FIRST QUARTER, 2020

STRATEGIC CLUB INSIGHTS

Quarterly Market Intelligence from Club Benchmarking

Welcome to the inaugural issue of **Strategic Club Insights**, a quarterly newsletter designed to deliver mission-critical insight resulting from the Club Benchmarking Strategic Monthly Dashboard service. After two years of development and testing, the Club Benchmarking Strategic Monthly Dashboard (SMD) was launched in early 2019 as a **free service** for the club industry. Currently, **150 clubs are submitting monthly data** on membership changes, cost-of-belonging and high-level financial metrics. The purpose of the SMD is to deliver **clear and timely insights** on the constantly changing club market, answering questions such as; are membership counts increasing or decreasing? **Is the market growing or shrinking?** Are initiation fees increasing or decreasing? How much is the cost of belonging changing? The SMD allows each club to precisely see their own club's trends against their local **competitive market** and the industry-at-large.

This newsletter will be published quarterly, and our intent is to provide you with a **summary of the key trends** in membership, cost-of-belonging, and high-level financial metrics (dues revenue, non-dues revenue, capital income and debt). The goal is to assure club industry stakeholders (managers, boards, committees and members) **understand the market in which they compete**.

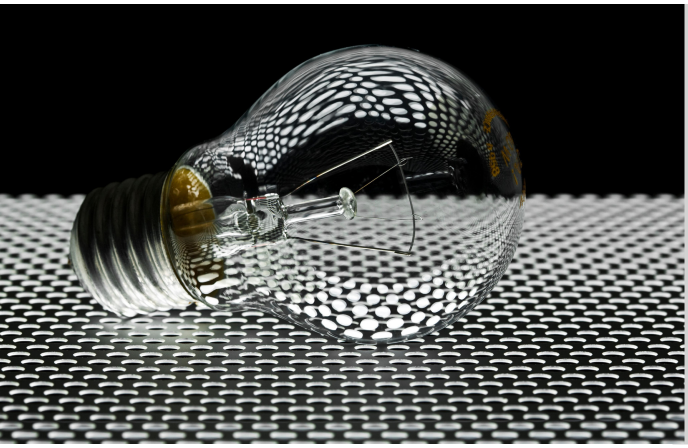
Since the founding of Club Benchmarking in 2009, we have been actively engaged in **studying industry data** and we are deeply committed to **sharing our findings**. The launch of this publication marks yet another phase in our ongoing effort to **promote and support fact-based, data-driven leadership** in the private club industry.

We are actively working to expand SMD participation by developing **regional peer clusters**. If your club would like to gain a **clear understanding of your local market** and the industry, we can work with you and your peer clubs to become part of the proactive group of clubs using data to make better decisions. If you have questions or would like to get involved, please reach out to Chris Davis by phone at 617-830-2570 or reach him by email to cdavis@clubbenchmarking.com.

Best Regards,

Chris Davis
Club Benchmarking Director

Ray Cronin
Founder & Chief Innovator



IN THIS ISSUE:

THE IMPORTANCE OF CAPITAL INCOME

Club Benchmarking research reveals that the operating ledger is the vehicle for delivering services and amenities to the members: **it is not the financial driver**. Ninety-percent of clubs set the operating ledger to break-even, excluding depreciation, which means the **operating ledger is consumed every year** by members enjoying the club and does not produce a financial outcome over time.

Capital income is the source of money a club has in order to drive itself forward financially. Every business, including clubs, must **grow equity over time** (aka net worth). Based on Club Benchmarking research, we believe net worth (member's equity) must grow consistently each year at a **minimum of 3.5%**. Net worth is a leading indicator of a club's ability to meet its future capital needs and given the operating ledger is break-even, net worth only grows when there is enough capital income to **overcome depreciation expense**. Half of the clubs in the industry have **declining net worth since 2006** in real, inflation-adjusted dollars. Only 35% meet the recommended 3.5% annual increase in net worth. Clubs need more capital. The 3.5% target generally will allow a club to meet its future obligatory capital needs (re-investing in its existing asset base). Higher growth of net worth is required to meet both obligatory and aspirational capital needs (expansion and addition to the asset base). Twenty-five percent of clubs are growing net worth at over 5% per year and **50% of clubs have a net worth that is declining** in absolute dollars or growing at less than the rate of inflation.

Industry Best Practices for Capital Generation:

- **Recurring capital dues** are used to fund obligatory capital needs (based on future replacement costs, not depreciation) matching each member's contribution of capital with their consumption of club assets and assuring the club has the capital necessary for future asset replacement.
- **Assessments** are unfair, and should be avoided, because they allow members who consume assets to exit before contributing their share of capital.
- **Initiation fees and debt** are used to fund aspirational capital needs.

Club boards must be able to **accurately assess their capital position** if they are to remain relevant over time. The Strategic Monthly Dashboard is a vehicle for helping club boards and finance committees focus on the capital ledger and balance sheet which is where financial success lies.

Club Benchmarking recommends that every club obtain a capital reserve study which is a precise assessment of the club's physical plant (property, plant and equipment). The study should be conducted by an objective, third-party, professional well-versed in clubs to provide a **detailed and accurate forecast of repair and replacement** capital requirements, typically looking forward twenty years. Once the reserve study is completed, a forward-looking capital model can be created as a means of proactively identifying **gaps between capital sources and needs**. Determining how to close the gap and implementing a plan of action in the short-term is a strategic undertaking.

The reluctance of club leaders to implement capital dues can be construed as **governing out of fear**, but a board's fiduciary responsibility compels them to **implement a balanced capital income fee structure** based on projected capital needs, regardless of how unpopular the decision is with the membership. The good news is that 67% of clubs participating in the SMD have established recurring capital dues. For clubs **with golf** the **median for annual capital dues is $1,306** ($108 per month). For clubs **without golf**, the **annual median is $857** ($71 per month)

MEMBERSHIP & COST OF BELONGING

Membership Counts

Club Benchmarking research confirms that year-over-year change in **membership count** from **2018 to 2019 is flat**, with half of all clubs studied falling into a range of -1% to +2%. Data gathered through the Strategic Monthly Dashboard shows **24% of clubs have a wait list** for membership which is considerably higher than was generally assumed prior to the launch of our SMD analysis. The **150 participating clubs** represent a cross-section of the industry.

We anticipate continued **challenges in membership recruiting** as the Baby Boomer generation (56-74 in 2020) ages out to be **replaced by members of Generation X** (28% smaller than Boomers and now 40-55) and eventually Millennials (now 24-39). People tend to join a private club around age 42, so **supply will continue to outpace demand** over the next few years.

Cost of Belonging

The current average total cost of belonging (operating dues and fees, capital dues and fees, and all other mandatory fees) is **$12,013 for clubs with golf** and **$6,358 for clubs without golf**.

The two charts below illustrate the breakout of cost of belonging components for clubs with golf and clubs without golf. For 2018-2019, the median **year-over-year increase** in cost of belonging was **3% for both club types.**

A HEALTHY DUES ENGINE

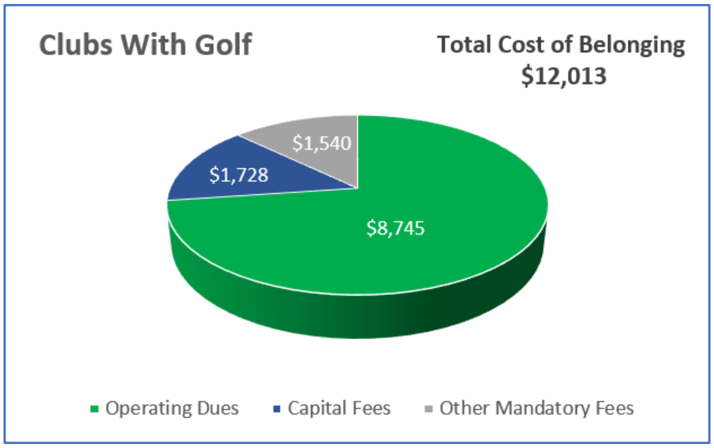
There is no substitute for a healthy dues engine where dues rates and member counts are balanced in a manner that adequately supports **operating the given club's footprint**. At 100% profit margin, dues revenue is the primary source of funding for a club's fixed operating expenses.

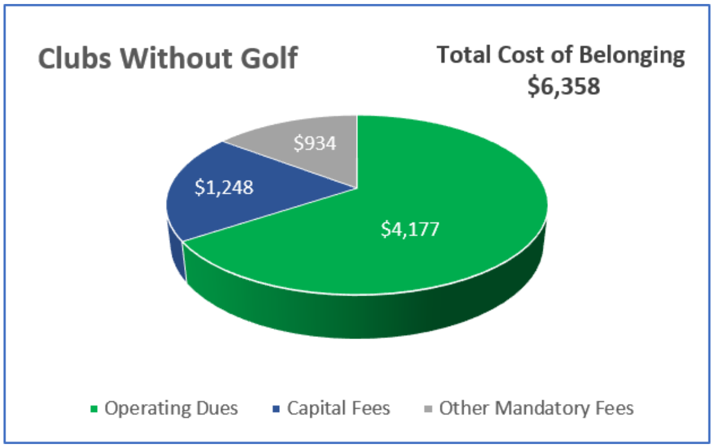
Operating deficits deplete capital income and reduce a club's ability to increase net worth. Cutting expenses impacts the member experience. **The costs of operating a club are essentially fixed.**

Initiation Fees

Initiation fees have remained flat over the past year (0% annual change). Currently, **54% of clubs offer initiation fee financing.** The average term is 3.3 years, with 7% offering a financing period of 10 years or more.

The median initiation fee for **clubs with golf is $25,000**. Within that group, the median initiation fee is **$68,000 for clubs with a wait list** and $20,000 for those without a wait list. The median initiation fee for **clubs without golf is $13,250**. In that group, the median is $18,500 for those with a wait list and $10,000 for those without a wait list.



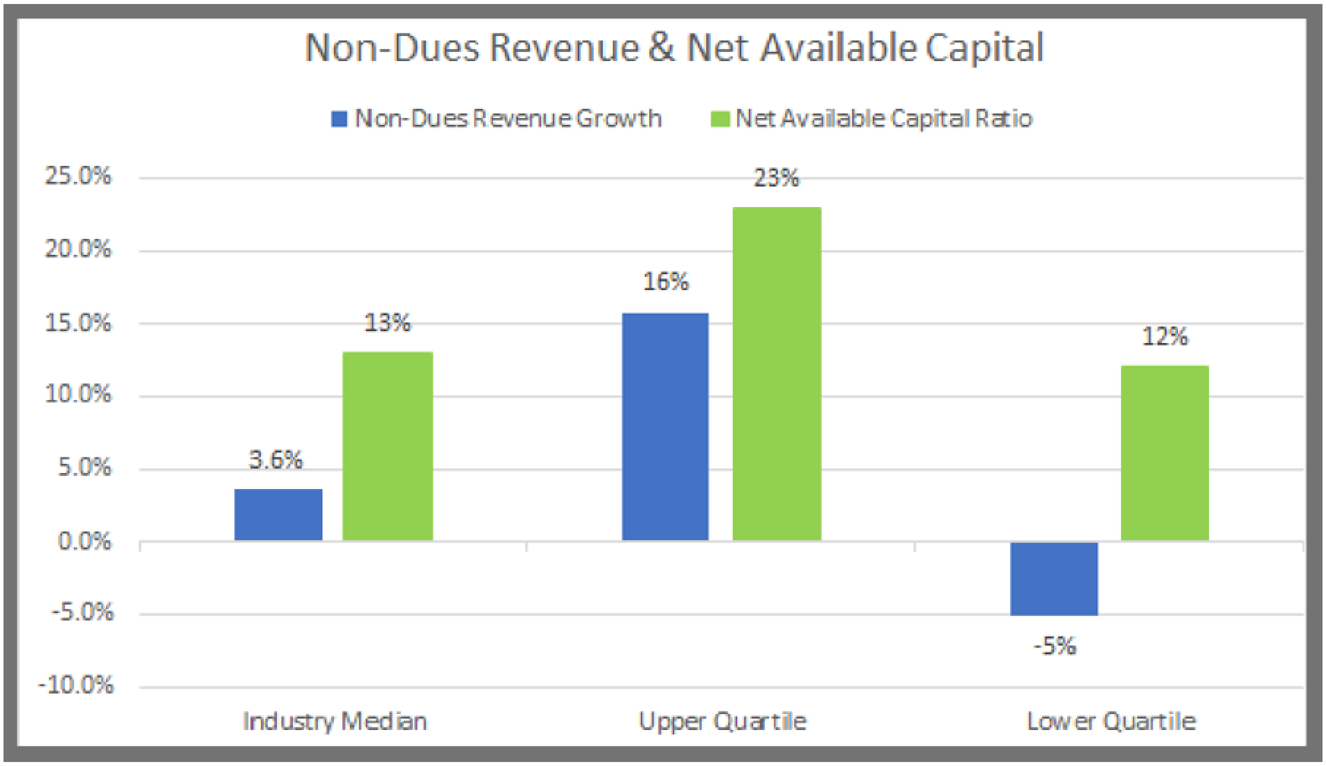


FINANCE: OPERATING & CAPITAL

Non-Dues Revenue and Net Available Capital:

Logic and data dictate that clubs which **consistently keep up with repair and replacement** of assets will remain an attractive place for members to enjoy. In keeping with our fact-based approach, we analyzed SMD data in an effort to determine the validity of this correlation.

Generally speaking, non-dues revenue (operating revenue excluding dues) is an indicator of membership activity (i.e. rounds of golf, games of tennis, fitness center usage, food and beverage activity, etc). The monthly data we have collected shows that **seasonal (March through August) non-dues revenue increased by 3.6%** from 2018 to 2019 for the industry overall.



Digging deeper, we analyzed the clubs with the **highest annual increases in non-dues revenue** and the clubs with the lowest increases or decreases. We compared **non-dues revenue trends** with **net available capital (NAC) ratios** to determine whether a relationship existed. Clubs in the upper quartile of Net Available Capital experienced a 16% year-over-year growth of non-dues revenue at the median. The **median NAC ratio** of these clubs was **23% compared to an industry median of 13% for all clubs** (with and without golf).

As a reminder, Club Benchmarking defines clubs with a NAC ratio of **20% or more as capital rich**, and those with a NAC ratio of 10% or below as capital starved. From 2018 to 2019, SMD data shows capital starved clubs experienced a **year-over-year decline in non-dues revenue of 5% at the median**. The point is, clubs that have the capital to invest see activity increasing substantially and clubs that lack proper capital and are unable to invest see activity declining substantially. Members' capital contribution, the only thing that drives increasing net worth, is ultimately destined for **capital investment which is the key to sustainable financial success**. The data clearly supports the conclusion.