

Global Spa Summit JOINING TOGETHER. SHAPING THE FUTURE.

Concurrent Breakout Session: Panel and Discussion

Tuesday, May 20th, 2008

11:45am – 1:00pm

Session 1

Louis XVI Suite, Center Room, 4th Floor

Deal Makers Share Their Stories and Give Advice on Raising Capital

Panel Leader:

Pete Ellis, Chairman & CEO, SpaFinder, Inc., New York

Panelists:

John Buckingham, Founder and President, Solana Med Spas, California

Mike Canizales, CEO, Spa Chakra, New York

Tom Gottlieb, Managing Partner, Geolo Capital, California

Susan Harmsworth, Founder, ESPA International, United Kingdom

Philippe Hennessy, President & CEO, Pevonia Botanical, Florida

Scribes:

Taren Hamilton (UC Irvine) and Vanessa Stoessel (EHL)

Pete Ellis (Panel Leader):

Philippe and Susan both sold off part of their companies recently, Philippe selling 60%.

All panelists please tell the story about your company and advise us on raising capital.

John, tell us the story of your company:



John Buckingham:

- Found myself at the right place at the right time.
- Medical business person.
- Asked by physician back in 2000 to do due diligence on a Medi-spa.
- Knew nothing about beauty and only a little bit about wellness.
- Did market studies about esthetics, about how many women were in the market and how much money they had.
- Became quite enamored and fell in love with the technology.
- I also know many people who want out of what they're doing.
- My vision was like LensCrafters, syndicating a new business model and setting up retail in high end shopping centers.
- 55 retail locations across the US in 23 states.
- Tribeca Medstore nearby.
- Self funded initially.
- 3 partners.
- In 2001 started holding seminars about this opportunity and advertised in magazines.
- Physicians would come to hear the talk.
- In the first 90 days, we sold 12 people for a total of \$80,000 in fees.
- Created a significant national atmosphere. Built the infrastructure instead of waiting.
- Company grew very quickly.
- I looked for a public company to buy them us, but it didn't happen, so we found a small private equity firm.

Tom Gottlieb:

- After selling Mandara to Steiner, I signed a non-compete so am just able to get back into the industry now.
- First idea about bringing Steiner into Mandara.
- Only been hiring Balinese women. These women thought they had to dance with this founder of Mandara spa and at that point I had that epiphany.
- Irresistible acquisition for Steiner.
- Picked Mandara.
- Didn't go directly into the spa industry.
- Worked for duty free shoppers.
- Traveled many times to Bali and saw a wave of investments crashing over it.
- Marketed Bali as a tourist destination and spending huge amounts of capital doing it.
- And then came golf courses.
- The third wave was going to be the folks that come because of the amenities and activities (that Hyatt and Hilton have marketed). However, there was a void of activities. A lot of discretionary spending was going to be done after the guests arrives, but no one was focusing on this. Mandara began life by trying to gain access to this group of people.
- Experience!!! Spiff up beach massages.

Space and time allocation.

- 75 minutes in the treatment room.
- Spent the money in the grand palace lobbies and time in the locker rooms (None of which generated any revenue).
- How do you integrate the areas?
- How do you reverse the time and space allocation upside down?
- Reverse engineer a guest room into a spa room and create it as a profit center rather than something that doesn't generate profits.
- Switch the formula of labor and rent around.

Mike Canizales:

- Focused on the luxury customers early on.
- Attempted to understand the personalities of luxury customers.
- Did research and development for the perfect spa for the luxury customer.
- I came from Microsoft.
- I saw people were very smart in dealing with services.
- Customer Retention Management (CRM) is key.
- Hoteliers were running their spas.
- LVMH (luxury).
- I wanted to be a branded player within the hotel space.
- Did tons of research and development.
- Raised capital through an investment bank and hedge funds.
- I learned how to access the capital markets.

Susan Harmsworth:

- 40 years experience.
- Didn't come from market research but from understanding the market and demographics.
- In the 60's I received a business degree in languages.
- Cared about beauty issues.
- Ended up in New York and Toronto.
- ESPA was launched and self funded. I started out of self funding and remain self funding today.
- I was over-confident in my 20's, and started a day spa at the age of 25.
- Big Eastern European therapist based so I studied therapies.
- Very entrepreneurial family. My sons were born entrepreneurs as well.
- Liked traveling, living in different cultures.
- Demographics were important because it was an era in the 80's when air travel and technology came in.
- Medical spas in Europe were big then; Thalassotherapy was big.
- In the 80's people couldn't take those long breaks, and financial demographics changed.
- There was more disposable income, female workforce.
- I don't like working for anyone.
- Near to late 1980's when the hotel spa market started to boom.

- Europe and the U.S. were first, and then Asia followed much later.
- Growth of health and fitness clubs. Evolved because stress was becoming a major issue.
- Strong trend back to health and wellness issues.
- Couldn't find a product range in 1993 that covered all the things that were trend setting.
- There was a need for designing, good therapists, and holistic treatments.
- Brand is very important. Turned away 80% of business to build that brand.

Pete Ellis (Panel Leader):

Financing, what does the investment community look at? A brand can be stagnant with other things being put in play.

Philippe Hennessy:

- Worked for Trieme in France seven years, and three years in Italy, then AT&T in Iran for two years, worked ten years in New York. Traveled in Middle East.
- We brought French skincare company to the U.S. but got kicked out.
- Then I ended up telling my wife to do the line.
- We started in Florida and then opened in California because it was expensive to transport around the US. This was the start of Pevonia.

Where does the money come from?

- Had a business plan and then asked different banks (3rd one worked).
- Needed four million dollars, but was approved for only two million dollars.
- No collateral, no money.
- Must believe in your product, marketing advertising.
- We are now advertising in 51 magazines around the world.

Pete Ellis (Panel Leader): :

What was the differentiator of your company?

John Buckingham:

Intellectual property of the regulatory medical credibility that the government doesn't even understand.

Tom Gottlieb:

Spa products were very different than the European model that was prevailing in Asia. The hotels didn't want to be in the spa business and Mandara provided a turn key solution that was credible when not many were focused on this area.

Mike Canizales:

- Triphecta.
- Best products in brand recognition.
- Experts in the hotel platform; comes

- from an operations points of view.
- Operations, brand excellence and a platform.

Susan Harmsworth:

- Timing and luck.
- She had a vision, very ahead of it's time.
- ESPA happened before there was spa.
- We deliver. I notice that with others there is too much talking lately.
- Education.
- Seamless synergy.

Philippe Hennessy:

- The expectation to grow in five years to a one billion dollar company.
- Still want to work very hard.



Pete Ellis (Panel Leader):

How many of you in this room who have spa companies or properties want to expand operations? Not flagship? (Some hands went up).

Pete Ellis (Panel Leader):

What do finance people look for?

Capital!!! Tom came out of finance, same with John and Mike.

What do you recommend in raising capital and bringing a brand forward?

John Buckingham:

Looked at the company's ability to move into different sectors.

Embryo of a distribution company.

Tom Gottlieb:

- Barriers to entry need to exist to making your business resistant.
- In service, private equity firms won't buy if there is no really good management team.
- Strong teams will be able to manage situations.
- Path of growth that is credible.
- Core competencies need to exist.
- And even if we're not profitable now, here's how we get there, otherwise you can't sell.

Mike Canizales:

- The firms most interested in the sector are consumer firms.
- Unit economics!!
- On the deal side.
- How much does it cost me?
- How much is my lease?
- How do you get from years 1 to 2 to 3?
- Proving that you can execute to that.
- Interesting units that are scalable.

Pete Ellis (Panel Leader):

Since you sold some of your company what did they look at? Issues you faced with someone putting money in your company.



Susan Harmsworth:

- I agree with Tom.
- Management – absolutely key.
- People.
- The brand.
- The infrastructure.

Pete Ellis (Panel Leader):

How do you define management?

Susan Harmsworth:

Because we're global and because spas are so labor-intensive, one of the key issues we are going to face is nobody teaching – lack of people. Management is the empowerment of all those people going out around the world.

Strategic problem brewing in the industry:

- Management.
- Change to multi-site developments. Inaccurate business plans will damage the industry. Ridiculous figures in P&L put together for investors.
- Also pre-opening budgets are often set five years before something happens.
- Not allowing inflation and missing out a lot.
- Make sure you are accurate in not overestimating!!!!!!

Philippe Hennessy:

Tie-up organizations with management to do business plans.

Pete Ellis (Panel Leader):

Is there any reason to sell privately vs. large corporate stream?

Philippe Hennessy:

My wife.

Susan Harmsworth:

There is a huge synergy with the company I sold part of my business to. You need partners you can work with.

Philippe Hennessy:

Depends on how you do your contract.

Tom Gottlieb:

This is a terrible time to take your company public. But when it was a good time the companies had such a small market cap, so no advantages. There are too many headaches from maintaining that.

Pete Ellis (Panel Leader):

Proved they [Mandara] could grow when they sold their companies. Proved their model.

Mike Canizales:

Would encourage people to go five steps beyond the financing steps they're taking. Double or triple the number. Need to be a major force as a shareholder.

Pete Ellis (Panel Leader):

Where would you put your next dollars? Where is the opportunity?

John Buckingham:

Adding the medical wellness component.

Tom Gottlieb:

Integrating real estate with health and spa.

Mike Canizales:

The wellness part of medical.

Susan Harmsworth:

I agree with real estate and spa. Wellness will also have a big revival.



The Global Spa Summit is an international organization that brings together leaders and visionaries to positively impact and shape the future of the global spa and wellness industry.