Virgin Active taps shareholders for £70 million as cost-of-living pressures hinder post-pandemic recovery

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irgin Active has tapped its shareholders for £70 million in funding in a bid to keep its finances in check as it battles to attract customers to pay its premium membership fees amid cost-of-living pressures.

The Richard Branson-backed business, which has over 20 gyms in London and charges between £99 and £310 for a monthly membership, said shareholders had agreed to provide £45 million in cash to support the firm's European and Asia Pacific operations with the promise of a further £25 million for liquidity and investment purposes.

The firm's UK operations this week posted a £36 million loss in 2022 in signs it had struggled to retain pre-pandemic membership numbers after Covid-related closures during 2020 and 2021.

A Virgin Active spokesperson said the loss was driven by "an amendment to the company's post pandemic recovery timetable reflecting the impact of the cost-of-living crisis on consumers and inflationary pressures on utility costs."

Virgin Active Group has racked up debts nearing £300 million, with rising central bank rates pushing up its bank loan interest rates beyond 10%. One of its loans now carries an interest rate of over 15%.

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  “If kids don’t experience nature, how can they protect it?”

The rises mean Virgin Active now faces a £27 million annual cost to service its debt interest payments, the Standard calculates – the equivalent of over 13,000 memberships, based on an average annual fee of £2,000.

Richard Branson’s Virgin Group and South African billionaire Christo Wiese’s Brait Group are among the shareholders who have forked out cash for the firm’s loans.

The funding highlights the difficulties facing the London luxury gym sector as soaring energy costs and cost-of-living pressures hinder efforts to recover to pre-Covid membership levels.

Another luxury gym club, Equinox, which charges as much as £350 per month, saw losses widen to £18 million and it shed hundreds of members compared to pre-pandemic levels.

Virgin rival Third Space fared better, narrowing its losses from £6 million in 2021 to a little under £1 million in 2022. Last week the firm unveiled a £88.5 million loan facility to support its expansion. CFO Suzy Clarkson told the Standard membership numbers were on an upward trajectory while the interest it pays on its loans was well short of the 15% rate Virgin Active faces on some debt.

But firms at the budget end of the market continue to see their revenues surge in signs customers are trading down to cheaper options.

Low-cost gym chain The Gym Group is poised to open another six sites in London, the Standard can today reveal, as it seeks to ramp up membership across the capital. The first of these was opened in Wimbledon last week, followed by a new site in Uxbridge this week, and four more in the coming months.

Will Orr, CEO of The Gym Group, told the Standard: “The prioritisation of health and wellbeing will be a lasting legacy of the pandemic. Yet with the heightened cost of living, people are seeking more value from their spending, and our low cost and flexible gym memberships make fitness more accessible.”

An analysis shared by Gym Group rival PureGym suggested that as many as 40,000 members of premium UK gyms traded down to low-cost alternatives between 2022 and 2023. That would equate to a £100 million drop in trade for the luxury gym market, assuming an average monthly membership fee of around £200.

One market analyst told the Standard: “People trade down from premium to low-cost memberships because the majority of activity that takes place in gyms is actually using the gym equipment.

“People in premium gyms who only use that equipment, who are subsidising say a swimming pool they don’t use, find that the low-cost clubs actually have more gym equipment, while the money saved from the high membership fee could be better spent on a personal trainer.”