

CHAPTER 1

Money Moves

Despite all the evidence for this new economy of mind and body—the races, the studios, the endless conversations at work and on weekends about someone's latest and greatest workout or personal best triathlon—I wasn't convinced it was real. Until I found the bankers.

Bankers and journalists, sometimes much to our mutual chagrin, pursue our jobs by similar means: We follow the money. And it's clear that Aarti Kapoor, and her increasing number of competitors, are finding lots of it to chase. The money's seemingly everywhere. It starts by leaving our wallets as disposable income, directed at fitness, and our bodies, as never before. We're spending billions on race entries, memberships, and class fees, plus all the stuff it takes to get us outfitted.

And it's not just our own dollars. Consumers' money is often augmented, directly and indirectly, by employers, many of whom see a healthier workforce as happier, more productive, and cheaper. Those health initiatives often come from highly placed, high-octane fitness nuts who made it to the corner office, and want to push health down through the ranks.

What we're buying has also changed. Technology, as always, acts as jet fuel for the most radical changes in how we live, work, and spend time and money. Technology is pushing our homes and offices ever closer to a *Jetsons*-like existence. Software programs, gadgets, and an Internet-connected world have all changed our perspective on our minds and bodies. We have unprecedented access to data about ourselves, our habits, and our lives.

Technology plays a dual role, connecting and alienating us at the same time. On the one hand, it enables us to run faster and work out smarter, with new machines and techniques and means to measure every calorie, watt, and step. It allows us to share our achievements in real time and congratulate and

encourage each other. On the other hand, our broad technology addiction is pushing us to seek meaning away from the growing din of the information age. We're drawn in that search for meaning to what the sociologist Ray Oldenburg called "third places"—the first two being home and work—where we socialize and connect. That reaction is adding another dimension to this economy and an opportunity—one that's based on physical, not virtual, space.

All of these colliding elements draw money, and, in turn, the people in the business of moving money around—venture capital and private equity investors eager to capitalize on growth industries, entrepreneurs with a big idea, and savvy executives looking to reinvent their companies. From food purveyors to workout equipment manufacturers to fitness centers and race series, smart money is moving in. Now some of those investors are starting to reap financial rewards as companies like Lululemon, Fitbit, SoulCycle, and Mind Body pursue initial public offerings, a key milestone in creating an enduring enterprise—enterprises supported by consumers and businesses that, when successful, ultimately reward their creators and investors.

And where there's money to be made, there will be investment bankers—the well-educated, well-heeled set who make their living connecting buyers and sellers. Yet given the relatively early nature of this economy, those bankers aren't legion. They're tucked into smaller investment banks, firms outside of Wall Street's bulge-bracket banks like Goldman Sachs, Morgan Stanley, and JPMorgan Chase.

Piper Jaffray's Brian Smith is one of them. He grew up in Northern California, and, armed with an economics degree from Claremont McKenna, he went to work for Bain & Co., the management consulting firm that a few decades ago begat private equity stalwart Bain Capital. After two years at Bain, he got an offer from a shop in Connecticut called North Castle Partners, which had a distinct focus on sports, health, and wellness. "They were doing some interesting investing," he says. "They were investing in brands that I loved." He was on staff there when the PE firm owned Equinox, the high-end gym operator.

After a stint in the nutritional supplements industry, he reunited with a North Castle partner, Brent Knudsen, who was opening a merchant bank—a type of firm that both arranges deals and raises money from investors for those transactions. It was 2006, and while fitness was coming on strong, it lacked anything cohesive in terms of financial advice. "There was no banker, no one working this segment of the market," Smith says.

The new firm, Partnership Capital Growth, set up shop in San Francisco, drawn to the city's long-standing commitment to a lifestyle steeped in

health-consciousness. Smith, now married to a California girl, was back in his home state and the firm worked with companies like Anytime Fitness, KIND Healthy Snacks, and Muscle Milk, and managed \$200 million in assets. At the end of 2013, Partnership Capital linked up with Piper Jaffray, creating a relationship with the 120-year-old Minneapolis-based bank. There, Smith has worked on the sale of Pure Barre to Catterton and the purchase of California Family Fitness by Perpetual Capital, as well as an investment in Orangetheory Fitness.

Down the coast in Los Angeles, Brian Wood at Imperial Capital is using a similar playbook. He's been in the investment banking business longer than Kapoor and Smith, graduating from Notre Dame in the mid-1990s and earning an MBA from Georgetown at the start of his banking career.

His first job out of business school took him to Houston and a then-exciting opportunity at Enron. When the company imploded amid an accounting scandal a year and a half after he arrived, Wood headed back west and took a job in the investment banking group of The Seidler Companies, an L.A.-based investment firm. The private equity side of the business took a stake in LA Fitness, a successful chain of gyms. On the banking side, wellness deals were mostly focused on nutrition, healthy food, and natural products, a harbinger of the broader move to healthy living.

Now at Imperial, he says the past two years have seen his work shift hard to the fitness space, where competition is fierce and there's a lot of business to be had. He and his colleagues make a practice of attending a class of the company in question the morning of the meeting, because understanding how it works is critical given that need for differentiation. And the consumer is voracious, and ever changing, in her appetite for these services. "You need to make sure you have the flexibility to move with the consumer," Wood says.

Even outside of work, Wood's not just poring over spreadsheets and balance sheets. He's signing up for races and classes—when we talked for the first time, he was about to participate in a 24-hour relay race run by Ragnar—to understand the texture of this new economy. There was also a social component; his team comprised a dozen fellow parents from his neighborhood, aged 35 to 55, banding together to complete the 200-mile relay. Even with the personal interest, Wood and Kapoor's respective bosses aren't just indulging them so they can be fit and healthy. Investment banks exist only when there's money moving, an ecosystem of investors—private and public pools of money—and companies for them to buy and sell.

The private pools have become especially important during the past two decades, and a critical accelerant for the fitness economy. Kapoor in her deck identified no less than 45 financial firms who'd already somehow

participated in the fitness and wellness sector. The list comprises specialty firms, as well as brand-name investment shops like KKR, Apollo, Warburg Pincus, and TPG.

A note on private equity is relevant here, especially since it was a catalyst for me to undertake this project. I wrote a book in 2012 called *The New Tycoons: Inside the Trillion Dollar Private Equity Industry that Owns Everything*, the product of five years leading Bloomberg's coverage in that area. The genesis of that book was the realization of private equity firms' entrenchment in the global economy that was largely unnoticed but massive in its scope.

Kapoor's work validated the anecdotal evidence I gathered, namely that private equity money was increasingly interested in this area from various angles—from the underlying technology, to apparel, to studios, to races. In some cases the investors' pursuits are personal, just like for Kapoor and Wood—and me. Another catalyst for this project was consistently running across private equity executives I got to know in the course of my work who were spending early mornings and lunch hours training, and weekends racing.

This thread ties into another element—the overlap between high-achieving executives and participation in endurance sports. Bankers and investors have increasingly traded their fancy Rolexes for Timex Ironman and Garmin watches, in part as a not-so-subtle indicator that they spend their free time working out and staying fit. It's only natural then that many of the men and women making deals would seek out companies in businesses they're personally fond of, and in which they believe.

The evolution of the fitness industry has tracked the growth and expansion of private equity, which now accounts for more than \$3 trillion in assets around the world, after existing as an industry for less than 30 years. Private equity firms in their early incarnation were known as leveraged buyout (LBO) firms, a nod to their reliance on debt, or leverage. Early profits came mostly from financial engineering—buying cheap, with lots of borrowed money, and selling quickly, without a lot of work on the company itself. Clever and lucrative, yes, but with little lasting impact.

The past decade has seen an evolution of private equity firms, who wisely shifted to that gentler nomenclature over the course of the 1990s and early 2000s. (Even private equity now feels outdated, given that KKR and Blackstone, to name just two, are publicly listed on the New York Stock Exchange). Buyout firms spent the first decade of this century chasing, and catching, ever-bigger targets. Fueled by available and inexpensive debt, firms by 2007 were spending \$15 to \$20 billion or more on the biggest deals, buying the likes of Hilton and Dunkin Donuts.

The financial crisis that began in 2008 chastened dealmakers and checked private equity ambitions. Purchase prices became more reasonable. More important, investors and companies became more demanding of their private equity partners, pressing for more details about their plans and strategy for targets. A still-competitive market, with a lot more firms chasing deals, also made it much more difficult to buy low and sell high, with little actual action in between. Firms started talking lots more about growth and operational improvement.

Doing that demands a higher level of expertise, well beyond analyzing balance sheets and income statements. The successful firms, especially those smaller than the giants like Blackstone, KKR, and Carlyle, began to tout specialties. A history of winning chemical, manufacturing, health care, or technology deals became much more attractive to both investors and targets.

That was good news for the handful of firms that quietly grew up focused on health and wellness, especially as those types of companies became more and more successful, and began looking for additional capital. These firms were by definition smaller, because the companies they'd bought stakes in weren't very large, especially through the late 1990s and into the early 2000s. Most targets had well under \$200 million in annual revenue, putting them outside the screens of big-cap PE firms.

Investing in wellness and fitness seems obvious now, but two decades ago—even around the turn of the century—it felt niche, probably too niche to make any real money. But the guys who were living it every day, outside the office, saw a huge opportunity. That's what happened to Jesse Du Bey.

Du Bey grew up in Seattle watching his father run, and it came naturally to him, too. "I remember being able to run faster and further than other kids," he says. "And I remember liking the suffering."

At age 12, he ran a 5:30 mile, which placed him among the fastest in the nation, as measured by the Presidential Fitness Test. He voiced a sentiment I'd often heard, and felt—that running provided a chance to excel where other athletics didn't. "I liked the feeling of it. I was unremarkable at the 'main sports' like basketball and football."

Du Bey didn't run track or cross country in college at the University of Washington, but did continue to work out and became more muscular. He arrived in New York in 1999 to work on Wall Street, putting in the 100 hours a week that's common for a young analyst. He began his career advising companies and investing money for the late Bruce Wasserstein, a legendary dealmaker.

In 2005, a friend of his in the investment business, Fernando Vigil of Bain Capital Ventures, introduced Du Bey to an entrepreneur named Chris

Hessler, who was already an accomplished triathlete. Hessler convinced the two investors to enter a triathlon. They rented mountain bikes and, Du Bey says, “swam for the first time since I was 8.” Even after finishing close to last, he found it “amazingly fun.”

He was hooked. Du Bey signed up for several more local triathlons. Something inside him changed. “I’d been a working drone on Wall Street for seven years, solely focused on work,” he says. “I think a lot of people throw themselves into careers and get numb, a kind of lack of inspiration and passion for life. Triathlon helped me find that; I think maybe it really changed my life.”

He identified the Ironman as the ultimate triathlon test and signed up for the Lake Placid version. He joined a team called Full Throttle Endurance at Chelsea Piers and discovered an entire subset of the population he wasn’t aware of. “It’s a whole world, all these Type A people who like to solve problems,” he says.

The Ironman stands as an extraordinary physical test, and essentially began as a Hawaiian daydream, part of an ongoing friendly debate about which of three local events—the Honolulu Marathon, the Waikiki Rough Water Swim, or the Around Oahu Bike Ride—was the most difficult, and thereby produced the best athlete. A U.S. Navy officer named John Collins and his wife Judy decided to combine the three as the ultimate endurance test. In 1978, 15 participants took on a 2.4 mile swim, followed by a 112-mile bike ride, capped with a marathon (26.2 miles).

The winner was to be called Ironman; Navy officer Gordon Haller was the first, crossing the finish line in 11 hours, 46 minutes, and 58 seconds. Eleven others completed the race, and Ironman entered the lexicon. Word spread, fueled in part by a *Sports Illustrated* writer who happened upon the race while in town to cover a golf tournament in 1979. His 10-page story drew interest, and more competitors. In 1980, ABC’s own icon—*Wide World of Sports*—televised parts of the race. Long before viral videos, most Americans had only a handful of channels to watch. The Ironman became must-see TV, especially when what became the championship moved from Collins’ original course to Kona, where the stark lava fields cyclists pedaled through added an element of visual drama.

The drama that helped cement the event’s reputation came in 1982, when 23-year-old Julie Moss, a graduate student competing to complete a thesis, led for much of the race and then collapsed yards from the finish line. Her minutes-long lead evaporated and she was passed by the eventual winner, Kathleen McCartney, also competing for the first time at the Ironman distance. Moss’ determination to finish—she literally crawled to the finish line—was broadcast on national television.

The world record, set in 2011, is 8 hours, 3 minutes, and 56 seconds. That's more than three-and-a-half hours faster than Haller's inaugural time. (Haller himself posted a 10:58 during the second Ironman, knocking 47 minutes off his first attempt.¹)

His first time in the race, Du Bey posted a more-than-respectable 10 hours, 15 minutes. "As soon as I finished, I thought, 'I've got to get faster,'" he says. "You're in it like an addiction."

Meanwhile, he'd gone to work for Providence Equity Partners, a Rhode Island-based private equity firm specializing in media and telecommunications deals. Its New York office sits in the iconic 9 West 57th building, also home to the buyout firms KKR and Apollo. Providence's investments include Univision and Warner Music; the firm has assets under management in excess of \$40 billion.

As Du Bey got deeper into the world of Ironman, he set different aspects of his daily life on a happy collision course. Du Bey rightly identified Ironman as an iconic brand, a modern marvel of branding, and, it turns out, intellectual property management. What other company inspires customers to tattoo themselves with its logo?

That logo is known as the M-Dot because it resembles an *M* (meant to resemble a body) and a circle representing the head. World Triathlon Corp., the parent company, trademarked the logo, the word Ironman, and even the combined mileage in an Ironman (140.6) and a half-Ironman (70.3). Both Ironman finishers, tattooed and otherwise, fiercely protect the brand. And so do WTC's lawyers. That was part of the appeal for Jesse Du Bey, investor.

Du Bey was able to complement his investment pedigree with a stellar Ironman resume. He first qualified for the Ironman World Championships, held annually in Hawaii, in 2007. That race was, he says, "so difficult I was literally hallucinating, which is not uncommon." He vowed to return to the island of Kona, which is a one-word Holy Grail, like "Boston" for marathon runners. He made it back in both 2008 and 2009, after training "like a professional," dropping weight, and reducing his time. In 2009, he posted a 9:28, making him the seventh-fastest American Ironman and placing him in the top 100 overall, including professionals.

His initial approach toward buying Ironman was subtle; he knew it would be a long game. He flew to its headquarters in Tampa armed only with five PowerPoint slides laying out what he proposed to do, returning half a dozen

¹ Blake Whitney, "Ironman's First Champ, Gordon Haller, Looks Back 25 Years," *Active*, October 20, 2003, www.active.com/triathlon/articles/ironman-s-first-champ-gordon-haller-looks-back-25-years.

times to bolster his internal pitch. His bosses at Providence “got it fast,” he says. “They all ride bikes and do competitive stuff.” Like Du Bey, the broader push toward competitive endurance sports wasn’t a theoretical trend to the other investors. They were living it themselves.

In 2008, Ironman was in an era of rapid growth, along with triathlons in general. From 1998 to 2014, membership in USA Triathlon, a requirement to participate in any sanctioned triathlon, grew more than fivefold, to 550,000 from 100,000.² Du Bey discovered the popularity didn’t wane in the economic crisis, supporting the theory that tough financial times may actually bolster participation as we look beyond the stress of the office for satisfaction.

Triathlons also were reaping the rewards of a populace that had grown up running and trudging to the gym and was bored and dissatisfied. Cyclists, too, were hemmed in to some extent by the constant one-upsmanship of the latest and greatest bike. Cycling clubs can be cliquy.

By grabbing the public imagination, Ironman made the concept of swimming, biking, and running together appealing. As shorter distances became more popular and prevalent, people who might not otherwise have tried it took the chance, goaded by friends and family. Some raised money for charity, others just wanted to challenge themselves. There’s also a return-to-childhood element for many of us who grew up riding bikes around the neighborhood and spending summers at pools, lakes, or the beach. Add in running—among the most basic human pursuits—and it has a strong appeal.

Du Bey contends the triathlon’s appeal rests largely on a simple but not necessarily obvious element: No one is good at all three sports, certainly in the beginning, and even after a number of races. The need to ask for, and give, help lends an air of collegiality to the triathlon that doesn’t exist in large measure in the sports individually. The sum of the parts makes the triathlon an endeavor you simply can’t do alone, at least happily.

“Everyone needs to learn something because no one comes from a complete running, swimming, and biking background,” Du Bey says. “Even if they did, they need to learn training, nutrition, and transitions. This creates a culture of learning and sharing. The nicest vibe you’ll ever get in competitive sports is in the start corral at a triathlon. And the difficulty of the event and the primal thing about the suffering—it creates a tribal community. Respect is earned through the effort, the personal breakthroughs, the pain, the positivity. That’s what you need for a viral trend: real humanity.”

² Kate Lewis, “Is Rapid Growth Endangering the Ironman and Endurance Sports?” *Glideslope Runway Blog*, October 14, 2014, www.theglideslope.com/runway/is-rapid-growth-endangering-the-ironman-and-endurance-sports/.

Providence aggressively expanded Ironman, from a handful of races to 200 annually, and growing its staff more than tenfold, to 250 from 21. Part of the expansion was in variety, specifically in the so-called 70.3 distance, half of the traditional Ironman across the swim, bike, and run. Seven years after its purchase, Providence entertained offers and the winning bid emerged from a country that had never staged an Ironman.

In August 2015, Providence sold World Triathlon Corp. to China's Dalian Wanda Group for \$650 million plus the assumption of debt, reportedly valuing the entire company at roughly \$900 million.³ At that price, Providence quadrupled its money over seven years, according to published reports, a spectacular return even in the high-flying world of private equity.

The Wanda Group bought the company with an eye toward even more aggressive international expansion, especially in its home country. A Wanda executive said at the time of the purchase that only about 100 Chinese had ever participated in an Ironman to date.

Du Bey, as an investor, has remained focused on businesses that broadly have the same characteristics as World Triathlon. In 2013, he left Providence (but remained on the World Triathlon board) to start his own private equity firm, Orkila Capital. Orkila seeks out investments where experience and media can coexist and accelerate the other, a concept Du Bey saw play out vividly as an Ironman, and an Ironman investor. He watched the power of the brand manifest itself in actual people doing something physically together, and the business opportunities that come from that collective interest. He's invested in the Webby Awards (the Oscars of the Internet) and music festivals, among other things—all of the assets focus on, Du Bey says, “investments focusing on experiences, content and products that inspire real passion and joy.”

Triathlons, and the Ironman deal, clearly changed Du Bey, deepening him, he says. He started the Du Bey Family Foundation, which supports sick children with money he raises through races. “I think this is true for lots of endurance athletes—the sport brings them to an emotional place where they want to be better and help others. This is a key cause marketing factor driving the industry.”

And in the wake of the World Triathlon sale, he's introspective and nostalgic in a way that's surprising in the world of deal making. “The best thing about identifying and leading the Ironman deal was that it felt important, like it might be the project of a lifetime,” he says. “That is also the worst

³ Kevin Helliker, “Ironman to Be Acquired by China's Dalian Wanda,” *Wall Street Journal*, August 27, 2015, www.wsj.com/articles/ironman-to-be-acquired-by-chinas-dalian-wanda-1440642571.

thing about it—I don't know how I'll ever find a deal I care so deeply about again.”

Du Bey is part of a small but seemingly growing number of investors, even entire investment firms, aiming to capitalize on fitness and wellness. There's Falconhead Capital, a New York-based firm that back in the 1990s decided to focus squarely on several aspects of health and wellness. Falconhead's original thesis, and one that remains today, is that content plays a vital role in the sports and fitness economy, says founder David Moross. One of Falconhead's first deals was for the European version of ESPN Classic Sports, a channel that shows games that have already happened, often years or decades earlier. It was a surprising success.

Falconhead's perhaps best known for its investment in what became Competitor Group, creator of the Rock 'n' Roll series of marathons and half marathons. Moross saw a content play there, as well, given that Competitor's connection to its customers was in part fueled and fed by niche publications for the participants in its running races and triathlons. (For more on Competitor, see Chapter 10.)

Moross, in partnership with the sports and talent management giant IMG, started what became Falconhead in 1998 under the name Sports Capital Partners. His initial pitch was met with skepticism, he says, because sports was seen as a closed, limited opportunity, in the form of teams and maybe some team equipment. What the doubters missed, Moross says, is that “sports” is just a name—“a term that describes activity and competition. It drives to a very profound thesis of passion,” he says.

Moross says the passion for sport—broadly defined to include not only your home team, but also what you do in and around your home for your own body—has only become more important culturally. He recalls a recent conversation where a fellow investor reminded him that passion for sports these days is more deeply and broadly felt than passion for religion: “You can make money by looking at what drives the passion, what allows it to be fueled on an ongoing basis.”

Another group that's dedicated investments toward fitness and wellness for the better part of two decades is North Castle, the Connecticut-based private equity firm where Brian Smith worked as a young analyst. Like other investment firms that collect former CEOs and top executives for their manufacturing expertise, North Castle has a stable of fitness and wellness experts it uses for due diligence. The firm's investors work the big industry trade shows, like the Natural Products Expo, to identify the nascent companies that may someday need a financial backer. Jon Canarick, a North Castle managing director, says the firm's focus sets it apart, especially when courting would-be portfolio companies.

“You’ll never find a smokeless tobacco company or an unhealthy restaurant chain in our portfolio, which matters to some entrepreneurs,” he says. That extends to the firm’s executives, who need to walk the proverbial walk of a wellness-oriented investment shop: “It would be very hard to sell yourselves as the right partner for a boutique fitness company, walking into a meeting with the owners weighing 250 pounds and eating a bag of chips,” he says. “There’s a passion and involvement.”

The firm in 2015 bought a controlling stake in Barry’s Bootcamp at a reported valuation of more than \$100 million. (For more on Barry’s, see Chapter 3.) The Barry’s deal came to North Castle in part because of its familiarity with the nuances of the gym and studio business. One of its most successful deals was what became a key player in the high-end gym business: Equinox. That chain, now owned by real estate giant Related Companies, sits amid a fiercely competitive set of gyms and studios slugging it out to be the favorite destination for the affluent and sweaty.

Those people are everywhere—from a small town in Boston on a rainy April morning to studios in strip malls and high rises. And lots of money is chasing them.

