

EPISODE

145



Sales and acquisitions of Gyms - a fitness industry focus, with Clifford Forster

The Deal Room Podcast

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Transcript

Joanna: Hi, it's Joanna Oakey here and welcome back to The Deal Room podcast, a podcast proudly brought to you by our commercial legal practice Aspect Legal. Now today we are talking to Clifford Forster from Universal Business Brokers all about the specialist area of selling and acquiring gyms. In this episode, we look at what the differences are in selling gyms or buying gyms as opposed to other types of businesses. We look at who the buyers are, and it's quite interesting as we delve into the type of buyer of a gym In business, we look at processes that use and the factors to consider both from a buy side and sell side in relation to gyms and we also consider the importance of team. So this is a bumper episode. If you or your clients have an interest in gyms or an interest in investing in good quality businesses, then this episode is a must listen for you.

Joanna: Cliff, thank you so much for coming on to the show today.

Clifford: Thank you for having me.

What makes the sale of a gym different to the sale of any other business?

Joanna: Brilliant, okay. Now today I wanted to have you on because I really enjoy being able to do snapshots of particular industries on The Deal Room here and I wanted to do a show all about gyms and so of course, you were the first person that I thought of in terms of talking about the sale and purchase of gym businesses. So that's why I wanted you on board and that's what I'd love to talk about today. Okay, so let's launch into it. How are gyms different in your experience to other businesses that you sell?

Clifford: Okay, so strangely enough with gyms when we first started out and I started as a broker about 10 years and I have sold many of them way before I launched being a specialist in Universal Business Brokers. I've sold many of them and my experience is that every single one I've ever listed was sold and today it remains the same. So a couple years ago, we tripped over the franchise gyms Anytime Fitness plus 24 and so on.

So we listed the first one a few years ago on two or three years ago. Our first one was sold immediately. Now we thought at first who will we market this business to? Is it to the personal trainers? Is it to other gym owners? Is it to those that sort of health and fitness sector? And yes, it was heavily marketed the first one but what we found is that most of our buyers were not personal trainers. They are actually Accountants, Lawyers and Doctors looking for a good investment. Looking for a good return.

Joanna: So fascinating.

Clifford: Yeah, so over the time we've progressed, and since we've really launched into it and got some foothold with these franchise, that sort of stuff in they already recommend us. We also got into meet who the other gym owners are who most of were founder of multiple gym owners some had as many 20-27 gyms or so. So they're investment based businesses because they're very low in staff management, so they usually got one permanent manager that runs a gym.

They generally lease out gym space, around two personal trainers, you pay them, and so staff you kind of knew you're paying them too. Okay, so they are a full financial businesses, so they've got the financial background, they can verify memberships and things like that. So what we did is now as you move forward, we dealt directly with other gym owners that want to buy the other ones because we feel if the numbers stack up that guy over there who wants three other ones would want to get that one as well. So we make it our business to know who those people are.

So when we say, Anytime Fitness franchise, for example, we've already got a buyer for itself. So as long as the figures stack up for the right multiple, so generally they seem to say 23.2 and four times multiples of. So we've already got the buyer for it in a lot of cases, but in saying that we still extensively market directly to the demographics. We think that might want to buy it like doctors, lawyers, and also our gym owners. So we program that social media campaigns to go to those people, but

generally, we could sell without doing that we can sell them just because we've already got a buyer for it.

Dealing with people who have not run a gym before but are looking for an investment

Joanna: Wow, amazing. And I think it's quite unique to have an industry where you've got a bigger pool of buyers sitting there waiting than sellers. Certainly there's a few other industries that I can think of like that, like accounting practices, for example, but it's not, it's not the norm. So, you know, so it certainly makes it an interesting industry and you talk about the the buyers being invested. So being the, you know, the lawyers, the accountants that all the multiple gym owners, and what is it? And I guess for the multiple gym owners they come in knowing the business, but how difficult is that chasm for you in dealing with the investors who haven't run gym businesses who are looking for it as an investment?

Clifford: When you're selling the franchise obviously there's this franchise training. You got to go into franchise training via a settlement. So they get that training on hand and most of these big gyms have got that inhouse training, they've got their own systems in place. So when these guys come in, generally most of the ones who have just recently sold are people who already own them, even though they are in business, so they know the value and they know the return on it.

So they're happy to buy multiple because it's just another one, and you have got a choice, you go and buy residential property, you get 3 to 5% return on investment, you can go and buy commercial property 4-7% on investment, or you can buy a T 124 hour franchise and get 30% return on your investment, so get those smart people to lock on it and invest on it. So they'd rather get that high return on investment after three years, later it's just start making profit. So dealing with them is quite easy because they're educated people.

So you're dealing you're dealing with a smaller, lower and you know, corner store type business it's different, let's say education level of buyers. And dealing with these smart educated investors who can see the figures and read it well and know that that's federal stacks up so it actually makes out our sale a lot easier, they are a lot bigger sale for us, than the smaller businesses and you deal with a person who understands it so understands how to read financial document and understands that finances and they've usually got the financial position to be able to get the finance and go buying it. This is very, we find a much simpler process.

Joanna: Some businesses type or some industries seem to have a high level of turnover in terms of buyers and then the period of time before they sell, where does it sit for gyms? Do you generally find buyers buy and hold for longer than, you know, other industries that you might deal with?

The processes and factors to consider when buying and selling gyms

Clifford: They don't turn over that often. We've got that many buyers with the lack of sellers and they don't turn that over there a lot of these people hold forever, some

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guys work we deal with have been here like forever, it's accumulating.

Joanna: Because the cash cows I guess, as you're talking about here. Is it giving you 30% return?

Clifford: Yeah, that's exactly right. So yeah, seldom of these people don't sell those things. So one reason selling is not done is people close their doors so you have to walk across and they need to settle their affairs. We just saw one recently where was selling the smaller one to buy the bigger one because the cash flow for the small one, to buy the bigger one so and then the guy who bought the well so another big one. So there's a couple of cases where sold multiple to buy individually. So we've got a group of buyers that we deal with on a weekly basis and we keep you informed basically nervous to business with us, we'll give it to those folks first. So here it is, guys, or sometimes even one or two guys. So make you want that one on that one.

Joanna: So your waiting list that's fabulous.

Clifford: So you learn to schedule that. We worked on that. We've gotten there and we've actually found out of the who's who in the industry. Yeah, we're working with firms sometimes. So we make it our business to be involved in do the right thing by these guys and help them as a franchise and another band of other features we deal with in that sector to them feel comfortable to recommend franchisee. Everyone lasts so we can handle the deal.

What's in store for the fitness industry following the conclusion of the government stimulus and job keeper package?

Joanna: Brilliant. Okay, and what do you think? I mean when we were recording this sometimes there's a little bit of a delay between recording and releasing so I'm not sure when this will release but when we were recording it at least we're right in the middle of COVID, gyms haven't opened up again. And but we've we've got job keeper another stimulus in the, you know, economic environment that is keeping gyms that may have been borderline, you know flowing and moving in from closing down but, you know, it seems to me that the gym industry will be one of these industries that when we come out on the other side of at the end of stimulus and job keeper, you know, we might see potentially some movement in the markets. What's your thoughts? In terms of how that might look,

Clifford: Yeah, as you know with COVID-19, at the moment, gyms are shut. We did have deposits on three at a time and two of them fell over. So we saved them again. So it's just a different way selling the business, you know, we understand that a gym buyer won't want to settle on a gym right now, right, so this is the destructive way, but at least there are still people still want to buy the gym. But then it settles got it. Right. So what we do is we exchange contract conditional upon selling four weeks after the locking of the gyms, so we're still exchanging contracts on these things. So we're still selling even though their closed. We've got another one, a private gym, where our specialist spoke to the buyer yesterday.

She's gonna take it now with a delayed settlement. So we don't want to deal with her landlord on her behalf and vendor that' then where we will exchange your contracts,

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she can get everything in the next period of time that is pretty basic, to do renovations, they can request even renovation, and then again, it's gonna set in a period of time, which might be the talk about gyms releasing, you'd say four to six weeks. It'll be one month after that, so she would be headed for the renovations on that particular gym so the day that the lockout laws are a bit lifted all the time that we delegated the contract the gym is up. They got a right for those things.

Joanna: Yeah, but I also think that there's an opportunity for the buyers out there who are the investors you know, to I think my personal belief not and I don't know if some if this is the same for you Cliff, but I feel like there will be opportunity in the market for buyers who are ready for it as it comes on. Is that your thoughts?

Clifford: 100%. I mean, as you know, we still do stuff together, you know, the buyers are small, a little of a discount to your private money. Then one, you know, exchange contract for others to go to franchise training. All the time you get set up the deal itself. So yes. There is opportunities for buyers out there but yeah, a recent one with two deposits on the same device. You know, first investors, we're working this case for the vendor, I will get the message sent.

We explained to him that that's exactly what we're doing. So I need to make a decision on the on the purchase, you know, on that with in the last 24 hours or so 48 hours we've had another one, so we could Yeah. Even it was COVID-19 or not we're still selling. Payments will be guided, that's all and that's standard. Yeah. This week we sold another businesses which was closed in a different sector.

We have sold it and we're exchanging contracts on this week, it is still a delayed settlement. it's just a different way of selling businesses but I think very shortly when this all looks a little bit lockdowns gets relaxing with a few of these businesses are back up. We're going to see a lot from unemployment, so unemployment is gonna go to 10%. With unemployment on 10% that means there's gonna be a lot of people looking for a job. Those people who lost their job, they're not going to be able to get that job back, they are not going to earn the same money, when you used to get 20 grand a year we're going to get that? because jobs aren't going to be available, so what do they do?

Joanna: I think you are Absolutely right. But he you know, he's a good plug, I guess in terms of what type of business do they go out and buy and and as we were talking about before there are some industries where you know, they they look better than the reality of running them but he you are you know, we talking about gyms as an industry where it appears when you're buying it's the sort of thing that what the proof is in the pudding if there's low turnover once they get in, you know, and I guess it's about making a decision from an unemotional position of really understanding what it is that makes a business work from an investor perspective, even if you're buying yourself a job.

Clifford: Yeah, yeah, it was a bit different people that are different industries right. So I mean, if your background before we're an accountants you are going to buy a firm and if you're a professional plumber you're probably gonna buy a plumbing business. If you haven't got any skills yeah well you're going to end up buying a cafe. But if you are a hot buyer in the game and you have a larger income you can afford to buy 24 hours in a franchise you the second range anywhere in 500,000 or 2.5

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million you know so the thing is you would not want to buy any of that because they don't actually get the work in, you just need to oversee and make sure that everything's running smoothly like any business owner will but they're not actually in there. You know, doing push ups with people, they are generally invest operated, so the owners solely working.

Tips for buyers and sellers when it comes to a gym acquisition

Joanna: Yep, yep. Love it. Well, isn't that the dream business you know, you buy it? It runs itself? Cleef. I love it. If you got any on your books, I might take one now I'm feeling convinced. Watch it. talk me into it. He's got it. I love it. Cool. Okay, all right. Well look, thanks a lot for coming on to the show today. What I guess if you had any parting words for any of our listeners perhaps or vendors of gyms, what is it that they should be thinking about when they're preparing their business for sale or thinking about hitting into the exit of a gym?

Clifford: Well we can help them with preparation businesses sale, so when they come to us, most people would have sold a lot of business and a lot of people have only around one. Now they want to sell it for whatever the reasons are. We help them with that we help to prepare for sale. So first they come to us and we will explain the process and how it's done. Why it is done that way. Why we advertise where we do, why you need to give us the right information and how that's going to resolve and staff. So we can help them with all that. So if they're a gym owner, you might want to get a franchise gym, we certainly specialize and we will focus on that so we can help them to the whole process

Joanna: Brilliant and I guess then let's also do a parting tip for the buyers out there. Is there anything that you would point to for buyers to be on the lookout for or be thinking about? If the industry sounds attractive to them, what should they be looking out for in terms of working out what's a good buy versus a bad buy?

Clifford: It really depends. Are the gyms going anywhere? No. Is it close? Yeah. So most of these people need contract arrangements whether or not somebody of them suspend a bit once the lockdown will stop, same goes the same for the gym membership that week or every month, they take it out. And you know, people are gonna go back there, people can't wait to get back to us. You know, so me personally, although I'm often just excited to get back there. And so people are out in the back of this train.

They have a lot of facilities that some of the issues are you know with all of the high tech sort of stuff so it's going to change. It's going to go back to where it was you know some small players will drop off to the big players will still be there. So if you look at buying a gym, I mean you know we can certainly help the buyer with some advice on what they're looking for and you know membership levels and size of property and you know the franchise training giving them advice and on what they need to do to be able to secure one of these you know, we're coming across them all the time they you know, we're getting a lot of calls on selling and buying gyms so we know what's coming up. We know you know, we're receiving in the mail, the different ones that we've got for sale. So we can help buyers and sellers in either way on.

Joanna: Brilliant. Okay, we'll look Cliff, thanks so much for coming onto the show

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and talking all about the gym industry. And if any of our listeners want to get in contact with you either to sell or to buy a gym, how can I do that?

Clifford: Easy, they can email clifford@universalbusinessbrokers.com.au call the 1300 number at 1300 00 1303 or call me on mobile on 0422 486 277.

Joanna: Brilliant. Absolutely love you work Cliff. Well, thank you so much for coming on to the show today.

Clifford: Thank you too Joanna.

Joanna: Well, that's it for our episode that was all about gyms with Clifford Forster from Universal Business Brokers. Now if you'd like more information about this topic, head over to our website at thedealroompodcast.com where you'll be able to download a transcript of this podcast episode. If you'd like to read it in more detail. You'll find details thereof how to contact Cliff Forster at Universal Business Brokers. There you'll also be able to find details of how to contact our lawyers at Aspect Legal If you or your clients would like to discuss the sale or acquisition of a gym business. We have a number of great services for businesses in this industry either prepare for a sale or an acquisition and to guide them through the transaction.

We work with clients both big and small and have different types of services depending on size and complexity. So don't hesitate to book an appointment with our legal Eagles if you'd like to find out how we might be able to assist. And finally, if you enjoyed what you heard today, then please pop over to your favorite podcast player and leave us a review. And while you're there, don't forget to hit subscribe so we can deliver these podcasts right through to your podcast player as they are released each week. Well that's it. Thanks again for listening in. You've been listening to Joanna Oakey and The Deal Room Podcast, a podcast proudly brought to you by our commercial legal practice Aspect Legal. See you next time.