR)	Market share of main players 2016 (%)
	0.4	68	15	3.7	34	84
	5.1	46	15	2.4	49	36
	5.1	48	13	3.3	45	31
	2.5	43	8	1.6	41	30
	2.2	30	9	2.2	39	7
	2.2	46	11	-2.5	39	17
	1.3	58	17	4.5	37	35
	0.8	28	8	5.9	28	10
	0.8	45	13	4.1	68	40
	0.8	69	21	8.0	32	69
	0.5	n.a.	21	5.3	36	52
	0.4	45	12	3.5	53	41
	0.4	66	17	6.4	48	30
	0.3	47	7	0.8	35	71
	0.3	52	10	2.5	49	19
	0.3	28	5	0.4	36	35

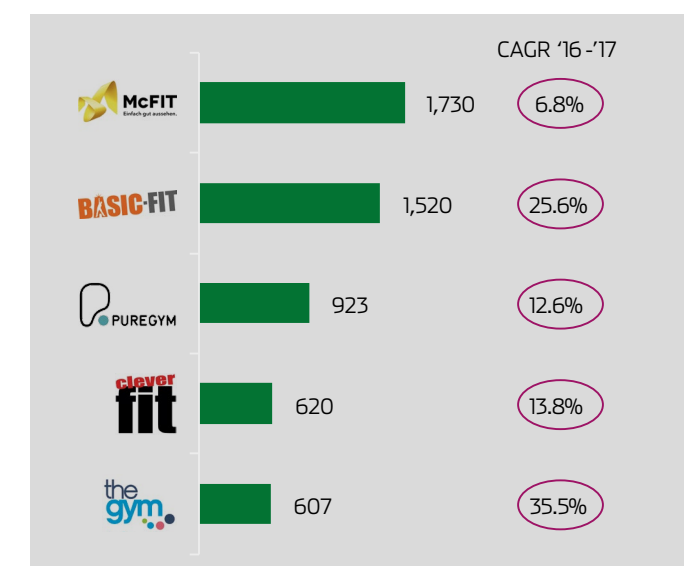
CONSOLIDATION: LARGEST PLAYERS BECOME LARGER

In 2017, the top 30 fitness operators in Europe increased their membership base by 9.5%. Combined they now account for 23.5% of all memberships in Europe, an increase of 1.0 percentage points compared to 2016. By membership, the largest player is McFit with 1,730,000 members. Of the five largest players, McFit and Clever fit are based in Germany, Pure Gym and The Gym Group in Great Britain, while Basic-fit is Dutch, but with clubs in five countries. Common for these operators is that they all compete on costs and low prices in the value or mid-tier segment.

Interestingly, none of the five operators can be found in the European top three when measured on revenue. Here, the British premium operator David Lloyd Leisure is the largest with a revenue of EUR 483m. Ranking second and third is Switzerland-based Migros Group (EUR 388m) and Virgin Active (EUR 356m). These all have a higher price point, which indicates that operators in the value and lower mid-

tier segment are able to attract the most customers whereas operators in the higher mid-tier, boutique and premium segments generate the highest revenue.

MEMBERS OF TOP 5 EUROPEAN OPERATORS ('000)



THE FITNESS WORLD BRAND AND THE COMPANY’S CORE

THE FITNESS WORLD BRAND AT A GLANCE

With fitness clubs located all over the country, the Fitness World brand has a strong recognition throughout the Danish population. The brand offers a mid-tier fitness experience at attractive prices. The Fitness World experience is characterised by access to well-equipped clubs with many and superior locations, long opening hours, a wide selection of group fitness activities and opportunities to work with a personal trainer. The number of clubs, group fitness sessions, and benefits, which are accessible to each member depend on the exact membership chosen. This way each customer can get the desired fitness experience at the best possible price.

REVENUE, PRICING, AND MEMBER DYNAMICS

The primary revenue stream for Fitness World originates from the monthly subscription payments made by its members. Although Fitness World started out as a low-cost operator, it has recently focused on increasing the quality of the service offering and the customer satisfaction. Since 2015, the company has steadily increased its overall customer base by 5.6% on an average year-on-year basis, but aggregate annual figures year-on-year basis, but aggregate annual figures conceal underlying dynamics of seasonality and customer churn, which characterise both Fitness World and the industry at large. The company sees considerable seasonality in the member base with members signing up in January followed by a gradual loss of momentum, and many members are taking breaks over the summer. Underlying member growth is determined by both the acquisition of new and the loss of existing customers.

“Since we operate in an industry where you compete on cost, one of our key focus areas is customer churn”

Steen Albrechtslund, CEO, Fitness World

Multiple measures have been taken to improve customer retention and mitigate churn. One of these is the availability of group fitness where members can attend activities ranging from indoor cycling to dancing and yoga. A group fitness session typically occurs in larger groups and is supervised by a designated instructor.

Membership data indicates that active users of group fitness have a customer lifetime that is more than twice as long as members that are not using group fitness. Personal training has similar effects on customer retention as group fitness and is one of the business areas where the company expects a high growth in the coming years. Fitness World has recently launched a personal trainer academy to increase the number of personal trainers. In addition, the company is considering to sell customised personal training packages with specific goals, such as a “lose weight”-package or a “run a marathon”-package.

“If you are active on “Get fit” [“Stram op”] or “BIKE”, you want to come here more often. You are also more likely to keep your fitness subscription over the summer ... The customers who churn the most are often those who have not really begun”

Steen Albrechtslund, CEO, Fitness World

DETAILS ON MEMBERSHIPS AND PRICING

FITNESS TRAINING			
FITNESS BASIC	FITNESS FLEX	FITNESS ALL	FITNESS PREMIUM
159 DKK/month	209 DKK/month	259 DKK/month	379 DKK/month
<ul style="list-style-type: none">✓ Fitness, cardio, & strength training✓ Ongoing body analysis✓ Circular training	<ul style="list-style-type: none">✓ Fitness, cardio, & strength training✓ Ongoing body analysis✓ Circular training	<ul style="list-style-type: none">✓ Fitness, cardio, & strength training✓ Ongoing body analysis✓ Circular training	<ul style="list-style-type: none">✓ Fitness, cardio, & strength training✓ Circular training✓ Additional benefits
TRAIN IN 1 CENTER (Only available in some centres)	TRAIN IN 2 CENTRES (Only available in some centres)	TRAIN IN ALL 162 CENTRES (Available in all centres)	ADDITIONAL BENEFITS <ul style="list-style-type: none">✓ Personal training: 5 sessions per year✓ Take a FUNCTIONAL drink per day✓ Take one break per year✓ Expanded body analysis
FITNESS TRAINING + GROUP FITNESS			
GROUP FITNESS BASIC	GROUP FITNESS FLEX	GROUP FITNESS ALL	GROUP FITNESS PREMIUM
259 DKK/month	259 DKK/month	279 DKK/month	399 DKK/month
<ul style="list-style-type: none">✓ Fitness, cardio, & strength training✓ Access to group fitness✓ Ongoing body analysis	<ul style="list-style-type: none">✓ Fitness, cardio, & strength training✓ Access to group fitness✓ Ongoing body analysis	<ul style="list-style-type: none">✓ Fitness, cardio, & strength training✓ Access to group fitness✓ Ongoing body analysis	<ul style="list-style-type: none">✓ Fitness, cardio, & strength training✓ Access to group fitness✓ Additional benefits
TRAIN IN 1 CENTER (Only available in some centres)	TRAIN IN 2 CENTRES (Only available in some centres)	TRAIN IN ALL 162 CENTRES (Available in all centres)	ADDITIONAL BENEFITS <ul style="list-style-type: none">✓ Personal training: 5 sessions per year✓ Take a FUNCTIONAL drink per day✓ VIP-booking – Book group fitness 1 week before everybody else✓ Take one break per year✓ Expanded body analysis

ALL-IN:

Take a product from the ALL-IN product range per day in combination with your training. Available in combination with all memberships for DKK 100/month

DETAILED DESCRIPTION – URBAN GYM

THE URBAN GYM BRAND AT A GLANCE

Launched in 2016 as a low-price fitness concept, Urban Gym focuses on doing less, but doing it well. Price leadership is made possible by a narrower service offering and fewer amenities - there is no personnel, no group training, and no showers. The customer value proposition includes high quality equipment, a fresh and urban design, and 24/7 opening hours. Currently, there are 10 Urban Gym centres in Denmark, and the Company sees scope for opening another 4 to 5 Danish centres in the coming years. Urban Gym members contribute to ~5% of the total membership base in the company

“Urban Gym is a very American concept, it is more New Yorker style. The concept is successful in the large cities, it is an urban phenomenon”

Steen Albrechtslund, CEO, Fitness World

A PROMISING FUTURE

There are several reasons why the Urban Gym brand has a promising potential. Firstly, budget fitness is in general the business segment with the highest earnings. Secondly, it allows the company to segment customer groups between the most price sensitive and those who prefer a more premium product. Finally, an established budget platform can be useful when expanding to international markets where a budget concept would be suitable. However, the self-service concept of Urban Gym requires a relatively high level of market maturity. In case, new customers are not accustomed to fitness and strength training, the low level of interaction in the Urban Gym clubs can have a negative impact on customer retention. As a result, the majority of Urban Gym members are young individuals, who typically do fitness on their own and have a tendency to be more price conscious than the older population.

115
DKK/month

URB
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GYM



SALES OF SPORTS NUTRITION PRODUCTS

FUNCTIONAL SPORTS NUTRITION

Functional Supply A/S was founded in July 2017. The subsidiary develops and manufactures Fitness World's own product line of nutritional health products and dietary supplements. The product offering, which was recently expanded by an additional 12 products, includes a total of 20 different supplementary products. All products are sold under the Functional brand, which is, like Urban Gym, completely independent of the Fitness World brand.

The primary reason for launching the Functional brand was to get a stronger control of the fitness value chain and at the same time increase profitability from nutritional supplements. Before the launch of the Functional brand, Nutramino, a Danish sports nutrition provider, acted as the sole supplier of nutritional products in the fitness clubs. Today, Fitness World continues to sell a large amount of Nutramino products in the clubs, but the Functional products have overtaken a significant part of the sales. Besides Nutramino and Functional, Fitness World also offers products from brands such as Red Bull, Barebells and Vitamin Well.

EXPANDING THE DISTRIBUTION NETWORK

At the moment, Functional products are solely distributed through the company's own clubs, but the independent company identity allows for an expansion of the distribution network. A key opportunity for the future development of the brand is expanding the number of distribution channels where the products are sold. Overall the addressable market size in Denmark for the Functional products is estimated at DKK~2.5bn and the market growth is expected to be ~5% p.a.

ALL-IN

In addition to the traditional sales methods, such as over-the-counter and vending machines, Fitness World offers a concept called ALL-IN. Through a fixed monthly subscription price of DKK 100, the ALL-IN concept enables members to choose one nutritional product per day in combination with their workout. The ALL-IN series primarily consists of Functional products but other nutritional suppliers have the opportunity to join the series if their brands align well with the Fitness World brand. The ALL-IN series offers a unique opportunity for many nutritional suppliers to expose their brand to a large and relevant target group. For example, the popular Danish energy drink company STATE recently joined the ALL-IN series for a limited period.

"Many of our international peers offer concepts that are similar to ALL-IN. It is a great way to increase the brand awareness and the ARPM. Other nutritional suppliers must pay to be part of the ALL-IN series, which they are willing to do as it offers a great brand exposure for them"

Steen Albrechtslund, CEO, Fitness World



INTERNATIONAL EXPANSION

FITNESS WORLD POLAND

In January 2015, Fitness World became an international fitness club operator by acquiring Condizione, a Polish gym and fitness club operator. At the time of acquisition, Condizione had 3 clubs in the South-Western part of Poland. Today, Fitness World has expanded its presence in Southern Poland and has a total of 15 Fitness World clubs, of which five are in Wroclaw.

Although, Poland is now a decent success, initial challenges emerged due to cultural differences and competition from low-price competitors.

In terms of group fitness, which is one of our core strengths, this represents a completely new way of exercising for many fitness users in Poland. We have to spend significant resources on educating the Polish fitness users on how to do group fitness. Typically, people are just used to having a screen in front of them"

Steen Albrechtslund, CEO, Fitness World

MARKET GROWTH

In the past three years, the monthly subscription in Poland has decreased by ~EUR 5 which is a large decrease in comparison to European averages. However, even though only 8% of the Polish population are fitness clubs members, the country has the second largest membership growth in Europe, only beaten by Turkey. In contrast to many other European countries, Poland has a low market maturity with only a few big fitness operators.

MARKET EXPANSION

An entrance to a new market requires significant establishment costs associated with HR, marketing, sales and management. Since entering Poland, Fitness World has invested DKK~12m per year to build a local organisation and increase its market presence. Hence, some economies of scale can be achieved if multiple fitness clubs are acquired/opened at once in combination with an entrance to a new geographical market.

POLAND DEMOGRAPHICS

Population: 38 million Capital: Warsaw (~1.7 mil.)
Mean disposable income:
EUR ~7500 Urbanisation: 60.5%
Age 15-64: ~68%
Fitness Clubs: 2,400



Source: OECD, Deloitte, Polish Fitness Association of Employers

FITNESS WORLD STRATEGY

FUEL19 – SUCCESSES AND CHALLENGES

Launched in 2016, the FUEL19 strategy sets out strategic priorities to ensure profitable growth in the Danish home market and secure a winning proposition abroad. Specific targets have included an increased focus on group fitness and personal training as well as ensuring profitability in Poland. The strategy has been very successful in improving customer satisfaction and service quality, which has allowed for an increase in prices. Other successes include value-added sales and personal training, and altogether earnings have been steadily increasing as the strategy has been implemented.

A NEW STRATEGY NEEDED

Fitness World is now seeking to define a new strategy that can bring the company forwards for the next 5 years. The strategy needs to significantly increase both revenue growth and earnings, and it needs to be directly selecting the right country/-ies and the right brand(s) – Fitness World or Urban Gym – to enter with

- ▶ Denmark where potential is for opening new clubs in both the Fitness World and Urban Gym brand.
- ▶ Internationally where a key concern is selecting the right country/-ies and the right brand(s) – Fitness World or Urban Gym – to enter with
- ▶ Organically or by acquisition where the time and resources used to acquire or build a club network need to be balanced against the speed of which organisational infrastructure can be developed
- ▶ Value-added sales from both development of personal training and from sales of Functional's products

The key questions to be addressed are then which areas that will maximise the value of Fitness World, and ease/ensure the implementation for each specific initiative. In a nutshell, Fitness World needs to focus on the opportunities that are most likely to generate the best results for the costs it requires.

“Significant runway in Denmark, however, that only takes us to 10% growth per year. We are more ambitious and seek growth rates of at least 20%”

Steen Albrechtslund, CEO, Fitness World



FITNESS WORLD ORGANISATION AND MANAGEMENT

HIGHLY DRIVEN EMPLOYEES

The Fitness World organisation is agile and led by a large and experienced management team. Although most of senior management has been employed in Fitness World since 2015 as part of the strategy to professionalise the company, the ability of the former management team to take decisions and act quickly is still embedded in the organisation today. In the fitness clubs, the number of employees working at once is generally quite low and tasks range from welcoming guests in the reception to cleaning the locker

rooms. The individual employee therefore carries a tremendous responsibility for the club to be operating smoothly at all times.

“Our employees are extremely committed people. When Steen stands up and says that we have to move in a certain direction, the ship turns and then we go. “Vroom” and 4,300 people have started running”

Niels Meidahl, CFO, Fitness World

STEEN ALBRECHTSLUND

CEO since October 2015

Experience:
Fossil Group, SVP APAC ('12-'15),
Skagen Designs, Group MD ('07-'12)

Education:
Uni. of Southern Denmark,
Cand.Negot, Economics



RIKKE SIGDAL

Business Development Director (2016)

Experience:
PA Consulting Group, IBM

Education:
Copenhagen Business School,
MSc Economics and Business
Administration



LARS FRØDSTRUP

Chief Commercial Officer (2015)

Experience:
Red Bull, Samsung Electronics,
Mondeléz International

Education:
Copenhagen Business School



ALLAN KRISTIANSEN

Chief Operating Officer (2017)

Experience:
Saint-Gobain, Optimera

Education:
Copenhagen Business School, MBA



NIELS ELDRUP MEIDAHL

CFO since January 2017

Experience:
CFO positions at Saint-Gobain
Distribution Denmark ('14-'16), H+H
(‘09-'12), and DSV Miljø ('06-'09)

Education:
Uni. of Southern Denmark,
MSc Finance & Acc., and Uni. of
Copenhagen, Master of Laws



CLAUS NIELSEN

Chief Marketing Officer (2018)

Experience:
SOUNDBOKS, Red Bull, Nordisk Film,
Trendhose Group

Education:
INSEAD, IAA, Aarhus Business School



GITTE GLENTBORG INGWERSEN

HR Director (2015)

Experience:
Equinox Fitness

Education:
Business Academy Aarhus,
Human Resources



KLAUS NEESS

Country Manager Poland (2017)

Experience:
Dansk Supermarked Group

Education:
Holstebro Business School,
International Marketing



FINANCIAL PERFORMANCE

REVENUE AND GROSS PROFIT

The overall revenue for the group grew 12.5% from 2016-17, which was in line with expectations for the year. The increased revenue came from a combination of an increased membership base and a higher ARPM. In 2017, sales from value-added services, i.e. sales of goods and personal training, amounted to DKK 131m, against DKK 99m in 2016, an increase of DKK 32m, or 32%.

The increase was driven by a sharper focus on personal training, an expansion of the product portfolio, and the introduction of the Functional brand. The gross margin fell from 45.1% to 44.5%, which was primarily caused by an adverse country mix due to expansion of the Polish operations and the introduction of new Urban Gym clubs.

OPERATING RESULTS

EBITDA before special items increased slightly less than revenue in relative terms, which resulted in a margin decrease from 20.6% to 20.5%. The special items for 2017 amounted to

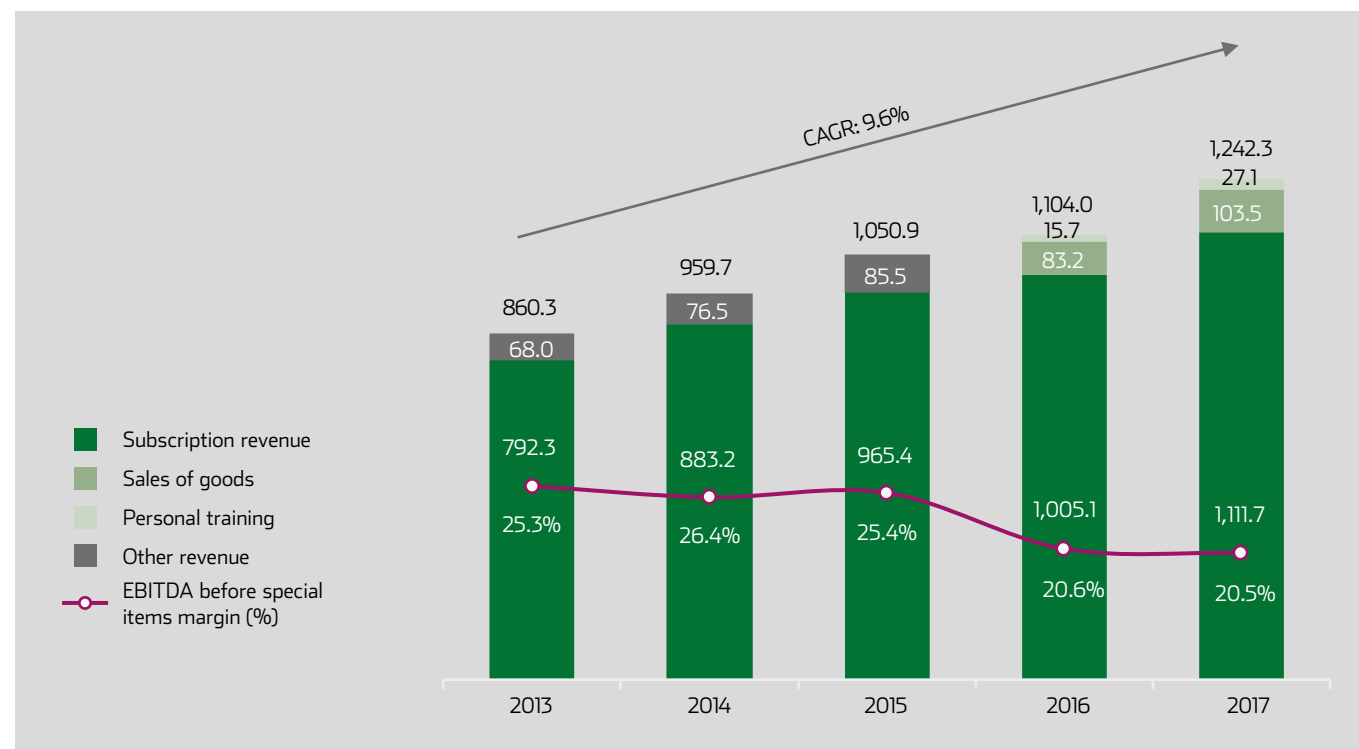
DKK 31m and mainly comprised significant finance and IT-related reorganisation costs. Some of these costs will continue into 2018, but at a lower level. EBIT for 2017 was negative by DKK 15m, which was largely influenced by the amortisation of goodwill (non-recurring) as well as a change in depreciation period of leasehold improvements (DKK 25m). Accounting for these factors, the operating profit was in line with expectations.

NET INCOME

The net income was negative for the last two years, which was largely caused by net financial items associated with payments of interest and foreign exchange adjustments. Despite a negative accounting income, Fitness World is considered to have an attractive cash flow profile with a strong operating cash flow in both 2016 and 2017. In addition, the fitness sector has historically been resilient during economic slowdowns.



FINANCIAL OVERVIEW



DKKM	2013	2014	2015	2016	2017
Revenue	860.3	959.7	1,050.9	1,104.0	1,242.3
Revenue y-o-y CAGR (%)	n.m.	12%	9%	5%	13%
Subscription revenue	792.3	883.2	965.4	1,005.1	1,111.7
Personal training	-	-	-	15.7	27.1
Sales of goods	-	-	-	83.2	103.5
Other revenue	68.0	76.5	85.5	-	-
Gross margin	423.1	470.8	519	497.7	552.9
Gross margin (%)	49.2%	49.1%	49.4%	45.1%	44.5%
EBITDA before special items	217.4	253.2	267.1	227.1	254.8
EBITDA before special items (%)	25%	26%	25%	21%	21%
EBIT	123.4	98.4	107.2	25.9	16.5
EBIT (%)	14%	10%	10%	2%	1%
Net interest bearing debt	103.0	290.6	-26.2	814.5	772.8
CAPEX	127.5	160.7	132.5	84.6	116.6
Avg. FTEs	634	718	756	800	873
Members	-	-	427,000	462,000	476,000
Fitness clubs	115	150	163	168	182

COST STRUCTURE

Fitness World has historically been very focused on optimising its cost structure and continues to utilise a cost leadership strategy today. The cost structure in the company can, for simplification, be divided into five main segments: employees, headquarters (HQ), utilities, marketing, and location and rent.

EMPLOYEE EXPENSES

Employee expenses include all costs associated with the operational personnel in the fitness clubs. The majority of the workforce in the company is characterised as part-time employees, which includes most group fitness instructors and receptionists. Overall, ~75% of the ~4,500 employees are part-time workers, which contributes to a relatively high employee-turnover for the company. It is instrumental to Fitness World that it continues to attract and retain qualified employees. Especially group fitness instructors and personal trainers are in high demand.

HEADQUARTERS (HQ)

Fitness World is recognised by having a very lean cost structure, which ensures an effective use of resources for the company's HQ. This cost item includes all costs that are not directly linked to the clubs, such as service departments and wages for administrative personnel, including top management, finance, IT, and HR. The current owners have spent significant resources to expand the management team and implement IT systems, which ensures a platform for future growth.

UTILITIES

This cost item includes costs related expenses such as water, heating, and electricity in the fitness clubs. Fitness World is currently implementing a range of cost saving programs, which are expected to have a positive influence on this cost item going forward. It is estimated that there is a limited potential to further decrease utility costs relative to revenue going forward. The total utility cost for the company is estimated at ~3% relative to revenue.

MARKETING

In 2017, the advertising expenses were higher than in 2016, mainly as a result of expanding the Urban Gym and Functional brands in Denmark as well as the roll-out of Fitness World in Poland. The total marketing cost for 2018 is estimated at ~4% relative to revenue.

LOCATION AND RENT

Good locations are essential in order to operate a market leading fitness retailer. The overall expense for rent is estimated at ~20% of revenue annually and the cost item is considered to be relatively inflexible. Nevertheless, the company is in the process of renegotiating a large part of its rental agreements throughout the next 18 months, which is expected to result in considerable cost savings.

LEASING

The company leases properties and cars under operating leasing and recognised in 2017 DKK 284m on the income statement. In total, the company had more than DKK 1.2bn in non-callable operating leases in 2017. Effective from 1 January 2019, the company will reclassify all operating leases as financial leases in accordance with the new IFRS 16 standard.

Theoretically accounting policies should not affect the economic valuation of Fitness World and the current owners do not expect that potential advisors will account for the new IFRS standards in the valuation of the company¹.

CAPITAL REQUIREMENTS

A SCALABLE BUSINESS MODEL

The Fitness World and Urban Gym business models are highly scalable and can be expanded without large increases in working capital requirements. Expanding the membership base does not require proportional investments in working capital due to a high operational leverage.

CAPEX REQUIREMENTS

Investments are mainly driven by investments in new club openings and investments in existing clubs due to refurbishment. After opening a new club in Denmark it takes approximately two years before the member base reaches the average of ~2,900 members, but already at opening it has ~1,200 members. In addition to traditional PP&E investments, the company is also increasingly invest in software development. The approximate costs of opening a new Fitness World centre is DKK ~5.0m and for Urban Gym the cost is DKK ~4.5m.

QUALITY EQUIPMENT

As a part of the current strategy, Fitness World prioritises to increase customer satisfaction through the use of quality equipment. The company currently invests in equipment from a distinguished high-end brand. This investment strategy is used for both Fitness World and Urban Gym clubs. In order to save money on equipment, the only option for the company would be to downgrade. This does not appear to be an attractive strategy on the domestic market, however, downgrading might be an option in combination with an internationalisation of the Urban Gym brand. By investing in a lower tier of equipment, it would be possible to save money, which is prioritised by some international competitors. All fitness equipment is capitalised and recognised on the balance sheet as financial leases and amounted to DKK ~72m in 2017.



FINANCING AND INVESTOR OVERVIEW

CAPITAL STRUCTURE AND OWNERS

The ultimate parent of Fitness World Group A/S is Forward TopCo A/S, which is jointly owned by FSN Capital, KIRKBI Invest A/S, Bensimon Rossing ApS and Others. Forward TopCo A/S has common stock A shares (157,933,850 shares) and preferred stock B shares (627,119,200 shares) where only the common stock of A shares has voting rights. As FSN Capital has a majority stake in the class A shares, the private equity fund has full control over the company.

Aside from these equity classes, the company is also financed with debt. Fitness World Group A/S has total interest-bearing loans and borrowings of DKK 827.7m at year-end 2017 where DKK 748.3m is a non-current liability and DKK 79.3m is a current liability. The underlying debt comprises a) finance lease liabilities expiring in 2020 with a carrying amount of DKK 70.7m on which a 2-4% floating rate is paid and b) two floating rate loan facilities: 1) Facility A expiring in 2020 with a carrying amount of DKK 225.0m on which a 3.5% floating rate is paid, and 2) Facility B expiring in 2021 with a carrying amount of DKK 550.0m on which a 4.0% floating rate is paid. The company has a cash balance of DKK 54.8m and net interest-bearing debt is thus DKK 772.8m in 2017.

KIRKBI ACQUIRES PREFERRED STOCK

On October 31, 2017, KIRKBI acquired 79% of the preferred stock B shares of Forward TopCo A/S at a rumoured transaction value of DKK 700m. For FSN Capital, the transaction rationale was to return capital to its own investors in a way that would allow the fund to retain strategic and operational control of the company as well as an upside potential on the investment. For KIRKBI, the main rationale was to get a reasonable, risk adjusted return as a strategic investor.

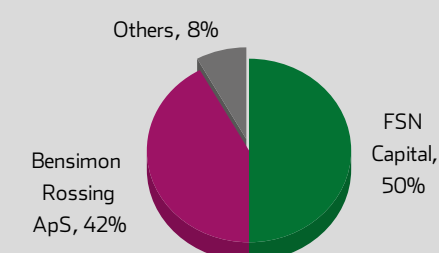
"It suits us just fine to be able to come in and receive a reasonable return while FSN takes the role of an active owner"

Thomas Lau Schleicher, CIO, KIRKBI

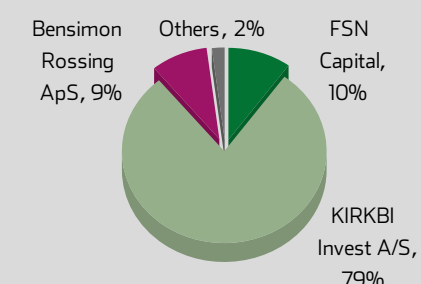
A similar collaboration between FSN Capital and KIRKBI had occurred on the Danish residential housing construction company, HusCompagniet A/S, before it was acquired by EQT Partners in 2015.

In practice, KIRKBI will receive a pre-determined dividend, which will be paid out when Fitness World is divested. Note that the rumoured transaction value does therefore not reflect a valuation of Fitness World as a whole, but only the rights associated with the preferred stock B class. At exit, all investors will sell their stakes simultaneously to the new owner.

CLASS A SHARES OWNERSHIP



CLASS B SHARES OWNERSHIP



"It goes directly back to our investors. That is the great thing about it – we can return capital to our investors and simultaneously retain full control of Fitness World. It is a brilliant solution for us and our investors"

Thomas Broe-Andersen, Partner, FSN Capital

GLOSSARY

ARPM	Average Revenue Per Member
CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditures. Defined as fixed assets year 1 – fixed assets year 0 + depreciation
EBIT	Earnings Before Interest Taxes
EBITDA	Earnings Before Interest Taxes Depreciation and Amortisation
EUR [#]BN	Billions of Euros
EUR [#]M	Millions of Euros
EV	Enterprise Value. Defined as the market value of equity + market value of debt + minority interest - cash and investments
FTES	Full Time Employees
HQ	Headquarter
NIBD	Net Interest Bearing Debt. Defined as short-term debt + long-term debt – cash and cash equivalents
NWC	Net Working Capital. Defined as current assets – current liabilities
PP&E	Property, Plant, and Equipment. Defined as long-term assets vital to business operations and not easily converted into cash

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FITNESS

WORLD

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BAIN & COMPANY

Legal Partner

BECH-BRUUN

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