

MIKE MASTERS THE ART OF UNCOVERING RARE GEMS

BY BRIAN YIM

Mike Balfour has a talent for repeatedly buying over bankrupt businesses, tweaking their business models and making them profitable. Meet the man who transformed an old squash club in Bournemouth, UK, into the world's largest fitness chain, Fitness First.

Mike Balfour first got the idea to create his own brand of affordable fitness clubs when he worked as an investment advisor for a wealthy Arab in Qatar who had a wide variety of businesses primarily in North America and Mexico. One of these was a prestigious health club but Mike saw a gap in the UK market for quality yet affordable fitness clubs.

He took his first plunge as an entrepreneur not long after qualifying as a chartered accountant by buying an old squash club called Queens Park Health Club in Bournemouth in 1992 that went bust not once but three times.

"I was 100% sure that I wanted to do it. At that time, it seemed that it was a lot braver than it would appear now. I bought a bankrupt club. It never ever worked. If the business hasn't worked three times, it's really risky. It was a dry club concept. Essentially clubs with no swimming pools and no restaurants. At that time, all clubs had swimming pools and restaurants. A good clue that you are on the right track is when your friends tell you that you are on the wrong track. They were telling me things like, "Don't come to Bournemouth. We already have one club." But for me it was a lot of doing things that are different and to pioneer a new market in the UK."

It was undoubtedly a high risk move. To fund the purchase, Mike had to sell his house, withdraw his two children who were eight years and ten years from

a private school, take out numerous personal guarantees and go without salary for 18 months. "Once you give one person a guarantee, you might as well give 10. I borrowed to the hilt. I had an interesting conversation with my wife Margaret about this but I am glad she understood and supported my decision," he grinned. "The cost of failure is that I would have been completely wiped out."

His original target was to have 10 clubs but it went beyond his wildest dreams that a thrice bankrupt health club would grow into the largest health and fitness chain in the world. Fitness First has 550 clubs currently, 1.5 million members, 20,000 employees in 21 countries around the world and an annual turnover of USD1 billion. All the clubs are directly owned.

Describing his first foray as an entrepreneur as his "most scary" move, Mike recalled how unsubstantiated rumours were swirling a few months after he opened that the club was going bankrupt again. "You could feel it like a wave. We had a function room for weddings and people started to ask for their deposits back. We were only opened four months and at the beginning, we didn't meet our budgets. The bank manager then wanted to call in the auditors and that was a first step towards bankruptcy. When you have got everything in the world tied up with your business, those are horrible things to deal with."

How did you make Fitness First such a phenomenal success?

Perfecting the model is quite unusual and then rolling out in the different economies. It is hard work. You are putting the hours in. I will never have forgiven myself if I failed because I did not put in the right number of hours. You work the absolute maximum. You think, you breathe, and you live your product. You strategise. Most entrepreneurs have this huge inner desire to achieve, to grow something. Never be afraid of failure. Just continue to strive to make a successful product.

At what age did you become a millionaire?

In 1996 when we floated our business on the secondary board, I was about 46 years of age. The company was valued at GBP14 million but we managed to raise GBP8 million in cash. We had cash to expand the business. We took the company private only because we had rapid growth from 1996 to 2002.

Then, there was a small recession in 2002. The market slowed and instead of taking three months to break even, we took six months. We were building so many clubs that year and what it meant was that our profitability diminished. We had to declare a profit warning. The share price collapsed. I tried to tell the stock market it was not a profit warning. It was a profit delay. The stock market did not believe me. But the private equity





I HAVE NEVER DONE ANY
MARKET RESEARCH ON ANYTHING
EXCEPT SELF OBSERVATION.
A LOT OF IT IS GUT FEEL.

investors did believe me and we bought the company back for GBP450 million.

And to prove the point, two and a quarter years later, the company was sold for GBP835 million dollars in 2005. It became the private equity deal of the year in London.

How did you expand so quickly?

I started going overseas really quickly into Germany, Belgium, France, Italy, Spain and Holland. In 2000, I came to Asia and bought over this small company in Hong Kong called Sport Tathelon that was owned by a public listed company. They were mainly operating in hotel clubs and were involved in fitness equipment also. They weren't making any money but we bought them out because they had clubs in Singapore, Philippines, Thailand and China for us to build on.

Clinching the deal was a bit unusual. I told them I was not coming out to see the clubs unless we agree on the price over the phone. I took the tack that by forcing them to agree to the price then two things would happen. They would agree on a reasonable price to persuade me to get on the plane. Secondly, whatever price we finally agree on would only go down. That's exactly what happened.

It did have the benefit of me knowing the maximum I was prepared to pay. If it was too expensive, I wouldn't have gone. It turned out to be a fantastic investment. We now had 80 more clubs. We created jobs and 20% of the profitability came from Asia. It was a wonderful deal.

Was that your most entrepreneurial deal?

One of my best entrepreneurial deals involved beating the Virgin Group and Hilton to buy over a bankrupt Australian fitness chain with 11 outlets in the year 2000. That turned out to be a busy and important year for us. The chain had good clubs but the wrong business model.

It was a race against time to do the deal quickly. Virgin and Hilton had troops of accountants going through the books. There was only three of us and I thought "What should we do?". So I said to my team, "Do we believe we can make money out of these clubs?" We said "Yes, then why do we need to know why they failed? Let's not do any due diligence at all. All we had to do was to concentrate on the leases and the legal issues. Because we

took that decision, we did the deal the fastest with the administrator. We now dominate the Australian market. About 50-60% of our profitability comes from our Asia Pacific markets. Making those two decisions in Asia Pacific changed the complete format of the business. One was bust, and the other was broke. So buying a bankrupt company was a good thing. We changed the business model and within six months, it became profitable.

Was that the fastest deal you ever made?

Yes, we closed the deal within days. The timing was critical. There is no prize in life coming in second.

That was a lesson I learnt in my early days. I had a partner who always wanted to reduce the price. We put in our bid but we came in second. In 1997 in Glasgow, there was an opportunity to buy a health club. The guide price was GBP900,000. I put in the price of GBP950,000. The second lowest bidder was GBP875,000. So obviously I won the deal. Within a week, the guy who came in second offered me GBP100,000 more than what I paid for the deal. I didn't take it. Coming in second was a very unattractive position to be in.

What other businesses are you invested in?

I always like new businesses, enjoy working with people, new ideas, and new concepts. Three years ago, I started The Hideaways Club, an international property investment fund that offers its members the opportunity to invest in a multi-million dollar portfolio of luxury villas and chalets throughout Europe, Africa, Mauritius, and the Far East. The Hideaways Club offers an alternative to purchasing second hand properties and making your money go much further.

I am also building a chain of health clubs in Eastern Europe and those untapped emerging markets. I am joining forces with a UK entrepreneur, to build a chain of restaurants and bars. We take a concept, modify it, and start again. Nothing hugely intelligent.

How do you know what can or cannot work? Do you take professional advice?

I have never yet paid a penny for advice. I have never done any market research

on anything except self observation. A lot of it is gut feel. There's an awful lot of knowledge around this world. If it feels right, then let's do it. Equally important, when my gut feel about things aren't right, it often is correct as well. The team is hugely important. Throughout Fitness First, it's about us buying and backing management teams. We had a product and they built the concept.

Backing and motivating the management team is vitally important. I always say the culture in any business is always set from the guy at the top. If you got an aggressive individual at the top, the whole business turns aggressive all the way through. We have to set the right culture. Fitness First has a "can do, exciting" culture. That culture was set by me. I have a "can do" attitude. We wanted our staff to be friendly, to want to serve customers and to be friendly without being aggressive... So that was really important. Be proud of building the company. Show that we can be successful without being aggressive.

If you don't take advice, do you give advice?

I give advice only if they care to listen. I do a bit of angel investing especially in start-ups businesses. I always believe that cash is king. There are many good ideas that never got off the ground because people are not financing it properly. We can expand faster by taking on another partner but may lose control. I am a great believer in diluting your equity for cash and making your business grow bigger. Strength comes from size. If you sit around, someone else is going to beat you to it.

I invested in one business where the CEO was so tight with his equity. He was so tight that he will always remain a small business. I think that all entrepreneurs should have this total belief in themselves that they can find a solution to every problem. The difficult task is actually to properly analyse the problem, you will always find the solution. There will always be loads of setbacks. I only remember the things that go right. I forget the setbacks. Someone once asked: "Do you have any failures? I thought about it and said, no but plenty of changes of plans." ▲



Mike & his wife Margaret

THE HIDEAWAYS CLUB: INVESTING IN PROPERTIES THE SMART WAY

The Hideaways Club, launched in 2007, offers its members the opportunity to invest in and to exclusively enjoy a portfolio of over 30 luxury villas and a further 20 properties throughout Europe, South Africa, Mauritius, South-east Asia, America, Mexico and the Caribbean.

Unlike timeshare, The Hideaways Club members own a share of the investment property portfolio and benefit from any increase in the value of the portfolio. It appeals to those who wish to invest in overseas properties but without having to fork out USD1 million to USD2 million each; do not want to be restricted to one location and to dispense with the hassles of maintaining an overseas asset, which they rarely use.

To date 170 members have signed up, contributing to a USD50m property fund value. The Club aims to grow its portfolio to 100 villas in a wide range of locations owned by 600 members. Each year, 12 to 15 luxury villas, chalets and apartments are added.

There are three categories of memberships: Premium GBP245,000, Lifestyle GBP166,666 and Associate GBP127,500. There is also an annual contribution cost to upkeep the assets and this ranges from GBP7,000 to GBP14,000 per year. This represents a 60% discount to market villa rentals.

The Hideaways Card portfolio consists of large, beautiful homes with a gross area of 250 to 800m² and costing EUR1.5 million to EUR2.5 million.

For more information, please visit
hideawaysclub.com