## An Equity Note

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### What's Inside:

- New idea: Basic-Fit (BFIT)
- **Description:** BFIT is Europe's leading low-cost gym provider w/ 1,050 locations
- **Why It Matters:** BFIT has a plan to reach 3,000 clubs by 2030 w/ 35%+ ROICs
- **What's The Prize:** EUR 8.7B Shareholder Value (300%+ upside)

### Companies Mentioned:

- Basic-Fit (BFIT)

# MO Equity Note: Basic-Fit (BFIT) & The Power Of Scaled Economies Shared

Basic-Fit (BFIT) is Europe's leading value-for-money gym provider. The company operates 1,050 clubs spread across France, Spain, Belgium, Luxemburg, and the Netherlands. BFIT has one of the most substantial cost advantages we've seen in a business since Costco (COST).

The company leverages its low-cost dominance to provide the best value-for-money gym experience in Europe. Such cost advantages create a virtuous cycle and scaled economies shared.

BFIT's low-cost structure allows it to open more gyms than its competitors at lower breakeven prices. Greater gym density also allows BFIT to command significantly lower prices for its gym equipment, further reducing operating costs.

Finally, reduced build-out costs allow BFIT to scale rapidly and provide its customers the most extensive geographic convenience.

This virtuous cycle creates a best-in-class gym-going experience with world-class technology and greater availability that's 42% cheaper than competitors. Not to mention the 35% per-gym ROICs.

BFIT's long-term goal is to operate ~3,000 clubs throughout Europe. Should they hit that target, the company would generate nearly EUR 3B in annual revenue, EUR 1.4B in EBITDA, and over EUR 350M in free cash flow.

Today you can buy the business for ~5.5x 2025E EBITDA, a vast discount to the ~10-12x multiples comparable gyms go for in private markets.

Additionally, BFIT has a path to generating over EUR 8.7B in shareholder value over the next decade, good enough for a 32% 10YR IRR from today's stock price.

Finally, BFIT is run by one of the most competitive owner-operators in the industry, Rene Moos. Moos acquired BFIT's first 28 locations in 2010 and in 11 years reached 1,000 locations. He also owns ~15% of the company and bought 340K shares during the COVID lows.

This write-up examines each of BFIT's competitive advantages, how they intertwine, and the company's long runway for continued gym expansion.

Sidenote: those that want a refresher on the benefits of low-cost gym operators can read our write-up on The Gym Group (GYM) here.

## BFIT Advantage #1: Low-Cost Operating Model

BFIT charges ~42.5% less than its competitors in each of its major markets. For example, BFIT members pay EUR 20/month on average compared to EUR 38 in the Netherlands, EUR 34 in Belgium, and EUR 39 in Spain.

It's important to note, however, that "low-cost" doesn't equal "cheap." BFIT's gyms come with all the bells and whistles: new equipment, leading technology, sports massages, personal training, group fitness, and more.

Such value for money begs the question: how can the company support these gyms at low member costs? The answer lies in BFIT's business model.

There are three levers BFIT pulls to provide the best service at the lowest cost:

- **Increased digitization**
- **Rent negotiations**
- **Cleaning Negotiations**

BFIT operates each gym with ~1-3 full-time employees. That's 1/3rd of the staff of its peers, which stand at 6-8 FTEs. The company can do this because it invested in digitizing each gym.

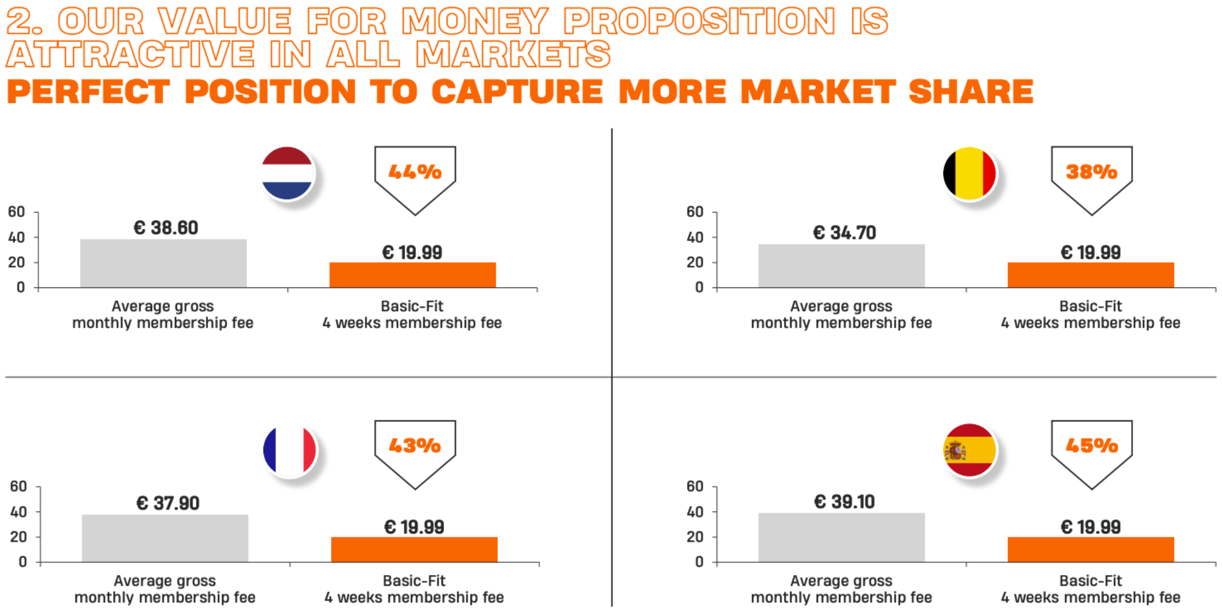
For example, each BFIT club comes equipped with 25 AI-integrated cameras, 3-4 intercoms, and a remote controllable gated entrance. You don't need a full-time employee scanning each member into the gym when the remote-controlled gate does it for you.

Additionally, potential members can sign up using a self-service kiosk at the entrance.

Then there are rent negotiations. As an operator of 1,000+ gyms, BFIT can leverage its scale to command lower rent prices than its peers.

Which tenant would you rather have? The large, EUR 4B+ enterprise that's growing like mad or the gym with one location (yours) and no plans for further growth? Landlords choose the latter.

BFIT also flexes its scale advantages with its cleaning company contracts. Instead of signing one contract for 2-3 gyms, cleaning companies can secure long-term agreements with hundreds of gyms.




Meanwhile, competing players *must* charge higher membership fees to compensate for higher rents, more employees, and less favorable cleaning contracts.

## BFIT Advantage #2: Purchasing Power

BFIT is Europe's largest purchaser of strength/cardio gym equipment. The company buys equipment from two leading suppliers: **Technogym** (TGYM.MIL) and **Matrix**.

Like rent and cleaning negotiations, BFIT uses its scale to command lower volume-based pricing for its gym equipment. One industry expert noted that **BFIT possesses an average 30-40% cost advantage compared to competitors.**

This is a 30-40% cost savings on *new* equipment. There are three ways BFIT uses its purchasing power advantage to improve its customer value proposition:

- Shorter equipment refresh cycles (50% faster than independents)
- A more extensive assortment of strength and cardio equipment (not available in other gyms)
- Lower membership prices for better gym equipment (competitors charge more for worse equipment)

So far, we've defined two main advantages BFIT has over its competitors: **a low-cost operating model** and **purchasing power.** Let's dissect the final advantage, convenience.

## BFIT Advantage #3: Geographic Convenience

BFIT has over 1,000 gyms throughout Europe. PureGym, its next closest competitor, has 506 gyms.

There are a couple of benefits to BFIT's convenience. The first benefit is a higher perceived membership value. BFIT's "Comfort" plan allows members to work out at *any* of BFIT's 1,000+ gyms. So, the more gyms BFIT opens, the more choices it offers to its Comfort members, and the "cheaper" the Comfort membership appears.

Competing gyms also offer the ability to work out at any location. The only difference is those gyms *charge* for that convenience with higher membership prices.

New club openings also decrease the average travel time for gym-goers, creating a stickier member.

## Recap: BFIT's Virtuous Cycle

Here's how BFIT’s virtuous cycle flows:

- ➢ Lowest prices --> more members --> increased market share --> Lowest operating costs --> More Profitable locations --> Lower prices

Over time, this cycle results in sustained club openings, best-in-class club economics, and the best value-for-money offering to customers.

But we still have two critical questions to answer:

- ➢ Why does the low-cost model win?
- ➢ Why now?

## The Bifurcation of The Fitness Industry

The fitness industry has historically offered three experiences: low-cost, middle market, and premium.

However, the industry has bifurcated into two winners over the last few decades: **low-cost** and **premium.**

We discussed the reasons for this bifurcation in our GYM thesis (emphasis mine):

> *"Mid-to-upper tier gyms can distinguish themselves by providing even more services to their members. I can squat at any gym, but not every gym has a Nespresso machine. Increased amenities sound remarkable for its members (who wouldn’t want “free” espresso?), but it comes at a cost: increased membership fees.*

> *In other words, if you're not playing the low-cost game, the only way to win is to charge more for more lavish amenities. The need to provide more creates a dangerous feedback loop. Here's what I mean. More services mean higher membership fees. Higher membership fees mean fewer members and higher churn rates.*
>
> *Higher churn rates mean less/no expansion and building new gyms. No new gyms mean existing members bear the burden as management can't spread its costs across a broader range of gyms."*

Low-cost gyms win because members love the convenience, quality, and low prices. On the other hand, premium gyms win because there will always be a demand for a high-touch, luxury gym-going experience (think OrangeTheory, Equinox).

Middle-market gyms, however, have nowhere to run. Increase prices and risk higher churn. Reduce prices and risk a negative unit economic business model.

That leaves the middle market up for grabs between low-cost and premium offerings. Historically, the low-cost model has won the market share grab. For example, in the United States between 2010 and 2019, low-cost gym market shares increased 5.3x from 4.7% to 25%.

The UK also confirms the low-cost model dominance. Between 2011 and 2019, low-cost UK gyms increased market share by 9.5x, from 4% to 38%.

This brings us to Europe, an area that remains *wildly* under-penetrated compared to the US and UK.

## Europe: The Early Innings of Fitness Adoption

Europe has a long way to match the United States and UK gym member penetration rates. Currently, 1 out of every 10 Europeans are gym members. To compare, the US and Nordics boast 2x - 3x penetration rates, respectively.

There are a few reasons for this under-penetration:

- ➢ Gyms are expensive in Europe (remember, BFIT is ~43% cheaper than alternatives)
- ➢ Most gyms are mom-and-pop operations (lacking scale advantages and geographic convenience)
- ➢ Most gyms generate poor unit economics (due to the lack of scale)

**BFIT dominates in the above European market environment.** France is a great example. Since 2015, BFIT has captured 90% of new club growth and 87% new gym member growth. That's market share **domination**.

And given BFIT's virtuous cycle, the company should continue to take share and execute its plan to reach 3,000 stores by 2030.

## What's The Size Of The Prize

There are two levers in BFIT's value creation toolkit: **member growth** and **club growth**

As we mentioned earlier, management sees a path to 2,000 gyms by 2025 and 3,000 gyms by 2030. Here's how they get to 2,000 gyms (via Investor Presentation):

- Netherlands: 211 -> 300
- Belux: 203 -> 300
- France: 447 -> 950
- Spain: 44 -> 450

Management also believes they can expand mature club member counts from 3,300 to 3,600 over 5-10 years.

| CLUB ECONOMICS | 2019 Average mature club | 2023 – 2025 |
|---|---|---|
| INITIAL INVESTMENT | €1.2 million | = |
| MEMBERS | 3,300 | = |
| REVENUE | €0.85 million | ↑ |
| RENTS | ± 35% of costs | = |
| PERSONNEL COSTS | ± 30% of costs | = |
| OTHER COSTS | ± 35% of costs | ↑ |
| CLUB EBITDA MARGIN | 50% | = |
| ROIC | >30% | = |

Let's assume BFIT reaches 2,000 clubs by 2025 with an average mature club member count of 3,247 (this is *below* BFIT's average mature club member count of 3,300).

Let's also assume each member pays on average EUR 21 per month. That gets us ~EUR 818K in annual per-club revenue or EUR 1.6B in total revenue.

From here, we can subtract BFIT's operating expenses to get ~EUR 426K in annual op-ex, leaving us with ~EUR 800K in EBITDA (47% margin).

After subtracting D&A and income taxes, we're left with **EUR 364M in after-tax profits**. Finally, we subtract ~EUR 160M in maintenance capex (~10% of revenue) to get ~ EUR 203M in free cash flow (~10x current EV).

What would a Blue Sky Scenario look like for BFIT (3,000 clubs with 3,600 members)? If they execute their plan, BFIT will end 2030 with EUR 2.8B in revenue, EUR 1.4B in EBITDA, and over EUR 350M in free cash flow.

The present value of those potential cash flows is around **EUR 7.53B or EUR 175/share**. That's an **implied upside of 300% and a 31% 10YR IRR.**

You can examine our back-of-the-envelope DCF here.

## Concluding Thoughts

BFIT has structural competitive advantages as the lowest-cost provider and shares those economics with its customers.

These advantages increase with scale, which BFIT should capture over the next 5-10 years. If they do, they'll create a nearly impenetrable customer value proposition, become a significantly larger business than they are today, and generate world-class returns for shareholders.