

INVESTMENT ANALYSIS OF FITNESS INDUSTRY

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Agenda

Industry Overview

- National policies promote the rapid development of the health industry
 - Compared with the USA, China's fitness industry is still in its infancy, with a promising prospect for industry penetration
 - The improvement of residents' income and fitness awareness will drive the continuous increase of fitness population in the future
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Industry Analysis

- Competitive landscape of fitness industry and key growth drivers are portrayed by comparing pros and cons of four main business modes
 - Screening criteria are concluded based on the essence of the fitness industry and key growth drivers
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Targets Analysis

Status

Prospect

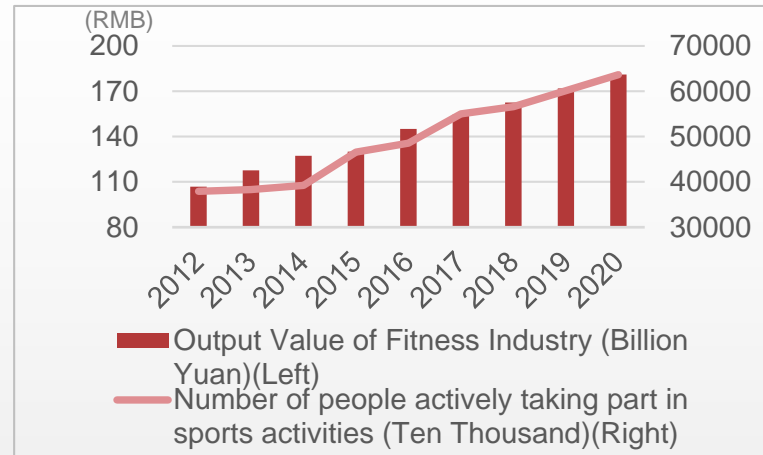
- Incisive business model and brand positioning guarantee its growth
 - Product content, user viscosity and community operation form its customer-oriented operation strategies
 - Estimated revenue and expense indicate its profitability and sustainability
 - Six core strategies further drive the sustainable development of the targets
 - Risks of operation process are estimated, and practical mitigations are provided
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Synergetic Investment

- Both the children's fitness industry and health service management have great market potential
- Cooperating with a mature gym brand to develop targeted areas could promote business growth and generate synergy.

1.1 Fitness Industry in the Health Ecosystem

Fitness Industry Output Value and Number of Body Builder



The **value** of fitness industry **grows** at the speed of **7%** and the number of **body builders** is experiencing a **growth of 7%**

Comparison Between China and the USA

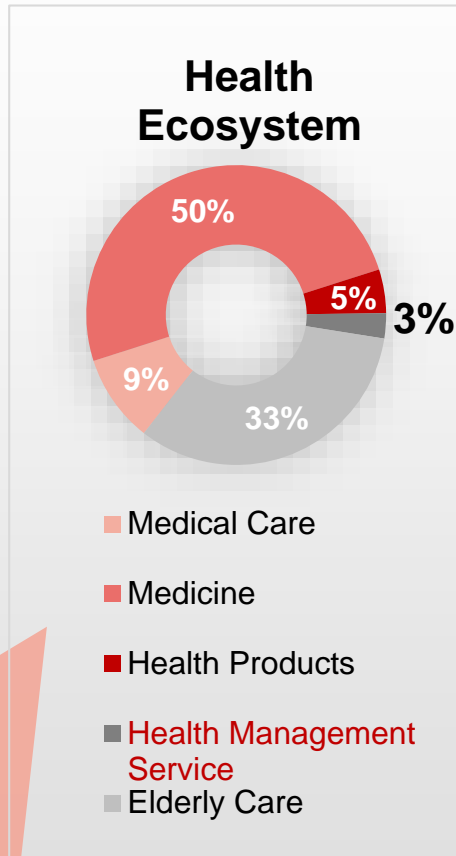
	Number of Gyms	Percentage (those who do fitness / total population)
China	46050	3.1%
USA	44633	20.3%

Compared to the USA, there will be about **240 million more body builders** and nearly **500 thousand more gyms** in China

Related Policy

- The development plan of the new generation of artificial intelligence
- The 13th five-year health plan
- Some recommendations on accelerating the development of elder care service industry
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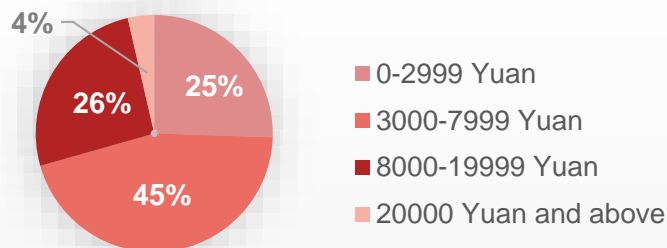
Government has issued over **15 policies** focusing on the fitness industry





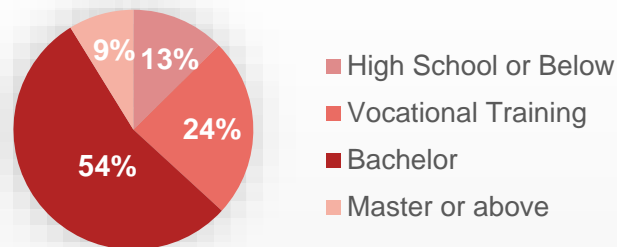
1.2 Consumer Trend of Fitness Industry

Monthly Salary Structure of Body Builder



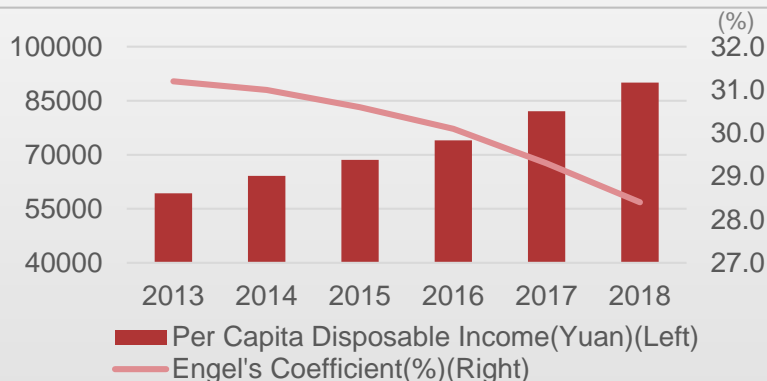
- People with salary ranging from 3000 to 19999 yuan are more willing to do fitness

Education Background Structure of Body Builder



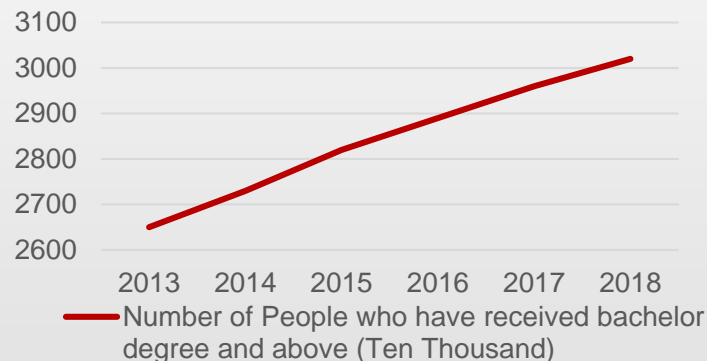
- People with bachelor degree have higher tendency to keep fit, accounting for more than 50%

Per Capita Disposable Income & Engel's Coefficient



- The increasing (decreasing) rate of per Capita Disposable Income (Engel's Coefficient) grew from 2016 to 2018

Number of Bachelor and Above



- In 2018, the number reached 30.2 million, which is 3.7 million more than that in 2013, and it is expected to grow to 34 million in the year 2023





Large portion of high salary body builder
+
Higher income & Lower Engel's Coefficient

Huge percentage of higher-education body builder
+
Increasing number of higher-education talent





More people will hit the gym.

2.1 Competitive Landscape of Fitness Industry

Offline Modes

Category	Characteristic	Representing Company
Traditional Gym	Chain Stores + Membership	 HOSA
		 NIRVANA
Fitness Studio	Boutique Self-Management + Membership	 Perfit W
		 Dr. Sport

Online Modes

Category	Characteristic	Representing Company
App	Online Platform + Offline Cooperation + Retail	 Ran
		 Ledongli
Self-service Gym	Online Service + Self-run Stores + Retail	 Keep
		 Lefit

Comparison of Four Main Business Modes

	Traditional Gym	Fitness Studio	App	Self-Service Gym
Advantages	<ul style="list-style-type: none"> Abundant personal trainers and personalized guidance Various fitness equipments and facilities (shower area) Strong fitness atmosphere Formation of social circle 	<ul style="list-style-type: none"> Highly specialized and differentiated courses Community marketing strategy enhances customers' belonging 	<ul style="list-style-type: none"> Comprehensive functions and appealing teaching videos attracts new beginners Achievements sharing function inspires users' interests 	<ul style="list-style-type: none"> Low input costs Smart devices stimulate operations efficiency Retail strategy attracts potential customers (new beginners).
Disadvantages	<ul style="list-style-type: none"> High manual dependence and low service efficiency Poor precision marketing Unacceptable input costs Unsustainable profit model Uneven trainer quality and high turnover rate 	<ul style="list-style-type: none"> Limited in the ability of scale growth Hard to build a personal brand and attract customers 	<ul style="list-style-type: none"> Homogeneous products Low payoff and high costs for subsidies Insufficient scrutiny of offline venues Poor interaction 	<ul style="list-style-type: none"> Small site and incomplete facilities impair experience No substantial change in profit model Intelligent equipment lacks practicability



2.2 How to Select – Based on the Essence of Fitness Industry

Dilemma of Online Companies

Since 2015, online fitness companies have been in hot pursuit of capital. The rounds and amounts of financing have continuously set new records. However, Internet gyms are always denounced for the following defects.

- **Single product line**: Traditional profit model of “pre-sale of membership card + private training fee”
- **Poor fitness experience**: Insufficient amount of professional equipment; basic service
- **Difficult conversion of online users**: Gradual decrease in users' retention of online App

Characteristics of Fitness

- Stretching, shower and rest after workout
- Professional strength training equipment
- Tailored guidance from private trainers

Ordinary Internet gyms
can't fulfill them

3-kilometer Business

A specific service industry focusing on
solid experience

Key Growth Drivers

Service

(equipment, coach, course content)

Experience

(sociality, intelligentization, environment)

Convenience

(location, self-service)

Selection Criteria

- Focusing on building **offline brand** and operating **self-run gyms**
- Emphasizing the innovation of **products** and **course content**
- Utilizing **intelligent devices** to realize lightweight operations
 - Developing and improving online platform (**App**, **applet**)
 - Analyzing users' sports **data** to provide **tailored services**

SHape



3.1 Introduction of **SHAPE**

—— A Fitness Studio with Group Training at Its Core

- **Established** on Jan. 18th **2018** then opened the first store on Mar. 12th
- Currently, there are **8 new stores** in Beijing in **past year**:
 - 200-300 m² of single gymnasium for 3 of the stores
 - 400-500 m² of integrated multi-room (including 1 to 3 functional areas) for 5 of the stores
- **3 Patterns of Class:**

Group Classes	Personal Trainers	Beginner Camp
200kcal/300kcal/400kcal/500kcal ¥ 59-129/h	Part-time Trainers: ¥ 408/h Full-time Trainers: ¥ 599-699/h	5 and a half hours ¥ 599 per capita

* Group Packs, which include 12/36/72 hours, enjoy special discount

- **3 Rounds of Financing** totaled nearly **100 million** RMB
- **KPI** shows a **growth** trend

Time	Repurchase Rate	Referral Rate	Paying Members	Time of Purchase / Month	Consumption Sum /Month
Aug. 2018	85%	70%	Above 5,000	> 6	> 300 RMB
Dec. 2018	90%	72%	Above 20,000	> 10	> 600 RMB



3.2.1 Why **SHAPE** — A Customer-oriented Company

Business Model

Group Classes: **Main Business**

Quality

- Pay per view **online**
- Low-skilled
- Exercise with group of people



Benefits

- Easy & Cheap & Flexible
- Specific Community
- Social functions
- High level of experience



Develop
customer →

Personal Trainer



**Profit-making
point**

• **Viral Marketing Strategy:** Credits Fission through Internet

When a user consumes 200kcal through Shape, he will receive 200 points. **Points are equivalent to money:** 200 points = 1 yuan. Then the user can share point-bonus through Wechat groups. Receivers can get random points, which **motivates them to join Shape**. Senders can get the sum of all the points receivers get, which **motivates them to take more classes in Shape**.

Brand Positioning

- **Fashion Fitness:** Interior Design & Coach Training Style
- **Sports Community:** Wechat Group & Group Activities
- **Data Driven Health Management Experts:** Smart Wearable Devices

Invest energy and money in users **experience and service**
Scale expansion and **brand value** are mutually reinforced





3.2.2 Why **SHAPE** — A Customer-oriented Company

Products

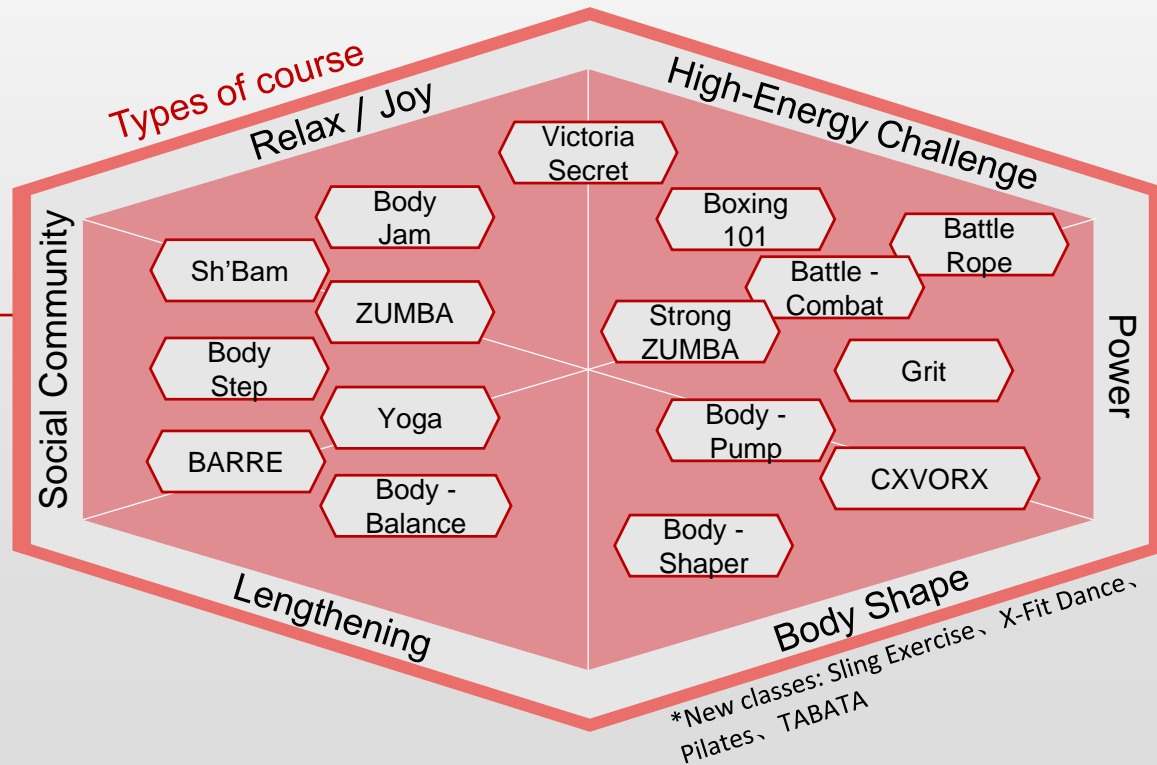
→ Enhance Experience and Service

Classes: Independent Research & Cooperation with Les Mills

- Over 20 kinds of distinctive group classes with music
- Scenarized Activities: vintage party & light dance party & fat burning competition

Coaches: High-return & long-term career path

- Million-dollar coach training plan includes training funds and studying abroad
- 7-Level promotion system to earn a partnership then join the course research team



3.2.2 Why **SHAPE** — Customer-oriented

Users Retention

Enhance Experience and Service

Convenience: Positioned in Beijing landmark business district

- The vicinity of office buildings and convenient transportation attract many office workers and residents.
- The strong fitness atmosphere easily attracts fitness groups, and then increases users' retention.

Intelligent Service of Personalization: Combining devices with services

- Unique 3D instrument measures and records data. The data analysis report allows user to intuitively feel the changes in his body thus increasing the viscosity.
- Based on the data from 3D instrument and smart wearable devices, members are recommended for types of services, dietary and lifestyle tips.

Community Operation

Enhance Experience and Service

Social Functions: Properties of Group Classes

- Users encourage each other, attend classes together, and advise each other on course schedules, coaching, etc. thus forming a tight community.
- Credits sharing policy continually attracts new users to get involved.

Specific Manager for Each Branch: Activate the Community

- The specific manager takes charge of activating the atmosphere, answering questions, also helping customers to transferring classes and buying class packages.
- Daily ranking of enrolled customers' exercise amount, issued in group chat, motivates users to compete with others and take more courses.



3.3.1 Profitability of **SHAPE**

- Estimated **Operating Income** for Single Store

Group Classes	Personal Trainers	Beginner Camp	Others (Fitness Meals, machines, etc.)
¥ 403,000/month	¥ 200,000/month	¥ 197,000/month	¥ 50,000/month
Total Income≈ ¥ 850,000/month			

*Operating Income=Single price*Estimated attendance per class*8 classes*30 days

- Estimated **Expense** for Single Store

Major Expenses	Estimated Average Value	Total
Marketing & Sales	Social media operation+ Promotion+ Discounts≈ ¥ 40,000/month	¥ 440,000/month
Rental Costs	Rental & Contract deposits ≈ ¥ 80,000/month	
Salaries	Group Classes Coach≈ ¥ 265,000/month	
	Personal Trainers≈ ¥ 30,000/month	
	General Management≈ ¥ 20,000/month	
Miscellaneous Costs	Water+ Electricity+ Property Management Fee≈ ¥ 5,000/month	

- Estimated New Store **Opening Cost**

Major Costs	Contents	Total
Renovation Cost	Interior Design, Interior Reconstruction, Fine Decoration, Devices, etc.	¥ 200,000/store
Equipment Procurement Cost	Fitness PP&E, Office Supplies, Furniture	¥ 250,000/store



3.3.2 Sustainability of **SHAPE**

- **SHAPE** will start to **profit in 2019**

Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
¥ 800,000	¥ 7,800,000	¥ 14,800,000	¥ 21,800,000	¥ 28,800,000

*Profitability for the next five years without consideration of discount

- If **SHAPE** opens 20 stores each year, it will hold **208 stores** after 10 years

Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
¥ 45,200,000	¥ 74,000,000	¥ 109,800,000	¥ 152,600,000	¥ 202,400,000

* Accumulated Profit for the last 5 years of next decade without consideration of discount

Key Rates & Indicators

Payback Period

6 Years

Rate of Return on Sale (2019)

0.03

IRR for 10 Years

¥ 597,132,844

Return on Total Assets (2019)

0.11



3.4 Further Growth Drivers of **SHAPE**

Content Driven

Operation Strategies: **Emphasizing Group Fitness and Optimizing Course Content**

- Promoting the interaction of trainers and customers in class
- Continuously developing the innovation of courses
- Efficiently standardizing of the course system
- Adding adversarial games (dividing students into groups to compete)
- Developing new functional courses (sports injury rehabilitation, pregnancy training, children's physical fitness training)
- Increasing duration of visit
- Enhancing viscosity
- Enhancing socialization

Derivative Products

Development Goal: **Emphasizing the Innovation of Diversified Product Lines**

- Nutrition meal replacement products
- Home fitness equipment
- Wearable smart devices
- Drinks and healthy light meal (in stores)
- Developing new products
- Optimizing functional zoning in stores
- Creating leisure lounge for socialization
- Tapping potential purchasing power
- Breaking through the single profit model
- Increasing the revenue of per unit area

Data Driven

Enterprise Positioning: **Being a Data-driven Management Expert**

↓ Using advanced analytics methods and tools (Python, SQL, R)

- Sports data generated in specific scenes
- Consumption preferences
- Customers Interests
- Optimizing course structure and content
- Adjusting marketing and pricing strategy
- Providing personalized training schemes (diet suggestions, meal replacement products, training and sleep plan)
- Achieving refined marketing
- Increasing retention rate



3.4 Further Growth Drivers of **SHAPE**

Intelligence Driven

Operation Strategies: **Continuously Upgrading the Intelligence of Experience**

- 3D body measurement device
- Interactive screen
- Wearable devices (heart rate monitor, step count, calorie consumption)
- ➔ Specifically, the 3D measurement device can detect users' figures and model 3D images
- Users can intuitively see their body changes after each training
- ➔ Enhancing entertainment of fitness process
- Attracting customers

Mature Team Structure

Enterprise Advantages: **Strong Social Connections and Rich Operating Experience**

- CEO Zeng Xiang - Bain, Li Ning, Didi
- COO Wu Xiaojing - Li Ning
- CTO Ou Zhiyin - Wandoujia
- CPO Zhang Kun - Les Mills: World leading fitness system
- ➔ Abundant networking resources
- Innovative operating methods
- Unreplicable extension ability
- ➔ Establishment time of a new gym is drastically shortened to 35 days
- Priority strategic agreement with Li Ning: Li Ning store would set aside specific area for Shape to form a cooperative store

Management Innovation

Operation Strategies: **Optimizing Operation Mode and Reducing Cashflow Pressure**



*Shape plans to open to 100 by the end of 2019.



3.5 Risks of **SHAPE** & Mitigates

Scarce Outstanding Coach ➡ Job-hopping of Coaches

High Rewards

Appropriate ratio shared revenues with bonus for repurchase and full classes

Motivating Career Path

Group Trainer - Program Leader - Coach Trainer – Partner

Easily Copied Group Class ➡ Homogenization of Contents

High R&D Investment

Form specific research team including coaches in office and apply for patents

Cooperation with International Institutions

Obtain exclusive authorization from well-known course systems

Data Leakage ➡ Drop in Brand Value

Strong Security System

Pay special attention on data system and use high-quality network security platform

Low Data Availability

Develop a culture of employee safety awareness and set strict access rights



4. Recommendation for Other Investment Targets

Children Fitness and Sports Training

Booming Market

- Accounts for 10% of the fitness market
- Market capacity will be 135 billion by 2025.

Ideal Business Mode

- Attached to a mature fitness brand but independent in operation

Easily-attained Customers

- The concept of encouraging children to keep fit is 47% higher among parents with fitness habits than that of parents without fitness habits

Increasing Retention Rate

- Family fitness mode increases customers' retention

Target Company:  Rabbit & Bear Kids Sports

Services: Parent-child exercise, yoga, fight and sports training (systematic guidance of children's coordination ability, flexibility, balance ability and endurance)

Health Service Management

Promising Potential

- Still in the early stage of formation
- Huge growth space have attracted much capital's attention

Sharing of Users data

- Unified data enables the **traceability analysis** of customer's health
- Processed data support diagnosing
- In return, the physical examination result can influence customers' fitness preferences.

Easily-Converted Customers

- Accumulated members are more likely to pay for related health services



Reduce marketing cost

- Purchasing power is further tapped

Target Company:  MORE

Services: Health data management for insurance companies, medical institutions, and pension institutions; Comprehensive health services for customers (health solutions (diet, exercise) and health risk assessment)



Appendix 1

Fitness Industry Output Value and Number of Body Builder

	Output Value of Fitness Industry (Billion Yuan)	Number of people actively taking part in sports activities (Ten Thousand)
2012	106.8	37913
2013	117.6	38300
2014	127.2	39220
2015	130.0	46552
2016	145.0	48520
2017	154.5	55000
2018	162.6	56594
2019	171.8	60120
2020	181.0	63647



Appendix 2

2.1 - Monthly Salary Structure of Body Builder

Type	Salary
0-2999 Yuan	25.50%
3000-7999 Yuan	5.10%
8000-19999 Yuan	25.80%
20000 Yuan and above	3.60%

2.2 - Education Background Structure of Body Builder

Type	Education Background
High School or Below	12.60%
Vocational Training	24.20%
Bachelor	54.40%
Master or above	8.80%

2.3 - Per Capita Disposal Income & Engel' Coefficient

Year	Per Capita Disposable Income (Yuan)	Engel's Coefficient (%)
2013	59296	31.2
2014	64128	31.0
2015	68599	30.6
2016	74006	30.1
2017	82075	29.3
2018	90031	28.4

2.4 - Number of Bachelor and Above

Year	Number of People who have received bachelor degree and above (Ten Thousand)
2013	2650
2014	2730
2015	2820
2016	2890
2017	2960
2018	3020



Appendix 3

Monthly Revenue

Type of Revenue	Formula	Estimated Amount
Group Classes	=Single price*Estimated attendance per class*8 classes*30 days = ¥ 80/person* 10classes/day* 16people/class*30 days/month	403,000
Personal Trainer	=Single price*Estimated attendance per class*8 classes*30 days ='=¥408/h*33h/coach per month*15 coach	200,000
Beginner Camp	=Single price*Estimated attendance per class*8 classes*30 days =¥ 599/person*6 times/week*54 person/time	197,000
Others	=Fitness Meals + Machine Selling =¥10,000+¥40,000	50,000
Total	=Group Classes + Personal Trainer + Beginner Camp + Others =403,000+200,000+197,000+50,000	850,000



Appendix 4

New Store Opening Costs

Type	Item	Formula	Remark	Estimated Amount	Total Amount
Renovation Costs	Interior design	=Standard Fee per m ² * Average Area	The renovation cost refers to the input cost of the fitness studio	50,000	200,000
	Interior reconstruction	=Design Package Fee		50,000	
	Fine decoration	=Replacement Fee+ Scrap Fee		50,000	
	Devices(Fire-fighting assembly)	=Facilities Amount* Standard Price		50,000	
Equipment Procurement Cost	Fitness PP&E	=(Equipment prices)*Amount per store	Item purchase cost refers to the input cost of traditional fitness studio	150,000	250,000
	Office Supplies	=Average Costs* Amount Required		50,000	
	Furniture	=(Sofa + Lights + Miscellaneous products)* Amount Required		50,000	

*All numbers are generated to meet peak time requirement



Appendix 5

Monthly Expense

Type	Item	Formula	Remark	Estimated Amount	Total Amount
Mkt & Sales	Social media operation	=Advertisement	The operation of social platform and development of applet's new function	20,000	40,000
	Offline Promotion	=Promotion Amounts* Average Price	Advertisement, leaflet	10,000	
	Discounts	=Discount Rate* Original Price* Amount	Calculated according to national holidays and major internet shopping festivals	10,000	
Rental	Rental & Contract deposits	=Standard Price per m ² * Average Area	Calculated price based on Beijing landmark business district The shopping mall shops are estimated (200 yuan / square meter), and the operating area is estimated according to the average area of the current 8 stores (400 square meters)	80,000	80,000
Salaries	Group Classes Coach	=Numbers* (Standard Salaries + Bonus)	The salary of coaches and ordinary employees refers to other Internet self-service gym wage standards, taking the industry's higher value. The number of coaches (8 people/stores) meets the peak hours of store operations.	265,000	315,000
	Personal Trainers	=Numbers* (Standard Salaries + Bonus)		30,000	
	General Management (Store Manager, Cleaner, Accountants)	=Numbers* (Standard Salaries + Bonus)		20,000	
Miscellaneous Costs	Water	=Standard Fee per m ² * Average Area	Refer to the fitness studio usage data for the amount of water and electricity. The charging standard refers to the Beijing commercial hydropower standard. Water 6 yuan / m ³ , electricity 0.6 yuan / kWh.	500	5,000
	Electricity	=Standard Fee per m ² * Average Area		2,000	
	Property Management Fee	=Standard Fee per m ² * Average Area		500	



Appendix 6

6.1 - Profits

Year	Revenue	Cost	Expense	Profit	Accumulated Profit	PV of Profit	PV of Accumulated
2019	23,800,000	9,000,000	14,000,000	800,000	800,000	727,273	727,273
2020	40,800,000	9,000,000	24,000,000	7,800,000	8,600,000	6,446,281	7,173,554
2021	57,800,000	9,000,000	34,000,000	14,800,000	23,400,000	11,119,459	18,293,013
2022	74,800,000	9,000,000	44,000,000	21,800,000	45,200,000	14,889,693	33,182,706
2023	91,800,000	9,000,000	54,000,000	28,800,000	74,000,000	17,882,534	51,065,240
2024	108,800,000	9,000,000	64,000,000	35,800,000	109,800,000	20,208,167	71,273,407
2025	125,800,000	9,000,000	74,000,000	42,800,000	152,600,000	21,963,167	93,236,574
2026	142,800,000	9,000,000	84,000,000	49,800,000	202,400,000	23,232,068	116,468,642
2027	159,800,000	9,000,000	94,000,000	56,800,000	259,200,000	24,088,745	140,557,387
2028	176,800,000	9,000,000	104,000,000	63,800,000	323,000,000	24,597,662	165,155,048

6.2 - Store Numbers

Year	Store	Increased Store#
2019	28	20
2020	48	20
2021	68	20
2022	88	20
2023	108	20
2024	128	20
2025	148	20
2026	168	20
2027	188	20
2028	208	20



Appendix 7

7.1 - Critical Numbers

Name	RMB
Initial Investment	100,000,000
Monthly Expenses by store	500,000
Monthly Income by store	850,000
Monthly Profits by store	350,000
New Store Opening Costs	450,000
Discount Rate	1%
Assets Value per Store	200,000

7.2 - Critical Rates & Indicators

Payback Period	6 Years	Year 2023-2024
Return on Total Assets (2019)	0.11	=net income/total assets
Rate of Return on Sale (2019)	0.03	=profit/sales
IRR for 10 years	597,132,844	