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## **GROWTH OF HEALTH CLUB INDUSTRY REFLECTS NATION'S GREATER HEALTH CONSCIOUSNESS, SAYS MERCANTI GROUP REPORT**

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### **Niche Clubs and Multi-Purpose Facilities Alike Are Benefiting from the Trend**

MINNEAPOLIS, MN, March 20, 2007 – The health club industry is feeling its oats these days, says The Mercanti Group, a boutique investment bank headquartered in Minneapolis and with offices also in Los Angeles, New York and Seattle.

Health club membership tops 41 million Americans, revenues well exceed \$17 billion annually, and since 1983 the business has enjoyed an 8.0% annual growth, the report points out. Add to that the increasing awareness of healthy living -- in which regular exercise plays a bigger and bigger role -- as well as growing ranks of health conscious individuals among the aging Baby Boomers and the Gen-X generation, and it looks as though the industry will remain in top form for some time to come.

The trend is apt to be aided by continued growth of larger format, multipurpose club operators, but also, increasingly, small format, niche-oriented or express clubs, says Mercanti Group Director Dave Remick, who authored the report.

Mr. Remick points out that while new membership on a national basis has plateaued these past two years, industry revenue growth has since 1993 outpaced the number of members. "This indicates that good club operators have managed to maintain and grow memberships, while some have also managed to improve the productivity of their facilities by generating more ancillary revenues," he observes.

The report notes that multipurpose club operators such as 24 Hour Fitness, LifeTime Fitness (NYSE: LTM), L.A. Fitness and Town Sports International (NasdaqNM: CLUB) have continued their expansion by opening facilities in larger metropolitan areas with clubs from 15,000 to 225,000 square feet. Multipurpose clubs and other larger operators have opened approximately 150 new facilities since 2004. However, Mr. Remick points out that even bigger growth has come from small format clubs, such as Curves, Anytime Fitness, Planet Fitness, World Gym, Fitness Together, Fitness 19, Contours Fitness and Snap Fitness.

The explosive unit growth of the small format clubs has been financed, the report states, through franchising, such as that experienced by Gold's Gym, owned since 2004 by TRT Holdings, a private investment company. The industry's growth, both among the multipurpose companies and the smaller units, has raised concerns regarding overcapacity. However, Mr. Remick notes that the bulk of new club openings are small format facilities having more limited member capacities: "Smaller format clubs tend to have more convenient locations and focus on a particular customer niche – women only, one-on-one training, fitness-only – whereas the larger format, multipurpose club operators need larger real estate footprints that are more expensive and difficult to develop, and by their nature focus on offering a broad array of services, amenities and activities catering to a more diverse customer group, including families."

Along with growth, member expectations have also expanded, according to the report. “Free weights, treadmills, stationary bikes and aerobics were the staple feature a decade ago and were all that were needed for a club to qualify as a mid- to high-end operator. Fast forward to today where on-site personal trainers, full-service and family locker rooms, indoor rock climbing walls, nutritional consulting, bio-mechanical training equipment, spa services and on-site child care are standard fare.”

The study also notes that while one large player, Bally Total Fitness, with revenues of \$1.1 billion has had financial difficulties, in recent years a dozen or so major companies have successfully raised funds through private placements, gone public, sold units or have been acquired by private equity firms. The largest of the acquisitions was the 2006 purchase for \$1.6 billion by Forstmann Little & Co. of 24 Hour Fitness, operator of 370 clubs generating annual revenues of \$1.3 billion.

“Clearly the bar has been raised,” said Mr. Remick. “The industry, despite some consolidation, remains highly fragmented, and most health clubs in the U.S. remain in the hands of single-unit operators. It is ripe with opportunity.”

A copy of this report, from the March 2007 *Chronicle*, can be obtained at [www.mercantigroup.com](http://www.mercantigroup.com).

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