



## North Castle Partners Looks for Innovation in Its Healthy Living Space Investments

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North Castle Partners founder and CEO Chip Baird is often asked why his firm decided to develop as a health and wellness consumer private equity firm.

"They assume that we came to this cool space because it's a cool space and we're all healthy, active participants in it," Baird told Club Industry. "But that's not really the way we came to the space."

North Castle Partners, Greenwich, Connecticut, was founded in 1997 and has made 28 investments to date in fitness and nutrition brands. The firm's current 13-brand portfolio includes urban rock climbing gym Brooklyn Boulders, [Barry's Bootcamp](#), [Curves](#) and [Jenny Craig](#). North Castle Partners grew in the 2000s with what started as a systematic analysis and search of spaces to operate as a private equity investor.

"We created a set of criteria that had to do with size and growth rate and fragmentation and innovation and ownership by baby boomers, degree of interest by strategic buyers," Baird said. "We assessed the economy through that filter. Lo and behold, what came out was the space that back then we referred to as healthy living. Now we refer to it as healthy, active and sustainable living."

North Castle Partners followed its analysis with a recapitalization of vitamin manufacturer Leiner Health Products in 1997. After that, the investments kept coming as the firm became a strategic buyer of nutrition company EAS in 1999; upscale gym chain Equinox, juice manufacturer Naked Juice and dietary supplement manufacturer Enzymatic Therapy in 2000; fitness equipment manufacturer Octane Fitness in 2005; weight-management company Atkins Nutritionals Inc. and athletic headgear manufacturer Cascade Helmet in 2007; and Canadian health club operator International Fitness Holdings in 2008.

North Castle Partners sold Leiner Health Products and EAS in 2004, Equinox in 2006, Naked Juice in 2007, Enzymatic Therapy in 2008, Atkins Nutritionals in 2010, Cascade in 2012 and [International Fitness Holdings in 2014](#). In January, North Castle Partners [sold Octane Fitness to Nautilus Inc.](#) for \$115 million.

North Castle Partners continued to take positions in the nutrition space in 2015 with investments in SmartyPants Vitamins and Sprout Organic Foods. Nutrition brands are important to the firm's mission to partner with entrepreneurs who advance healthy, active and sustainable living, Baird said.

"Exercise without a weight management program or weight management without exercise – neither are sustainable ways to achieve weight loss," Baird said. "Our Holy Grail has been about ways to bring together those two things, which we were doing with Curves before we brought in Jenny Craig."

North Castle Partners has examined thousands of companies and made 50 investments during the past 19 years. The firm sees about 300 investment opportunities annually, and a typical year may yield one or two investments. Those investments average a life span of about five years before being sold. North Castle Partners has looked at more than 50 health club companies as investment possibilities during the years, Baird said.

"The health club business is a very fragmented industry," Baird said. "Our search there has always been defined as a

segment that does something very, very different than the run of the mill, plain vanilla health clubs. We've been out in the forefront with some, and I think we have missed some trends with others."

Equinox is an example of a health club that North Castle Partners was in the forefront with when it invested in the company from 2000 to 2006. Equinox, which now has 80 locations in the world with 29 locations open or in development in New York City, had and still has a stream of ancillary revenues, such as its pro shop and spa, that created a different economic model that was attractive to North Castle.

"It's not just jumping on a wave," Baird said. "It's thinking about the different segments and their relative attractiveness and then making an investment."



The exercise equipment manufacturing sector is more concentrated than the health club market, he said, but North Castle Partners looks for innovation in investment options here, too.

Former Life Fitness President [Augie Nieto](#), who is chairman of Octane Fitness and serves as a North Castle industry operating advisor with Leiner Health Products President Gale Bensussen and founding IHRSA Executive Director John McCarthy, brought Octane Fitness to the attention of North Castle Partners in 2005.

Octane Fitness, led by Dennis Lee and Tim Porth, who both had been with Life Fitness prior to starting Octane Fitness, fit North Castle's requirement for innovation because the company brought a different approach to exercise with its focus on low-impact cardio, Baird said.

"I think they [Octane Fitness] were a very credible innovation incubator for new ideas that ultimately resulted in the seated elliptical and the Zero Runner," Baird said. "It was a combination of an attractiveness of the segment and the quality of the management team that gave us confidence that over the long term it would be an interesting place to invest."

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## Advice for Health Clubs and Manufacturers

Jon Canarick, managing director at North Castle Partners, leads the firm's coverage of the fitness industry. He sits on the board of directors for Curves, Mineral Fusion, Palladio Beauty Group, Barry's Bootcamp and Performance Bicycle.

For operators of a club or fitness manufacturing company to draw attention from institutional investors such as North Castle Partners, they need to prove on a small level that their business can replicate a business model and differentiate itself, and they need to identify and directly address their primary consumer better than any other competitors, Canarick noted. He pointed to Barry's Bootcamp, Equinox and the original Curves as examples of companies fitting that description.

"Ultimately, it's that satisfying a consumer demand that drives success and replicability and scalability," Canarick said. "You have to find who your core consumer is and understand what their needs are and satisfy it better than anybody else. If you don't, then you're just one more health club. And there are thousands of those."

Baird said the core health club business is less attractive as an investment than it was a few years ago, though there

are exceptions for businesses pushing to be innovative in addressing the consumer.

"You see some extraordinary new businesses," Baird said. "What Planet Fitness did is a wonderful example, what SoulCycle did is a wonderful example, what Barry's Bootcamp has done is a wonderful example of the American entrepreneur thinking about this enormous demand and figuring out a better mousetrap."

### **Hands On Approach**

When North Castle invests in a company, its goal in working with management and CEOs is to achieve what it calls a "full potential partnership."

That partnership is built on trust and respect, Canarick said. It involves communication about any issue at any time and being a resource to the CEO and management team. Sometimes the partnership provides access to direct internal resources, to its internal advisory board or to contacts developed through years of working inside the same industries.

North Castle is involved in setting strategy alongside its CEOs and works to help those CEOs find the right teams and to structure the right organizations, Canarick said.

"We're hands on, but that doesn't mean we run companies," Canarick said. "There is a real line. We don't make day-to-day decisions. For us, it's all about that full potential partnership in being an effective, productive, value-added partner or hands-on partner."

Baird described North Castle's relationship with its companies as being akin to a coach who is there to help through trying times and difficult decisions.

"It's people like Augie," Baird said. "If you're Dennis and Tim building Octane from a handful of people in a basement into a thriving worldwide company, having someone like Augie and Andy [former Life Fitness COO/CFO Andy Maduza], and [Torque Fitness CEO] Jerry Dettinger and the other people on that board, in addition to the North Castle team from Greenwich, you have an invaluable resource to help build your business."

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