

HD **Enterprise: Management - Fitness First to bulk up in Asia even as UK, Australia business struggles**

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It pays to be fit, and fitness clubs know this all too well amid a growing desire by people for a healthy lifestyle. For Fitness First, one of the biggest brands in the business worldwide, trying to capitalise on this trend has been ironic in a way. It ended up paying a heavy price when the global financial crisis struck, struggling to service even the interest on the loans it took to fund growth in order to get more people to exercise.

"The debt was something in the region of £700 million [\$1.48 billion]," Fitness First CEO Andy Cosslett recalls in an interview with The Edge Singapore. "As the financial crisis started to subdue revenue, which translated into subdued profits, growth sort of melted away.

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"At the same time, the cash flows from the business were used to pay off the interest on the debt. When you're doing that, you're not investing in the product, the gyms and the people. Members noticed and they drifted away." Up to 15% of its members in the UK and Australia, where most of Fitness First's clubs are found, left as a result, and a number of centres in both markets had to close down.

Cosslett became Fitness First's CEO in June 2012, the year US buyout **firm** Oaktree Capital Management took control of the **company** from London-based private equity **firm** BC Partners and several investors through a debt-for-equity swap. The change in ownership came a year after BC Partners called off a planned IPO of Fitness First in Singapore because of weak market conditions. By the time it exited, BC Partners had held on to the **company** for about seven years.

Founded in 1993 by British entrepreneur Mike Balfour, Fitness First started as a single gym in England. It listed on London's Alternative Investment Market several years later, before it was taken private in 2003 through a management buyout. The business was **sold** in 2005 to BC Partners for £835 million.

Still a drag

With Oaktree Capital as its new owner, Fitness First has sorted out its balance sheet and is now debt-free. It is still trying, however, to straighten out its UK and Australian operations, which Cosslett expects to continue to be a drag on the **group** until next year.

"Because we weren't investing in those clubs, the quality of the clubs deteriorated. New entrants came into the market and people found they could move to a new club, sometimes at lower prices. We lost our value proposition in those markets," he concedes.

"In those markets, each renovation is a big job. You have to refit the clubs completely. We are talking about renovation costs in excess of US\$1 million [\$1.25 million] at a time. We will see continually depressed performances in the UK and Australia, I think, until 2015."

By bringing Cosslett on **board**, Oaktree Capital is betting that his experience in the hospitality and consumer-related industries will rub off on its fitness investment. Cosslett was CEO of InterContinental Hotels **Group**, whose brands include Holiday Inn and Crowne Plaza, from 2005 to 2011. Before that, he spent 14 years at Cadbury Schweppes in various senior roles, including Asia-Pacific CEO and president of the global confectionery brand's operations in Europe, Africa and the Middle East.

Fitness First has 377 clubs worldwide at the moment. Asia is where its business is growing the fastest. It has 88 centres in six Asian markets — Thailand, the Philippines, Singapore, Malaysia, Indonesia and **Hong Kong**. The plan now is for the Asian business to pick up the slack while the **group** gets its other operations, especially in the UK, up to speed.

“Our positioning in Asia and Australia is at the top end of the mainstream market. The job ahead of us in the UK is to bring the stakes up,” says Cosslett. “When Fitness First began in the UK, its positioning at that time was lower down. We want to be at the top end of the mainstream market.”

Expanding in Asia

For now, the **group**'s focus is on organic growth in Asia. Thailand has the most number of Fitness First clubs in the region, at 25, followed by Singapore and the Philippines, at 16 each. “Nobody is close to that. If you want the freedom and convenience of being able to move within that network of clubs, this is really the only brand available,” he says. “To build that system strength in each of the major cities in which we operate requires us to have more clubs.”

To this end, Fitness First will spend more than US\$140 million to open as many as 50 more clubs in Asia over five years and to upgrade existing centres in the region. One of its targets is to expand its membership base by almost two-thirds to 350,000 by 2018. It expects to hire another 1,500 fitness instructors by then.

Of the total investment amount, US\$42 million will go to refurbishing existing clubs, introducing new workout programmes, upgrading staff and launching smartphone apps to help members track their progress. Some 4,000 employees are currently undergoing specialist programmes relating to behavioural psychology, sports science and emotional-quotient training.

The **company** has several options for funding the investment. These include a credit facility from Oaktree Capital, bank borrowings, and cash generated from operations. “We still make a healthy cash flow and we have a profitable business even though we had a tough two or three years,” says Cosslett.

In FY2013 ended Oct 31 last year, Fitness First's Asian business generated revenue of £136 million, 10% more than a year earlier. Its operating profit increased 14.5% to about £20.5 million. The **group** as a whole incurred a pre-tax loss of £241 million in FY2009, almost double that in FY2008.

Clearly, Cosslett and his team have plenty to work on as Fitness First embarks on its aggressive expansion in Asia. The addition of up to 50 clubs from now till 2018 means an average of 10 centres will be rolled out every year.

Low penetration

“Asia is catching up with the rest of the world in terms of lifestyle,” says Simon Flint, Fitness First's Asia CEO. “We are positioning ourselves as the fitness leader that helps you go further in life through fitness.” According to the **company**'s research, less than 5% of the population in Southeast Asia are gym members, compared with up to 30% in the US and 15% in Europe.

One fitness trend that Flint says Fitness First is well placed to ride is gym-goers' penchant for shorter but high-intensity workouts. “Not everybody has an hour free. The half-hour to 40-minute punchy classes are going to be the things you'll be seeing more and more in time to come. These workouts give people quicker results in a shorter space of time.”

As a mark of the **company**'s commitment to its vision, every employee — including non-fitness instructors — will have to be professionally fitness-certified by 2015. “That starts with Andy Cosslett, our **group** CEO. It includes myself and every single employee,” says Flint. “If the receptionist or any person who plays a part in the operations of the club is able to speak from a position of experience, passion and interest in our product, I think it will make a huge difference.”

Despite the **group**'s optimism about Asia, one market it has no immediate plans to get into is **China**. “We feel that **China** is not right for us yet because we have this great opportunity right where we are in Asia at the moment,” says Flint.

Uncertainties in **China**'s **property** market are another consideration, he adds. “There's a huge amount of real **estate** being developed in **China** at the moment. We would like to see things settle down a bit before going in.” The **company**'s clubs in Asia are mainly located in Grade-A **commercial** buildings.

CO fitfir : Fitness First plc | bcprt : BC Partners Ltd

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