Sanitized Client Material

AVENUE GROUP®
Advisors • Ventures • Educators

Health Club: Operational Turnaround

Phase 1 (of 3) with redactions

Completed by Avenue Group • AveGroup.com • info@avegroup.com

Agenda

Project Status

Executive Summary

Business Assessment

Member Feedback

Competitive Positioning

Initial Business Models List & Next Steps

Recap: Project Plan

Phase I: Assessment of the Current Business Model

Key Activities & Deliverables:

- Review financials & business documents
- Interview CLIENT Team
- Interview 10 active members of CLIENT
- Interview 3-5 CITY-area health clubs
- A summary of findings, including:
  - Business assessment with key drivers of financial performance, key assets
  - Member assessment identifying where CLIENT is winning & losing, why
  - Competitive assessment of current positioning in the CITY-area
  - Initial (draft) list of potential business models to consider

Phase II: Development of Potential New Models

Key Activities & Deliverables:

- Interviews with members, non-member target residents & gym experts
- Prioritized list of business models to evaluate further
- In-depth evaluation of each of the selected high-potential business models
- A final recommendation of which business model to pursue and why

Phase III: Research, Opportunity Assessment & Planning

Key Activities & Deliverables:

- Clear & cohesive message describing where CLIENT is moving from and to
- Develop 3-6-month (TBD length) project plan for transitioning to new model, including:
- Assign owners (either current or to-be-hired resources) for each “work stream” of plan

✓ **Complete** ➔ **Focus of Today’s Discussion**

Status of Phase I: Assessment of the Current Business Model

Key Activities & Deliverables	Today's Status
• Review financial statements & business documents	✓ **Complete**: Reviewed last 12 years of data, with focus on last 3 years
• Interviews with CLIENT Team	✓ **Complete**: In-person interviews
• Interviews with 10 current, paying members of CLIENT	✓ **Complete**: 16 phone interviews
• Interviews with 3-5 CITY-area health clubs	✓ **Complete**: 10 health club interviews
• A summary of findings, including a business assessment, member assessment, competitive assessment, and initial (draft) list of potential business models to consider	✓ **Complete**: Reviewing today

Executive Summary: Phase I

Business assessment shows struggling economics with large upside opportunities

- Trend of reduction in CLIENT memberships since 2007
- 92% of members are part of family memberships
- Opportunity to grow membership base, build on tennis and new fitness programming

Overall, members are extremely enthusiastic about their CLIENT experience

- 100% plan to continue to be members next year

Word-of-mouth drives new memberships

- 93% of members joined from a referral by a friend or family member
- 81% have referred others to join CLIENT

CLIENT is the go-to health club for member families

- 69% of members belong to no other health club; most quit clubs to join CLIENT
- The pool, tennis, and fitness classes drive new membership and excitement
- Members are disappointed by the gym equipment
- While members believe pricing is high, they think it is reasonable

CLIENT stands out in a sea of local competitors as a nice but limited "Tennis Plus" club

- Top quality tennis facility and staff, with the best outdoor pool in the area
- Family-friendly facility: clean and safe

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SECTION REDACTED

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16 phone interviews conducted with CLIENT members

- Interviewed active members, all of whom have monthly membership plans
- Participants ranged in age from mid-30's to early 70's
- 81% have family memberships
- 56% men, 44% women
- Membership length ranged from 1 month to over 10 years

Interview sample a pretty good representation of the overall members

Note: ~70 contacted for interview, with a 23% participation rate. Interviewees were not paid for participation.

Members' overall feelings towards CLIENT are very positive

Question: Overall, how do you feel about CLIENT? (n = 16)

Word Cloud of Most Common Terms

Representative Member Quotes

"I feel great about it. I think it's a great facility."

- Stay at Home Mother of Three

"I like it. I'm very pleased with it."

- Business Analyst with Two Children

"I like CLIENT. They're very nice and friendly."

- Retiree and Grandfather in Early 70's

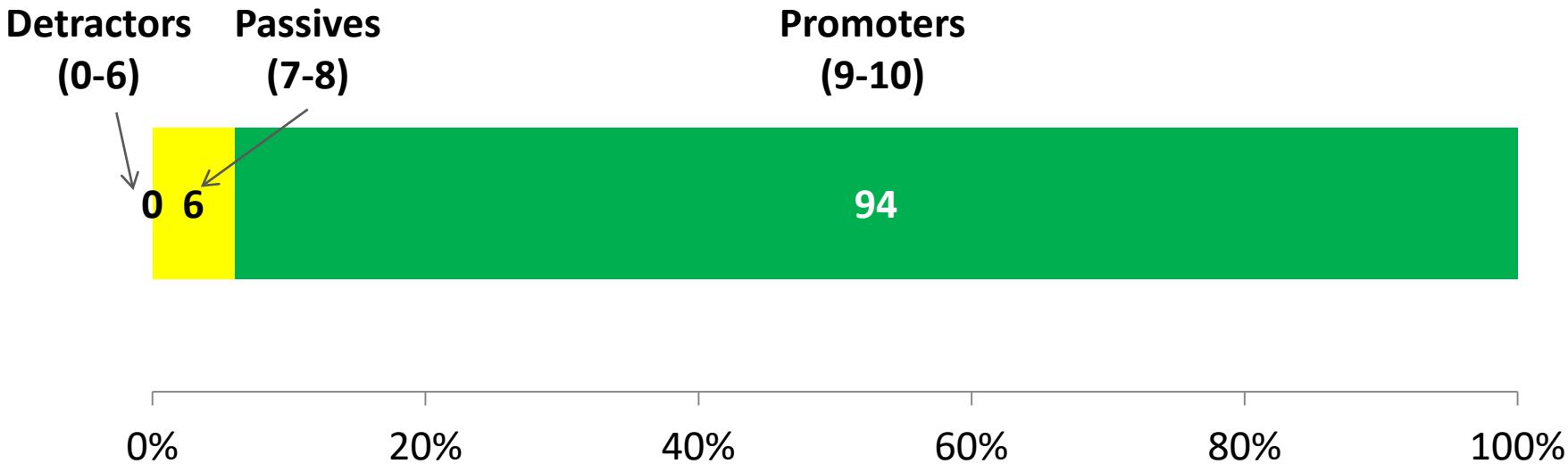
"My wife, kids and I absolutely love it. We use it often."

- Consultant and Father of Nine

CLIENT has an off-the-charts Net Promotor Score (NPS) of 94

Question: On a scale of 0-10, how likely is it that you would recommend CLIENT to others? (n = 16)

% of Respondents reporting likelihood of recommending Slack (0-10 scale)



NPS = Promoters (%) - Detractors (%) = 94

Note: This is a higher reported NPS than any publicly-available benchmark, including top scores by USAA insurance (80), Costco (78), and Apple computers (76).

Key positive themes that emerge from member feedback

Members love the pool

- "The main reason we have a membership is for the pool."
- 50% said the pool is one of the things they like most about CLIENT

Tennis is important for many families

- "I love the after-school tennis program for young kids."
- 38% said tennis (19% playing themselves, 19% kids playing) is one of the things they like most

Women & seniors enjoy the classes

- "My wife likes the fitness classes… the instructor is professional."
- 25% said fitness classes are one of the things they like most

Members like the facility overall

- "The facility is spacious and not crowded."
- "It's a nice, clean place to work out."
- "It's safe and sanitary."

Key negative themes that emerge from member feedback

The weight / cardio equipment is limited	• "I would like to see more free weights in the weight room." • "There isn't as much in the fitness center as the Y." • "Some newer equipment would be nice."
It's overly tennis-centric	• "It emphasizes tennis and the gym is an add-on. I supplement my needs with Club Fit." • "It would be nice for kids to engage in exercise besides tennis."
Not accommodating for some mothers	• "We waited to join until we didn't' need child care." • "The child must be potty-trained to go to the playroom."
Lack of healthy food options	• "There are no healthy options at the pool. Twin Hills has salads, fruit." • "The pool should needs healthy food options. It's fried and processed."
It feels "too quiet"	• "I feel like it's very quiet. I would like to see more people." • "The lobby feels cold and open. I'd like to have some music playing." • "It's quiet and underutilized."

Interviewees were asked to score 11 attributes on two scales

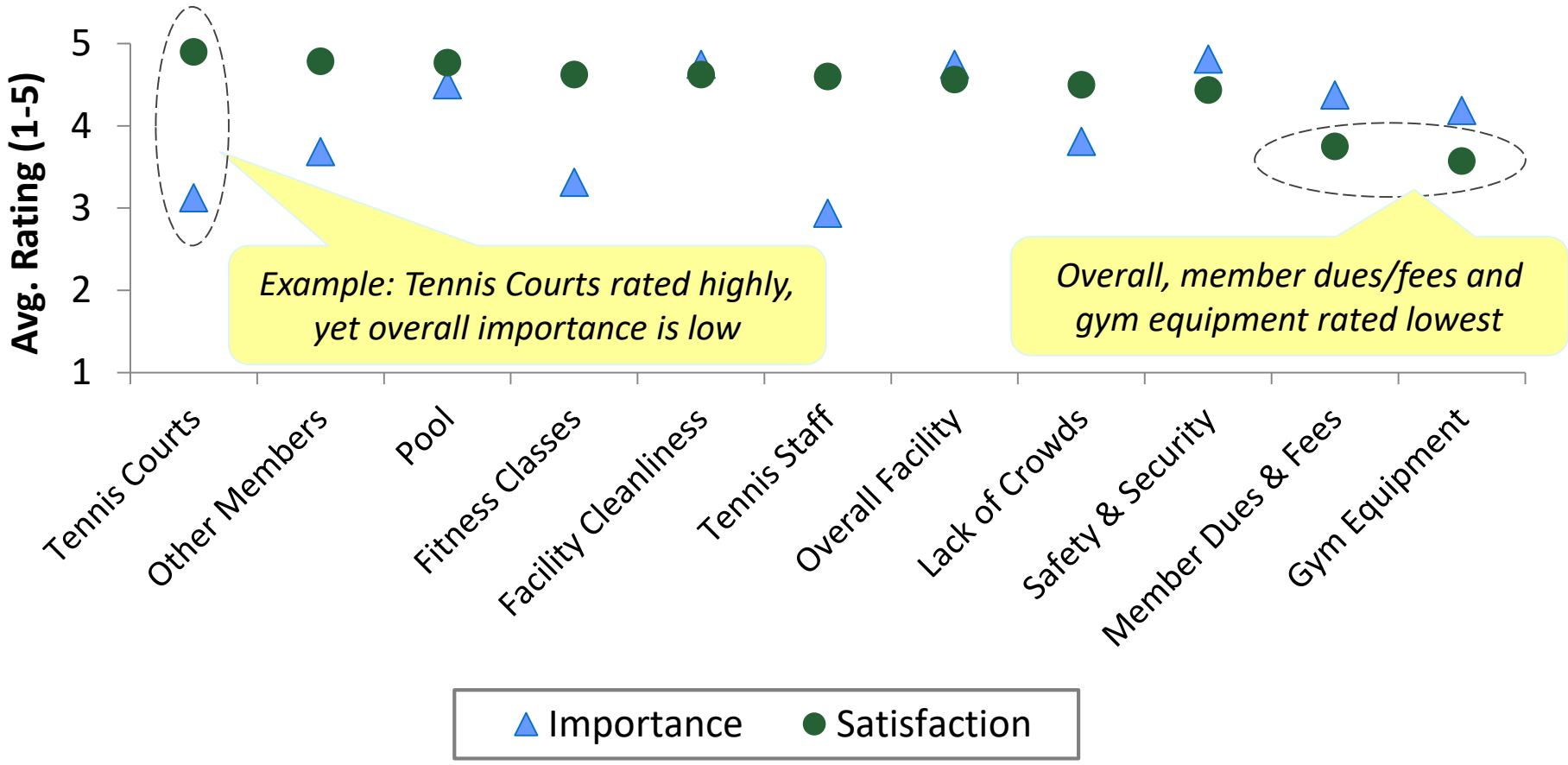
Importance (1-5-point scale)	Satisfaction (1-5-point scale)
How important is the following attribute on a 1-5 scale (5 best)?	How would you rate the following attribute on a 1-5 scale (5 best)?

CLIENT attributes evaluated

- Safety & Security
- Overall Facility
- Member Dues & Fees
- Tennis Courts
- Facility Cleanliness
- Tennis Staff
- Lack of Crowds
- Pool
- Gym Equipment
- Fitness Classes
- Other Members

Overall, members are very satisfied with most areas of the club experience, with varying levels of importance

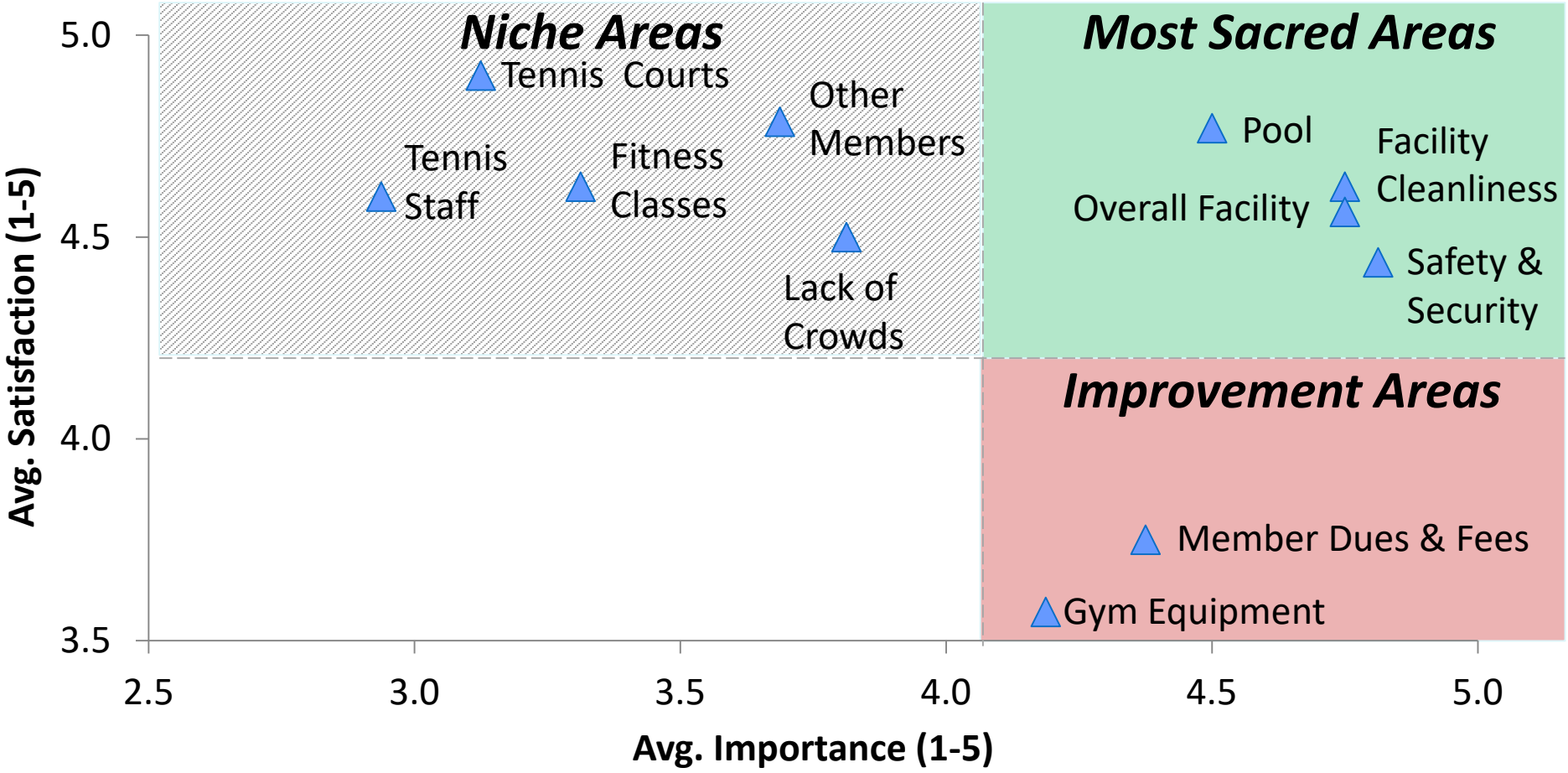
Attribute Ranking: Importance and Rating (1-5 scale)



Note: Members who did not have experience with an attribute did not score it. Only scored attribute data is shown.

The data identifies the sacred, improvement, and niche areas

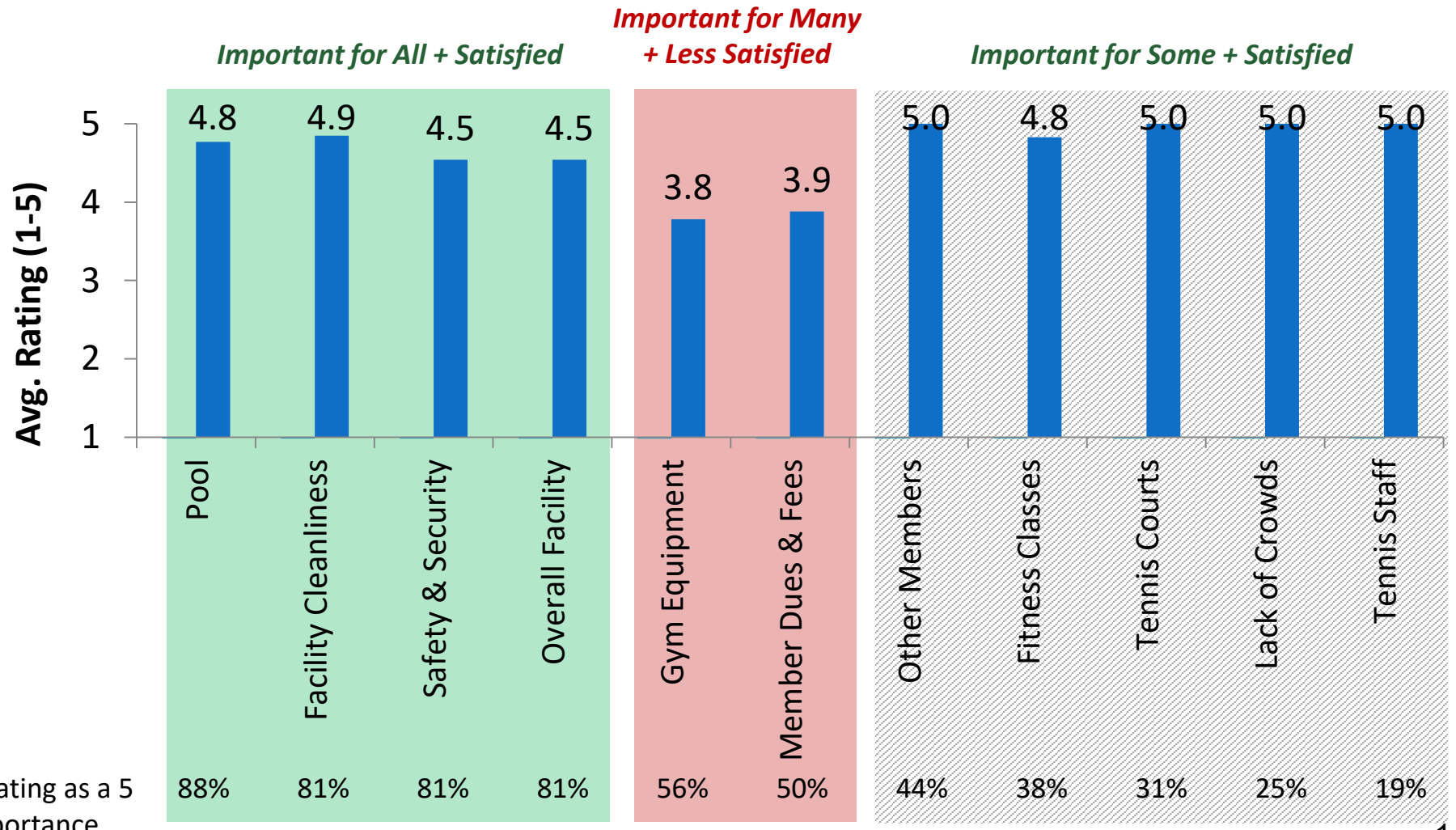
Attribute Ranking: Importance and Rating (1-5 scale)



Note: Members who did not have experience with an attribute did not score it. Only scored attribute data is shown.

By focusing on those who gave an importance rating for an attribute of "5," we see satisfaction ratings for those who care most

Satisfaction Rating of Members who Rated as a "5" Importance



Member acquisition is dependent on organic word-of-mouth

High awareness

Both the local community in CITY and tennis enthusiasts in and around CITY know about CLIENT

Community drives interest

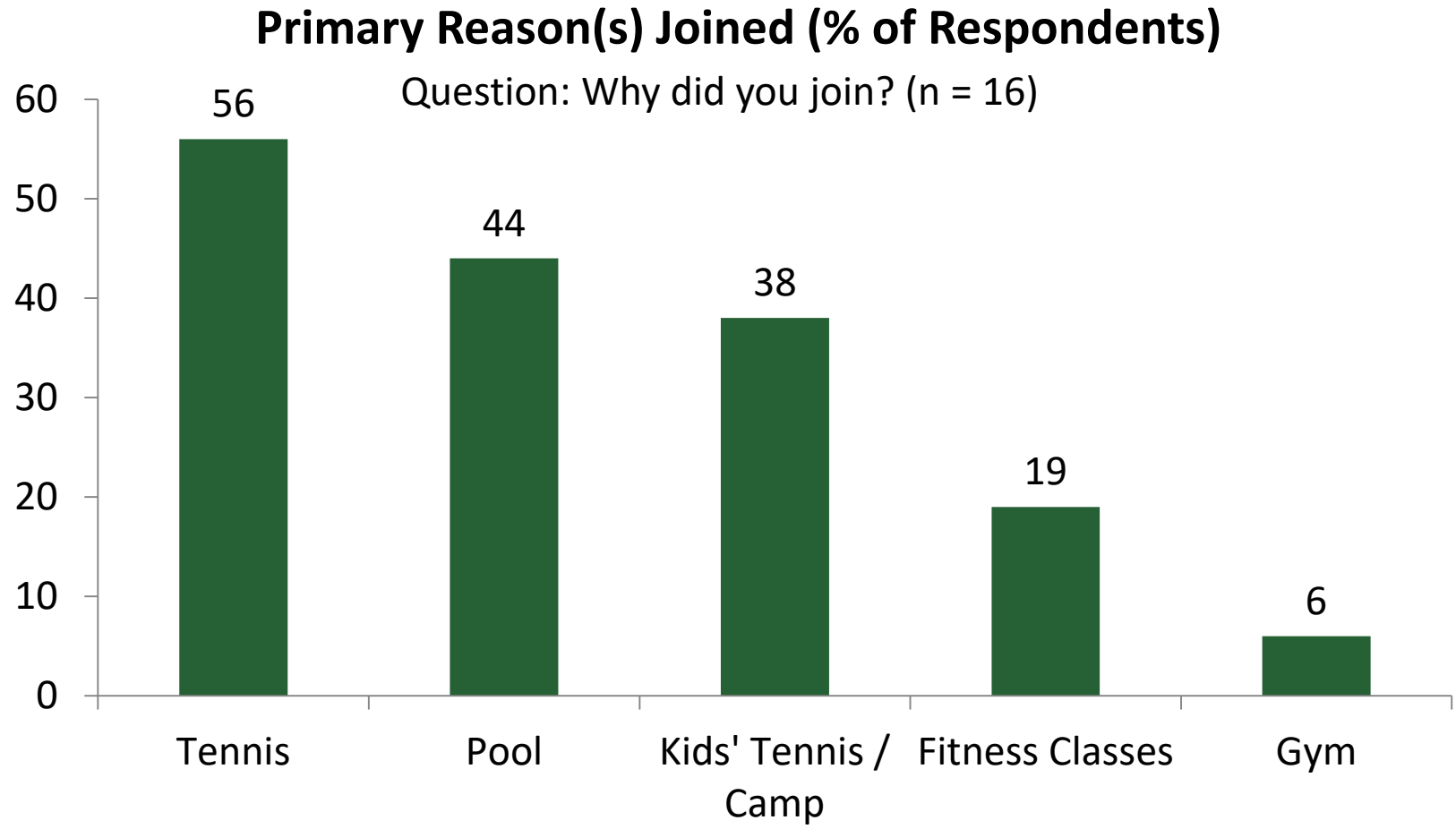
Interest and consideration is triggered by word-of-mouth by friends / family who are members, schools, and occasionally, tennis fanatics

Joint evaluation / decision

Evaluation and decision to join CLIENT is made jointly by a couple 63% of the time, otherwise it is made by spouse who plans to use the facility most

Member acquisition tactics should focus on driving word-of-mouth

Members join CLIENT primarily for Tennis and/or the Pool



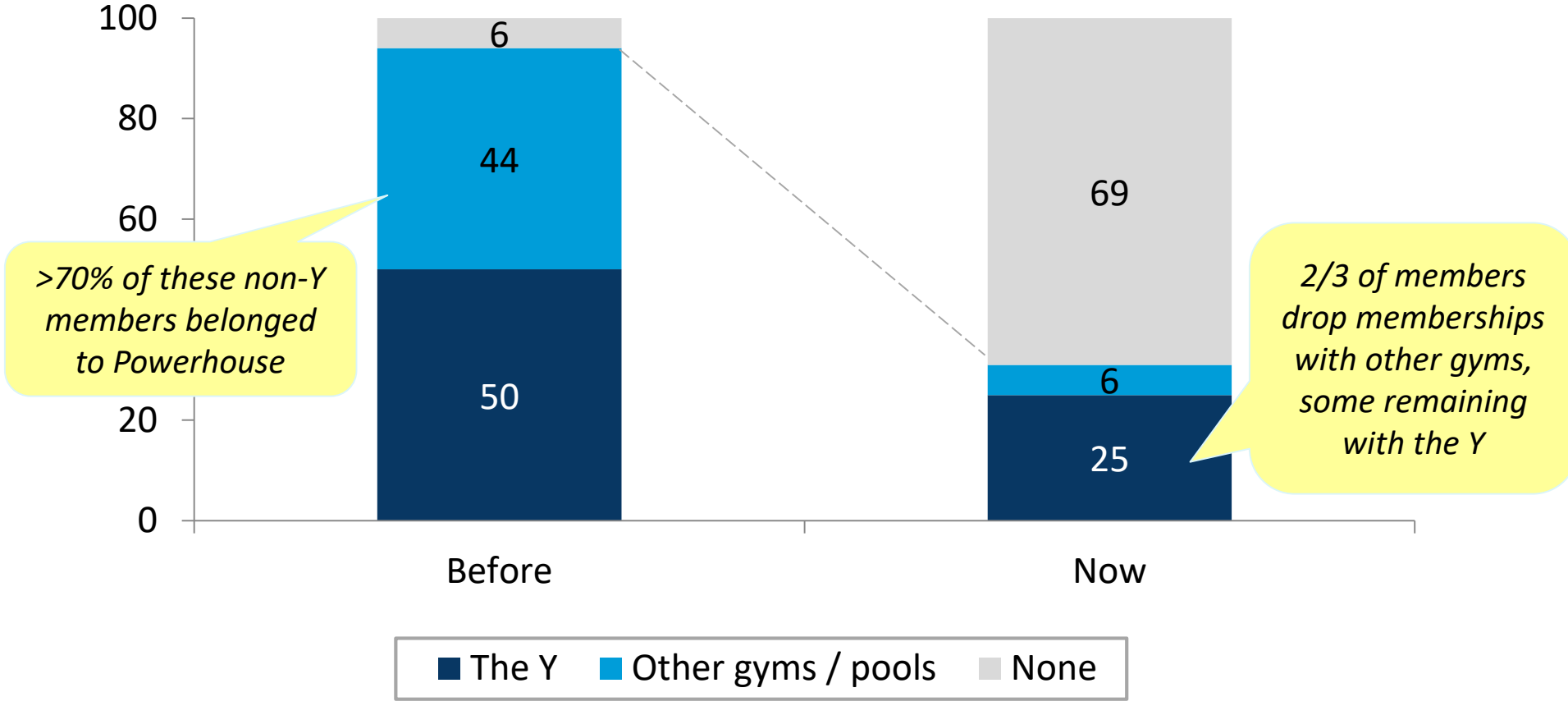
Note: Total does not sum to 100% because some members provided multiple reasons.

63% of all members left all other gyms when joining

CLIENT is the only fitness facility for ~70% of members

% Members of Other Health Clubs: Before & Now

Question: What other gym(s) did you / do you belong to? (n = 16)

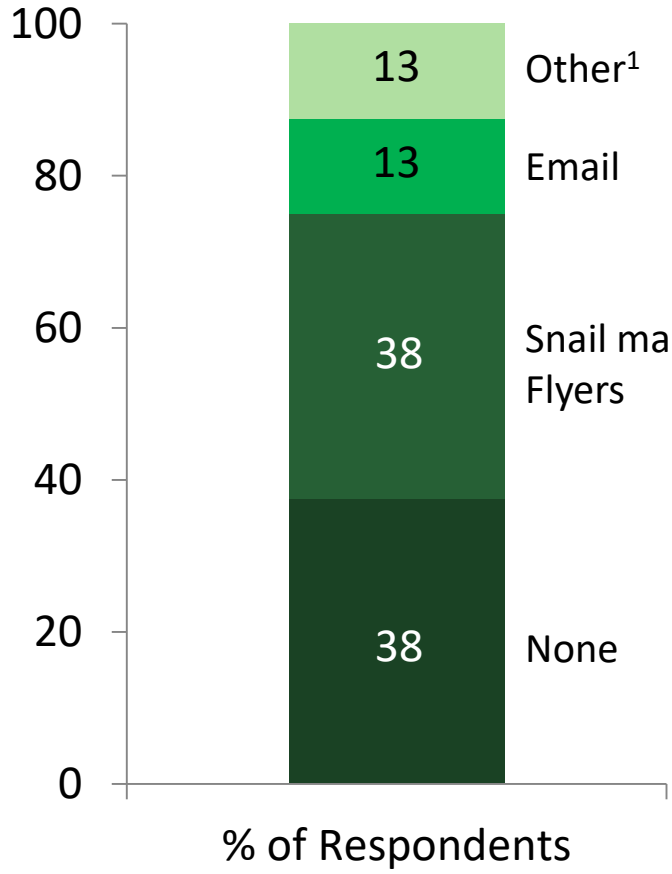


Note: Total does not sum to 100% because some members provided multiple reasons. 13% belong to Twin Hills now.

Members would like more active communication across convenient channels; ~75% do not receive electronic info

Question: How does CLIENT communicate with you about updates, events, etc.? (n = 16)

How CLIENT Communicates (%)



1. Other includes Facebook, phone calls, and / or text messages.

Representative Member Quotes

"We don't really communicate, I guess. I think there's a newsletter, but I don't get it. I find out about things during class."

"Honestly, I don't really think we're kept up to speed. They hosted REDACTED and we didn't find out about it until the day it happened."

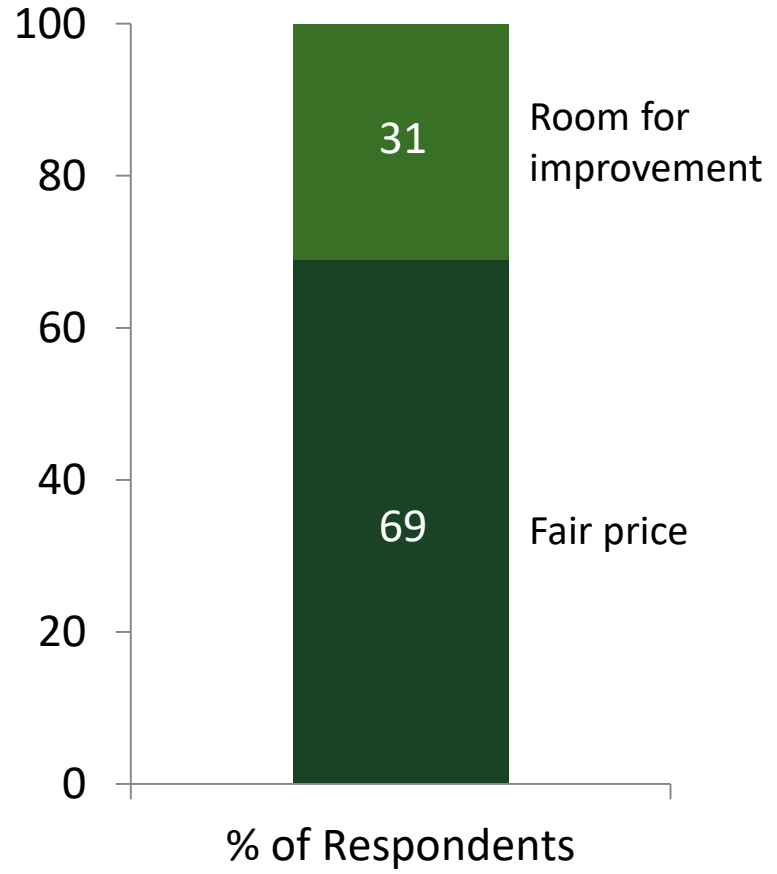
"I don't learn anything. I'm not contacted. I don't look at their website or Facebook. I don't know if they maintain it or not."

"REDACTED will text me and call me, I get flyers, written newsletters, and I get emails."

Although members view CLIENT's price point as high, 2/3 of them believe that the current pricing is fair

Question: How to you feel about the membership dues and other fees? (n = 16)

Members' Views of Pricing (%)



Representative Member Quotes

"Reasonable compared to other options. We've been really happy with the charges."

"It's a bargain for what you get."

"It's not cheap by any means, but if you play indoor tennis it's not gonna be cheap anywhere."

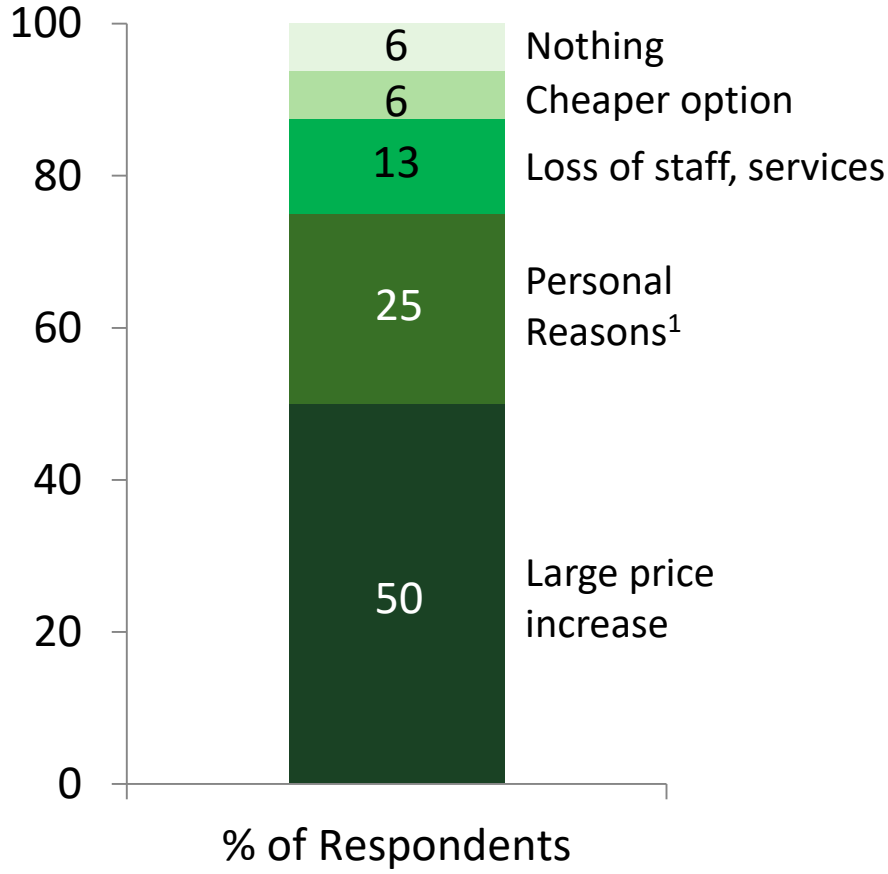
"I think it's fair. It's not the Y. It's not crowded."

"I always think things could be cheaper."

Half of members report that a large increase in dues may cause them to terminate membership

Question: What would cause you to end your membership (if anything)? (n = 16)

Reason to End Membership (%)



Representative Member Quotes

"Maybe if they have a big price hike."

"If you nickel and dime everyone for the services you provide, people aren't going to use them. "

"More personal reasons, like relocation for a job or if we decide to have another kid we may rethink that expense."

"If they didn't keep it clean. They weren't friendly. They did away with classes."

1. Person reasons include moving, losing a job, health issues, etc.

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The competitive landscape was assessed through visits with 10 clubs

- **REDACTED**
- **REDACTED**
- **REDACTED**
- **REDACTED**
- **REDACTED**
- **REDACTED**
- **REDACTED**
- **REDACTED**
- **REDACTED**
- **REDACTED**

Note: Also spoke with REDACTED (not currently in CITY area, but considering expansion) over the phone

The competitive landscape is dense, but differentiated

CLIENT currently competes most with the two main family-friendly gyms

	Tennis Plus	Family Fitness	Adult Convenience				Niche				
	CLIENT	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Member profile	Families	Families	Middle class adults	Adults	Adults	Adults	Adults	Families	Adults	Female adults	Wealthy families
Pricing - Indiv.	$75 / mo	$40 / mo + $60 activation	$37 - $42 / mo	$24-35 / mo + $12 activation	$9 - $19 / mo + $99 activation	$15 - $40 / mo + $39 activation	$40 - $45 / PT session	$27 / mo	$90 / mo (unlimited)	$17 / class + $35 activation	$114 - $345 / mo + additional
Pricing - Family	$95 / mo	$55 / mo + $60 activation	None	None	$29 / mo + $99 activation	None	None	$40 / month	$170 / mo (unlimited)	None	$415 / mo + additional
Classes	Limited	Large variety	None	None	Limited	None	None	Some	Niche	Niche	None
Personal trainers	Limited	On-site	Outsourced	Outsourced	On-site	None	On-site	On-sitte	On-site	On-site	None
Gym equipment	Limited, old	Sufficient, old	Sufficient	Sufficient	Wide variety	Wide variety	Limited, old	Sufficient, old	Limited	Limited	None
Cleanliness	Very clean	Somewhat dirty	Clean	Dirty	Somewhat clean	Clean	Clean	Clean	Clean	Clean	Clean
Safety & security	Very good	Good	Okay	Poor	Okay	Okay	Very good	Okay	Good	Poor	Good
Tennis	Extensive	None	None	None	None	None	None	None	None	None	Outdoor only
Pool	Outdoor	Indoor, lap	None	None	None	None	None	None	None	None	Outdoor
Crowds	Empty	Busy	Empty	Busy	Very busy	Very busy	Empty	Empty	Busy	Busy	Empty
Hours	Regular hours	Regular hours	24 hours	24 hours	Near-24 hours	Regular hours	Regular hours	Regular hours	Regular hours	Weekdays only	Regular hours
Childcare	Limited	Full day care	None	None	Full day care	None	None	Limited	None	None	None
Events	None	Range of events	None	None	None	Pizza Mondays	None	Sporting events	Crossfit events	None	2-3 events / mo

Good	Okay	Poor

Competitor findings

Characteristic	Observations
Demographics	Few are family-focused (REDACTED is an exception)
Equipment	Most have sufficient range of fitness equipment
Pricing	Family monthly rate between $25 - $170 (excl. REDACTED)
Events	Several have some form of free social events
Tennis	None have indoor courts
Cleanliness & security	Several are not very clean and/or do not feel very secure
Pool	Only REDACTED has an outdoor pool
Crowds	Range from empty to very crowded during peak times
Childcare	Few have full day care
Personal training & classes	Nearly all have PT options, many with fitness classes

CLIENT is unique in several ways

- ✓ Top quality tennis facility and staff
- ✓ Best outdoor pool in the area
- ✓ Nice and safe facility for families
- ✓ Limited crowds and respectful members

CLIENT is losing to REDACTED on several fronts

- ❑ Out-of-date and limited gym equipment
- ❑ Limited fitness classes / personal training
- ❑ Limited childcare services
- ❑ Lack of social events / sense of community
- ❑ Higher membership dues

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Appendix

For Discussion: Emerging hypotheses to explore in Phase II

We will select a few of these models (or combinations of them) to explore further

1 High-End Family Fitness Center

- A nicer version of REDACTED
- Improved equipment, more classes & programs for all ages

2 Franchise with Strong Brand

- Leverage marketing and brand power
- Apply existing franchise "formula" to the city

3 Cutting Edge Boutique Offering

- Offer unique classes that no one else does
- Create unique and hip atmosphere for classes

4 Ultimate Convenience

- 24-hour facility
- Wide-range of amenities and services

5 Double-Down on Tennis

- Create new tennis programs to attract new players (kids, beginners)
- Build up girls' program

6 Pool-Centric Center

- Connect pool to main building
- Build bubble to support year-round use

7 Social & Fitness Center

- Create social activity space
- Regular events (speakers, couples' events, family activities / games)

8 Expanded pricing options

- Institute a tiered pricing structure based on services
- E.g., gym-only, class-only, pool + gym, all-access, etc.

Options must keep the sacred areas intact / build on them:
Pool, Facility, Cleanliness, Safety & Security