HEALTH & WELLNESS INVESTMENT REPORT

Q3 2022

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HEALTH & WELLNESS INVESTMENT REPORT: Q3 2022

By Daniel Teoh & Kim Clark-Pakstys

Although consumer demand for health, wellness, and fitness products and services is high right now, M&A activity in the sector during Q3 was throttled by broader market trends. Certain pockets within the industry saw more interest from investors than others, but as a whole what took place in the health and wellness category during the quarter largely mimicked what was happening across many other industry sectors.

M&A activity for the health and wellness sector has been trending downward for the past two quarters, with the average deal size in Q3 2022 hitting an all-time low at $18.15 million compared to the past six quarters; however, food and beverage deals are the bright spot this quarter. Overall, what we're seeing aligns with the M&A industry as a whole: deals are taking longer to close as headwinds like inflation, rising interest rates, and the current geopolitical environment are all impacting deal volume.

Still, health and wellness remain a focal point for consumers looking to live longer, more active, and healthier lives. Credit the global pandemic with creating some of this heightened awareness. Companies are stepping up to the plate and coming up with new foods, beverages, supplements, and fitness products and services that help customers achieve their health and wellness goals. People are willing to spend more money prioritizing health and wellness versus other discretionary spending in this sort of inflationary environment. This may be because, despite the headwinds, consumers are still spending.

SKIP TO A SECTION:

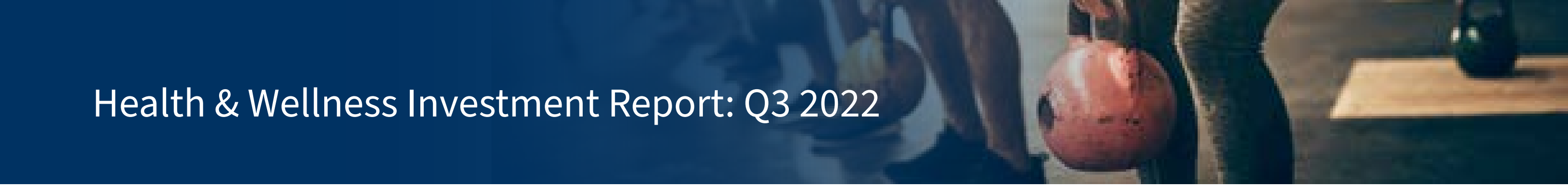
MARKET OVERVIEW

The total volume of capital invested in health and wellness companies during Q3 was $11.91 billion across 656 different deals. Both the deal count and total investment amounts were lower than Q2, when $24.02 billion was invested in 943 deals. Some of the transactions that took place included Mondelez International's acquisition of Clif Bar & Co. for $2.9 billion, Jamieson Vitamin's purchase of Youtheory for $210 million, and a $165 million infusion of development capital for Therabody.

Investors active in the health and wellness space during Q3 included Juggernaut Capital Partners (which closed five deals), Arch Amenities Group (which closed three deals via its financial sponsor CI Capital Partners), and Shumway Capital which closed two health and wellness transactions during this quarter.

With about 75% of Americans saying that they were snacking on a regular basis in 2022 – up from 60% in 2021 – companies that make nutritious, snack-sized foods continued to catch investor attention during the third quarter. The interest in plant-based nutrition also continues to escalate as consumers seek out healthier choices.

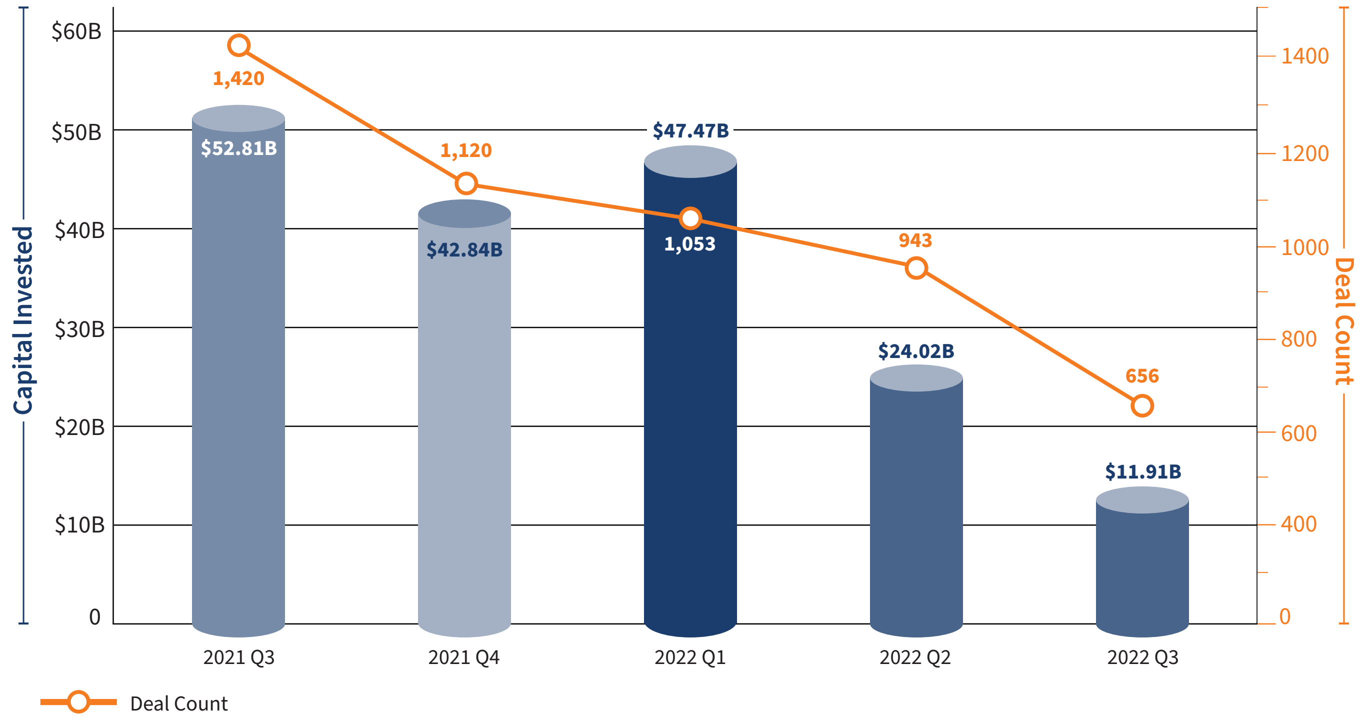
We're also seeing growing interest in companies that help fitness enthusiasts and athletes recover from their workouts and get ready for what's coming next. Therabody's percussive massage tools, for example, have long been used by athletes at all levels and the company now has $165 million to expand its portfolio and/or reach a larger swath of customers.



Q3 2022 TRENDING NUMBERS

All data gathered from PitchBook Data, Inc. as of Oct. 17, 2022

Capital invested by deal count



MARKET FACTORS IMPACTING THE DEAL SPACE

The overall dip in M&A impacted health and wellness deals during Q3, but there are also some overarching trends taking place that could have positive effects on the sector and investors' interest going forward. Some of the key shifts and trends to watch include:

- **Renewed focus on corporate wellness.** Companies are seeing the need and value in helping employees with their health and wellness goals including adding fitness spaces to their offices (utilizing space freed up by the shift to more remote work), providing healthier meal options, and providing mental health programs. This has resulted in a rush for existing health and wellness businesses to create products and services targeting this space.
  - One Cleveland Clinic wellness initiative, for example, has not only helped improve its employees' health but it has also saved the system $180 million in healthcare costs over the past few years.
- **Companies are merging their strengths to reach a broader audience.** lululemon is improving the appeal of its Mirror by working with top trainers from AARMY, DOGPOUND and Rumble, to provide streaming content and Peloton is partnering with Hilton as mentioned later in this report. We continue to see this pattern of brands merging their strengths to attract a broader consumer audience in this competitive market.
- **Mental health awareness gains traction.** More companies are moving into the mental health space and more consumers are turning to those organizations for help. Mental wellness was a $122 billion global market in 2019, grew by 7.2% during the pandemic, and reached $131 billion in 2020. The United States is the largest market ($66.6 billion in 2020), followed by China, Japan, Canada, and Germany. The mental wellness market is divided into four sub-sectors: senses, spaces, and sleep; brain-boosting nutraceuticals and botanicals; self-improvement; and meditation and mindfulness.

Q3 2022 top investors: Most active private equity firms based on number of deals

Juggernaut Capital Partners • CI Capital Partners • Shumway Capital

TRENDS AND TRANSACTION ACTIVITY BY CATEGORY

Fitness

Investment in the fitness sector dropped to $4.83 billion during Q3, down from $13.21 billion the previous quarter. Apart from the macro factors impacting most industries, fitness may also be suffering from perceptions generated by some high-profile businesses that are underperforming.

Fitness deal activity during Q3 included the $25 million acquisition of SaaS health and wellness platform developer Centred, acquisition of the largest operator of Anytime Fitness franchises by Sentinel Capital Partners, and an undisclosed sum of capital that went to 7 Chakras Life, a provider of concierge and event management services including fitness sessions, cooking classes, and life coaching.

There are some interesting trends taking place in the fitness space that were not reflected in Q3's deal flow. For example, Peloton appears to be tackling its challenges by forming new partnerships that help expose its products to a larger group of potential customers. Hilton and Peloton announced an industry-first partnership, making Hilton the first hospitality brand to feature Peloton bikes across its entire U.S. hotel portfolio of 18 brands. By the end of the year, nearly all 5,400 U.S. Hilton-branded hotels – from Hampton by Hilton to Waldorf Astoria – will feature at least one Peloton bike in every fitness center.

Beauty

About $1.88 billion was invested in 194 beauty deals during Q3. Jamieson Vitamins bought health and wellness product developer Youtheory for $210 million, SciSparc acquired hemp-based anti-aging cosmetics company Wellution for $20 million, and Arch Amenities Group paid $10.2 million for Spa Space, a membership booking and scheduling platform designed to connect consumers with expert therapists and spa facilities.

The beauty sector continues to grow steadily, spurred by the overall health and wellness trends we've explored but also may point to its reputation as an industry that does well in times of recession; the so called "lipstick effect". The lipstick effect is based on the thought that women will spend money on an affordable luxury to make themselves feel better and lipstick is the perfect size.

The transactions related to 7 Chakras Life, Centred (in the fitness section), and Spa Space are illustrative of investors buying into the tailwinds of the health and wellness sector while not betting on a particular brand or business. These businesses service multiple brands/ businesses in the sector and their growth is aligned to the sectors growth not a particular business.

Food

For Q3, the volume of capital invested in the healthy food space reached $4.20 billion – up from $2.59 billion the prior quarter. The total number of deals fell to 116 (from 164 during Q2), and the average deal size more than doubled to $36.24 million in Q3 versus $15.77 million in Q2. Clif Bar led the pack with its $2.9 billion sale to Mondelez International, followed by Bergstrom Nutrition's acquisition by Balchem for an undisclosed sum, Creatd's purchase of breakfast food maker Brave Foods (also for an undisclosed amount), and the Good Catch brand's North American operations of Gathered Foods acquisition by Wicked Kitchen for an undisclosed sum.

During Q3, we saw a number of strategic investors doing deals in the food space with snack makers and developers of plant-based food options. These are options that consumers are seeking and this trend has clearly translated into investment for companies that make and provide these types of products.

Numerous supplement manufacturers and companies that provide raw materials to those organizations closed several deals during the quarter. Capsule manufacturer Capsule Supplies was acquired by Society Brands, Captek Softgel International was rolled into a Swander Pace Capital continuation fund, and Simplesa Nutrition, which makes supplements for neuro health, was acquired by Orange Dot Ventures and Matt Jung. The investment amounts were undisclosed for all three deals.

Other deals focused on specific segments within the health and wellness food market. For example, Health Technologies acquired Ez Nutrition Consulting, which provides nutrition and food service consulting services to senior living communities and critical access hospitals. In another example, Russell Brunson purchased LadyBoss, which offers a five-step transformation system to support women through their weight loss journeys.

WHAT'S NEXT?

With rising interest rates, inflation, and a potential recession looming, M&A for the health and wellness sector may continue to mirror activity in the broader market as we close out 2022 and move into 2023. More people are prioritizing health and wellness right now, but health spend is also discretionary. Whether the increased interest actually comes to bear is the real question right now. Either way, with interest rates rising and the core U.S. inflation rate at a 40-year high, we'll likely see continued softness in this corner of the M&A market.

The companies that used the pandemic as "air cover" and took the time to lean out their operations, improve their product/service offerings, and reach a wider audience of customers may stand the best chance of persevering through any tough economic conditions that may be coming. Because gyms and fitness centers were among the establishments that suffered the longest COVID-related slowdowns, they may be in the best position to ward off the negative impacts of a recession. The current climate also creates an opportunity for larger brands to take over existing spaces and leverage the additional foot traffic for their own operations.

Should a broader slowdown occur, it may also present new opportunities for private equity (PE) firms that take a long-term view and see the potential in acquiring health and wellness companies. We expect PE to keep a close eye on this space. If the surveys and research are on point, there are definitely some long-term investment opportunities in this sector right now.

Q3 2022 TOP DEALS

Company Name	Deal Size (millions)	Investors	Deal Type
Clif Bar & Company	2,900	Mondelez International	Merger/Acquisition
Youtheory	210	Jamieson Vitamins	Merger/Acquisition
Therabody	165	Hartbeat Ventures	PE Growth/Expansion

PERFORMANCE IMPROVEMENT STRATEGIES FOR HEALTH AND WELLNESS COMPANIES

As indicated in this report, some areas of the health and wellness sector are poised for growth despite talk of a looming recession, while others may struggle under the strain of an economic downturn. Investors who have experienced prior downturns or understand the market volatility will expect their targets to use performance improvement strategies to both solidify/optimize their current operations and plan future growth strategies.

For many companies in the sector, solving for the labor shortage while also ensuring that they have the right operational systems in place are two of the more immediate concerns. The latter often serves as a solution for the former in that streamlined, standardized processes, and automation allows companies to do more with less and use labor strategically.

Additionally, some companies are still shaking off the impacts of the pandemic and only now are welcoming back customers that may have been isolating since the emergence of COVID in early-2020. This is especially true for gyms, group fitness centers, and other public spaces.

Streamlining operations and managing inventory

For entrepreneurial companies that are on growth trajectories and working their way onto investors' radar screens, the focus should also be on standardizing processes, using technology to offset the labor crunch (e.g., with bots, automation, AI, etc.), transferring knowledge to leaders and managers (outside of just the founders), and streamlining operations. Combined, these strategies help entrepreneurial firms optimize and position themselves for success as they progress through different growth cycles.

Companies should also assess their working capital, and consider their inventory levels and other overhead. If customers are holding back on spending, high inventory levels and overhead can significantly impact working capital. Optimizing working capital (for example, paying vendors according to terms rather than immediately upon receipt of invoices and running down excess inventory) and reducing non-essential overhead will free up cash to help get through a difficult period. For those organizations that are in high-growth mode, the focus should be on balancing spending the money with ensuring the cash return on that spend is positive in the short-term (not long-term) because conserving cash will allow a company to ride out any slowdown.

For pre-revenue health and wellness companies that experienced high growth levels and that are now facing a possible economic downturn, the focus should be on positioning the firm in an attractive light for potential investors; have enough cash in reserves to support your operation and manage your inventory, for example. It's also important to make sure you can present a "clean" and compelling financial picture to investors who may want to either invest capital in, or acquire, your company.

Find ways to be more efficient

In addition to forecasting and managing their cash better, younger companies that haven't had much financial backing can also assess their current process and activities, and find ways to be more efficient in those areas. This may be systematizing and standardizing processes so that they can be done by more than just one person, for instance. Companies offering services can also make sure that the solutions they're putting out in the market are indeed in high demand and are able to be delivered with the least amount of administrative support and activity.

Product companies especially should focus on inventory management and determine their niche with products people will buy, regardless of what may happen with the economy as we move forward.

Creating a holistic offering

This is also a good time to start thinking about how you can offer more holistic ecosystems versus just a few niche products or services. Whether that means broadening your product or service offering on your own or pairing up with other consumer brands, the opportunity to break out of a specific niche and into new areas is ripe right now.

Gyms can bring physical therapists into their space to help people manage their physical constraints, retailers can roll racks of fitness apparel onto the fitness center floor and sell it to members, and spas can align themselves with estheticians to provide discounted services to members. By leveraging existing physical space and creating communities that encompass a wider variety of products and services, health and wellness companies can play into what consumers are seeking right now: more holistic health and wellness solutions.

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