Strength Studio Business Financing 101 with Michael Zarrillo (March 2025)

Lawrence Neal: So, welcome everyone to the March 2025 Masterclass inside High Intensity Business. We do this every month. Previous guests include Pete Cerqua, Luke Carson, Jeff Tomaszewski, Dr. Doug McGuff, Dr. James Fisher, and many more. We tend to alternate business – so your marketing, hiring operations, et cetera – with training and application. Today is more the business side.

Today's topic is Strength Training Business financing 101 which I'm really quite actually excited about 'cause it's not something we've covered before.

And today's expert, I think is a great fit for this, [is] Mike Zarrillo. I'll let Mike elaborate on this in a moment, but just a brief intro on Mike's owned and operated fitness businesses ranging from boutique studios to 86,000-square-foot multi-purpose facilities.

Mike, you can correct me if any of this is out. He has led site selection, real estate negotiations, architectural planning, equipment procurement by and financing, overseeing projects from concept to profitable launch. His experience has helped businesses open profitably over 80% of the time. Mike, was that accurate?

It was a ChatGPT summary.

Michael Zarrillo: No. Yeah. That's that that's pretty accurate. Yeah.

Lawrence Neal: Awesome. Awesome. Look, Mike, I really appreciate you doing this. You have a lot of expertise in this space, and yeah, I'm excited to, to learn from you about this. So can I just hand it over to you? Do you want us to just start talking about the kind of financing 101 and I'll ask questions as we go. And then for after about, 20 to 25 minutes, something like that, we can then open it up for Q&A as well.

Michael Zarrillo: Okay. All right. Very good. Cool. Yeah, I've been financing fitness centers probably since 1998.

So, we've done a independent franchise startup expansion guys that are scaling because a lot of times people run to the SBA for money, but they don't realize that the SBA really handcuffs them on what they can do and when they can do it. So that's usually – while it's a pretty good solution for a guy that's gonna do one location – if you plan on doing another one, you're gonna have… you're gonna be hamstrung with them.

Most of my business comes through either my existing clientele or the manufacturers. The manufacturers. A lot of times you'll see a postcard that goes out with some kind of baiting rate or term to motivate people to buy equipment and the manufacturers really aren't in the finance business. They just white label my guys. And then we handle the all the documents and the terms and conditions, et cetera.

And that's probably a good place to start here. When someone's thinking about buying new equipment or expanding their club or doing another business is really to get their house in order first, because while it's exciting to get your quotes and your floor plan and your colors and all of that kind of stuff, the important stuff is being able to prove that you can pay for the equipment and make it worthwhile for you to buy the equipment.

So even when people are doing their numbers and they see how things might be, they may not be in the position really to expand when they put a pencil to paper.

So that's what I tell them is to get their own house in order. Collect your tax returns, do your personal financial statement, go over your bank statements, see what you've got in your retirement account, what type of equity you have in your home.

Make sure that your spouse is on board because they have to co-sign too, especially with the small businesses. If a husband's doing it, the wife signs; wife's doing it, the husband signs. So, you have to make sure that your significant other is on board with it too. If you're married… let me think. Yeah, then you get your equipment quote.

We determine what's hard costs and soft costs, because… let's say you have the equipment itself is $60,000, but there's $25,000 in freight delivery and [installation] because you have to have… you happen to be in a tricky location. You're on the third floor in Manhattan, they've gotta get a forklift and put equipment through the window. Us as a lender, not too thrilled about financing that.

So, all of that stuff should be upfront first. So, when we're underwriting or any lender is underwriting, nothing's a surprise, because the worst thing that can happen for an applicant is to have an uncomfortable underwriter. Most of these guys they're *uncover your ass mode*, right?

They don't wanna make a mistake. They don't want to have a deal go bad. They don't wanna have egg on their face because it's just the way it is. Someone that didn't pick up something totally unforeseen, like I told you, like a third floor, fourth floor, fifth floor delivery, that's going to be expensive.

Most people, they don't know that's gonna be a problem in the beginning and then six months later a deal goes bad. They're upside-down because they had so much soft cost in there, they can't possibly recoup that from reselling the assets. And that just doesn't look good for the guy — it looks like he didn't do his homework.

Lawrence Neal: Yeah. Just, Mike, just one step back for a second. I don't know if you were gonna like loop back — there's a bit here you said about what to look out for after you're approved. Are you coming to that or do you want to get into that now in terms of you…?

Michael Zarrillo: Oh yeah, I'll get, yeah, I'll get into that.

Lawrence Neal: Oh, gotcha. Okay, cool.

Michael Zarrillo: Because when people… when you're first applying, everybody just wants to see their approval and they get overly excited about it and they don't read their contract. So, it's… the devil's in the details.

So, in your terms and conditions of your contract is where you'll see all the little hooks, your… the fees if you're late, the penalties if you don't tell someone you wanna renew it, because these types of deals, they're not straight financing, they're equipment leasing, which in effect is a rental agreement.

So, if you are not, and you sign as a business, so you don't have a person… doesn't have the same protections that excuse me, your business doesn't have the same protections that you as a person would have under, consumer lending laws. Those don't exist when you're a business, whatever deal you sign.

You're in… and a lot of times, like I said, people are only interested in rate and term being, "What's my rate? My interest rate 9.9, 8.9, 12.9," whatever they think or whatever they… it's agreed to.

But that's not where the money is really made in lease contract; it's when you're a day late and it's a $500 fee because you're a day late. And you'll notice these the lenders don't try to put you on an automatic payment like an ACH or an EFT where they automatically draft that payment on the date that it's due 'cause they want you to be late. That adds to their yield.

The guys that are in the money business, that's all they have to trade on. They don't have a product. They have terms and conditions to trade on. And once you sign, you are in and it's… and you're not getting out. [You] 100% do not get out.

And even people say, “What happens if I want to pay off my contract early?” And you are welcome to do that, but there's no benefit to it when you want to pay off one of these agreements, any lease agreement, it's just the sum of payments. They're not required to give you any benefit or bonus for early payments.

So if you owe 60 payments and you want to pay in 24 months because you sold your business, or the… you wanna sell your business, this other guy's not gonna qualify to take over this lease, and you call your lender and want to pay it off, they're gonna be thrilled because they're gonna give you the sum of the payments and they're gonna realize their overall yield today instead of 60 months from now.

That brings up another issue too, if you do wanna sell your business, and it's the same with dealing with your landlord. The landlord has to approve the guy, assuming if he's going to assume your lease and he has to qualify for that or if they're gonna write a new one, this new guy might have. Same thing with the equipment.

So that's another thing to think about where you are in the stage of your ownership of your business and the lifestyle, the lifecycle of your business.

So, when you're, when you do apply, let's circle back to that — like I said, have your house in order: your tax returns, your personal financial statement, your bank statement your P and l, your balance sheet, and if the credit… run your credit so you know what your credit is.

And, if you do have a weak situation and you have other collateral to offer or you have other assets, I tell people, “Don't sell your assets;” just put it up as collateral because there's no sense in selling something that could appreciate and you've missed out on that appreciation 'cause you dumped it to buy gym equipment, which literally is worth 10 cents on the dollar once it's installed.

Once it's in there – unless it's MedX equipment or some certain specialty like Nautilus equipment – nobody wants to go and, pick that shit up and move it. It's a nightmare.

Also, in the underwriting with my company, the reason we've had such success is I've been a club owner, operator, and I can tell… I'll do a feasibility study on someone's location. I'll know better than they do if that place will make money.

You'll have some enthusiast [say] that he's *a specialist*, he's *an expert*, whatever, but he doesn't know how to do a feasibility study. They just… I see it all the time guys that… they want to do a gym, they wanna do a studio in their hometown because that's where they live. They think they know everybody and that they're gonna open the doors and it's gonna be great. However, they don't know if there's really a need for what they want to do there.

Now, I believe – especially with the high-intensity strength – that there is a need just about everywhere because nobody does it and it works. You don't need that many people to have a successful operation as long as you're appropriately sized. So, I'm a fan of it. That's why I will finance them.

But prior to this, I don't know if anybody… I was a Planet Fitness franchise owner, a UFI franchise owner. I own… we own the sporting clubs.

We had a lot of different clubs, a lot of different markets, suburban and urban. And there's systems and processes to open something with some excitement and let's… "hopefully we can open up profitably," and that'll be set up by how your lease is.

And I can give you an example: I'm working on a location right now.

And so, we've negotiated six months of a free rent period, and it's going to be three months of us building it and pre-selling it. And then three months of once we're open, not having to pay the rent and still collecting our dues and having revenue for three months. And I'll do the same… I would do the same if I was financing my equipment, right?

I would do the same thing. I would have the same situation, which is what allowed, these groups, I don't know where everyone is from, the secret sauce to growing the high-volume, low-price groups is we didn't pay for anything.

So, when we were opening up, let's say, a 20,000-square-foot Planet Fitness, the landlord did all of our build out, the manufacturers supported all of our financing. The only thing that we had to cover out of pocket with salaries and people in the gym business don't make any money.

So that was really simple, and as long as we were advertising appropriately and got our membership up high enough, when we drafted that first day and it's $30, $60, $90,000, we had three months of that to go before any of our payments ever kicked in. So that gave us a really good launching pad.

And I don't know if that can be done in this particular business. We're going to try it, we're gonna try to do a significant presale with our locations. We'll see.

Now let me circle back to the financing.

I talked about the terms and conditions, the guarantees, the early payoff – which there's no benefit to that – underwriting rate term, the enhancements, that's what I was talking about. Instead of selling your assets, you can pledge them and – which I would recommend – and like I said… so you don't miss out on any appreciation that might have.

Some people have a little lot somewhere or some piece of real estate that they're not doing anything with now, but no sense in selling it, paying the cost of to sell it and then put that money down on gym equipment — that's for, in all intents and purposes, *worthless*. So, I wouldn't do that. Even stock, if you've got stock in anything, you could pledge that you don't have to sell it.

Let's see…

Also, when you're underwriting… when we're underwriting a deal, we'll look at the manufacturer, how stable the manufacturer is — can they support the equipment? If pieces break, what type, how they've handled things.

In the past, we had a location — we had a hundred pieces of cardio going into it. 80 of them were out of the box failures. It was unheard of!

The vendor had switched… the manufacturer had switched the vendor for their treadmill, their boards, and they all failed. 80 of a hundred failed.

So that was a… and we used to get the equipment basically a week before we were gonna open, because the flooring goes down, then the equipment comes in, it looks pretty, we *grand open*, turn everything on…

…and we turned everything on and nothing worked. So that was pandemonium.

Luckily, another manufacturer stepped in to help us out and shipped and swapped out that other equipment. But that was a pretty stressful couple of weeks.

But I could open up… oh, when you do the financing, leasing, it'll either be a dollar or a fair market value. Fair market value is usually 10%. It's not going to drop your payment that much to do a fair market value lease.

So, I would suggest always sticking to a dollar buyout. Because as I said, the fair market value is usually 10%. Not everybody in this business is a nice guy and it can, that's a moving target.

Also, in your terms and conditions of your lease, not only review your penalties and your fees, you have to look at your renewal terms. 'cause remember it's basically a rental agreement. Some of these lenders will put clauses in that if you don't notify them, *notice* them officially, registered letter 180 days before your equipment lease is to expire, that it automatically will renew for another year.

So now you're screwed because you didn't *notice* them and you thought your payment would be… your lease would expire in six months and since you didn't *notice* 'em, now your lease doesn't expire for another year and a half. And they do enforce that. As shitty as it is, that's part of their business model. And a lot of the top leasing companies that you'll get letters from and postcards from and marketing from, that's the kind of stuff that they do.

I don't do that because that's because I'm immersed in the business and I go to all the trade shows and that's my… this is my niche, right? So, you can't do that type of stuff and expect and see people at the trade shows and, and want to be liked, and wanna be respected and all the… you can't do that.

Those guys, they do not care. Fitness is just like farming to them, which is just like mining to them, which is just like an x-ray machine to them.

So, it's…

Lawrence Neal: …these would be like the bigger financing organizations that deal with all sorts of niches… all sorts of industries.

Michael Zarrillo: … yeah, and they're household names.

And you'd be shocked how poorly they treat people. It's, but that's how they do it. That's their business model.

And they already know, they know the financial conditions of the people they're doing business with, that they're not going to engage an attorney, 'cause an attorney's gonna cost $20,000 to sue 'em and they probably only owe 'em another eight.

So, they're not going to and they know they're gonna get away with it, so they do it. Yeah, unfortunately. But that's all I've got, I think.

Lawrence Neal: Cool. No, that's great. Yeah, no, you covered everything I had here pretty much. So now we'll open up for questions. I've got questions, but I'd rather give the attendees opportunity to ask questions.

Pete, you're already unmuted, you're ready to go?

Pete Cerqua: Oh, Michael, you ready for me?

Michael Zarrillo: I am.

Pete Cerqua: Alright. First question is – because this podcast goes to multiple countries, do you finance only in the United States or do you finance outside…?

Michael Zarrillo: Oh, yes. Only in the United States.

Pete Cerqua: Okay. So then that leads me my next question…

Michael Zarrillo: …but I would say that probably the all those same rules are applicable outside of the exorbitant taxes that you'll pay outside of the US on commercial rental equipment. We've looked into doing it and I was surprised quite honestly. But yeah, that's something to you if you're out of the United States, you really want to check what the commercial taxes are on equipment.

Pete Cerqua: Okay. As far as the American market goes, can you give us an idea of what the tax advantages would be with a lease purchase dollar buyout versus going to your local bank and taking a home equity loan or something like that?

Michael Zarrillo: The home equity loan isn't gonna allow you… you can write down the interest on the home equity loan, but I'll always tell people not to tap your house if you can get financing elsewhere, just for the simple fact is you shouldn't strain yourself. You might wanna tap your home equity for working capital instead of buying equipment. You can't finance working capital.

So, I usually steer people, even myself into financing the equipment. It's… I dunno… just for me it's always seems smarter, and I like the I like having liquidity. So, if you can sandbag your own money for other costs that you can't, that you can't finance… because even a sophisticated operator that has really good financials, most of the time they don't even realize, you can finance your signage if you've got the financial support. If you don't, you've gotta pay the $8-or-$10-or-$12,000 for your sign and signage, when in the bigger locations are bigger costs.

We have a monument sign that's $30,000 and had to get erected. And that's different than financing $30,000 to have it. I don't know. That's what I recommend.

I'll always recommend people to keep their money and borrow whatever they can, 'cause you could always slow pay on a commercial thing if you have to. I wouldn't wanna slow pay on my home that I had equity in.

And while the Vultures want your home, nobody wants your business. You've got a lot more negotiating power because no one wants to come in and operate your business, but they do want to take your house. They do want to take your property. They do want to do that, but they don't want to see clients.

Pete Cerqua: And just to confirm: a lease purchase — the payment's gonna be 100% tax deductible versus a loan, it's gonna be just the interest, right?

Michael Zarrillo: Yes.

Pete Cerqua: If you were to prepay the lease off, you would basically get all that as a deduction, wouldn't you?

Michael Zarrillo: Correct. Yeah.

Pete Cerqua: Okay. So that was a huge tax. My next question would be, will you, will your company do… Lawrence and I have been working with people that are opening up garage gyms, businesses, right in their garage. It's still a professional setup, but would you finance or work with people on that level?

Michael Zarrillo: I will, yeah. Most guys won't. As long as they have the proper documents, if they're an LLC, if they've got… if they're incorporated, but just to a person, we won't do any financing to, John Smith, but John Smith's LLC, I'll do a deal with.

And I'm sure they're probably pretty small, right? You're probably talking under $30,000, $50,000.

Pete Cerqua: Yeah, 30 to 50, 30 to 60, I would guess…

And then that would lead me to my next question: do you only work with new equipment companies or will you do used equipment? Do people purchase used equipment for you?

Michael Zarrillo: I do used equipment, but it can't be one guy selling it to another guy.

It's gotta be one company selling it to a to a guy. It, we don't do private sales.

Pete Cerqua: Okay. What about a broker? If the purchaser went through a broker, there's these guys out there that broker used equipment.

Michael Zarrillo: As long as they are the… they would have to be the seller.

They would have to be the… they would have to take possess... no, I don't necessarily have to take possession, but if we're going to pay, we have to pay a company for the equipment. I can't pay John Smith, but I could pay John Smith LLC to sell it.

So, however they want to structure it, I'm not gonna look very closely into that, I'm gonna look at the assets, because once… and I don't pay for 'em until they're installed anyway. So, once I know where they're going, like… if you've got a guy that's… I forgot whatever the guy's name that drives around and does it with, say, the MedX equipment

Lawrence Neal: Goulder.

Michael Zarrillo: …and he's got five pieces and he wants to sell 'em. I know he's not gonna buy 'em and resell 'em, but once they're delivered, I'll pay the seller for it.

Pete Cerqua: Okay.

Michael Zarrillo: Because I know where they're gonna be.

Pete Cerqua: My last question: very interesting that you brought up about the feasibility study that you'll do on a business.

Can somebody hire you or pay for a feasibility study before they lock into an area to get that information from you and or… your professional opinion?

Michael Zarrillo: I don't usually do that as a business. I would probably help somebody though if I can, if there's someone that's got a, that's got a site that they like and I could even show 'em how I do it, we will get a traffic study.

We'll find out the psychographics of an area. We'll check out what the market… what the competition is in the market, like, how I'm doing it out here.

There's… like I said, I don't know where everyone's from, but there's a couple of like *Lifetimes*, which are full service, large, 90,000 square feet, over $200 a month.

If you've got one of those, you can support a, one of these. Because Brom, the guy who owns Lifetime, he does his homework. He knows what the market is, what the market will bear. And if there's one of those, there can be one of these.

It's just… yeah, I'm happy to help, to be honest with you, I don't think I've ever told anybody "No," I wouldn't help them, but…

Pete Cerqua: …that's nice.

Michael Zarrillo: That's just a pain in the ass.

Pete Cerqua: That's great information.

Lawrence Neal: Cool. Pete, just one moment — anyone got any other questions at all? I'm sure Pete has more, but anyone got any other questions for Mike? All things business, financing, just let me know. Alexei…?

Alexei Erchak: Yeah. I have a question: So, I'm doing a Discover Strength in [the] Boston area and pretty large financial outlay right out of the gate, right? You're going all in, right?

Michael Zarrillo: Yeah, you are!

Alexei Erchak: Yeah! And so, I was going down the SBA path. I was curious if you could comment a little bit more about… my intent is to open several of them, in the future. And you got my attention with the comment about SBAs limiting what you can do in the future. So, I just wanted to a little…

Michael Zarrillo: Well the SBA will put a blanket lien on everything that you own: your home, everything. They put a blanket lien on everything, and it doesn't go away.

So, if you try to do other financing after you do SBA financing, there's no… no one wants to get behind the government, right?

If that will inhibit you… if your first one out of the gate isn't a wild home run, there's not gonna be a second one.

Alexei Erchak: …anyway, yeah.

Michael Zarrillo: You may… like, and what industry are you from? Are you… were you always in fitness or were you in another business?

Alexei Erchak: No. I was… I did several tech startups over the past two decades, but I've been a an enthusiast of high-intensity training ever since my grad school days.

Michael Zarrillo: Yeah, no I get it. What you won't find in the fitness industry that you'll find in the tech industry is the tech guys *prove it first*.

The fitness guys *feel it* and want to do it, right? They're motivated. You can't tell them, “No” — and they lose everything. They’ll lose everything before they lose their clubs.

I've had guys… *three* wives, they burn it all down to keep their club in business instead of just… 'cause that's their identity. That's who and what they are.

So, coming from tech, you probably have a better perception on working *on* this business than *in* this business. And that's a great determinator for success. Because it's… like I said, you have to work *on* the business. The guys that are grinding it out *in* the business, very few of 'em get past one.

But like I said, I'm a member at Discover Strength here. I I like it. I don't know that much. I don't know what their numbers are, but I just like high-intensity strength training, period. I've been an enthusiast. I never worked out at my own clubs.

I've always had multiple clubs. At one time, we had 44 locations and I didn't work out in my own gyms; I always had a trainer that I went to. So, I like it.

If you can support it on your own, you probably should do that, especially if you want to do more than one. That's all I'm telling you. If, because… like I said, if the one isn't a wild success and you can't do the second one out of the cash flow of the first one, you’re done.

Alexei Erchak: That was the intent was to do the financing of the second one out of the cash flow of the first one.

Michael Zarrillo: Of course it is.

Alexei Erchak: Yeah. The way I look at it's either it works or it doesn't. And if it works, you're gonna wanna do more. If it doesn't, you shut down and move on.

Michael Zarrillo: You may have picked a bad location — sometimes it's location; it's not product.

So, you could just move it, when you're doing when you're doing this and you're… have you negotiated your real estate lease yet?

Alexei Erchak: We're right in the midst of it.

Michael Zarrillo: See if you can get what we call a “good guy” clause, which is six months notice and a six month penalty, 'cause if you fucked up… if you made a mistake on your location,

Lawrence Neal: …you're okay!

Michael Zarrillo: You can move it somewhere else. You already have the equipment. You already have your signs, you already have your stuff. You just have to move it.

And that might be beneficial for you. So that's what we do. We'll do, I guess it's… we call it a “good guy” clause 'cause I'll notify the landlord, six months and pay him a six month bonus and [he’ll] just let us move.

You may wanna do that because you never know, sometimes. Are you gonna be in a suburban market or an urban market?

Alexei Erchak: More urban. It's right in the, out, one of the wealthier towns outside of Boston.

Michael Zarrillo: And it, do they drive or take mass transit?

Alexei Erchak: Mainly driving there.

Michael Zarrillo: So, you have parking and good signage. You should be at least okay.

Alexei Erchak: Yeah. It's gone through all the scrutiny that that comes with a Discover Strength franchise. Everyone's nodding their heads, very supportive of this particular location, but…

Michael Zarrillo: They're in the franchise sales business too, right? They don't wanna…

Alexei Erchak: I guess my second quick question is: that… in terms of not getting behind the government, if you have an SBA, that kind of closes down the path of doing equipment financing with anyone, right? Because they're not gonna wanna finance equipment behind an SBA.

Michael Zarrillo: Let me clarify that.

If you needed other collateral to put up and you've already done an SBA loan, they've already *liened* your house, right? So I can't put a lien on that. If you go, if you get sideways, however, if you've had success and I don't have to take additional collateral, I could still finance your equipment for your second location.

Alexei Erchak: Okay, that makes sense.

Michael Zarrillo: You know what I mean? But it's that pinch point where the first one might be breaking even, it's doing all right, you realize what mistakes you might have made, and you're not gonna make that same mistake on the second location, right? That's where you wanna be… that's usually where people get a little more challenging, that's all.

And with this type of lending, you can't make up for risk with rate, right?

So, if someone's gonna go bad, even if your rate was 27%, it doesn't matter, right? Because if they're gonna go bad, it doesn't matter. You still, you never collect on it and now you've got equipment that you can't, mostly can't use.

Luckily, with Discover Strength, there'll probably be another Discover Strength opening up somewhere else so I can move that equipment, let someone else take the benefit. Just let them take over their payment, which is what I've done for many… I've been doing this since 1998.

So many times, some operators… if they just didn't have enough cash to do it, we bring in somebody else that, that, that does to take over the location. Or if it's a smaller thing, we just move the equipment to another… somebody else who is already a proven operator that's opening up another club.

And I do all these things so I don't have to nail you to a cross for not paying me. So, it's better to get out from underneath the loan or the lease then have to pay for equipment that you're not using, that you used to own within a business that you wanted to do, and now it's just one big reminder of your failure.

So, I'll try every other way to to get my people out from underneath that type of stuff, because I've been there — I know, I, and I always will say this to my wife. I'm like, "I don't go into business who, with anybody who hasn't woken up in the middle of the night in a, sat up in their bed in a cold sweat and think, ‘Oh my God, I'm gonna lose it all,'" because that's the guy who knows. That's the person who knows that that's who… at least for my partners that we know, every one of us has suffered that panic and that's it…

…I forgot why I was saying that, but that's anyway, I don't wanna…

Alexei Erchak: …yeah, I have more questions, but I'll let it circle…

Lawrence Neal: Anyone got a question? 'cause we can go back and forth. We've got some time here. So, anyone got a question for Mike…? No…? All right, carry on.

Alexei Erchak: Coming back to the lien on the SBA, my understanding is, below $500K, they do not take a lien. So, in that scenario, equipment financing would be an option, right?

Michael Zarrillo: I don't know what their current conditions are, but…

Alexei Erchak: …and all the banks that I talked to, they categorically say if you're below that threshold, they do not take collateral. They do not need collateral.

In that scenario, it seems like equipment financing or the combination of the two may work, right? Because if you can do equipment…

Michael Zarrillo: Oh yeah! That'll absolutely work.

Alexei Erchak: So, the big issue is the lien, right? That's what spooks people.

Michael Zarrillo: Yeah.

Alexei Erchak: That's what closes down other financing options, 'cause if there's a way to piecemeal it, right? If a total project is $650K and you do $150K in equipment financing, it brings you down below that threshold. Now everybody's happy.

Michael Zarrillo: Yeah. If it does work out that way, yeah, everybody would be happy.

But like I said, you really have to dig into the SBA. They're not in the business of losing money, that's all. Like I said, I don't do SBA financing. I'll refer that to your...

You break out the magazine for whatever area you're in —the business guide, and it'll list like the top yeah. SBA lenders, just any one of them are gonna be familiar with them. They're gonna be able to fast track your loan. So, that's what I would do.

But, in this case, I don't know for… how big is your studio gonna be? 2,000 square feet? 1,600 square feet?

Alexei Erchak: Yeah. Small footprint.

Michael Zarrillo: Yeah. I mean... it's *small footprint and* $600,000.

Alexei Erchak: It's *small footprint* and you, by definition, you need to put it in a high rent area for this model to work. So that's what I mean by *you go all in*.

It's a high-end studio, right? And you get what you pay for, but you gotta build that client base. Extremely rapidly. So… rather [than] the slow, organic, home-based gym growth, right? We're just trying to get profitable right away. You're going into debt right away.

And that, so it puts the pressure on, right? To bring in clients as quickly as possible.

Michael Zarrillo: And that being like how I spoke about earlier, your presale is gonna be very important, having all of these people lined up to take their introductory class, session before you're open, before your rent kicks in.

If you could have, who knows, 150 sessions scheduled before your rent starts to come in, you'll have a solid chance at not being buried. I don't know what their numbers are...

Lawrence Neal: Just one thought on that — Alexei, I know you're aware of this, but let's just be mindful, obviously of any sort of franchise top secret systems around launches that we might not be able to share. Obviously, if Luke we're here or any of the team – and they are in this membership – they could say that.

However, there is a [launch module from Mike Lipowski].

You may have seen that Mike Lipowski runs [Pure Physique](). They had a very successful launch and he gave the whole playbook. It's very useful, very interesting.

So that would certainly… anyone who's watching his background on this call who wants a playbook for launching, please look at that.

But I just wouldn't want anyone to share anything about the kind of DS systems, which…

Alexei Erchak: …oh yeah, absolutely not!

We never would never share any of that. But they're of course, extremely supportive. That's why I chose the DS model… I certainly believe in the business model and the approach, and so that's why I'm excited about doing it.

But anyway, I just… when the financing options… I'm just always curious about the financing options or if there's ways that I can do things better, to put my, give myself more leverage and more flexibility. Equipment financing was one that I hadn't looked at in a great deal, so I appreciate the comments.

Michael Zarrillo: Yeah. And I guess how we did it is I would set our terms; I was in a unique position 'cause we also were dealers of the of the equipment. So, we had terms from the manufacturers. So, I've had 60-day terms, so I didn't even have to pay a manufacturer for 60 days. So, I'm surely not gonna pay… and then, I could push off the start date of the lease.

And that's… there's just a lot of ways to skin a cat. That's all.

And when you're going into a business like this, everybody's motivated to help: the equipment manufacturer wants to sell equipment, the franchise wants to sell equipment. So, there's a lot of chicanery that goes along between franchisors and manufacturers. Sometimes that can provide an enhancement to get better terms with financing.

The franchise can likely sometimes hold the manufacturer's feet to the fire to better serve their franchisee. Whereas coming in as a *franchisee*, you're one guy being, "Whatever, a couple hundred thousand dollars for equipment," but as a *franchisor*, they've got 30 of those deals working, so now they swing a little bit more power with the manufacturer than a one-off guy would be able to do. So, you can lean into that too. From what I'm familiar with, I think yeah, I guess that's all I'm really at liberty to say.

There's advantages to working with a franchise rather than going in on your own. And it's basically it's leverage everywhere. Anything else?

Pete Cerqua: Michael, can I throw one more out there?

Michael Zarrillo: Of course! And anybody's willing to… anybody that wants to can call me anytime, I'll take the call.

I love… like I said, I've been in all aspects of the membership and fitness business — this particular genre is my favorite. I feel it's the most sustainable and it's… I don't know. Like I said… I drink my own juice, right? I'm an enthusiast of high-intensity strength [training].

So, I'm happy to help anybody that wants to do it. I would actually say if anybody's looking to expand or whatever, they've got a good concept, they want to do it... I [can] get behind this business completely… but go ahead Pete, I'm sorry.

Lawrence Neal: Thanks, Mike.

Pete Cerqua: I've worked with people that are very successful – billionaires – and they've taught me from day one, they do not spend one penny of their own money in any project that they're doing…

Michael Zarrillo: …no, they do not!

Pete Cerqua: …yet, when I see the smaller businessmen, they seem to be dumping a lot of their own cash into a project. Can you just weigh in on that and why the most successful people in the world that have the money don't use it? '

Michael Zarrillo: Because everybody else is trying to extract more money from them so they can use their influence for leverage.

As a matter of fact, I've got a friend of mine [who] lives around the corner, sold his company for $1.7 billion not that long ago. Has ideas thrown at him all the time. He doesn't do it. He has other groups that just want his influence, his sphere of influence, his access to their channels, right?

They already know that. They know he's got the money to pay, so they'll extend… and on a secondary note, everyone else knows they have the money to pay, so they've got credibility and that's why they don't need money. Like I…

Perfect examples: the first club we did, full-size club cost, whatever – now I'm really dating myself 25 years ago or whatever it is – cost $500,000 out of pocket, right?

By the time we got to the third one, they were *almost free* because, like I said, the manufacturers wanted our business, so they would underwrite and co-sign on the equipment themselves.

Even if we couldn't qualify for the financing on our own, the manufacturer wanted to sell us at that time $750,000 worth of equipment. So, they were willing to recourse that note on the equipment to move their product to us.

The landlord wanted a tenant, right? So, he had 20,000 square feet that was empty. He wanted a tenant. So, guess what? We already had proof of that we were good operators, so he built the club out entirely for us. 20,000 square feet at that time probably cost $35, $30 $7 a square foot to build for us.

Landlord did all of that, and instead of charging us $7 a square foot for rent, he charged us $12. We signed a 10-year deal with two five-year options. He was recouping all of his money upfront. We guaranteed the money to pay back if something were to go wrong, which at that time we didn't have anyway.

So, it'll sign anything, but, and that's the way it was. So, from location three on, they were basically free, and that's based on track record, influence.

And, not only having the… it's funny with the billionaires, you should say they've got the *ability* to pay, but they don't have the *willingness* to pay, that's how they are.

Lawrence Neal: What do you mean by that? How frugal they are?

Michael Zarrillo: Yeah. I'm sorry Pete, I didn't hear you.

Pete Cerqua: It's gotta be one of the secrets to wealth, right? They're doing it for a reason.

Michael Zarrillo: Yeah, they… half the reason is ego.

Pete Cerqua: Okay.

Michael Zarrillo: They've already proven that they can make money. So, if they're gonna get involved in something they want to get involved in, and they know with their expertise, not their money, their resources, their connections, their collateral, they borrow everybody else's money to do it, which is… it's what I'd do.

When you get to a certain point where people know you, you were, willing and able to pay, and then things really open up for you.

So that's, and when you stay… if these guys stay small, they'll always be small. Because you can't motivate people to get involved in tiny projects. They just don't, they just don't stir anything. But it's the boldness that that people want to get involved with. It's the excitement. And that's usually how those guys work. You excite them and they get involved. Otherwise, they're not interested.

Lawrence Neal: Alright. final question for Mike, guys, before we wrap up and ask Mike a little bit more about how we can help the community and how the community can find out more about his services.

Any final questions from anyone…? No…?

I have a final question. And this is a very newbie question: I'm just thinking of people that are just starting out with, very little leverage. So, if someone's just starting out and they've done a strong revenue or two years of tax returns, what are their options for financing equipment or a build out?

Michael Zarrillo: I guess the same thing, right? If they've got their own motivation, they've got their excitement, they've got their fire in their belly, right? So, they can illustrate that to a landlord that they've done their homework, they've got their paperwork in order.

Even if they don't have business stuff, they've got their personal things lined up. They have their feasibility study, they have their personal references. They have to illustrate what you know, who they are, and their desire. Unfortunately, if they don't have a lot of money, those guys pay the most, right?

That's just how it goes. That's the penalty of their first location. That's why I always look for people to do more than one because they paid the highest premium doing their first one. Their first one costs the most. It's their first website. It's their first graphic design. It's all of the initial things.

Their legal, their accounting, all of their first things they don't have to do again, the second location should be a lot less expensive or have cost a lot less than their first location, and it just progresses, right?

All the franchises, they're not re-upping their trademarks. They've already paid for their trademarks, right? They've already paid for their graphic design. They've already got their floor plan, they've got their architectural stuff done. Those are all things that just… all their initial homework is done.

So, if they can look past the aggravation of their first one, and they can do their standard operating procedures, they can work out all of their bugs by doing the first one themselves. They get all of their feedback themselves. They can do the second one for a lot less money than then the first one did.

And if you're going to do your first location and your resources are low, you find someone else, unfortunately, that might be going out of business and you can pay off, you could buy their equipment from them by paying it off, right? They're already gonna lose a shit ton of money on their equipment, but instead of losing all of that money, they can take payments and recoup some of it. Their costs are already sunk.

So, if someone else is closing and they've got equipment that you can use, and you go to them and you tell them your story and what you think you're able to do, people take a chance on you, especially, like I said, in this area, you don't need much.

You've got a 1,000 square feet, you've got 1,400 square feet, you've got a three car garage, and someone else has had an unfortunate circumstance and they can… you've got literally *sweat equity*. You hire, you rent the truck and go pick up that equipment and move it yourself and do all of that stuff.

In those circumstances, Lawrence, they don't have the luxury of working *on* their business. They've gotta work *in* their business. You show people that you're willing to do that and you're able to do that, I would think that'll motivate other people that can help you.

They will help you. I've done it. I've helped people like that. So I think… face the challenges — people like that in somebody. There's not a lot of gladiators left.

Lawrence Neal: Yeah. That's very true. So, before we wrap up, Mike, what is I guess I hadn't honestly thought about this as in as much depth, actually, I'm a bit embarrassed to say… but there's obviously services that you can provide members and ways you can help them.

I know you've been generous saying, "Hey, look, if anyone wants to just jump on the phone, or they can send you a DM," right…? In the community and make content that way…

But can you just remind us what services you have that members could take could utilize and how can you help our community?

Michael Zarrillo: Listen, being both a *franchisee*, a *franchisor*, building our own locations, I'm happy to help them with anything — site selection, I can coach 'em with their real estate leases… they should probably have a local broker, but a lot of times the guys are… I've done more commercial real estate leases than a lot of commercial real estate guys have ever done.

And I look over a ton of leases for the guys that we're financing, because I wanna make sure that they're not gonna ever be put in a position where they can't pay us because somebody else has taken advantage of them. So, it's almost like they get a lot of a lot of free consulting, quite honestly in us protecting our deal.

Yeah, we help; we help 'cause we'll evaluate it. Their site selection, their real estate lease, their procurement of their equipment… That gets a little dicey for us because… most of my business comes from the manufacturer. Manufacturers don't like when we squeeze them, but we do, if something's egregious, I'll – and I've done this, I've done this with plenty of manufacturers and

I've made the manufacturers, especially when the guys their credit wasn't that good – I had the manufacturers discount their invoices to us up to 20% to let them move their equipment.

So, a $200,000 deal that someone signed for, I've only advanced $160,000 to the manufacturer. There's a lot of margin there with manufacturing. So, if they really wanna move the equipment and they'll help assist, so I'll only advance the $160,000 and hold the $40,000 in reserve 'til the guy gets the… has made a certain amount of consecutive payments on time.

And then, I'll let that money drip out to the manufacturer. It boosts my yield because I'm getting whatever it is, 10% or 12% on $200,000, but I only advanced $160,000. It doesn't harm anybody. It gets a deal get done. That would definitely not have gotten done without those considerations.

And most of the guys that do what I do *don't know* to do that.

The leasing companies, they don't have enough influence in fitness — I do. Because everybody in fitness knows that I know. So, it's… and I've done it and everybody… and I've proved, like I said, willing and able, right?

We were able to do it, and we were willing to pay, and we were willing to do it, and we're able to pay. And that's… and they know it. I've been here since 1996, right? 1998. So, the manufacturers all know.

And like I said, I'm happy to extend my experience to other people. There's plenty of… there's no scarcity to success… we'd like to help, that's all.

Lawrence Neal: That's very generous of you and I couldn't remember looking, trying to find your website recently. Do you have a website for what you do?

Michael Zarrillo: It's probably newlinefinance.com.

Lawrence Neal: Okay, great. So, members can check that out as well. Mike, thank you so much for spending the time or making the time today. This has been really interesting, but very different something off the beaten path, and really appreciate all your advice and experience that you shared today.

Thanks to everyone.

Michael Zarrillo: Yeah — I'm sorry to interrupt, but... It's funny, your membership really does want to help — look at all the stuff like, Pete does; all the stuff that the guy Luke does; like everybody, they're… it's a very interesting group of guys. So, it's yeah, I'm happy to be part of it!

Lawrence Neal: Thank you and I'm happy that you're part of it too.

And just for everyone watching this now or watching this in the future, this is obviously gonna be published and transcribed as well, so you can read the transcript. A few expletives in there, but that'll be fine.

Michael Zarrillo: Sorry about that.

Lawrence Neal: You are fine. It's just more entertaining. Thanks to everyone for being members, really appreciate it. And look out for obviously April's Masterclass as well. It'll be just as awesome. And yeah, thank you Mike. Really appreciate it. And speak to you. Speak to you all soon.