Complete Transcript: Interview With Ross Campbell, CEO of The Fit Summit
(Conducted October 7, 2020)

Ross Campbell:

I am excited for this next interview. Pete Moore is one of the foremost experts when it comes to advising fitness and lifestyle companies on transactions and anything related to business, finance and investment, a former investment banker, he now, advises companies across the fitness and wellness ecosystem on everything from M & A to equity, capital markets and debt capital markets. I don't know anybody in the world where there's much insight on finance and investment and fitness and wellness, then Pete Moore. He is an absolute gem. I look forward to interviewing him right now, ladies and gentlemen, get your thinking caps on and get global for Pete, Pete, Moore. Pete, thank you very much for joining us today. Get stuck in straight away, for those perhaps aren't aware of the term HALO. Can you just quickly describe how you view the sector and what it's all about?

Pete Moore:

Well, great to be here and thanks for having us on and good to see you again on the video side. So you know, I've been a health and wellness banker since 2003 and I never had too many companies come to us and say, "Hey, I've got an awesome wellness idea!" Uh and then I decided to Google the word wellness and found out in the 1920s, it was a guy named Dr. Halbert Dunn, who worked at the Mayo Clinic and he was a biostatistician and he was looking at the data and saw that everyone was getting sick. So he was trying to solve for illness and decided to create the word wellness as effectively the antonym. So if you're not sick, you're just okay. And I said, you know, I don't want to be a wellness banker anymore, just making people okay.

Pete Moore:

And bringing capital into the wellness industry to hope people don't get sick. And I wanted to try and elevate that. And I was kicking around with some letters and realize that the HALO acronym would be a great acronym to use healthy, active lifestyle outdoors and create the Halo Effect and to elevate from the word wellness to make people awesome and not to just make sure that they're not sick. So that was the evolution of halo. And over the next five years, what we're trying to do is to get people who own companies to say, I'm part of the HALO sector, instead of I'm part of the anti-aging or I'm part of the health club industry. I'm a boutique fitness operator. I want them to say I'm a halo company. So that is part of our evangelistic goal. Well,

Ross Campbell:

Look, it's a great goal, Pete. I mean, you are one of very few unique advisors to the HALO sector. We've saw incredibly a number of fantastic deals happen this year and through the crisis. Can you pick a couple of great deals from, from the rack and what's impressed you and why?

Pete Moore:

Yeah. Look, I mean, the proliferation of capital that's going into the to the at-home and the digital space is you know, unprecedented you know, Peloton stock price being up 400% since March 15th or so has been pretty awesome. And thankfully there is a platform that was the market leader in order to ensure that people were able to get the workouts that they need. You know, during COVID, I think the average is somewhere between 15 to 20 pounds of additional weight that people have put on and, you know, obesity, loneliness and diabetes that are top three leaders of, of you know, terminal issues for people's health. So you've seen a lot of investments over the last six months. I, you know, if you ask me to kind of cherry pick a couple of ones that I thought were really interesting you know, this week a group called tonal T O N a L a brought in $110 million of new capital.

Pete Moore:

Some of that was from some celebrities and athletes. So I think there's an additional wave of new investors that are coming in that are also, you know, influencers and that can stand behind a product. I think you know, this Zwift deal Z W I F T, which is you know, a cycling modality that allows people to connect with their own bikes, you know, for a company like that to raise $450 million of equity, you know, quite frankly, I wasn't in the room and didn't work on the deal, but you've got to think that companies like that and investors that are investing in those companies are clearly thinking that groups like Zwift are going to replace health club memberships. The only way the numbers work is if you're, you're cutting in to a revenue stream that is already in the bricks and mortar space and is going to shift into the digital space.

Pete Moore:

So I think that was kind of a marker for me, or somewhat of a concern that, wow, some big VCs here, don't view this as a temporary issue, that this is a long-term systemic shift in revenue. And you know, that that's a concern for me of, of, you know, like you know, somewhat of a warning light, if you will that this ad home, it's not only here to stay, but you know, there there's some big bets being made. On the other side of that, you asked me what I think their best deal was, or the most interesting to me was the Lululemon acquisition of mirror, you know, for $500 million. It's interesting for two reasons. One is my hope is as an investment banker and as being in mergers and acquisitions is to get as many multi-billion dollar companies to become potential buyers of companies in the health and fitness or in the halo sector.

Pete Moore:

So when you see a company like Lululemon make a $500 million bet, you know, to have a connected mirror related to fitness in someone's home. And then, you know, the, the play there is obviously, you know, every instructor is going to be wearing Lululemon, and you're literally going to be able to touch the screen and purchase that and get it shipped to you, you know, within a day or two. You know, so I think that opens up a really interesting wave of, you know, who's a potential buyer of the next connected fitness, you know whether it's a streaming technology or whether it's actual hardware or whether in the future it's bricks and mortar. So I would love to see, you know, Walgreens, CVS, Nike, Under Armor Adidas. Like if those companies say, Hey, I get what Lulu lemon did. And I want to be in this space, the influx of capital and talent and sheer volume of deals is going to become really, really interesting.

New Speaker:

So as an investor, as a, as an investment banker, you know, you typically go to your top 20 or 30 private equity funds to do deals, and there's typically a cap on what a company's worth, but what's a, what's a Mirror worth to Lulu lemon from a standpoint of, you know, additional revenue streams that come out of that piece of hardware in somebody's house. I think that to me is kind of the bellwether deal that is going to shift people's thoughts on who potential buyers are who potential partners are in the industry.

Ross Campbell:

That was a fantastic deal. I mean, we work with Lululemon. We didn't see that coming, but what a deal that was Pete, looking ahead, perhaps for the next, maybe two to four quarters, where else do you see money moving into the sector? Will it be from private equity? Will it be from other types of funds? Will it be from these more strategic corporates? And if you do think we'll all be tech-related or will other verticals also get benefit of this new cash?

Pete Moore:

Yeah. Look, I mean, direct to consumer is clearly, you know, what seems to be the logical choice for growth investment anything going directly to the home and not having to deal with landlords, not having to deal with behavioral preferences or concerns on behalf of members that, you know, don't feel safe going into a health club. So, you know, direct to consumer supplements direct to consumer workout recovery. We're, we're investing in a company called higher dose, which makes infrared body wraps, you know, so as people kind of outfit their, which was kind of the first wave now, they're probably going to outfit their homes with, you know, whether it's an infrared sauna or whether it's a salt room or whether it's a, you know, a, a thorough body you know, device, like all, all of this is going to end up being part of the home.

Pete Moore:

And I think people are getting more and more comfortable with working out at home. Yeah. I don't think at least personally, I'm kind of sick of the experience that, that it's binary, that I either don't work out or I work out in my home, like I'm ready to get back inside of a, of an experience and a live class. But you're going to see a wave of, of money going into the direct consumer, I think on the side of private equity and, and, and capital going into the bricks and mortar space, you know, fortunately I'm on speed dial with a lot of operators that own bricks and mortar health clubs. Unfortunately, I'm also on speed dial with operators of British keyboard health clubs. So what we're seeing, unfortunately over the last couple of weeks is a lot of operators calling and saying, you know, my banks were had some empathy for the first 90 days.

Pete Moore:

And it gave us some terms where we could extend our facilities. We didn't have to pay interest. You know, we'd kind of tack it onto the back. I would say unfortunately the empathy is out of the system and now he is about, I got, I gotta get paid. How much money do you have in your security deposit? If you're a, if you're the landlord to the tenant you know, there, there was initially I'd say a sharing of the pain related to the pandemic. Now it's, you know, that's my building, you're a tenant and you pay, and if you don't pay, I don't care if you're open or not, like that's my building. And that's the benefit of me being a landlord and, you know, toss. So only the companies that have really strong leverage such as, you know, let's take LA fitness as an example, they have one real estate investment trust, a REIT that they have 52 leases with.

Pete Moore:

So they've got leverage with, with a Reed to say, Hey, look, this is how this is going to go down. And if you don't like it, and you're not fair about it, then you know, I'm going to bankrupt, you know, this subsidiary that has all of your leases and go try and find someone else to backfill. So to make a, to answer your question in a round about way, I think there's going to be some distressed investors that are gonna come and say, you know, I like that chain of HVLP 2.0, or I liked that chain of orange theories, and I'll, I'll give you money to pay down your debt and get these guys off your back. And I do think, you know, within 12 to 18 months, you know, these are going to normalize and they'll probably be less competitors that were able to get through this period. And I think you're actually going to see a rebalancing of the supply demand where the best, the strongest players financially, and from a programming standpoint, and from a management standpoint are actually gonna throw tab over. They're going to actually provide even more profitability and value to their investors, but it's going to take, you know, 12 months to 18 months to get that kind of visibility.

Ross Campbell:

We see Peter, you've got investors, obviously on your Rolodex and your clientele list. Do you think a number of these will be waiting on the sidelines at the moment, waiting for valuations to drop a little bit for distress to come in? What do you think the investor perspective is, or in terms of company valuation? And then let me just kinda piggyback on that a little bit. What do you think in the main, the, some of these corporate CEOs, do you think they're quite realistic about what their companies?

Pete Moore:

Yeah, I think there's there's a dose of cold water being poured on everyone right now. So if you said to me, you know, I've got this 20 health club chain in X state in the U S what's that worth, you know, having a conversation about what something's worth assume that there is a buyer for something. So, you know, if I have a you know, if I have a bottle of you know, baby powder in my you know, in, in my in my closet, you know, what's the word, what's the price of that? Well, that has to be, self-funded actually wants to buy it for it's even have a value. So unfortunately I think there's a lot of clubs and a lot of change right now that actually don't have a valuation. It says kind of odd as that may seem because there aren't buyers yet, because there's not enough visibility on how their landlords are acting.

Pete Moore:

You know, what the visibility is from a government standpoint of, of getting to a capacity level that would even allow you to get to any semblance of profitability or how long it's going to take from a cash burn to get to the other side. So I definitely think valuations or are going to get back to reasonable values, but the problem that we're running into right now, and I'll give you an example is I've got a client that had, that had $10 million of EBITDA, and it's a high-end health club chain. I would argue that pre COVID, the company was worth, let's say, 70 to $80 million, seven to eight times EBITDA. So the EBITDA right now is zero. And the question is, you know, if somebody comes in and says, Hey, I like those, those assets. And I would love to own those assets in a year and a half from now, you know, those, those, those assets are going to be worth 70 or 80 million.

Pete Moore:

The other question is from a seller standpoint, you know, how much of a discount, or can you structure a deal for me that basically gives me 10 or $20 million today. And it gives me some kind of earn-out or some kind of seller note that when the world returns, you know, I haven't given you the keys, you know, and basically, you know, haven't received any value for what I built or, you know, can you, can I get a certain amount now? Can I get a certain amount in, in two years? Can I get it, can I own a piece of the business, you know, in five years? So I think from a valuation standpoint, it's very hard for an institutional investor to put too much money down, up front, you know, not knowing when the business is going to actually turn profitable again. At the same time, there are investors that know that, you know, humans have been around for 150,000 years.

Pete Moore:

You know, we've gotten through pandemics, we got them through wars. We've gotten through, you know, civil unrest. I mean, so we're making progress and this too will pass. We've got more science now than we've ever had before. So I'm, I'm an optimist on, on the human race. I'm a pessimist to think that is going to wash itself out in the next 90 days. So to answer your question, I think the most creative investors from an institutional level and the most reasonable sellers are going to find a path for, to a deal. And what I'm hoping is that there's not enough creativity, or if there there's not enough flexibility on behalf of a buyer and seller or an entrepreneur and investor that you lose a lot of really strong assets that are helping a lot of people that give a lot of joy and results.

Pete Moore:

So I've seen a couple of recent articles where there's one in California, like a bellwether of a residential community had a big tennis center, you know, and they just announced that they're closing, you know, forever, you know, so think about there's 6,000 people that live in that community that, you know, wake up every morning, excited to go play tennis or go swim in a pool you know, or use the childcare, you know, so, so you're taking away what I would deem, you know, essential activities for people to live, you know, a healthy, active lifestyle outdoors, and that's going to have its own, you know, significant tax on, on this country and probably internationally. So I'm hoping people find paths to a deal or that a club like that would say, Hey, look, I'm actually closing down and I'll reopen when the war ends effectively. So that's what I'm hoping

Ross Campbell:

We touched earlier on about the buyers and sellers universe here. There will obviously be some industry consolidation, Pete, as companies get distressed, but of course there will be a new theory of buyers coming into the market, looking ahead, then maybe forecasting, where you see M and a happening over the next 12 months. Do you think the majority of that will actually be for distressed assets or do you believe there'll be quite a lot of strategic high value deals being done across the sector?

Pete Moore:

Yeah. If you look at the health club space, I think, you know, just given the constraints on occupancy you're going to see somewhat of a, of an urge to merge just in order to keep the lights on and to maybe get a larger diversification of clubs in those cases. It's not necessarily going to be somebody wins or loses. It's basically gonna be almost like a partner in hibernation, if you will, or almost like a, like a corporate sheltering in place, I guess, would be another, like, you know, cool to kind of create or, or, you know analogy. So I don't see big value deals happening because there's really no cash flow to support the valuation. I do think you're going to see, you know, rescue financing, which I guess would be another term for, you know, distressed where you've got entrepreneurs and, and companies that have created really nice platforms in some of these larger branded franchise networks that put too much debt on the company.

Pete Moore:

At the time it looked like it wasn't too much debt. It looked like a fair amount of debt. Now it looks like there's too much. So I think you're going to have institutional investors say, Hey, look, I'll provide rescue financing. Barry's boot camp, as an example, three months ago took in, I don't know if this was announced, but it was a $30 million preferred equity investment from a private equity firm called light bay capital. You know, that was clearly, you know, the equivalent of a, you know, let's keep the lights on here, let's keep the team in place. And when we come out of this, you know, our program is still awesome. The millennials and, you know, weekend warriors like myself, still love that program. And that love for the program is not going to dissipate. But it's frozen in time right now.

Pete Moore:

So I got to help a company like that, get it to the other side. So I think you're going to see strong companies be able to attract that kind of capital. Some of those terms might come with, you know, a, a layer of I wouldn't say a pound of flesh, but like six ounces of flesh to use like a petite filet analogy. But look, I mean, that's kinda like, you know, the new risk return profile is going to play itself out in this rescue financing. I think some of these companies unfortunately have so much debt, somebody regional health club operators have a lot of debt. You know, just aren't that well positioned and the banks are going to take, to have to take a real haircut in order for the business to succeed, or for somebody to say, Hey, I'll put, you know, $30 million behind a hundred million dollars, a debt of a company that only has you only had, let's say $15 million of EBITDA, you know, before.

Pete Moore:

And then also just one other point to make, you know, not to go against my, my, my sector or my category of investment bankers, but we got pretty creative on what adjusted EBITDA meant. So, you know, for our, for your listeners here, you know, even dye used to just be, Hey, what's the cash flow of your business? And we started to do deals like every time the market, you know, is hot, you'd say, well, this is the Eva dog, the company today, but the company's also got another 10 locations that they have a shovel in the ground. So let's add the EBITDA from those 10 locations and make it an adjusted EBITDA. And let's take that you know, that trip and fall, you know, worker's comp issue. And let's add back another 200,000, let's take that CFO that we replaced with this other CFO who was making too much money.

Pete Moore:

So like you had all these adjustments to what the actual numbers were and private equity groups and institutional messages were paying a multiple of an adjusted number that was kind of like artificially higher. And those numbers actually now don't even play out. So these companies either are sitting with a lot more debt based on an adjusted number, or have equity groups that say, Hey, like I actually overvalued this company and I'm about it. You know? So when they want to put more money back into the company, now they're saying, Hey, let's look at the actual EBITDA. We're actually gonna use a number that I want to use and not a number you want to use.

Ross Campbell:

Well, look, it's been a very busy year for you, Pete, and you've done quite a phenomenal job in building the brand up already for those that don't read or don't watch the Hilo talks that was on pizza website. Absolutely. Please subscribe to those and also have a look at the Hilo pledge before we go, Pete what's coming up for you in the next 12 months. What are you seeing upstate for you and the company? What are you investing in yourself? Yeah.

Pete Moore:

So we, we've got a small investment arm where we, we put a little bit of seed capital to work. The, the areas we're really excited about, you know, from an early stage investment one is we, we made an investment in a company called the athlete book, which is a virtual recruiting platform to try and get division one, two and three athletes in the U S into jobs. So I think part of the initiative of companies in the halo sector should be to hire athletes and get them into their next phase of their career. On the digital side I see a lot of opportunity in in rewards and bringing the members back into the clubs who have gotten investment put additional money into a company called promotion vault. So those are two areas that I find interesting.

Pete Moore:

You know, from a standpoint of what we're doing, kind of our, our day job of banking is really to try and help entrepreneurs, you know, figure out what their options are through the next six months. I've kind of been hesitant and we're friends. So I'll tell you and your audience here, I'm hesitant to kind of become a restructuring advisor because, you know, when you go into these bankruptcy cases you have to wake up with a different mindset. When you work on growth, equity deals, you wake up and you're excited every day. And you're trying to sell somebody on the growth of a business that you know, and you have a lot of conviction that it may look, this company is going to grow, you know, kinda catch this lightning in a bottle. And here's what you got to pay for it and kind of throw, you know, capital or, or rocket fuel onto a business.

Pete Moore:

That's fun. That's a nice thing to sell when you're going in and you're trying to figure out, alright, these are 30 landlords that we're going to have to reject. That has 300 hundred employees that can't be part of the company. That's 400,000 members that are no login. I have a place. So work workout. Like that's not, that's not a fun part of banking, you know that, but, but at the same time, you know, my uncle said this to me cause he ran a hospital and he said, I shouldn't, you know, you got to fire people all the time. Like that must be so demoralizing. And he's like, look, if I don't find these people, everybody's losing a job. Right? So like I got to kind of protect the base to an extent or else if I don't make that hard decision, then you know, I don't have a business or I don't have a hospital.

Pete Moore:

So, you know, restructuring is about, you know, the most efficient way to hibernate and to kind of weather a storm. So, you know, I would advise companies globally, you know, make sure you survive right now. You know, anytime a hurricane comes and hits part of the United States, you know, everybody gets some plywood and it bang up on there, you know, to protect their windows, you know, and they go down to a basement, you know, when there's a tornado watch. So like right now, the only thing you need to do think about is hibernation and survival. And the other part of this, is as much as it feels like you're going to lose members forever. If I don't, you know counter punch this industry, 50% of the people change their behavior every year, you know, we've been talking and been talking about, you know, retention and attrition and churn rate.

Pete Moore:

Okay. And we can affect some of that, but at the end of the day, like when you reopened, there'll be people that want to work out at your location. So like, don't think that like, just because somebody bought a Peloton like that, they're never going into a health club anymore. They bought a mirror like there's the average Orange Theory member also has a health club membership, you know? So I'm hoping that people have a home workout. People have something they do on their iPhone. In addition to that (and they have a health club membership.) So I wouldn't be concerned about what's going to happen. On the other side, I would just be more concerned about getting to the other side and that is in and of itself an achievement. So don't create more lofty goals than survival. That's your main goal. . . Just do that for the next six to 12 months. And you'll be happy that you didn't waste money or like, look at new locations, you know, during a pandemic, it just doesn't sound what you need to do

Ross Campbell:

Many things to that conversation. A really great insight into the markets and ladies and gentlemen as this halo sector grows, be sure to make sure you connect with Pete and the team over at Integrity Square, Pete, thanks very much for every conversation.

Pete Moore:

You got it, man! Good to see you again. And you know, we will, we will continue to fight and we will create the halo effect. So I'm glad we're partnered up with you guys and look forward to seeing you in person as soon as possible as well.