Barry's Studio – Boutique Fitness Studio Operator and Lifestyle Brand

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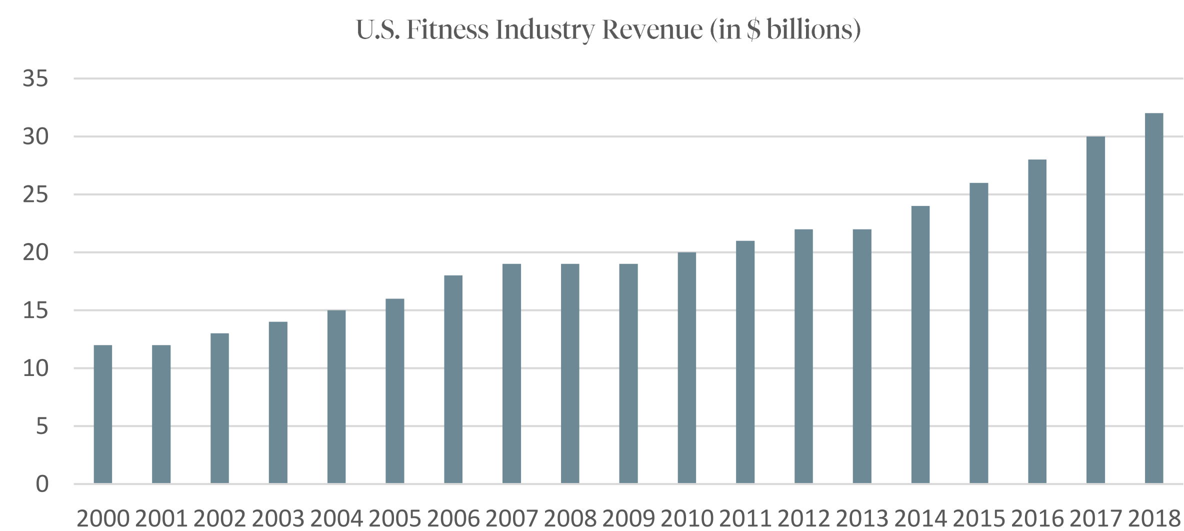
With the fitness industry showing accelerated growth and the millennials representing the highest population in the US, investment in this boutique fitness studio brand has long term potential.

Growth of the Fitness Industry

The US fitness industry has grown consistently over the past 20 years, doubling in size (in terms of revenue) between 2005 and 2018. Growth has accelerated slightly in more recent years, with revenues achieving a compound annual growth rate (CAGR) of 8% between 2013 and 2018, compared with 6% between 1998 and 2018. By 2020, revenue for the US fitness industry had reached $35 billion, a figure over five times that of the next largest international market.



Due to the fitness industry's rapid growth, the overall market penetration of fitness in the US is among the highest in the world. As of 2020, the country was the third-best penetrated fitness market globally, with 21.2% of its population carrying a fitness membership of some kind.

Penetration is up from the 14% rate of 1998 and total membership growth accelerated from 2015 to 2018, to a CAGR of 4.2% versus a steady CAGR of 3.7% over the preceding 20 years.

Though membership as a percentage of population is down from its 24% peak in 2018, the past 20 years has witnessed steady growth in overall membership.

Given the high market penetration of the fitness industry in the US, differentiation of the boutique-studio model from the broader industry is crucial in evaluating attractive investment opportunities.

If we look at the demographic trends of the fitness industry in the US, we see that younger age groups exhibit higher membership rates to both traditional gyms and higher-end boutique fitness studios, such as Barry's Studio. For example, as of 2019, millennials (aged 25–34) and Generation Zs (aged 18–24) showed the highest traditional gym participation of any age group – 63% and 62% respectively. Millennials showed the highest boutique-studio participation rate at 22%.

This demonstrates not only that the boutique-studio model is less penetrated in the US than traditional gyms, but also that this model appeals most to younger consumers.

Given that Gen Z and the millennial generation are now the largest living generations in the US, their preference for boutique-studio clubs presents a significant opportunity to capitalize on potential continued growth of this subsector of the fitness industry.

Rise of Boutique Fitness Studios

Based on the nature of the US fitness market, we concluded in 2015 that an investment in fitness would need to present a differentiated format and brand capable of gaining market share instead of simply participating in the growth of the broader market.

In 2015, a new generation of boutique fitness studios had begun to emerge, providing relatively novel experiences. Among these were bootcamp-style classes (Orangetheory), indoor cycling (SoulCycle), group-based weightlifting (CrossFit) and cardio-focused boxing (Rumble and Shadowbox). From 2011 to 2015, the number of boutique fitness locations in the US saw an average annual growth rate of 450%.

These studios were viewed as offering a premium fitness experience over traditional gyms and, as referenced above, proved especially appealing to the uniquely health and tech-focused millennial generation.

Why We Invested in Barry's

Barry's, a global boutique fitness operator, presented an opportunity to capitalize on the increasingly popular boutique-fitness concept, along with the demographic trends of the fitness industry as a whole.

In 2015, Barry's had just 16 studio locations concentrated around New York City and Los Angeles, the city in which it was founded. It was already growing rapidly, however, and presented attractive unit economics due to its unique small-club format and modest build-outs.

We saw huge potential for Barry's to expand further. At the time of investment, the growing business had not yet reached the number of branches or key markets of its mature competitors. Observing the growth of these competitors provided a clear roadmap of where Barry's could launch new locations with optimal success.

To execute this strategy, we invested in Barry's alongside North Castle Partners (NCP), a middle market private equity firm focused on investments in health, wellness, and active living. NCP has over 20 years of extensive and effective experience investing in and operating fitness facilities. Prior to Barry's, NCP had already successfully exited investments in several leading brands such as Equinox and Atkins.

Barry's in a Post-COVID World

In March 2020, Barry's chose to temporarily close most of its global studios due to the COVID-19 outbreak. Government-mandated lockdowns kept most studios closed for months, forcing fitness operators to adapt to a world in which socially distanced exercise was the only acceptable form.

Barry's reacted quickly and found alternative ways to operate. It launched Barry's At-Home, its digital remote workout solution.

As regional lockdowns eased over the following months, Barry's began reopening studios at reduced capacity to enable social distancing and launched temporary outdoor locations to safely accommodate more customers.

We view digital at-home fitness as an offset to location-based workouts. Brands like Barry's are repositioning their services to offer multi-channel access to their customers.

Portfolio Construction

Barry's was identified as part of our long-term theme on consumer trends in healthy living and is a position in our Capital Growth offering.

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