strategy&

Outlook for fitness 2022

Reasons for optimism

May 2022

pwc

Contents

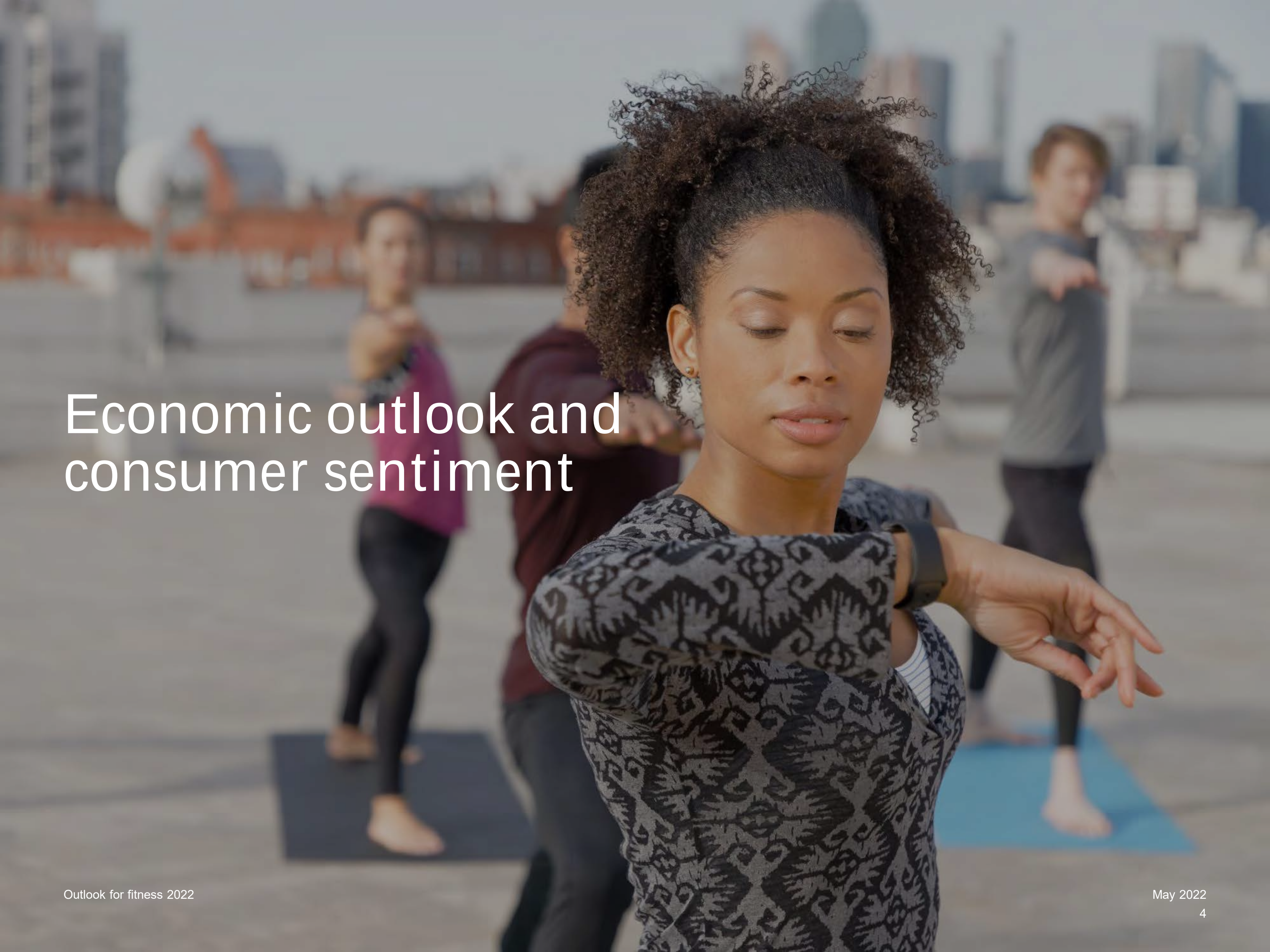
Key messages

It is undeniable that the health and fitness sector has been significantly impacted by COVID-19, as gyms had to close and consumer work/life habits had to change. Add to this the current geopolitical uncertainty and inflationary trends impacting consumer sentiment and disposable income, and one may be forgiven for wondering whether there are any reasons for optimism in the sector.

In this our latest health and fitness sector update, we draw on our recent consumer research to uncover a number of insights suggesting the sector does have real reasons for optimism going forward:

- The **increase in exercise** we saw when lockdowns first happened **appears to be here to stay**. Exercise is one of the stickiest activities we have reviewed with over 50% of all consumers expecting to maintain or increase their levels of exercise vs the period of COVID-19 restrictions (and this translates to c.80% of consumers once we exclude those who say they do not exercise!)
- Consumers tell us that **exercise is one of the top 5 activities** that are **important to their lifestyle** (among other activities such as going on holiday, watching films at home, eating out, and shopping). Gym goers feel even more strongly and place exercise as their top activity and going to the gym within their top 3 most important lifestyle activities
- **Underlying long-term demand drivers** such as the growing population, affluence and consumer interest in health and wellness also remain. Also younger and/or affluent gym going demographics tend to be more optimistic and less impacted by economic pressures
- The COVID-19 restrictions forced people to experiment with different exercise locations (e.g. at home, outdoors) and different channels (e.g. online PT or classes). This has accelerated pre-crisis growth trends for digital fitness participation and for operators looking to cater to customers in “all places at all times” and has driven **significant sector innovation**
- **Digital fitness as a growth area** has been a particular beneficiary of COVID-19 with c.30% of consumers now telling us that they engage in some form of online fitness and on balance expect to continue using online fitness as much or more as they did during COVID-19 restrictions. This is particularly the case for younger digital natives, but we also see similar trends in people across age groups who use online fitness options

As trends for exercising across locations and channels (physical and digital) become embedded, new and established operators are finding **different ways to serve consumers** (i.e. when they work from home or the office, training indoors or outdoors). This is not without challenges and the degree to which this presents a risk or opportunity depends on individual operator propositions and how they are able to cater to evolving consumer preferences and to monetise this changing usage. However, the current landscape does create opportunities across both physical and digital offerings for both emerging and established operators. Gym groups can take the opportunity to capture the **net incremental gains that digital presents** and optimise portfolios and formats for changing patterns of work and play. **New digital offerings** can also take advantage, working both independently or in conjunction with gyms.

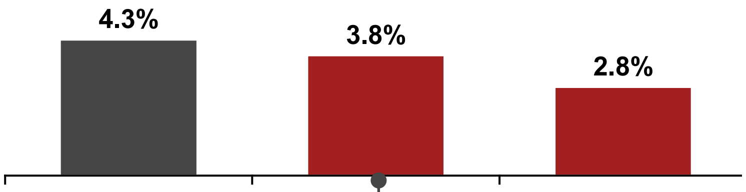


Economic outlook and consumer sentiment

The Ukraine conflict has led to downgrades in economic forecasts across the board, although lower than past crises

UK Real GDP forecast, 2022

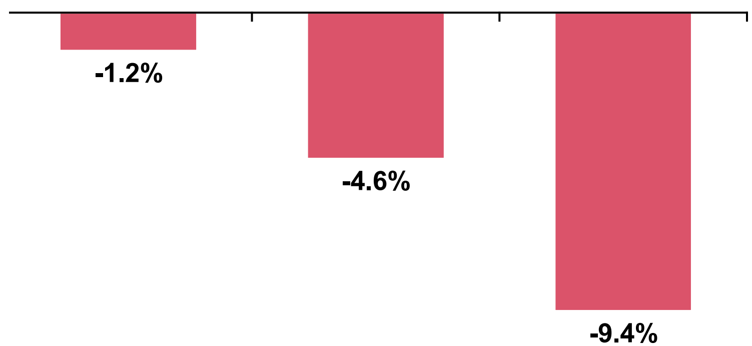
% change in real GDP



- The UK economy is currently expected to avoid recession
- GDP growth rates are higher than the long run average in 2022 as the economy recovers from the pandemic
- Prior to the invasion of Ukraine, the UK economy was forecast to return to pre-pandemic levels by 2023

UK Peak-to-trough change in real GDP during previous crises

% change in real GDP, annual basis



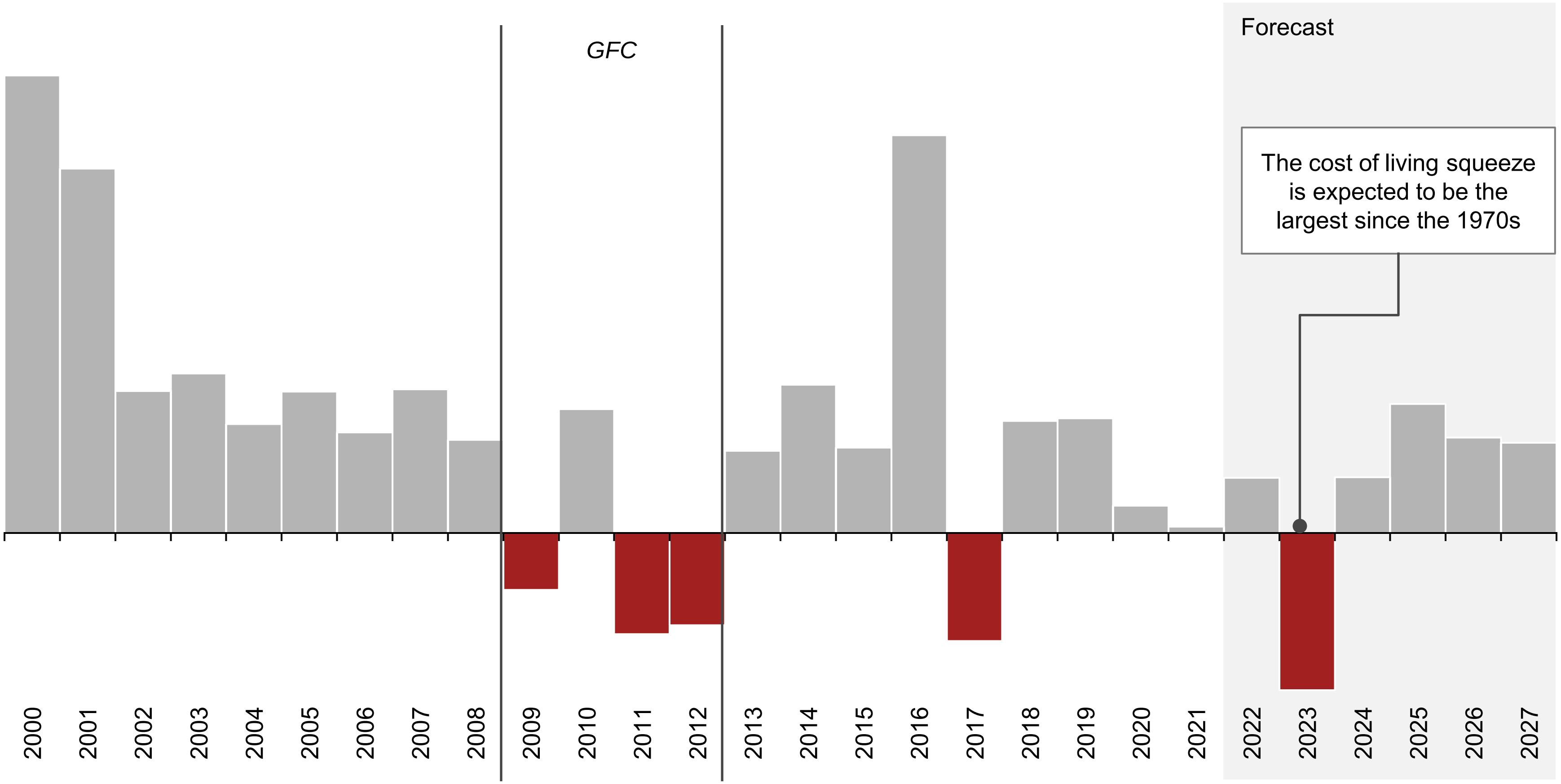
	Contained conflict	Economic escalation	Early 90s recession (1991)	Global Financial Crisis (2007-09)	COVID-19 (2020)
Indicative difference vs pre-crisis forecast[1]	*-0.5ppt*	*-1.5ppt*	*-3.2ppt*	*-6.6ppt*	*-11.4ppt*

Note: 1) Assuming 2% GDP growth as pre-crisis forecast for previous events; 2) Contained conflict assumes that the situation does not worsen and Russian military advance stalls, while Economic escalation assumes advance continues and further economic sanctions are imposed (e.g. all banks banned from SWIFT, removal from WTO). | Source: PwC Economics, ONS

There is likely to be pressure on discretionary income going forward given UK inflation forecasts resulting in a real wage squeeze particularly in 2023

Change in real household disposable income per person – UK

% change on year before, FY20-FY27

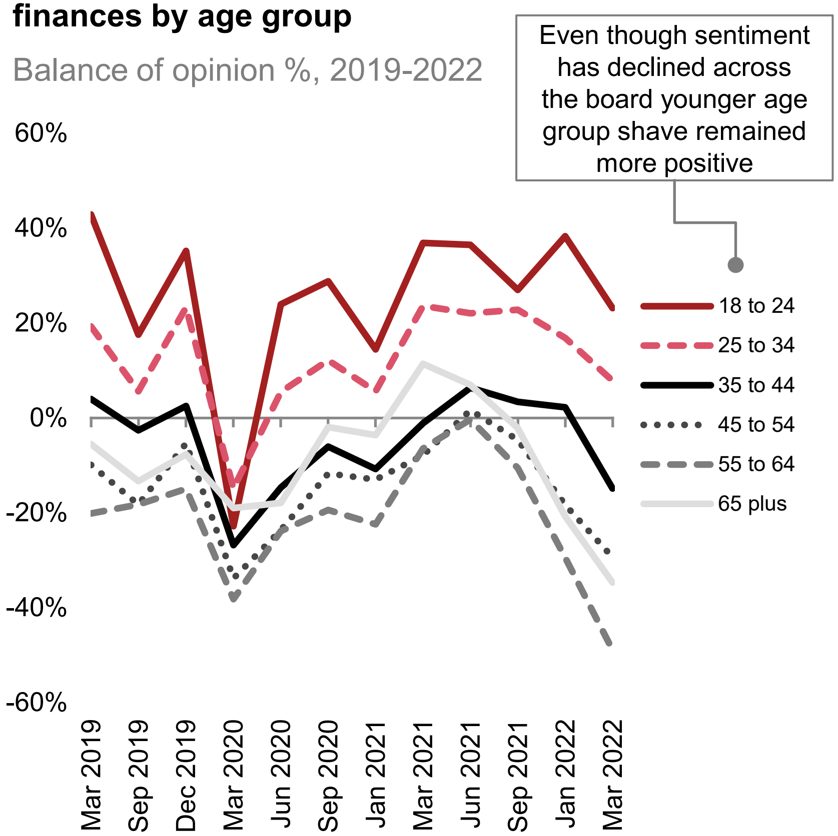


Note: Disposable income defined as income remaining after deduction of taxes and social security payments
Source: PwC Economics, OBR, ONS, Bank of England

Current uncertainty and inflationary pressures have impacted consumer confidence in household finances across ages and socio-demographics

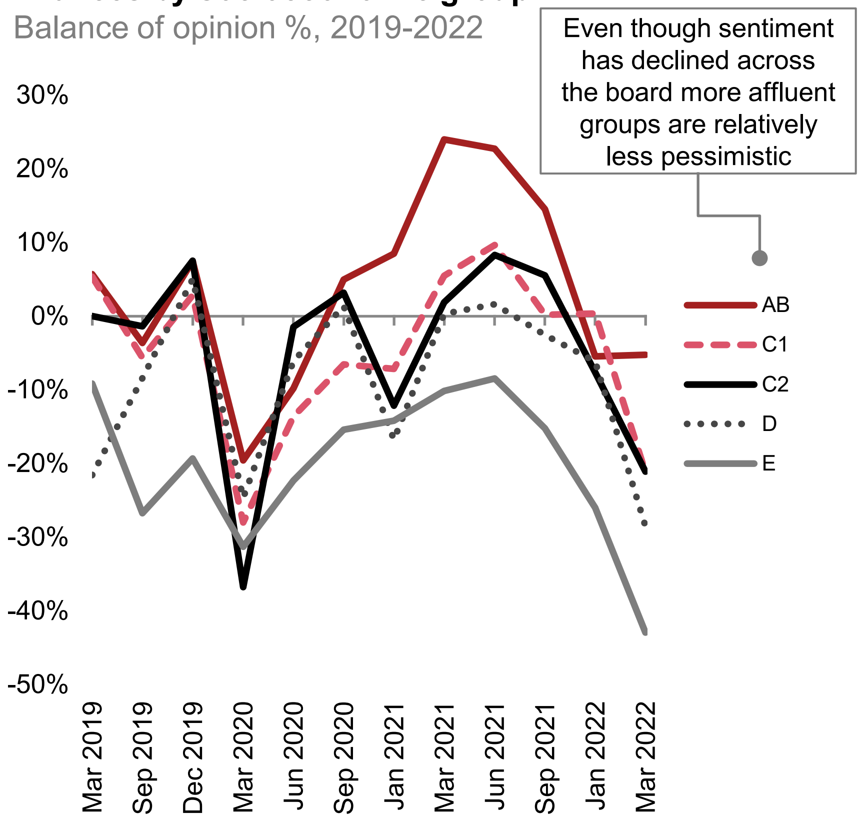
UK consumer sentiment in outlook for household finances by age group

Balance of opinion %, 2019-2022



UK consumer sentiment in outlook for household finances by socioeconomic group

Balance of opinion %, 2019-2022



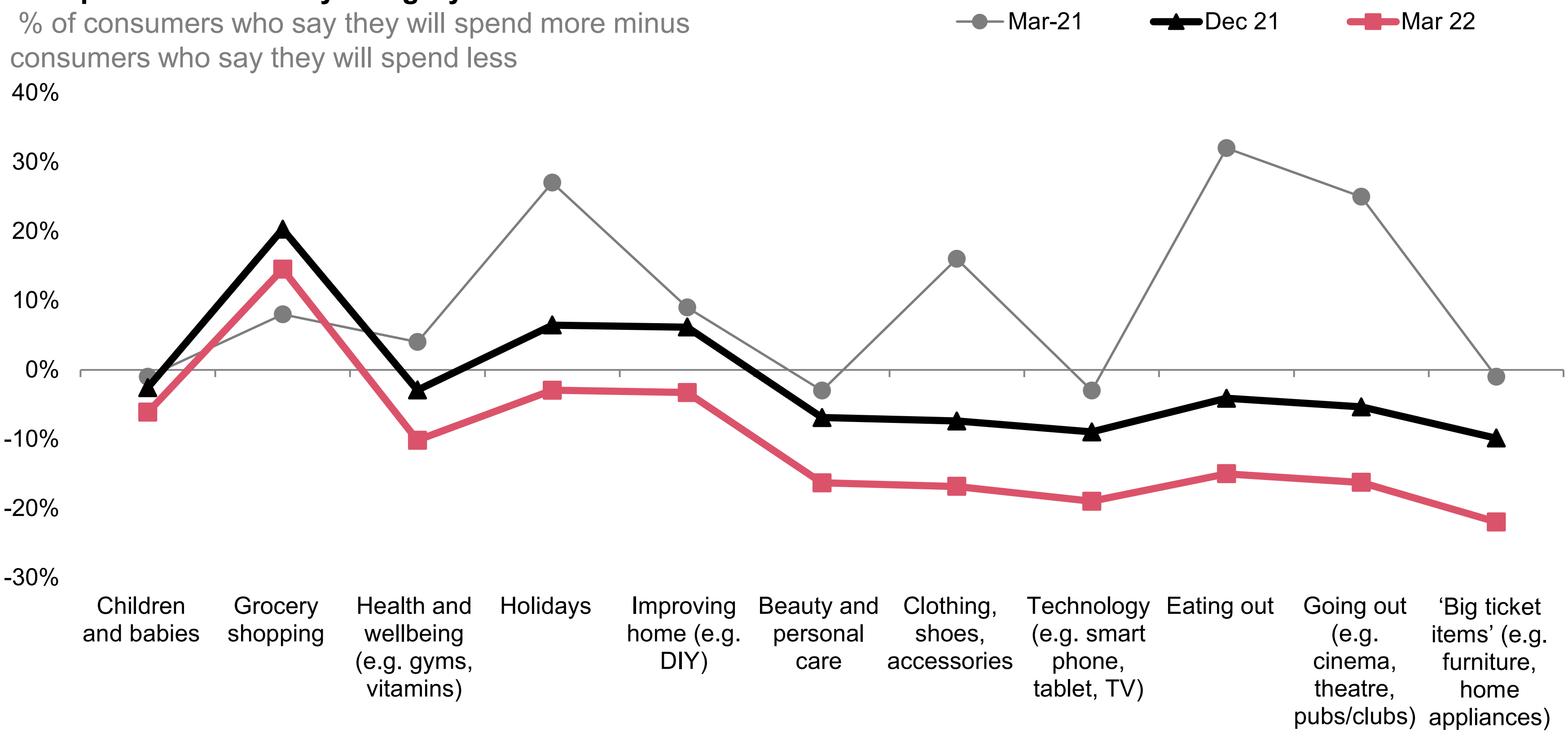
Differences in relative sentiment reflect different consumer expectations on non-discretionary spend (e.g. food, utilities, fuel) across age groups with a higher proportion of older consumers expecting the prices of non-discretionary items to go up

Note: Qn: Thinking about your disposable income in the next 12 months, do you think your household will be…?" Balance of opinion calculated as % of people who expect to be better off minus % of people who expect to be worse off. Source: PwC Consumer Sentiment Index

Although declines in consumer sentiment have impacted spend intentions across sectors, heath and well-being remains one of the most resilient

Net spend intentions by category

% of consumers who say they will spend more minus consumers who say they will spend less



Spend intentions have gone down less | **Ordered by ppt decline between Dec-21 and Mar-22** | Spend intentions have gone down more

Source: PwC Consumer Sentiment Survey Mar-21, Dec21, Mar22

Emerging consumer behaviours following COVD-19 rules relaxation

COVID-19 has changed consumer behaviour in many ways including a trend for increased exercise which appears sticky

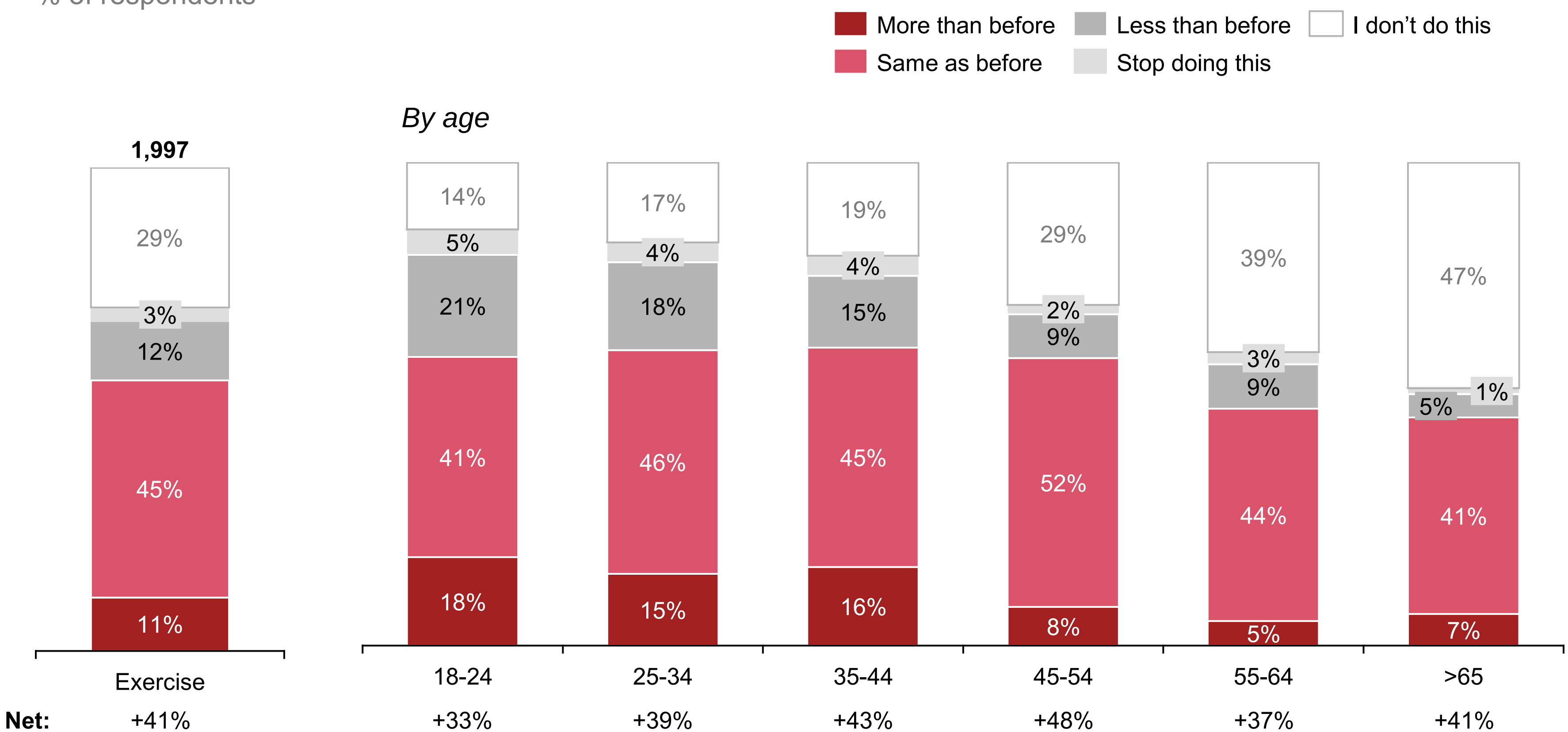
Consumers doing more of something since pandemic vs. proportion of those who expect to continue

% respondents

Notes: Nationally representative panel was asked: a) Has your participation in any of the following changed since the beginning of the COVID-19 pandemic in March 2020. b) Now that things are more back to normal will you continue to do the following compared to last year when there were more COVID restrictions? Source: PwC Consumer Survey (April 2022 (in field 22/04-26/04), survey n=1,997)

The positive trend towards exercise is seen across age groups, with over 50% of consumers intending to exercise as much or more than pre-COVID-19

Anticipated change in level of exercise going forward
% of respondents



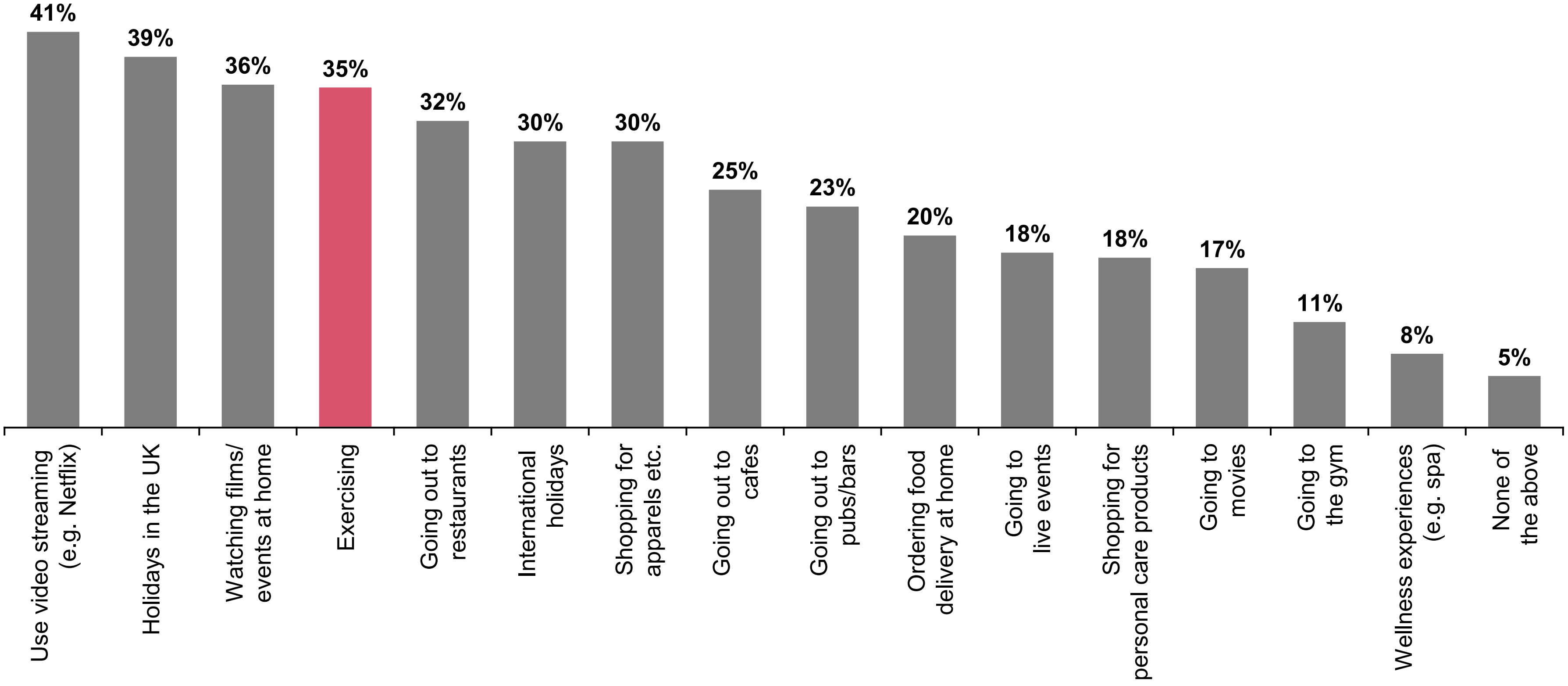
Trends shown above are broadly consistent between men and women in terms of current use, with men slightly more optimistic in terms of their future use intentions (net of +44% vs +38% for women)

Notes: Nationally representative panel was asked: Now that things are more back to normal will you continue to do the following compared to last year when there were more COVID restrictions? Net calculated as proportion of respondents who selected more/stay the same minus proportion who selected less. Source: PwC Consumer Survey (April 2022 (in field 22/04-26/04), survey n=1,997)

Consumers also state that exercise is a central element of their lifestyles (across age groups)

Important lifestyle activities

% of respondents (respondents only shown options for activities they do)

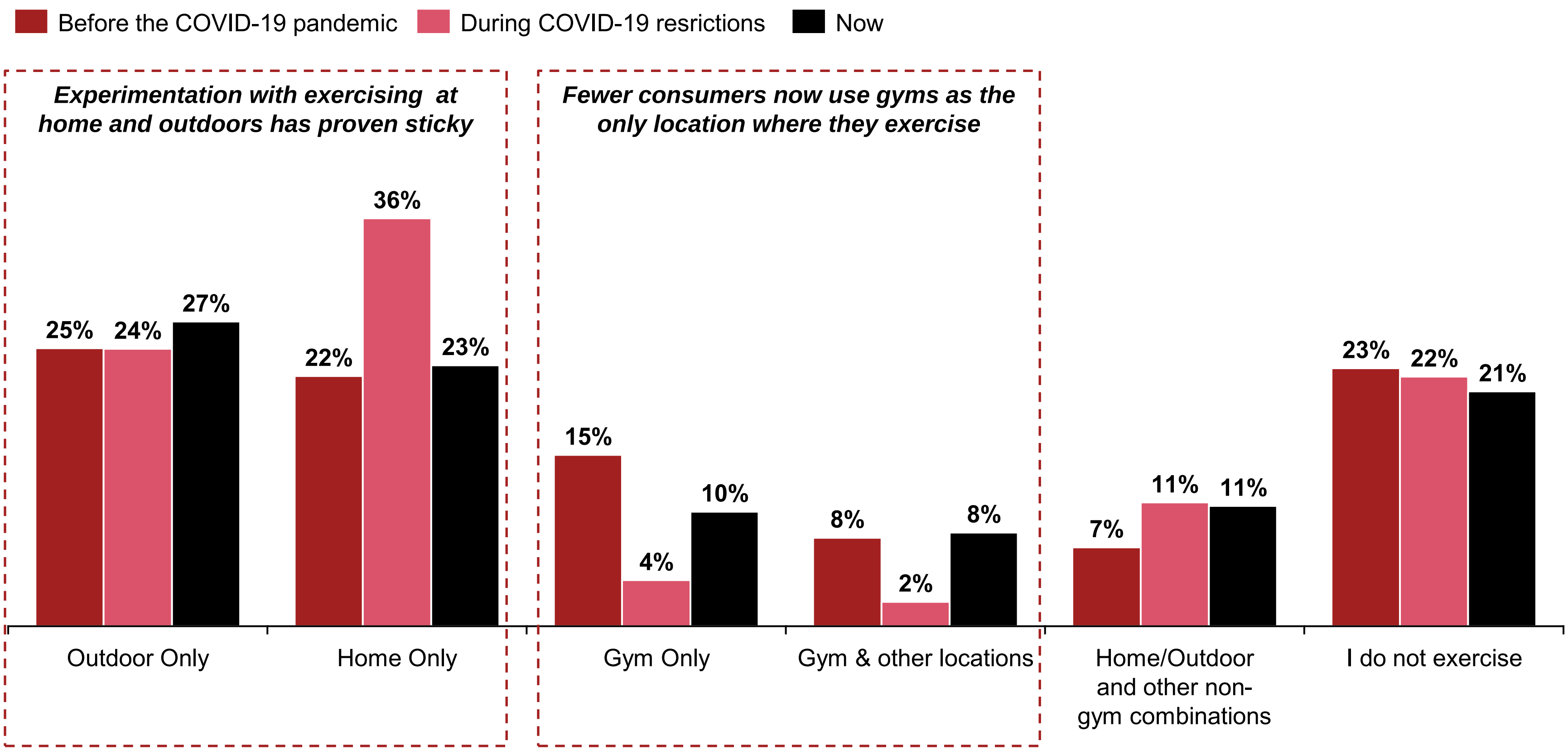


Consumers across age groups consistently ranked exercise within the top 5 activities most central to their lifestyle

Notes: Nationally representative panel was asked: Which of the activities below are most important to your lifestyle? Source: PwC Consumer Survey (April 2022 (in field 22/04-26/04), survey n=1,997)

As consumers have experimented with different forms of exercise during COVID-19, locations/channels for exercise have broadened

Locations of exercise
% of respondents

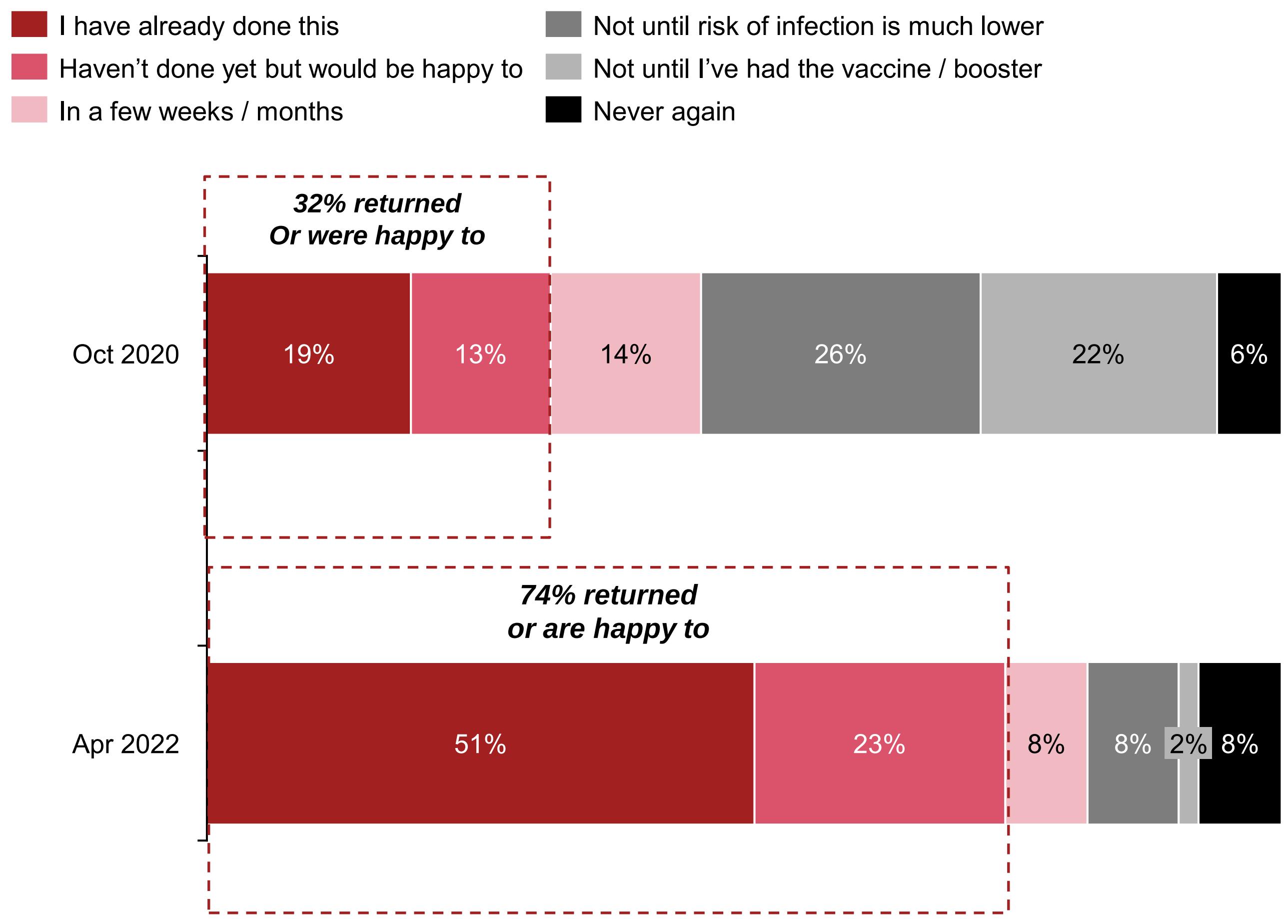


Note: Nationally representative panel was asked Before. the COVID-19 pandemic, During and Now - Where do you exercise?
Source: PwC Consumer Survey (April 2022 (in field 22/04-26/04), survey n=1,997)

Increasing numbers of gym-goers have returned to the gym since COVID impacted but some caution still remains...

Consumer views on returning to the gym, over time

% of respondents who participated in gym going

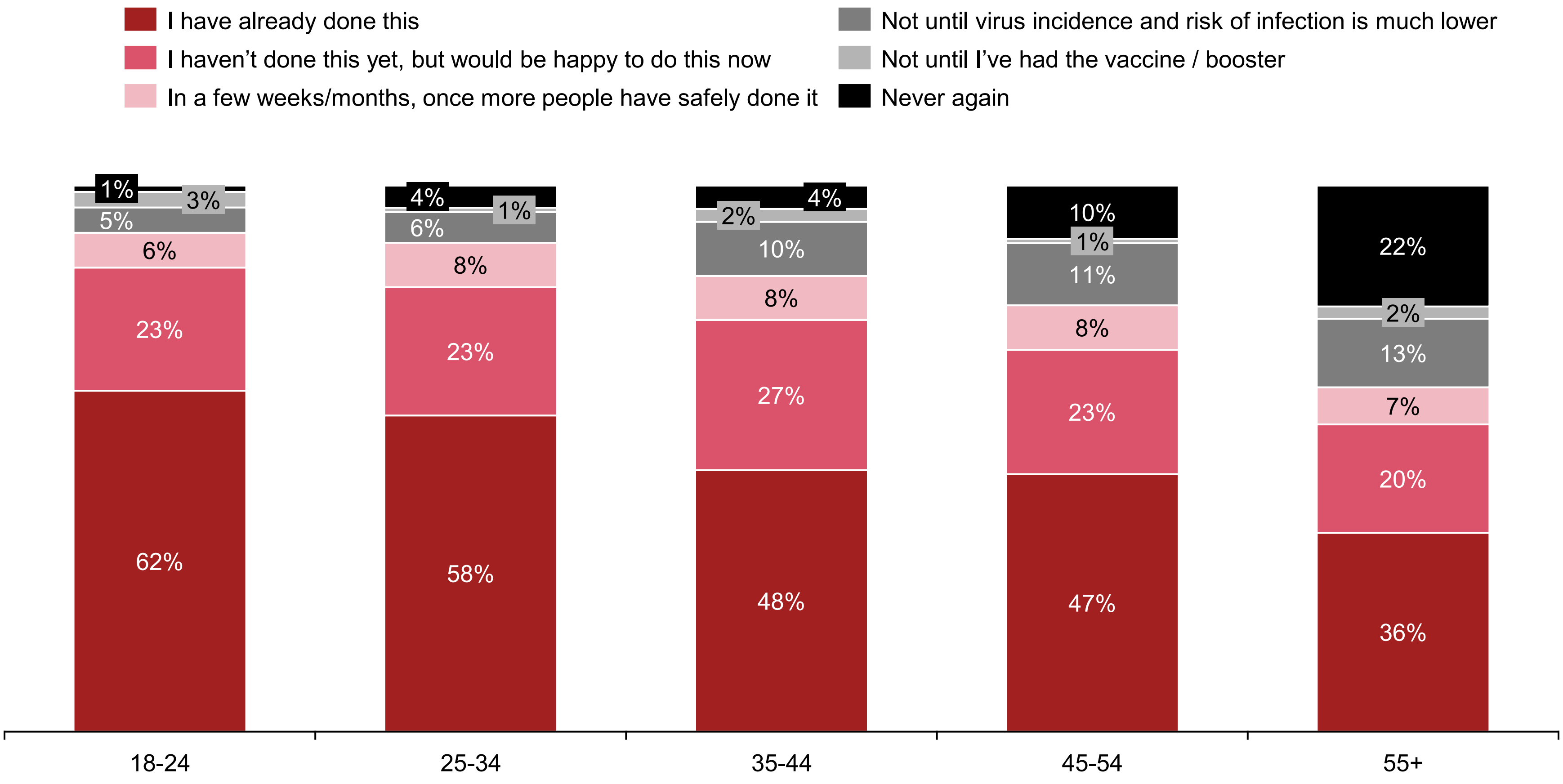


Note: Nationally representative panel was asked *With COVID-19 easing, how long will it take you to do each of the following again?*
Source: PwC Consumer Survey Oct 2020 (7/10-14/10 2022) (n=2227) and April 2022 (in field 06/04-11/04) n=2000

…primarily amongst older demographics

Time expected for activities to return to normal

% of respondents who participated in gym going

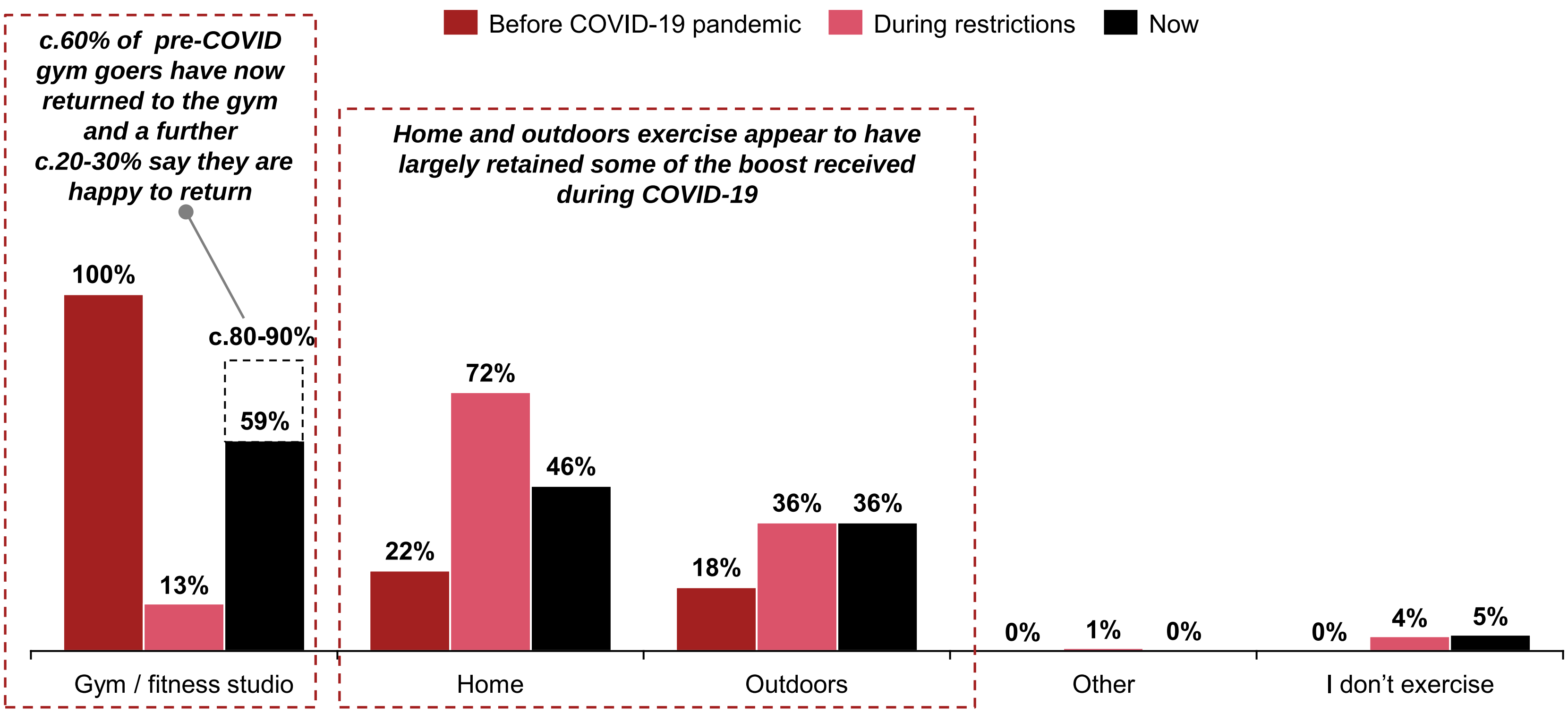


Note: Nationally representative panel was asked *With COVID-19 easing, how long will it take you to do each of the following again?*
Source: PwC Consumer survey April 2022 (in field 06/04-11/04) n=2000

Ongoing caution and some potential cannibalisation from the broadening of exercise locations may explain why gym goers on average have not all returned to gyms as yet

Locations of exercise

% of pre-COVID gym goers (multiple answers permitted)



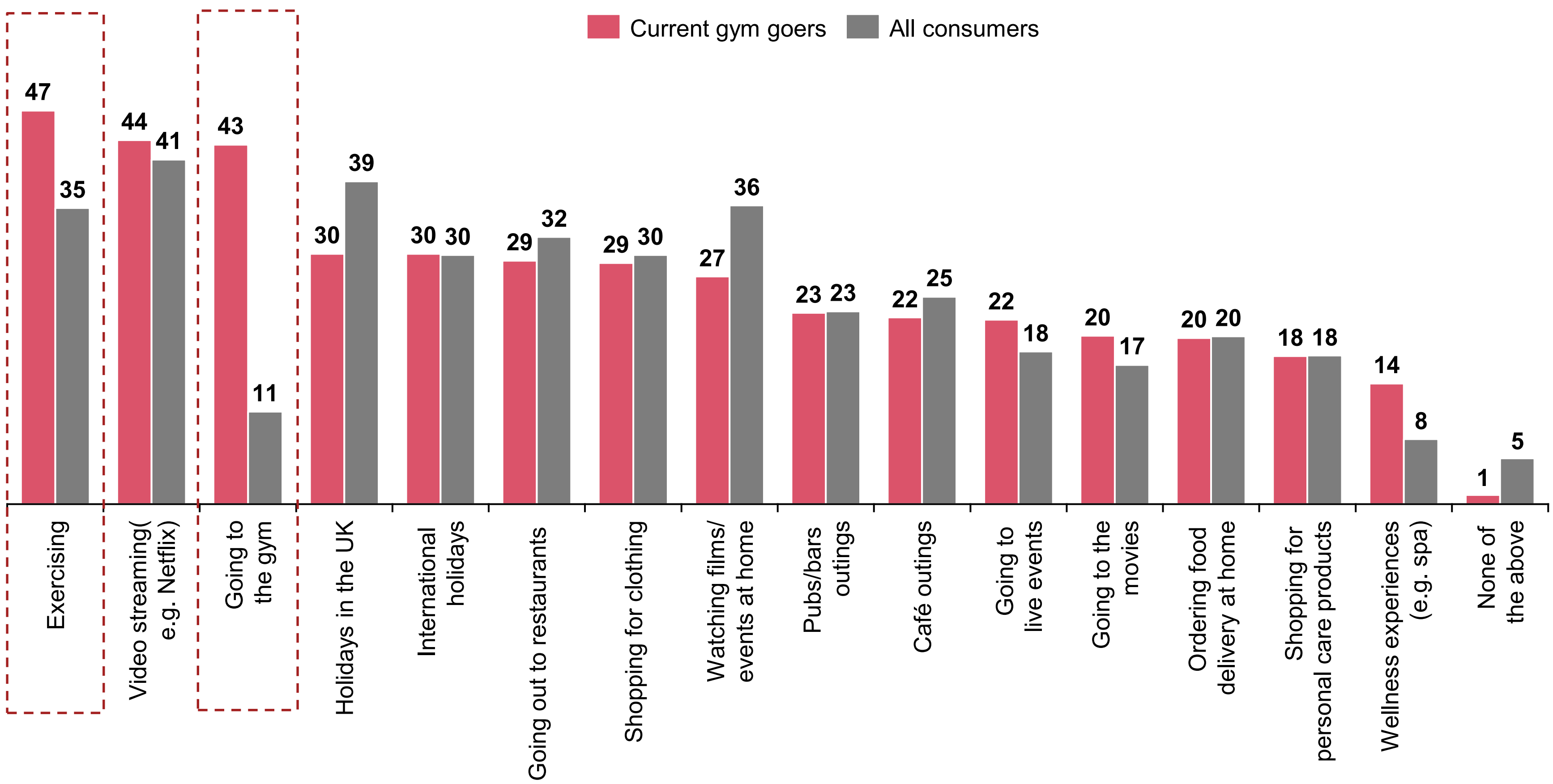
We note that survey results above refers to consumers on aggregate the performance of different operators could vary from this with some operators experiencing better trends in terms of their customers returning to the gym and other weaker

Notes: (1) Nationally representative panel was asked *Where do you exercise... Before the pandemic; During restrictions, Currently?* Source: PwC Consumer Survey April 2022 (in field 22/04-26/04), survey n=1,997), PwC Consumer survey April 2022 (in field 06/04-11/04) n=2000

Going to the gym remains central to the lifestyle of gym goers, and is also supported by the importance of exercise more broadly

Important lifestyle activities

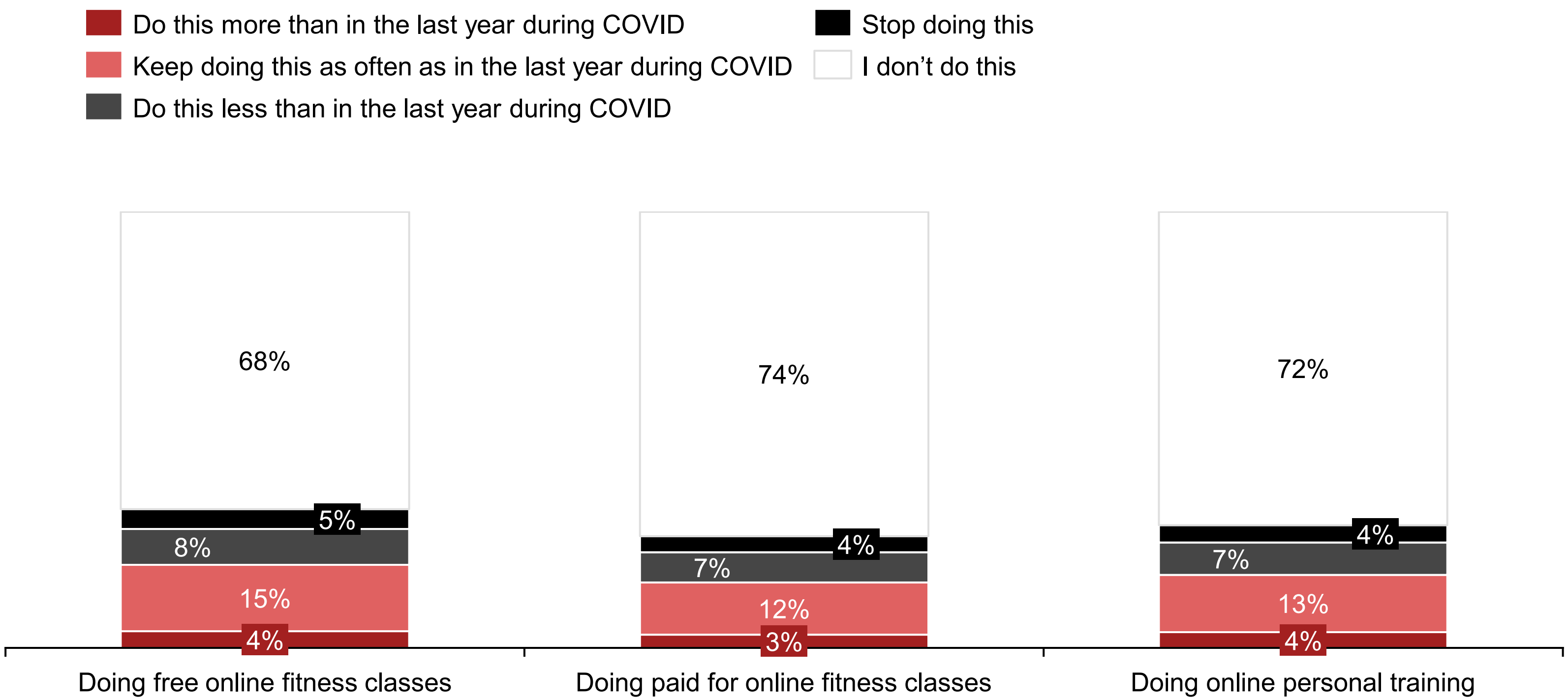
% of respondents (respondents only shown options for activities they do)



Note: (1) Question that was asked: Which of the activities below are most important to your lifestyle? Source: PwC Consumer Survey (April 2022 (in field 22/04-26/04), survey n=1,997)

Online fitness has also grown through the pandemic and has proven popular with some consumers …

Anticipated change in use of online fitness classes going forward[1]
% of respondents



Net: +6%

Net: +4%

Net: +5%

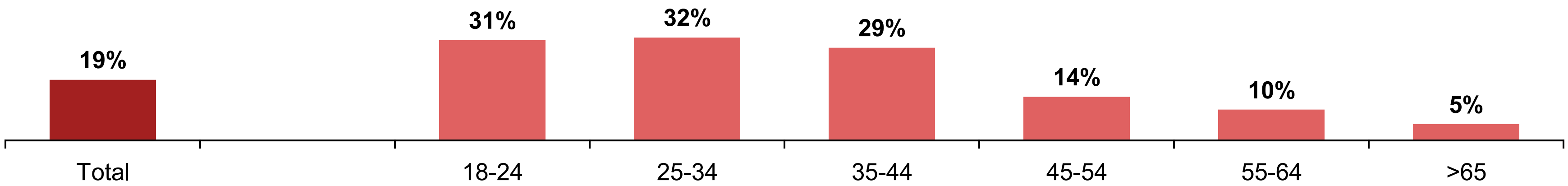
The results of our April 22 survey above suggests that a similar proportion of consumers engage with online fitness as in our October 2020 survey

Notes: (1) Nationally representative panel was asked: Now that things are more back to normal will you continue to do the following compared to last year when there were more COVID restrictions?. ? Net calculated as proportion of respondents who selected more/stay the same minus proportion who selected less Source: PwC Consumer Survey (April 2022 (in field 22/04-26/04), survey n=1,997)

…particularly younger age cohorts

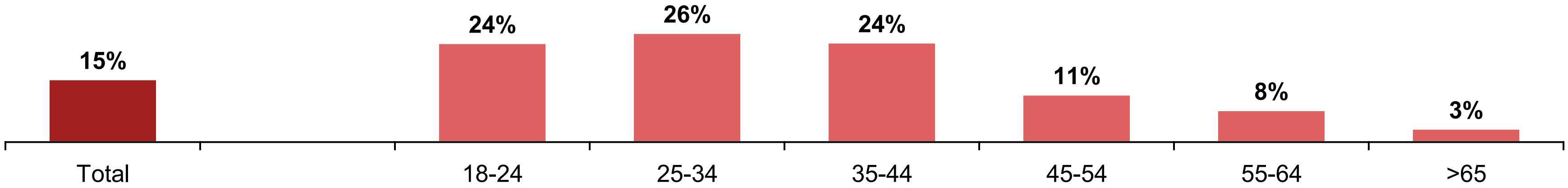
Anticipated change in use of free online fitness classes going forward

% of respondents who said they will use these as much or more as in the last year during COVID



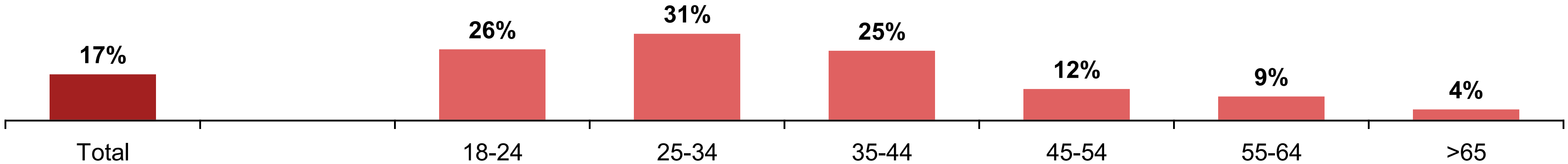
Anticipated change in use of paid for online fitness classes going forward

% of respondents who said they will use these as much or more as in the last year during COVID



Anticipated change in use of online personal training going forward

% of respondents who said they will use these as much or more as in the last year during COVID

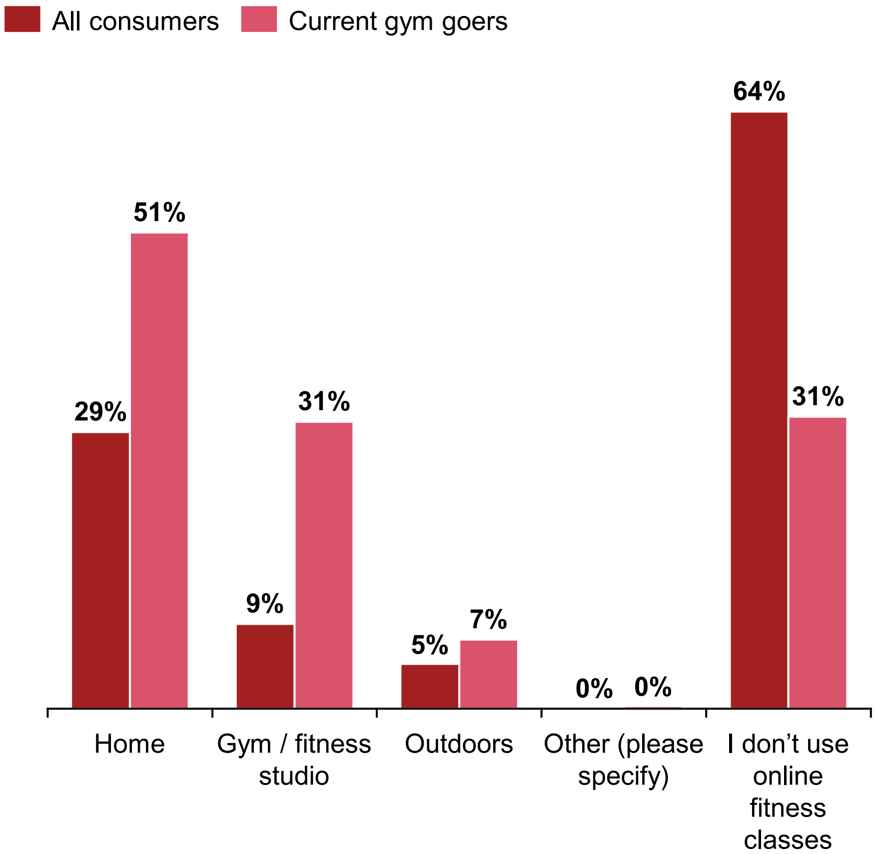


Older age cohorts who use online fitness have similar intentions to younger age cohorts in terms of continued use (c.60% intend to use online fitness as much or more than during COVID restrictions last year. Use and intentions on the use of online fitness are broadly similar between men and women

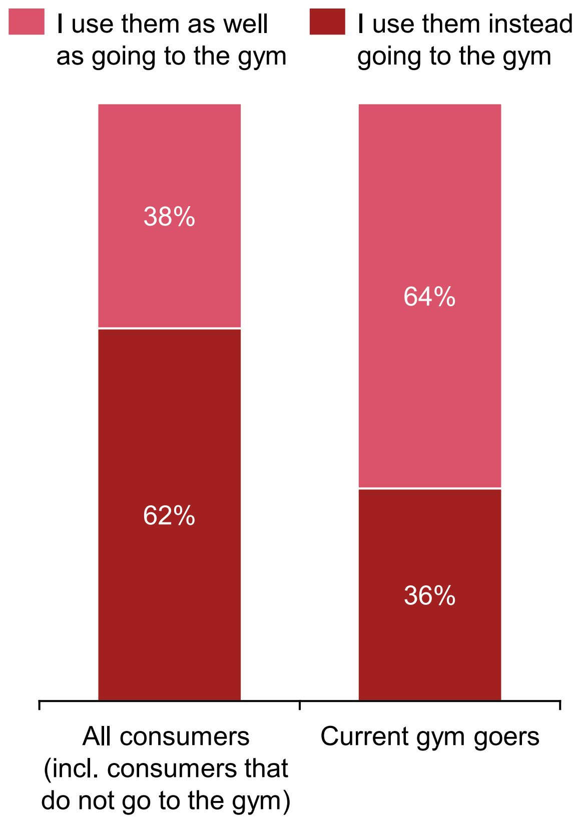
Notes: (1) Nationally representative panel was asked: Now that things are more back to normal will you continue to do the following compared to last year when there were more COVID restrictions? Base is total respondents
Source: PwC Consumer Survey (April 2022 (in field 22/04-26/04), survey n=1,997)

Online fitness is mostly used by consumers at home but gym goers also use online classes when at the gym

Online fitness classes location of use
% of respondents who use fitness classes



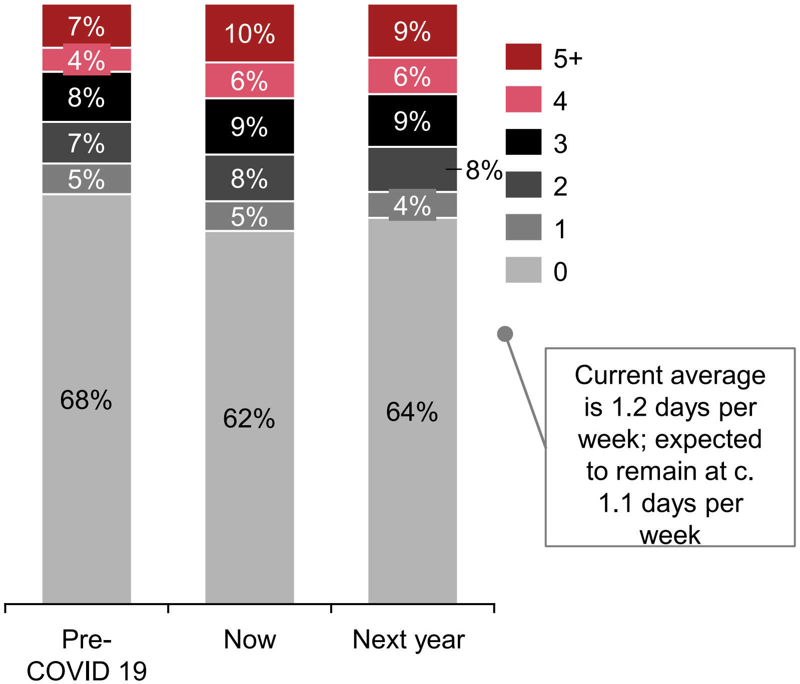
Online fitness classes purpose of use
% of respondents



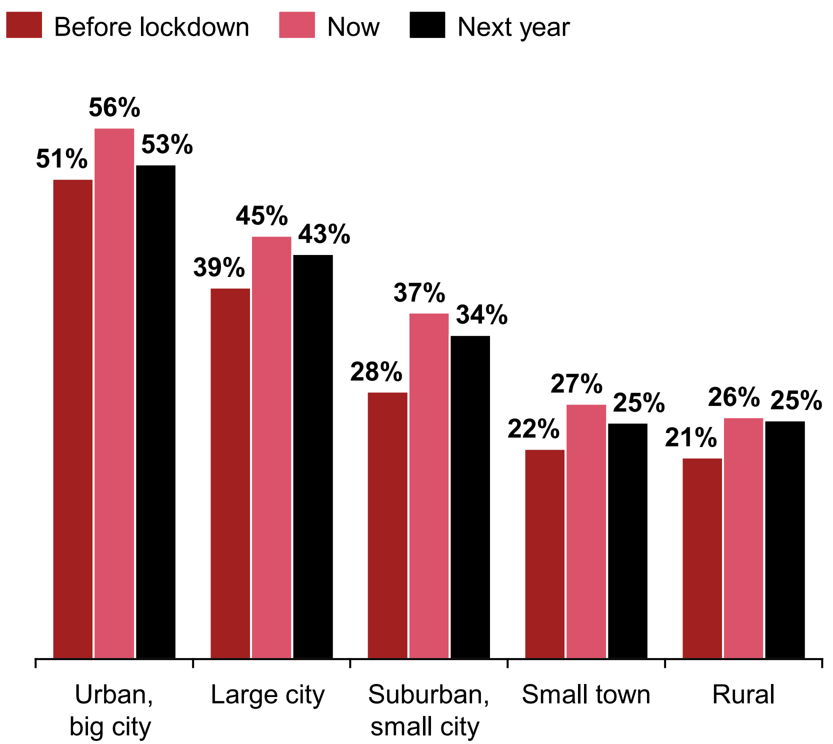
Note: LHS graph: Question that was asked : Where do you use online fitness classes?, RHS graph: Question that was asked: What best describes your use of online fitness classes? Source: PwC Consumer Survey (April 2022 (in field 22/04-26/04), survey n=1,997)

Working from home has increased compared to pre-COVID and appears here to stay, albeit with some unwinding as working patterns normalise

Number of days worked from home per week
% of respondents



Number of days working from home, by location type
% of respondents working at least 1 day a week from home

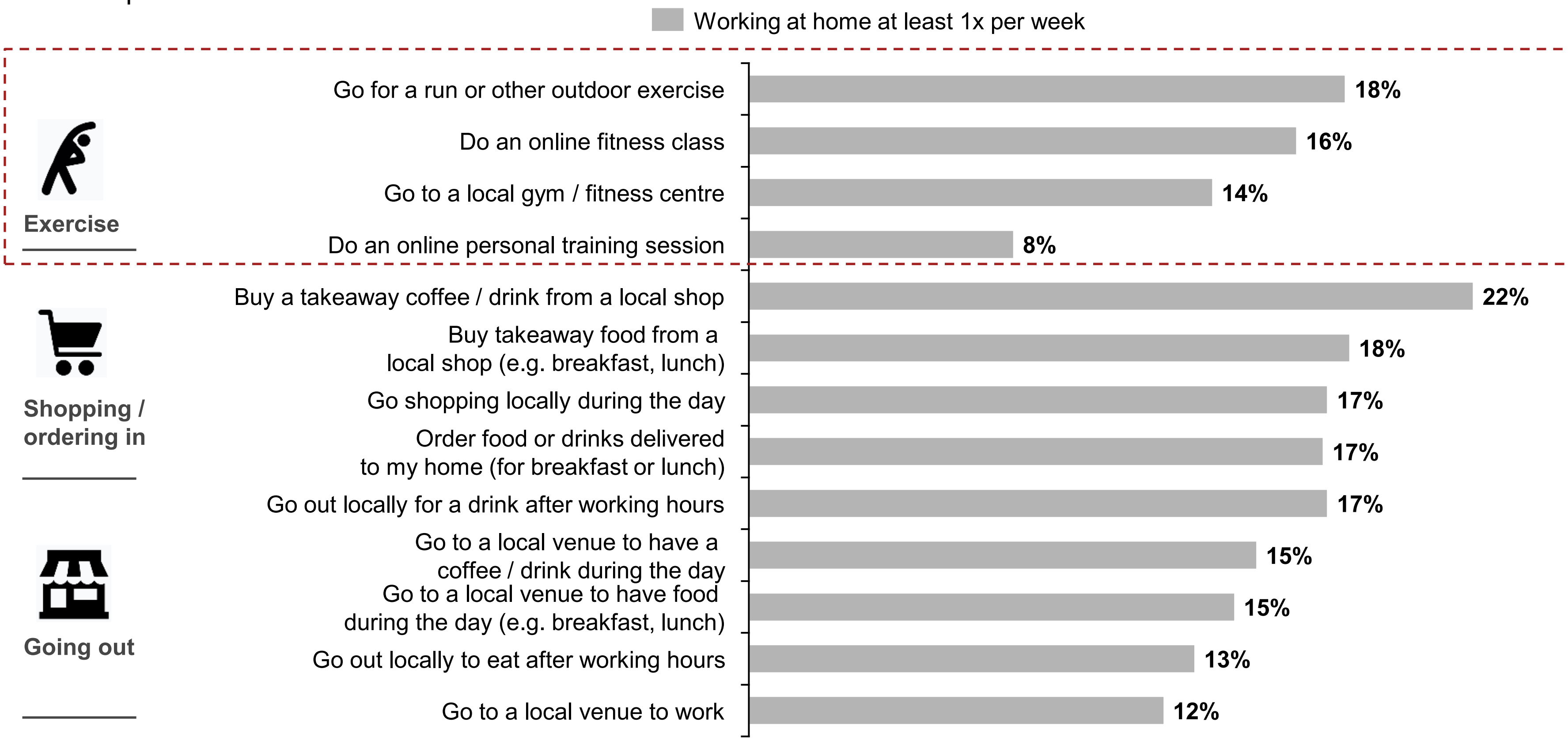


Current gym goers tend to belong to younger and more affluent consumer groups who work from home more on average. Pre-COVID-19, c.55% of gym goers worked from home at least 1 day per week, and 65% do so now. 60% of gym goers expect to carry on working from home at least 1 day per week

Notes: (1) Nationally representative panel was asked *How many days a week do you work from home / expect to work from home?*
Source: PwC Consumer Survey (April 2022 (in field 22/04-26/04), survey n=1,997)

When people work from home they participate in a range of activities including exercising

Participation in activities while working from home
% of respondents



Younger people and current gym goers are much more likely to use local gyms or do online fitness classes when working from home

Note: Nationally representative panel was asked *When you work from home, which of the following do you do?*
Source: PwC Consumer Survey (April 2022 (in field 22/04-26/04), survey n=1,997)

Please get in touch if you would like to find out more !

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