

ORANGE COUNTY BUSINESS JOURNAL

*Creating a legacy
is hard.*



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Multiplying Franchise Success?

Xponential Adds Fitness Brands for 8

■ By SUBRINA HUDSON

Irvine-based boutique fitness brands operator **Xponential Fitness** is preparing to hit cruising altitude as its portfolio of five verticals take flight.

The 1-year-old company acquired New York-based rowing concept **Row House** and dance-focused workout studio **AKT** this year and is in talks to acquire a yoga practice, a barre studio and a running concept. It declined to name the companies but said the deals should close this year, helping meet its goal of 2,000 franchised locations in the U.S. and Canada.



17877 Von Karman: new, larger company headquarters in Irvine, where it plans to hire 50 this year

Xponential

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Chief Executive **Anthony Geisler** acknowledged that it's growing quickly but compared it to the efficiency of flights taking off at John Wayne Airport at 7 a.m.

"Every plane lines up at 6:30 a.m. because of the noise ordinance, and at 7 a.m. they just start firing," Geisler said. "This is literally what we do. Everyone gets on board and flies out, from Row House to AKT, and we'll [launch] a yoga brand behind that, a barre brand and running brand."

Business for U.S. franchisers is projected to pick up this year compared to last year's slow growth, according to a January study by business research and analytics firm **IHS Markit**. Franchise establishments in California are projected to grow 1.8% this year to 77,200 locations, their sales 6.3% to \$74 billion. The state's projected year-over-year franchise employment growth is anticipated at 3.6% to more than 755,000 workers, outpacing economywide employment growth, which is projected to increase 1.8% this year.

To accommodate growth, Xponential moved last month into a 27,000-square-foot office space at Intersect, a four-building complex owned by Houston-based real estate investment firm **Hines** and Newport Beach-based **Pacific Investment Management Co.** Staff size is 100, though it plans to add 50 employees by October. Systemwide 2018 revenue is \$308.6 million, according to the company.

On a recent visit to the new digs, a glass-walled conference room was packed with potential franchisees from across the country and Canada. Geisler said demand has been high and that it averages 100 franchise deals a month.

"Everybody else views it as fast and very risky, but I like to think about what's possible and create something. I think people

Xponential Fitness LLC

- **FOUNDED:** 2017
- **CEO:** Andrew Geisler
- **HEADQUARTERS:** Irvine
- **BUSINESS:** boutique-fitness franchiser
- **2017 REVENUE:** \$308.6 million
- **EMPLOYEES:** 100
- **OWNERSHIP:** undisclosed
- **VALUATION:** undisclosed

limit themselves. It's possible to get done what we want to get done."

Thinking Big

Geisler's penchant for fitness brands started early. The **University of Southern California** graduate and first-generation college student purchased the Costa Mesa-based boxing gym he trained at, **LA Boxing**, in 2003.

He recalls his mentor and chairman of his former online gaming and software company, **Ed Tracy**, chief executive of **Hard Rock International Asia** and former chief executive of the **Trump Organization**, thinking he was crazy to leave the gaming business to operate a small gym.

But Geisler started franchising **LA Boxing** and grew it from a single facility to more than 200 locations in 35 states. He sold it in 2012 to **UFC Gym**, an extension of mixed martial arts organization **Ultimate Fighting Championship**, for an undisclosed sum and stayed on as franchise president until 2014.

The following year Geisler acquired San Diego-based fitness chain **Club Pilates**. It wasn't a type of exercise he engaged in personally, but he said he saw an untapped market. At the time, the business was doing about \$4.9 million in sales and operated 30 locations.

"I remember a franchisee sent me an email asking if I'm going to do boxilates—boxing and Pilates," he said, while laughing. "I was very open with them. I said I'm not here to teach Pilates. I'm here to create

a business model, and that's what we did."

The company now has more than 401 locations and over 200 more scheduled to open this year. It ranks fourth on last year's Inc. 5000 list of the country's fastest-growing companies, reporting \$26.7 million in 2016 sales, a three-year rocket growth of 21,319%.

But it's become tougher for franchisees to purchase a **Club Pilates** due to market saturation, so Geisler said he needed to think of a way to expand the company into new verticals.

"I mean, I'm putting them on Coronado Island, where there's 10,000 people," he said. "So I said, why don't we create these new verticals, so when people come in and say they want a **Club Pilates**, we can say hey, I'm sorry I can't sell you that, but I can sell you a **Row House** or **AKT**."

When San Francisco-based private equity firm **TPG's** growth equity arm, **TPG Growth**, came knocking last year to invest in **Club Pilates**, Geisler worked with Partner **Mark Grabowski** to create Xponential, an umbrella company to curate several boutique fitness brands through acquisitions. **TPG Growth** says it manages an estimated \$13.5 billion in assets.

Xponential now also owns and operates **Club Pilates**, as well as assisted stretching studio **StretchLab**, and indoor cycling concept **CycleBar**, both purchased last year. Each brand functions separately and has its own team with a president, chief marketing officer, real estate director, construction project manager and salesforce.

Clear Skies

Geisler said the strategy appears to be working, since many **Club Pilates** franchises wanting to expand their business have signed deals to open its other fitness concepts. He said a multiunit **Club Pilates** franchisee in the Northeast recently bought multiple **Row House** units and is in talks to open **StretchLab** locations in close proximity to them because "it can be complementary."

Total investment in each concept varies, but across the five brands a potential franchisee can expect to invest \$170,000 to as much as \$497,000 for a single unit, \$245,000 to \$573,000 for three units. The royalty and marketing fee is 9%.

Geisler said the roughly 1,000-square-foot to 2,000-square foot studios are in grocery-anchored shopping centers because visitors are "there to spend money, and they're there to get out of their car."

He added that marketing costs stretch further, as neighboring tenants are also spending money to draw in more customers.

"The dry-cleaner is putting out ads. Whole Foods is putting out ads," he said. "So I might be spending \$5,000 a month, but in an aggregate, there's probably \$400,000 a month being spent driving customers to that shopping center."

Xponential is also careful to position locations far enough from rivals in order to draw strong numbers. For example, Geisler said its **Club Pilates** at Village at Tustin Legacy, about a mile from The District, is one of the top clubs in the country. It opened a **Row House** at Tustin Legacy less than two months ago that now has nearly 400 members.

While Xponential adds locations this year, it plans to introduce a program with the working name **X Pass** to rival New York-based startup **ClassPass Inc.**, allowing members to hop between different Xponential studios to minimize the risk of members at one concept dropping a membership to join one of the others.

Geisler said that though he was able to grow **LA Boxing** and **Club Pilates**, he'd been fearful about growing and managing multiple concepts.

"In the beginning, I thought, can I really pull this off? You've done it once and then a second time, but can you do it six times at the same time? So far, we've been able to prove that we can do that, and the brands are selling great, stores are opening and doing amazing. It's all working out." ■