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HEALTH & WELLNESS INVESTMENT REPORT

Q1 2022

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Daniel Teoh & Stephen Wyss

Over the past two years, our transaction advisory professionals have noted an incredible amount of deal activity in the Health and Wellness space. A shift in consumer focus to brands, products and services that enhance personal well-being, as well as the community and environment, has created opportunities for businesses that were formerly considered niche to break into the mainstream. In particular, businesses with strong brand messaging and a nimble direct-to-consumer (DTC) strategy were able to target stay-at-home consumers that began to re-evaluate their spending decisions and explore new products and services that resonated with their lifestyle aspirations. The capital markets community took note, driving investment in the space during 2021 to near record levels.

The question is, will these trends continue throughout 2022 and beyond?

We believe the answer is a resounding, "Yes." This shift in consumer behavior is not just a passing fad, and we expect investment in this segment to continue to be robust in 2022. A key consideration is the incredible breadth of the Health and Wellness space, as it touches everything from traditional fitness businesses to those in the beauty, food and beverage, apparel, and technology sectors. This provides for a deal-making environment that is rich in potential synergies for category expansion and strategic investments.

In this, our first Health and Wellness Investment Report, we set the scene by discussing key trends, transactions, and insights from an incredible 2021, as well as some of the changes in investment activity levels we have seen in early 2022. In our future reports, we will focus on quarterly transactions and developing trends within the Health and Wellness space, providing insights from our transaction advisory and industry focused professionals.

SKIP TO A SECTION:

BUILDING ON STRONG 2021 TRANSACTION ACTIVITY

2021 was an active year for transactions in many industry sectors. Low interest rates and general anticipation of rising U.S. capital gains tax rates led to an acceleration of the deal activity, and consumer spending that remained robust throughout the COVID pandemic buoyed the consumer products and services space. Flush with stimulus dollars, consumers forced to stay at home turned to online shopping in record numbers. Consumers showed a strong preference for goods and services that they perceive as important to their well-being, as the pandemic highlighted the importance of embracing behaviors that enhance our physical, mental, and psychological health and wellness.

Rather than a short-term fad, this focus on well-being indicates a shift in how consumers see and interact with the brands and companies they choose to do business with. McKinsey research indicates the $1.5 trillion global wellness market is growing at a clip of 5% to 10% per year.

While inherently subjective, each consumer has a unique definition of wellness. Consumers' focus on wellbeing can factor into how they feel about themselves, how they look, and the content they choose to engage with.

We see the Health and Wellness space as comprising the following categories:

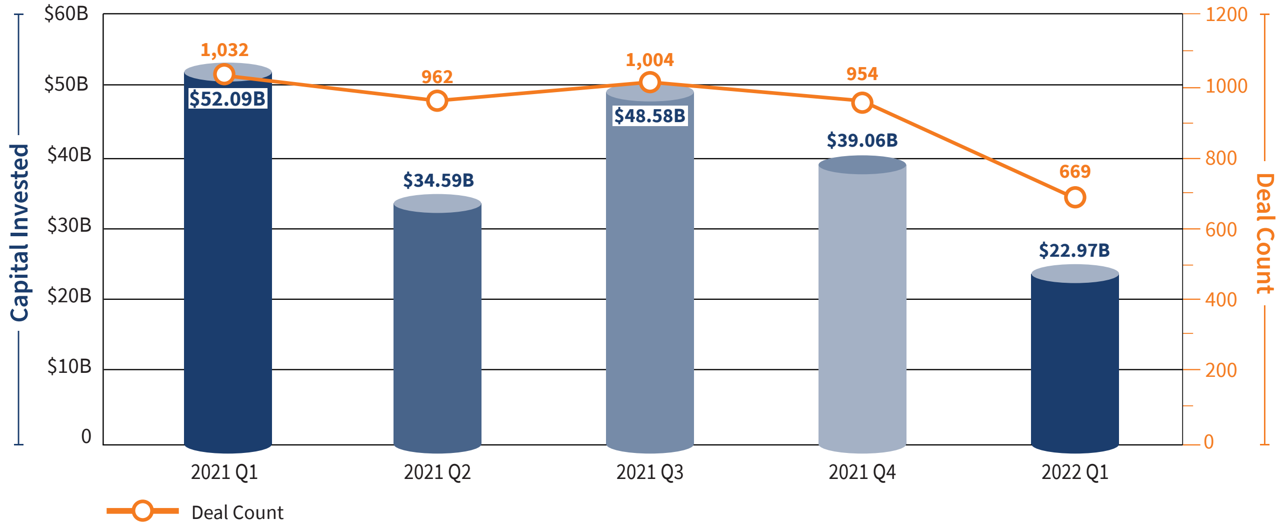
- **Fitness**, which stretches from brick-and-mortar gyms to fitness equipment, athleisure, footwear, FitTech, wearables, and services such as personal training and yoga classes
- **Beauty and personal care**, ranging from color cosmetics to anti-aging haircare and skincare products, health spas to mobile apps that promote sleep and mindfulness
- **Specialty nutrition**, which encompasses traditional vitamins and nutritional supplements as well as weight loss products, and better-for-you food and beverage alternatives
- **Active living**, which includes companies that manufacture and sell outdoor equipment, as well as a growing number of tech companies that provide content and services to facilitate an active lifestyle

As consumer interest and focus has shifted to Health and Wellness, successful companies in the category have drawn the attention of investors and strategic buyers. In 2021, these categories saw more than 3,900 deals and nearly $174 billion in total capital invested. And while dealmakers took a bit of a breather in the first quarter of 2022 – hardly surprising after such a remarkably busy year – we expect Health and Wellness deal activity to pick up in Q2 and remain robust for at least the rest of 2022 and beyond.

Q1 2022 TRENDING NUMBERS

All data gathered from PitchBook Data, Inc. as of April 1, 2022

Capital invested by deal count



MARKET FACTORS IMPACTING THE DEAL SPACE

The pandemic did little to dampen overall consumer spending. However, it emphasized certain trends in the space:

- **Direct-to-consumer:** As consumers were constricted in where they could go and what they could do, they flocked to mobile and online channels. Categories such as skincare, beauty, and outdoor goods benefited from the e-commerce boom. In particular, smaller companies and brands thrived as they established customer relationships through DTC channels that they would not have had access to had the pandemic not occurred.
- **Sustainability:** In addition to the focus on personal wellbeing, consumers are increasingly concerned about the impact the goods and services they consume have on their community and the planet. Not only are they paying greater attention to companies' sustainability practices, but they are generally skeptical of sustainability claims made by "big business". As a result, companies can no longer get away with giving lip service to sustainability (aka, greenwashing) as consumers demand verification of such claims. Consumers tend to give more credence to the sustainability messaging of newer and smaller brands, and investors are paying attention.
- **Strategic acquisitions:** For those businesses that have demonstrated meaningful growth and enhanced brand recognition, reaching a heightened level of market penetration and the "next level" of success can be capital intensive and expensive. This creates excellent opportunities for strategic transactions that provide these businesses with access to the production, distribution and retail capabilities that would take significant time and investment to develop. So it's no surprise that strategic buys by large consumer packaged goods (CPG) companies such as Procter & Gamble have dominated transaction activity in the last five quarters.

Q1 2022 top investors: Most active private equity firms based on number of deals

HGGC • Cambria • Genstar Capital • LNK Partners • Penfund

TRENDS AND TRANSACTION ACTIVITY BY CATEGORY

Fitness – The fall and rise of gyms

The fitness segment has seen major shifts in investments as a result of the pandemic. Early on, investors and lenders shied away from brick-and-mortar fitness centers and gyms (which mostly lacked readily available revenue stream alternatives to in-person attendance) and moved towards the at-home fitness market, including online fitness (which previously had been a low priority for gyms), FitTech and wearables.

- **Peloton** stock's rose to its highest levels in January 2021 on the back of pandemic fueled at home work out revenues and doubled down on at home fitness with its Q2 2021 $412 million acquisition of **Precor**, a manufacturer of interactive fitness and gym equipment, Peloton intended to establish U.S. manufacturing capacity, boost research and development capabilities, and accelerate its penetration of the commercial market.
- In January 2021, Google parent company **Alphabet** bought **Fitbit** for $2.1 billion to accelerate its innovation in the wearables category.
- **Life Fitness** increased its investment in digital coaching platform, **Pear**, in Q3 2021.

The shift to online fitness left many investors wondering what the long-term prospects were for brick-and-mortar gyms. However, as restrictions have lifted and consumers grew comfortable returning to their in-person workout routines, gym membership numbers have rebounded to pre-pandemic levels, and capital is flowing again in the fitness center space. We have seen an increased number of requests for diligence for fitness businesses, particularly franchisees.

- **Planet Fitness'** $800 million acquisition of major franchisee Sunshine Fitness Management, and the sales of **Spartan Fitness, Crunch Fitness Norwalk**, and **Grand Fitness'** acquisition of a portfolio of Virginia Planet Fitness locations in Q1 2022 likely represents an opening of the floodgates for M&A in the fitness space in 2022.

For now, the future of fitness appears to be hybrid, with consumers indicating a willingness to expand their wallets by spending on both virtual and in-person fitness. Investors are watching companies that are well-positioned to provide a consistently great experience in both arenas and a holistic health and wellness experience.

- The $500 million acquisition of high-tech fitness brand **Mirror** by athleisure brand Lululemon in 2020 is one high-profile example of a cross-category play by a major Health and Wellness brand. Not only did **Lululemon** gain access to a virtual fitness offering, but also their consumers and data too.
- In the final days of Q1 2022, Jeff Bezos's family office **HighPost Capital** closed acquisitions of connected fitness machine manufacturer **Inspire Fitness** and digital health and fitness platform **Centr** to capitalize on strong growth drivers in the large digital and traditional strength fitness markets.

Beauty and personal care – The importance of being holistic

Consumers consider beauty and personal care integral to their wellbeing, and investors have responded to this consumer sentiment with healthy deal flow in the category.

The most sought-after brands in the space are those that address consumers' specific wants and needs through a focus on clean and natural beauty; diversity, equity and inclusion (DEI); and sustainability.

- U.S.-based **Chantecaille Beaute** was acquired for $640 million in Q1 2022 by Beiersdorf, a German company that boasts mid-range skin-care brands Nivea and Eucerin, as well as prestige beauty brand La Prairie. In its announcement, Beiersdorf noted, "Chantecaille is a clarion voice for global environmental concerns and supports conservation efforts around the world." **Beiersdorf** will manage Chantecaille as a separate, complementary brand, a time-tested strategy of large CPGs to avoid diluting a niche brand's reputation.
- **OUAI Haircare**, manufacturer of sulfate-free and keratin-rich shampoos and conditioners, as well as other "harmless" lifestyle products (fragrances, candles and nutritional supplements for women), was acquired in Q1 2022 by **Procter & Gamble** for $300 million.

As consumers increasingly return to stores, the challenge for DTC brands is to retain their loyal consumers as they expand the brand's presence in stores. Smaller, primarily DTC brands looking to scale make ideal targets for large CPGs with established distribution networks.

- With its $310 million acquisition of the DTC women's shaving and lifestyle brand **Billie, Edgewell Personal Care** strengthens its position in the mid-tier value segment of women's shaving in the U.S. The acquisition enables Billie to leverage the CPG's established distribution channels.

Expect acquirers to focus on brand and culture fit as much as logistical synergies. Smaller beauty and personal care brands employing innovative retail partnering strategies such as pop-up shops risk turning consumers off if the retailer doesn't share the same brand ethos. Beauty brands that rely on influencer-based marketing must maintain the same level of authenticity with in-store marketing.

Specialty nutrition – Beyond pills

Health and Wellness deals over the past five quarters have been dominated by large nutritional supplement deals. Like beauty, specialty nutrition brands have leveraged the DTC model and relied on influencer marketing. Acquisition by strategic buyers is typically seen as the most efficient way to achieve scale.

- In the largest deal of 2021 and 2022 so far, **DuPont Nutrition & Health**, a U.S. producer of healthy food ingredients such as soy proteins and probiotics, was acquired for nearly $16 billion by New York Stock Exchange-listed **International Flavors & Fragrances**.
- **The Bountiful Company**, a manufacturer and distributor of nutritional supplements, was acquired by **Nestle** for $5.75 billion in Q3 2021.
- **Metagenics**, a subsidiary of Alticor that manufactures and distributes supplements to promote optimal health (blood glucose support, immune health, stress management, etc.), was acquired by **Gryphon Investors** through a $600 million leveraged buyout in Q4 2021.

Nutrition means more than vitamins and supplements. Increasingly, consumers want to take control of their health through their nutrition choices, and a number of recent transactions reflect this growing consumer preference.

- **Coca-Cola** acquired **BA Sports Nutrition**, a manufacturer of electrolyte-packed drinks made from coconut water, for $5.6 billion in Q4 2021.
- **Athletic Greens**, which produces a 75-ingredient, nutrient-packed powdered beverage that sells on a monthly subscription basis, is now valued at $1.2 billion after raising $115 million in new funding in Q1 2022.

Sports, outdoor, and active living

A recognition of the advantages of getting outdoors and pursuing an active lifestyle has been another lasting effect of the pandemic.

Similar to what we've seen in Fitness, use of technology has been fragmented in this segment but is now playing an increasing importance in the M&A market.

- **BattlBox**, an online platform for outdoor and survival goods, was acquired by **Emerge Commerce** for an estimated $18.95 million LBO in Q3 2021.
- **Aspira**, a developer of a suite of reservation and licensing technology and service solutions for the outdoor recreation industry, was acquired by **Alpine Investors** for an undisclosed sum in Q2 2021.
- **Terra Technology Group**, developer of outdoor licensing and recreation technology, was acquired by Brandt Information Services via its financial sponsor **NexPhase Capital**, through an LBO in Q1 2022 for an undisclosed amount.
- **US eDirect**, developer of a SaaS-based scheduling and recreational management software platform, was acquired by **Tyler Technologies** for an undisclosed amount in Q1 2022.

Q1 2022 TOP 10 DEALS

Company Name	Deal Size (millions)	Investors	Deal Type
Reebok America	2,378M	Authentic Brands Group	Buyout/LBO
Sunshine Fitness Management	800M	Planet Fitness	Merger/Acquisition
Chantecaille Beaute	640M	Beiersdorf	Merger/Acquisition
Coastal Sunbelt	525M	FreshPoint	Merger/Acquisition
Real Salt Lake	420M	Arctos Sports Partners	Merger/Acquisition
IFIT Health & Fitness	355M	L Catterton	PE Growth/Expansion
OUAI Haircare	300M	Procter & Gamble	Merger/Acquisition
Jafra Cosmetics International	255M	BetterWare de México	Merger/Acquisition
Mitchell & Ness Nostalgia	250M	Ames Watson	Buyout/LBO
ZFS Creston	102M	Benson Hill	Merger/Acquisition

WHAT'S NEXT?

Consumers' desire to take control of their Health and Wellness is a trend that has demonstrated staying power, and businesses and investors are paying attention. We expect transactions to pick up in Q2 and remain healthy throughout 2022.

In beauty and nutrition, expect consumers to continue to seek out brands that prioritize sustainability, as well as natural and clean ingredients. Environmentally friendly brands in these categories have opportunities for PE-backed exits or strategic acquisitions by large consumer products companies looking to reinforce their reputations and keep ahead of evolving ESG initiatives. For their part, those smaller brands are motivated to join one of the large multinationals to tap into established marketing and distribution networks. The challenge for sellers and acquirers is to maintain the strength and authenticity of the acquired brand.

While beauty and nutrition led transactions in 2021, we expect fitness transactions to surge in 2022. However, fitness has evolved and is no longer synonymous with the gym. The trend towards holistic Health and Wellness will likely be a big driver of M&A activity in the fitness category, as investors seek companies (or to combine a number of companies) that provide a holistic health and wellness journey including consistently great experience both in the gym and at home along with fitness tracking, nutrition, recovery etc. Given the fragmentation and breadth of the market it is unlikely that we will see any dominant holistic player in the market anytime soon though seeing Apple dominate off the back of their fitness tracking and online workout apps in the long term is conceivable. Instead expect to see partnerships between brands to increase reach and offerings (like Barry's Bootcamp partnership with connected fitness manufacturer FORME).

The Health and Wellness market is tremendously broad. On one end of the market are the major CPGs and manufacturers, and at the other end are the many smaller, often VC-funded companies. While not yet factoring into deal flow, the large number of startups that have been formed in the past two years to address the increased emphasis on consumers' health will drive future activity as PE provide growth equity and large CPGs seek to bring them into the fold to enhance their reputations with those brands' loyal customers.

All signs point to an active Health and Wellness deal market and, looking forward, it's likely for deal activity to continue to be strong.

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