



Botsford Feasibility & Options Analysis

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Executive Summary

This analysis considers the current performance and existing potential for the Botsford Center for Health Improvement (BCFHI), a tenant of Lautrec Inc. with the aim of understanding what a reasonable lease rate would be for the club.

The feasibility study of the market considers the drive time potential within 5, 8 and 12 minutes, and breaks the market in these drive times into key segments that are defined by age, disposable income and distance from the Botsford Center for Health Improvement.

In particular, the study focuses on sizing out the target segments of BCFHI, which are the “Convenience” segment and “Comfortable with Context” segment. The study finds that there is not sufficient market to support the club exclusively within the 5-minute drive time, but there is significant potential to attract new members in the 8 to 12-minute drive time, suggesting the importance of marketing the club to a wider audience. In fact, of all the segments in the market, the older adults with higher income in the 8 to 12-minute drive times represent the largest underserved segment in the market, estimated at 6,083K. In contrast the younger market demographic seems to be well served by local competitors.

After projecting the financial performance of the existing club, it appears that the club is underperforming and is burning approximately **\$350K** a year on total revenue of **\$1,031K** a year. We believe that this poor performance is largely driven by low membership levels given the size of the club and its relationship to Botsford, which does not appear to be well leveraged. We believe that with some operation, strategic and structural changes the club could serve its existing demographic more effectively and improve its membership base.

We assessed the different potential options or scenarios for the club to understand the impact on potential lease rates. In addition to the baseline, we considered a Growth scenario where the club is better managed and some simple structural improvements are made to better incorporate the medical practice, as well as a New Tenant option that assumes that Botsford does not continue its lease and that Lautrec transitions to a new tenant.

This option analysis suggests that in order to sustain EBITDA at a low but manageable 10% of Revenue, the club would need to get rent per square foot to approximately **\$14.55 all in**. With Lautrec’s floor at \$12.00 per square foot, we think the **range of negotiation is between \$12 and \$14**. Anything over \$14.50 is going to create a very low margin club, and anything over \$18 is going to make the club unsustainable.

Because the range for negotiation of rent per square foot for the existing club and a new club is similar, the preference for Lautrec of growing the existing club versus finding a new tenant is going to be largely driven by the assumptions around what upfront investment would be required by Lautrec, and what opportunities there are to serve a different demographic than the existing segments targeted by BCFHI.

Our feasibility suggests that the older adult demographic that BCFHI is currently serving is the more promising demographic in this market, which discounts the potential of a new tenant being able to leverage the space to serve a different market.

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Introduction

At the time of this study it is understood that Lautrec Inc. is expecting one of its existing tenants, Botsford Hospital, to approach it in the near future about renegotiating an existing lease on two separate buildings that currently contain a personal training facility as well as a health club.

The client in this case, Lautrec, has invested some substantial money (about \$3M) into the existing facility to build it out as a health club and personal fitness facility that are adjacent and complimentary to each other and is concerned about expectations that the Botsford Hospital will try to renegotiate a sustainable lower rent for one or both facilities.

To prepare for anticipated negotiations, Lautrec is seeking to understand the likely profitability of the existing health club facility, and to explore several potential options that it has for the space and the implications that these options will have on potential rental fees that can be charged.

To address these issues, this study will:

- Start by segmenting and sizing the existing market in order to develop a detailed insight into the potential in the market.
- We will then present projected financials for the existing health club facility in an effort to detail their current profit levels and capacity to absorb various rent levels.
- Finally, we will look at several different options available to Lautrec and the financial implications of these offerings.

This study has been largely informed by a two-day site visit completed by Atwood Consulting Group in which BCHI was “shopped” along with all the major competitors in the trade area. This visit provided context for many of the assumptions and strategic insights in the analysis.

Because this is an assumptions-based analysis, our final analysis is stress tested using Monte Carlo simulation, which interjects variability into our assumptions and considers the probable range of outcomes under varying assumptions.

The Current BCFHI Offering

We begin our study with a basic description of the Botsford Center for Health Improvement's (BCFHI) offering.

A Premium Offering for an Aging Member

The current BCFHI offering is focused on an aging population in the Botsford area, and many of its members are presumed to be referrals from the adjacent personal training facility TRACC. This is a membership demographic by design as the club was created to support and be supported by the personal training facility and Botsford Hospital in general.

Tiered Pricing

Individual membership or service options are detailed below.

	Per Month	Per Unit	Estimated % of Membership
COUPLE MEMBERSHIP	\$45		22%
INDIVIDUAL MEMBERSHIP	\$58		78%
PERSONAL TRAINING (1 HR)		\$60	
SPINNING		Per of membership	
SWIMMING CLASSES		Part of membership	
GROUP EXERCISE CLASSES		Part of membership	

Market Size and Context

The first step in this analysis is defining the parameters of the Market Trade Area. For this study we will be using an 5, 8 and 12-minute drive time analysis from the BCFHI location. Typically, analysis for fitness clubs focuses on 8 and 12-minute drive times, but we have decided to consider the closer 5-minute drive time as well as we believe that convenience is a key variable for the club's existing clientele of older adults, and there is also significant competition in the local market.

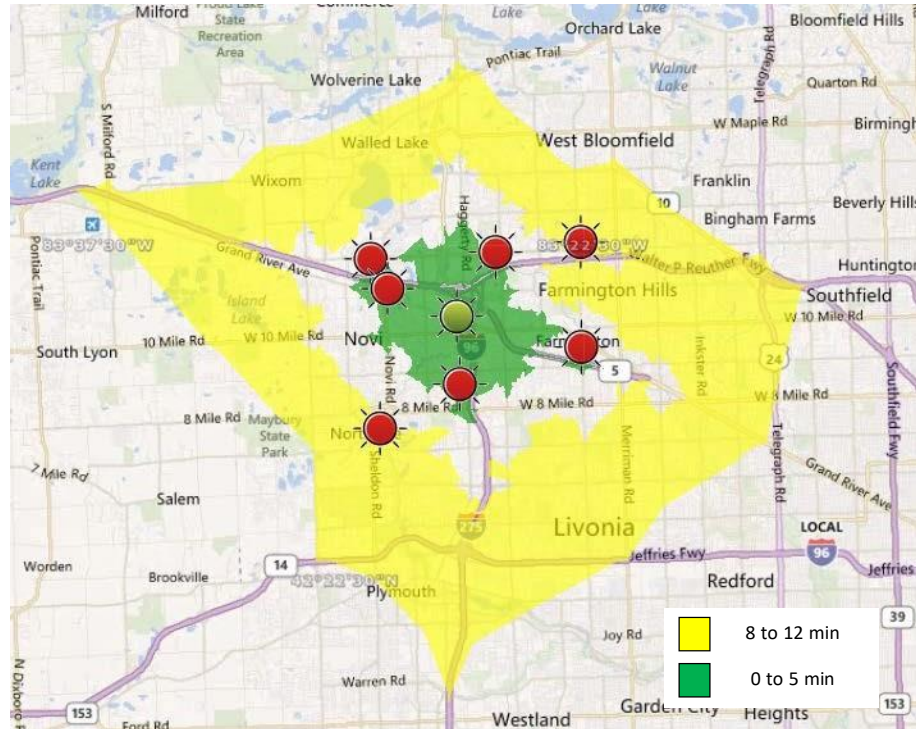
5, 8 and 12-minute Drive Times

Lots of Local Potential

A review of the 5, 8 and 12-minute drive times shows that this is a strong market for exercisers, and there appears to be some real competition in the immediate 5-minute drive time as we will review later.

We noticed during our visit that many of the strongest clubs in the trade area appeared to be new or recently renovated fitness clubs, suggesting that there is emerging interest in this market.

As the metrics below suggest, this interest is justified given the strong apparent demand in the market with an MPI of 134 in the 12-minute trade area compared to a national average of 1.00.



Key Drive Time Metrics

Key Statistics for each of these drive times are detailed below.

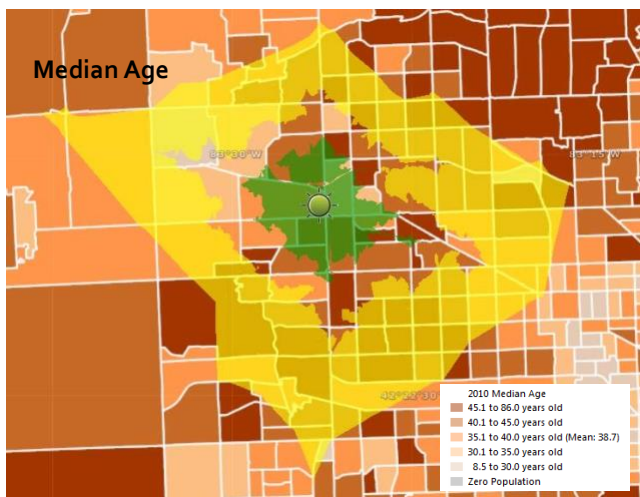
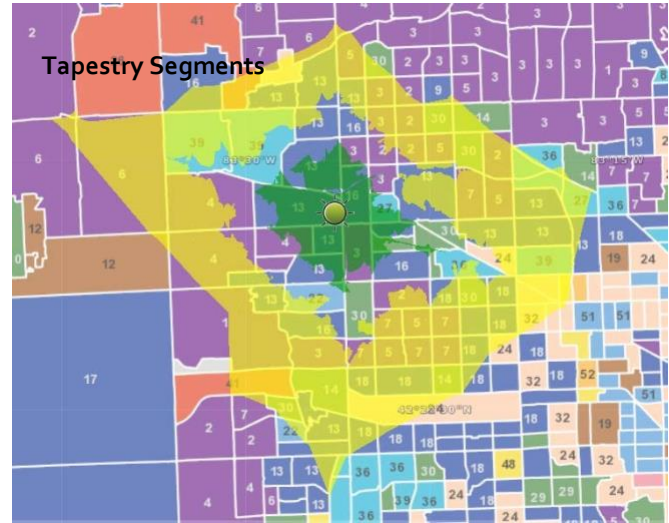
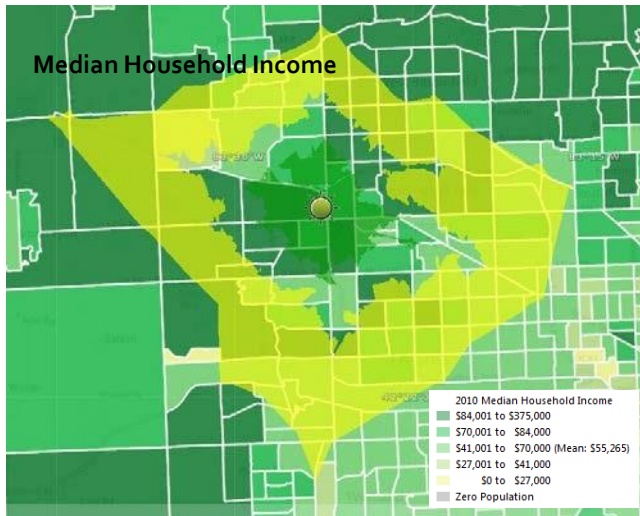
KEY DRIVE TIME METRICS

	5 Min	8 Min	12 Min
POPULATION	24,103	77,777	254,080
HOUSEHOLDS	11,252	33,063	103,975
EXERCISERS	12,478	38,460	119,527
EXERCISERS AT A CLUB MPI**	153	151	134

* These statistics are based on 2010 estimates.

** Market Potential Index compares this trade area to a national average of 1.00

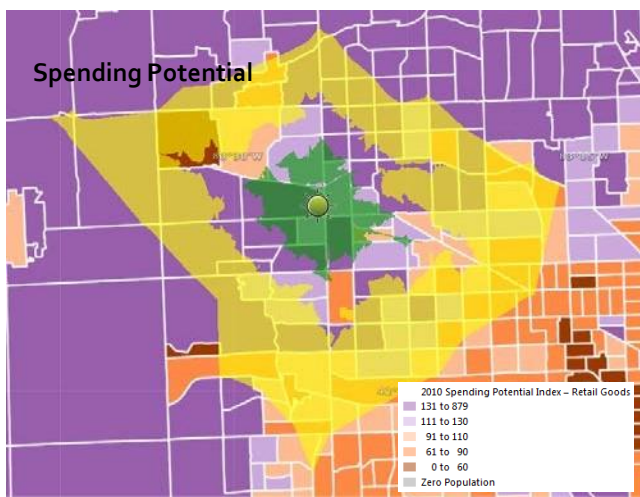
Drive Time and Income, Age, Retail Potential and Tapestry



Block Groups

2010 Dominant Tapestry Code and Segment Name

- 1, Top Rung
- 2, Suburban Splendor
- 3, Connoisseurs
- 4, Boomburbs
- 5, Wealthy Seaboard Suburbs
- 6, Sophisticated Squires
- 7, Exurbanites
- 8, Laptops and Lattes
- 9, Urban Chic
- 10, Pleasant-Ville
- 11, Pacific Heights
- 12, Up and Coming Families
- 13, In Style
- 14, Prosperous Empty Nesters
- 15, Silver and Gold
- 16, Enterprising Professionals
- 17, Green Acres
- 18, Cozy and Comfortable
- 19, Milk and Cookies
- 20, City Lights
- 21, Urban Villages
- 22, Metropolitans
- 23, Trendsetters
- 24, Main Street USA
- 25, Salt of the Earth
- 26, Midland Crowd
- 27, Metro Renters
- 28, Aspiring Young Families
- 29, Rustbelt Retirees
- 30, Retirement Communities
- 31, Rural Resort Dwellers
- 32, Rustbelt Traditions
- 33, Midlife Junction
- 34, Family Foundations
- 35, International Marketplace
- 36, Old and Newcomers
- 37, Prairie Living
- 38, Industrious Urban Fringe
- 39, Young and Restless
- 40, Military Proximity
- 41, Crossroads
- 42, Southern Satellites
- 43, The Elders
- 44, Urban Melting Pot
- 45, City Strivers
- 46, Rooted Rural
- 47, Las Casas
- 48, Great Expectations
- 49, Senior Sun Seekers
- 50, Heartland Communities
- 51, Metro City Edge
- 52, Inner City Tenants
- 53, Home Town
- 54, Urban Rows
- 55, College Towns
- 56, Rural Bypasses
- 57, Simple Living
- 58, NeWest Residents
- 59, Southwestern Families
- 60, City Dimensions
- 61, High Rise Renters
- 62, Modest Income Homes
- 63, Dorms to Diplomas
- 64, City Commons
- 65, Social Security Set
- 66, Unclassified



These overlay maps from ESRI help further detail the market demographics and show that the Botsford area is rather affluent and includes a wealthy older resident North West of the club.

In particular, we see a mix of older and younger successful professionals living within the 5-minute trade area.

These attractive block groups are defined using ESRI's Tapestry segment as **"In Style"**, **"Connoisseurs"** and **"Enterprising Professionals"**.

A description of these Tapestry segments as provided by ESRI follows.

IN STYLE

(Median Age: 39.9; Household Type: Mixed; Where you Live: Outer Suburbs, small cities, towns; Income: Upper Middle)

Break out the good wine and fire up the BBQ - life is sweet! You're young and climbing the corporate ladder with the best of them. You've got money and no one to spend it on but YOU. You play golf and hike and you have hobbies, like cooking. You're hard at work on your nest egg and, though you do sometimes buy baby clothes, they're for other people's babies. You and your honey can unwind with a post-baby-shower cocktail and leave the late-night feedings, ear infections and diaper changes to other people!

- Where you Live: Outer Suburbs, small cities, towns
- What you Do: Exercise, concerts, sports events, remodel, gambling
- Where you Shop/What you buy: Buy online, electronics, exercise equipment, concert tickets
- What You Watch/Listen To: Talk radio, televised sports
- What You Read: Biographies, mysteries, history books, newspapers, business and fitness magazines
- The Money Situation: IRA, 401K, Life insurance, stocks, bonds, money markets (you even invest in style!)

CONNOISSEURS

(Median Age: 46.8 Household; Type: Married-Couple, Families; Where you Live: City/suburbs; Income: High)

Daddy Warbucks! It's most definitely NOT a hard-knock life for you! You are married or single, and average in your late 40s. You're right at the top of the corporate food chain. You travel a lot for pleasure and for work (many of you live and work in an entirely different state. This wouldn't have anything to do with certain states' generous views on taxes would it?). You are savvy investors and you are quite cultured. You invest a lot in your home and you are a total coffee snob (no McCafe for you!) You are very fit and spend a lot of your leisure time at the club (sometimes you DO want to be the member of a club that would have a guy like you as a member!)

- Where you Live: City/suburbs
- What you Do: Eat out, work, work, work, hang out at the club, travel, work out, go to dance and theater performances.
- Where you Shop/What you buy: Catalog shopper, high-end department stores, sporting goods, housewares, home security
- What You Watch/Listen To: Classical radio, news radio (Have we told you lately that we love you?)
- What You Read: History books, mysteries, biographies, travel magazines, airline magazines, food magazines, business magazines
- The Money Situation: Investments, mortgage, rental properties, retirement, gold-plated jet

ENTERPRISING PROFESSIONALS

(Median Age: 32.4; Household Type: Mixed; Where you Live: Bright lights, big city; Income: Upper Middle)

So, the real question: Are you a Miranda, a Carrie, a Samantha or a Charlotte? You are fabulous, single and all about the city! When not checking out the new tequila bar, perusing sample sales or perfecting your tree pose, you are traversing the urban jungle with the greatest of ease. You're well educated and have a solid job. You spend a lot of time eating out at the Cheesecake Factory and Chili's (do they have good Cosmos?)

- Where you Live: Bright lights, big city!
- What you Do: Yoga, jogging, online shopping, eat out, travel
- Where you Shop/What you buy: Electronics, clothes music
- What You Watch/Listen To: Indie radio, sports radio, talk radio
- The Money Situation: Homeowner, investments, retirement savings (does Manolo make orthopedic shoes?)

Segmenting the Market

IDENTIFYING THE RIGHT SEGMENTATION VARIABLES

We further defined the market area by developing our own segmentation of the market based on measurable, meaningful and actionable variables that specifically identify our target market and the size of the market. For our segmentation, we chose the variables listed below.

DISPOSABLE INCOME

We have reliable census data on disposable income for the 5, 8 and 12-minute drive times around our site location. This information is readily available in a variety of forms and/or could be collected during business operations making this is a measurable variable. Given the higher price point being proposed by the club, it is meaningful to segment the market into groups that will be able to afford the offering. Finally, we can act on this variable by specifically targeting communities or individuals with appropriate disposable income to afford our club offerings.

We have chosen to define "High Income" as households with over \$50K in disposable income. Average disposable income in the US is \$37,690.

AGE

We have reliable census data on disposable income for the 5, 8 and 12-minute drive times around our site location. This information is readily available in a variety of forms and/or could be collected during business operations making this is a measurable variable. BCFHI is a full-service club that targets an older population. The options we will be considering are driven partly by the target age of members, making this a critical variable in our segmentation.

We have chosen to break the population into individuals who are "Young Adult" or under 45 and "Older Adults" who are over 45. Based on research on other medically focused clubs the typical age group in medically focused clubs such as BCFHI is 45 and older.

DRIVE TIME

Given the competition in the local market, and the willingness of different member types to travel to get to local clubs, we felt it was important to distinguish target groups by drive time. Potential members will weigh the proximity or convenience of the club with other club characteristics when choosing where to exercise.

MARKET SEGMENTATION MAP AND TARGET

	Young Adult (<45)		Older Adult (45+)	
	Low Income (<\$50K)	High Income (\$50K+)	High Income (\$50K+)	Low Income (<\$50K)
5 Minute		Convenience		
8 Minute	Social Scene		Comfortable with Context	Bargain Shopper
12 Minute				

Target the Easy Living Segment

Based upon our product offering and the Botsford name, we know that BCFHI is primarily targeting the **Convenience** and **Comfortable with Context** segment.

This is not the largest segment in the market but is likely one of the more profitable.

In addition to the target segments, it is likely that the club will be able to attract some customers from the Social Scene who are in the 8-minute drive time or Bargain Shoppers who receive discounts on membership.

What follows are some basic descriptions of each of the segments, with our target segment being the “Convenience” and “Comfortable with Context” segment. Detailed numbers on the sizes of each of these segments for our market sizing are available.

CONVENIENCE

Individuals in this segment have the money and the proximity to easily attend the BCFHI. They are defined as over \$50K in disposable income and are located within 5 minutes of the club. For the older adults in this segment, BCFHI is an attractive offering close to home that they can afford, and for the young adults, BCFHI is an attractive offering largely because of its convenience as a nearby club. This segment is considered the “sweet spot” for BCFHI.

COMFORTABLE WITH CONTEXT

Individuals in this segment are exclusively older adults who have high levels of disposable income over \$50K. These individuals can easily afford BCFHI, and even though they are located outside of the 5-minute drive ring, they are attracted to a club where they can feel at ease as an older adult. This is a strong secondary target for BCFHI because it leverages the strengths of BCFHI as a medically focused club.

SOCIAL SCENE

Individuals in this segment are younger adults who are low income or higher income but in the broader drive times from 5 to 12 minutes. These younger adults are attracted to clubs that are both affordable as well as well attended by peers in their age group. For these individuals, the gym experience is as much about the social interaction at the club as the need to get or keep in shape. This segment is more difficult for BCFHI to attract given its current focus as a medically focused club and given some of the strong competition in the market. This would be a key segment if the club were to change tenants and focus on a broader non-medically focused club.

BARGAIN SHOPPER

Individuals in this segment are older adults who are low income, below \$50K in disposable income. These older adults are interested in exercise, but are more likely to be living on a fixed income and will be price sensitive about options. These individuals may be priced out of the market now given the higher membership fees at BCFHI. This could be an attractive group for BCFHI, but it would require a lower priced business model to reach this target.

Market Segment Sizes

MARKET SEGMENTATION SIZE SUMMARY

	Young Adult (<45)		Older Adult (45+)	
	Low Income (<\$50K)	High Income (\$50K+)	High Income (\$50K+)	Low Income (<\$50K)
5 Minute		Convenience Exercisers 3,702 Market Size \$1,777K		Bargain Shopper Exercisers 8,280 Market Size \$3,978K
8 Minute	Social Scene Exercisers 23,231 Market Size \$11,151K		Comfortable with Context Exercisers 16,619 Market Size \$7,977K	
12 Minute				

Market Size Assumptions

Our market size estimates assume an average annual customer value of \$480 or \$40 per month.

We rely on ESRI data on the expected number of "Exercisers" in the market to establish our base market, and then distribute this base market based on our segmentation variables.

Details on the specifics of how we estimate the market are below.

HOW MARKET SEGMENT SIZES ARE ESTIMATED

	Convenience	Comfortable with Context	Social Scene	Bargain Shopper
HOUSEHOLDS	8,066	40,733	34,881	20,295
HOUSEHOLD DISTRIBUTION	7.76%	39.18%	33.55%	19.52%
RESIDENT EXERCISERS	8,537	38,324	53,572	19,094
HIGH POTENTIAL EXERCISERS	3,702	16,619	23,231	8,280
HP MARKET SIZE	\$1,777K	\$7,977K	\$11,151K	\$3,978K

DETAILS ON HOW MARKET SEGMENT SIZES ARE ESTIMATED

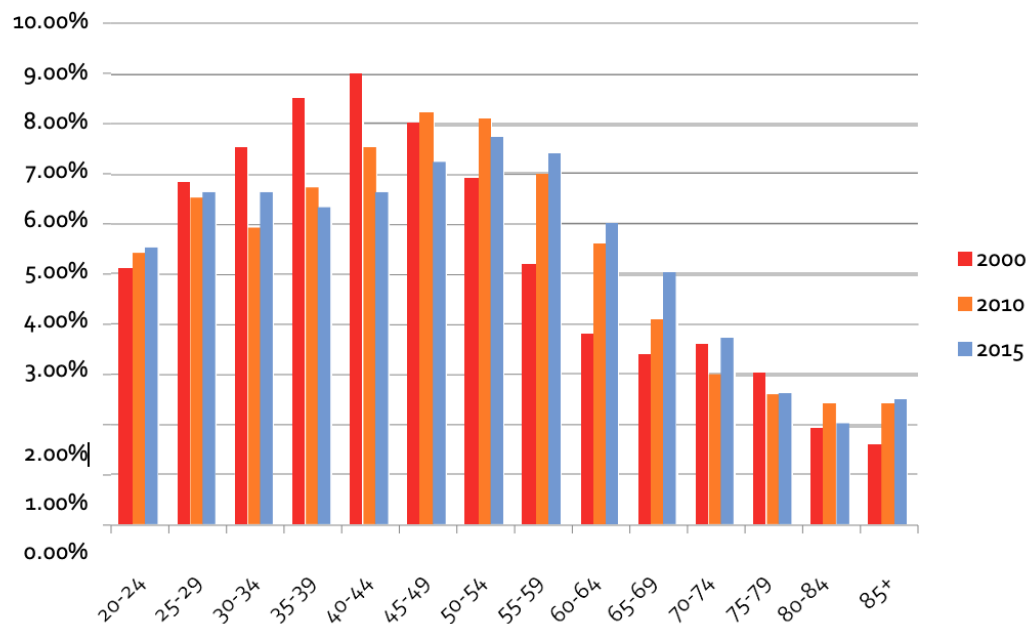
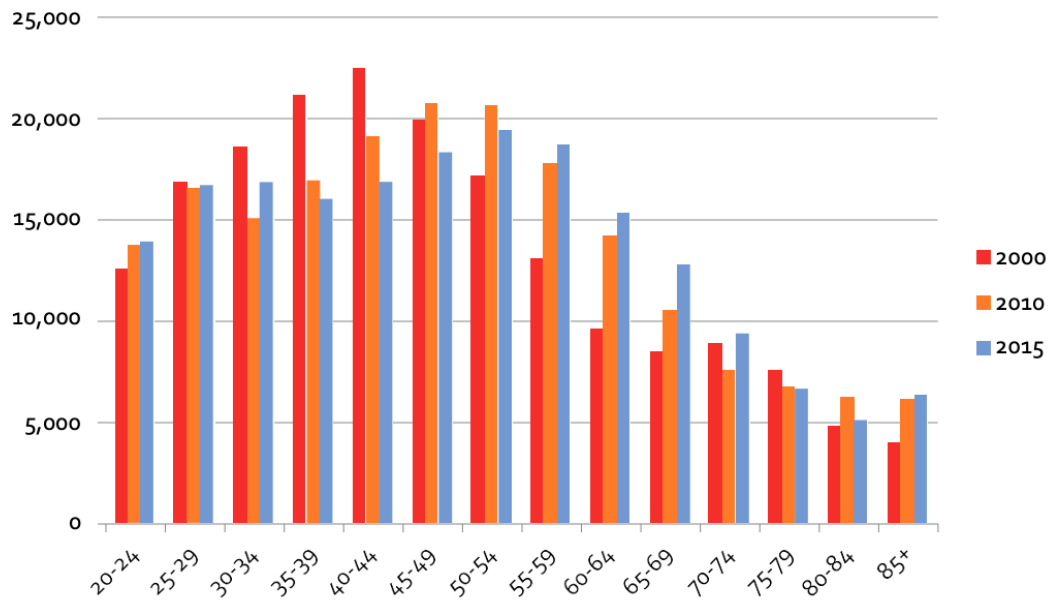
- All details on Market Size are taken from ESRI reports based on an 8, 12 and 15-minute drive time.
- The number of individuals by age group and disposable income comes directly from a cross tabulation from the 2000 US Census Bureau, with 2010 estimates calculated by ESRI.
- The number of Households in each segment is calculated by cross tabbing the income, age and drive times.

- Households by segment are extrapolated to a population distribution based on estimates of the number of individuals per household.
- The percentage of population in each segment is then used to distribute the “Exercisers” in the market between the different segments.
- The total number of resident exercisers is determined by considering the individuals in ESRI’s Market Potential Analysis who exercise “at home”, “at a club 2+ times a week” or who exercise at some other location.
- The total number of “High Potential” exercisers is then calculated by focusing only on those exercisers who exercise “at home” or “at a club 2+ times a week”.
- The final high-level market potential then multiplies the percent of exercisers in each segment by an average local membership fee of \$40 a month or \$480 a year.

Market Context

An Aging Population

The two charts below show details of the aging trends in the 12-minute drive time. As the charts clearly show, there is an aging population in the area, particularly in the 55 to 74 year-old age group.



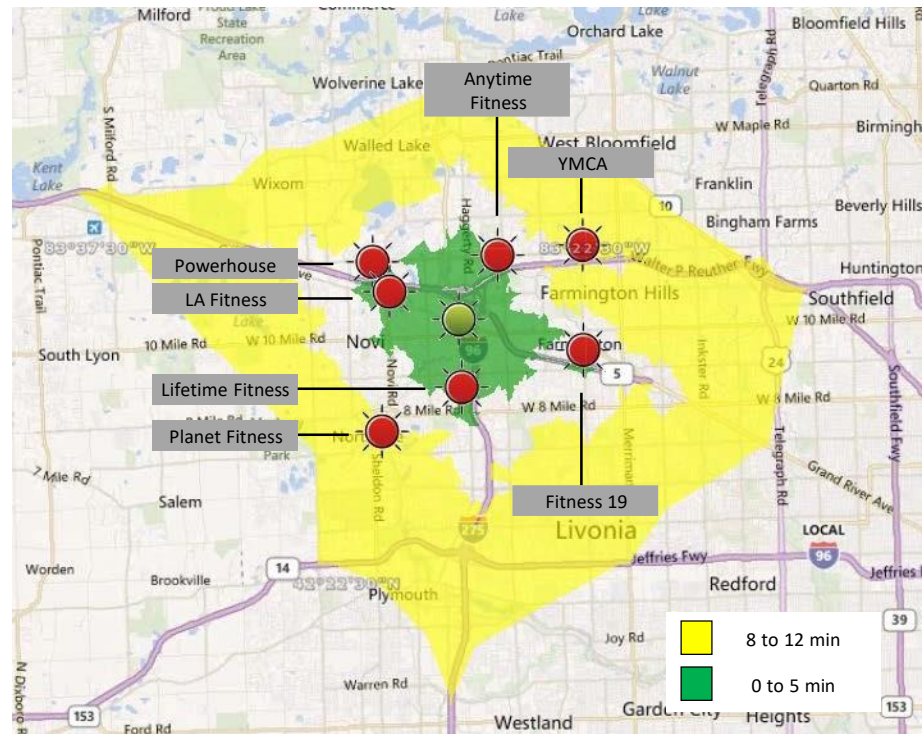
The Competition

Primary Competitors

The primary competitors in the market, based on location, size and characteristics of targeted customers are Lifetime Fitness, Powerhouse Gym and the YMCA.

The strongest competitors are within the 5-minute drive time, making this a well-represented market.

With this said, most of the competitors appear to be serving the “Social Scene” segment as described earlier. This is, by size, the largest segment, so it makes sense to see a strong competitive focus here, but the older adult market appears to be under-represented at present, with exception of the YMCA.



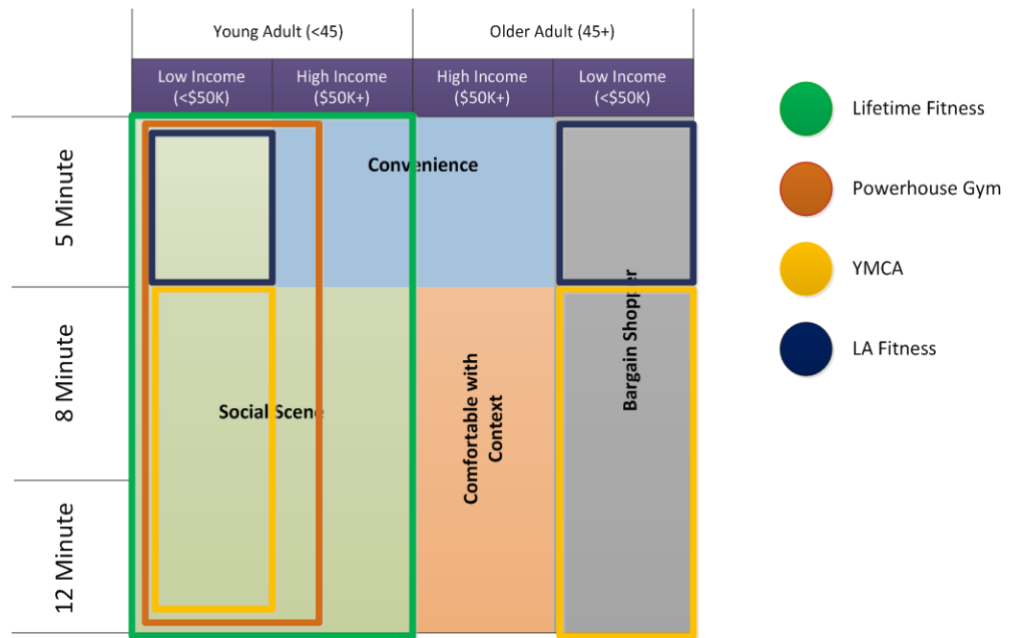
KEY PRIMARY MARKET COMPETITOR METRICS

BUSINESS NAME	ANNUAL CUSTOMER MEMBERSHIP VALUE	# MEMBERS	ESTIMATED GROSS
LIFETIME FITNESS	\$1,014	7,000	\$7,098K
POWERHOUSE GYM	\$546	3,000	\$1,638K
YMCA	\$858	3,000	\$2,574K
LA FITNESS	\$624	2,500	\$1,560K
PLANET FITNESS	\$156	7,500	\$1,170K
FITNESS 19	\$312	1000	\$312K
ANYTIME FITNESS	\$468	600	\$280K
OTHER MINOR CLUBS	\$546	3,000	\$1,638K
TOTAL			\$16,270K

Primary Competitors and the Market Segments

The chart to the right showcases how we believe the current competitors in the market are serving the different identified segments.

Based on their offerings, an assessment of the clubs infrastructure and feedback from attendees at competitive clubs from direct interviews and surveys, we believe that none of the clubs are directly serving the target segment of BCFHI.



Below are some estimates of how much of each segment is captured by existing competitors.

Competitive Market Capture Estimates

To estimate the amount of market that was captured by competitors, we made estimates of what percentage of that competitor's membership base could be attributed to the different market segments. Our estimated segment distribution for competitors is below.

	Convenience	Comfortable with Context	Social Scene	Bargain Shopper
LIFETIME FITNESS	10%	10%	80%	0%
POWERHOUSE GYM	5%	5%	70%	20%
YMCA	10%	30%	20%	40%
LA FITNESS	5%	5%	70%	20%
PLANET FITNESS	0%	5%	90%	5%
FITNESS 19	0%	5%	90%	5%
ANYTIME FITNESS	5%	5%	80%	10%
OTHER MINOR CLUBS	10%	10%	80%	0%

Untapped Market Potential Summary

We determined the amount of unmet market demand by first identifying the size of the total market; determining the percentage of the market that is "High Potential" and then estimating the amount of that market that is captured by existing competition.

ESTIMATED SUPPLY AND DEMAND

	Total	Convenience	Comfortable with Context	Social Scene	Bargain Shopper
HOUSEHOLDS	103,975	8066	40,733	34,881	20,295
POPULATION	254,080	18,141	81,466	113,879	40,590
AVG HOUSEHOLD SIZE	2.44	2.25	2.00	3.26	2.00
% EXERCISERS	47.04%	47.04%	47.04%	47.04%	47.04%
TOTAL # EXERCISERS	119,527	8,537	38,324	53,572	19,094
MARKET POTENTIAL	\$57,373,861	\$4,098,052	\$18,395,567	\$25,714,749	\$9,165,493
HIGH POTENTIAL (HP)	\$24,879,751	\$1,777,090	\$7,977,101	\$11,151,011	\$3,974,548
EXISTING MARKET CAPTURE	\$16,270,800	\$1,304,940	1,893,840	\$11,300,640	\$1,771,380
UNMET MARKET DEMAND	\$8,608,951	\$472,150	\$6,083,261	(\$149,629)	\$2,203,168

DETAILED BREAKDOWN OF HOW UNMET MARKET DEMAND IS CALCULATED

- For detail on how Households, Population, % Exercisers and Market Potential are estimated, see earlier analysis on 'How Market Segment Sizes are estimated.
- From our definition of Market Potential, we then use ESRI's Market Potential Numbers for "Exercise at Club 2+ Times per Week" and "Exercise at other Facility (not club) 2+ times per Week" to determine a percentage of the target population that we can define as "High Potential" customers, or individuals who are likely to be interested in a Health Club. ESRI's market potential numbers are derived from ESRI's own tapestry segments based on the population's profile compared to national averages.
- We then subtract the estimated demand captured by existing competitors to identify the total Unmet Market Demand for all segments as 8,608,951.
- We then use the percent distribution of exercisers by segment to estimate the amount of High Potential demand exclusively in our target segment.

Baseline Margin Projections

Base Case Key Drivers & Assumptions

	Initiation Fee	Monthly Fee	Per Unit Fee
COUPLE MEMBERSHIP	\$75	\$45	
INDIVIDUAL MEMBERSHIP	\$75	\$58	
PERSONAL TRAINING - 1HR			\$60
SPINNING			\$0
YOGA			\$0

	Assumption
MEMBERSHIP CANCELLATION PER MONTH	2.5%
RENT PER YEAR	\$675,000
CLUB SIZE (SQUARE FT)	30,000

	Receivables Spread	Payables Spread
30 DAYS	90%	100%
60 DAYS	8%	0%
90 DAYS	1%	0%
120 DAYS	1%	0%

	% to Revenue**
TOTAL PAYROLL (SALARIES, WAGES & BENEFITS)	45.00%
***UTILITIES	4.50%
***INSURANCE	1.10%
SALES & MARKETING	2.00%
***GENERAL & ADMINISTRATIVE	8.70%
OTHER OPERATING COSTS	7.40%

** Cost percentage estimates are derived from IHRSA's Annual Industry Data Survey of the Health and Fitness Club Industry

Base Case Annual Profit and Loss

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue					
Initiation Fees	\$29,250	\$29,250	\$29,250	\$29,250	\$29,250
Monthly Membership Fees	\$858,000	\$858,000	\$858,000	\$858,000	\$858,000
Personal Training	\$144,000	\$144,000	\$144,000	\$144,000	\$144,000
<i>Total Revenue</i>	\$1,031,250	\$1,031,250	\$1,031,250	\$1,031,250	\$1,031,250
Expense					
Total Payroll (Salaries, Wages and Benefits)	\$464,063	\$464,063	\$464,063	\$464,063	\$464,063
Rent Land & Building	\$675,000	\$675,000	\$675,000	\$675,000	\$675,000
Utilities	\$46,406	\$46,406	\$46,406	\$46,406	\$46,406
Insurance	\$11,344	\$11,344	\$11,344	\$11,344	\$11,344
Marketing Expense	\$20,625	\$20,625	\$20,625	\$20,625	\$20,625
General & Administrative	\$89,719	\$89,719	\$89,719	\$89,719	\$89,719
Other Operating Expense	\$76,313	\$76,313	\$76,313	\$76,313	\$76,313
<i>Total Expense</i>	\$1,383,469	\$1,383,469	\$1,383,469	\$1,383,469	\$1,383,469
Net Income (EBITDA)	\$(352,219)	\$(352,219)	\$(352,219)	\$(352,219)	\$(352,219)

Base Case Annual Balance Sheet

	Year 1	Year 2	Year 3	Year 4	Year 5
Assets					
Current Assets					
Cash & Cash Equivalents	\$(352,219)	\$(704,438)	\$(1,056,656)	\$(1,408,875)	\$(1,761,094)
Accounts Receivable	\$-	\$-	\$-	\$-	\$-
Total Current Assets	\$(352,219)	\$(704,438)	\$(1,056,656)	\$(1,408,875)	\$(1,761,094)
Non Current Assets					
Fixed Assets	\$-	\$-	\$-	\$-	\$-
Accumulated Depreciation	\$-	\$-	\$-	\$-	\$-
Net Fixed Assets	\$-	\$-	\$-	\$-	\$-
Total Assets	\$(352,219)	\$(704,438)	\$(1,056,656)	\$(1,408,875)	\$(1,761,094)
Liabilities					
Current Liabilities					
Accounts Payable	\$-	\$-	\$-	\$-	\$-
Long Term Notes Payable	\$-	\$-	\$-	\$-	\$-
Total Liabilities	\$-	\$-	\$-	\$-	\$-
Owner's Equity					
Shareholders Equity	\$-	\$-	\$-	\$-	\$-
Retained Earnings	\$(352,219)	\$(704,438)	\$(1,056,656)	\$(1,408,875)	\$(1,761,094)
Total Equity	\$(352,219)	\$(704,438)	\$(1,056,656)	\$(1,408,875)	\$(1,761,094)
Total Liabilities & Equity	\$(352,219)	\$(704,438)	\$(1,056,656)	\$(1,408,875)	\$(1,761,094)

Base Case Annual Cash Flow

	Year 1	Year 2	Year 3	Year 4	Year 5
Beginning Cash	\$-	\$(352,219)	\$(704,438)	\$(1,056,656)	\$(1,408,875)
Cash Flow from Operations					
Total Income	\$(352,219)	\$(352,219)	\$(352,219)	\$(352,219)	\$(352,219)
Accounts Receivable Increase	\$-	\$-	\$-	\$-	\$-
Depreciation Expense	\$-	\$-	\$-	\$-	\$-
Accounts Payable Increase	\$-	\$-	\$-	\$-	\$-
Net Cash Flow from Operations	\$(352,219)	\$(352,219)	\$(352,219)	\$(352,219)	\$(352,219)
Cash Flow from Investing Activity					
Purchase of Property, Plant & Equipment	\$-	\$-	\$-	\$-	\$-
Cash Flow from Financing					
Long Term Debt Borrowing	\$-	\$-	\$-	\$-	\$-
Debt Principle Payments	\$-	\$-	\$-	\$-	\$-
Increase (Decrease) in Cash during the Year	\$(352,219)	\$(352,219)	\$(352,219)	\$(352,219)	\$(352,219)
Ending Cash Balance	\$(352,219)	\$(704,438)	\$(1,056,656)	\$(1,408,875)	\$(1,761,094)

Base Case Key Ratios

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Revenue	\$1,031,250	\$1,031,250	\$1,031,250	\$1,031,250	\$1,031,250
Revenue per Square Foot	\$34.38	\$34.38	\$34.38	\$34.38	\$34.38
Revenue per Member	\$793.27	\$793.27	\$793.27	\$793.27	\$793.27
EBITDA % to Revenue	0.00%	0.00%	0.00%	0.00%	0.00%
Net Income % to Revenue	0.00%	0.00%	0.00%	0.00%	0.00%
% Members in Personal Training	7.69%	7.69%	7.69%	7.69%	7.69%
% Payroll to Revenue	45.00%	45.00%	45.00%	45.00%	45.00%
% of Non-Dues Revenue	13.96%	13.96%	13.96%	13.96%	13.96%

Options Analysis

With our base case established, we will now consider what possible scenarios or options we believe are available and consider the financial implications of these options. We will be comparing the EBITDA and NPV of the clubs P&L and the expected proceeds for Lautrec in each scenario. The objective of this analysis is to understand the range of possible lease options under each scenario.

Options to be Considered

Based on our visit to the location, the market context and our conversations with the Lautrec team, there are three strategic options that we will be considering.

Option 1: Base Case Scenario

This is our current state and represents the way the club has been operating under the existing lease. In this scenario, the club/hospital exercises its options with its current lease, but nothing else substantially changes about how the club is operated or how it performs.

Option 2: Growth of the Medical Model

This is a scenario where the hospital continues to operate the club under a new negotiated lease. In this scenario there is a recognition that to succeed (profitably), the club will need to make some changes to how the club operates, and in doing so will be able to grow its estimated membership base to a more sustainable level.

Option 3: New Tenant

This is a scenario where the club/hospital is unable or uninterested in continuing its lease. Lautrec in this scenario will still want to leverage its investment in the club space, so will seek a new tenant that will ideally operate under a more profitable business model.

Variable Assumption Summary

	Option 1	Option 2	Option 3
MEMBERSHIP LEVELS	1,300	2,300	2,300
ANCILLARY REVENUE (PAID HOURS@\$60/HR)	2,500	9,598	9,598
CLUB MGMT EXPENSES PER YR	\$0	\$30K	\$60K
YRS OF MGMT REQUIRED	0	3	3
CAPITAL EXPENSES	\$0	\$500K	\$50K
VACANCY EXPENSE	\$0	\$0	\$300K

Key variables in each Option

Option 1: Base Case Scenario

- **Membership Levels:** During our visit to BCHI we learned that the approximate membership is 1300 members. We do not expect this membership to grow significantly under the current model and management.
- **Ancillary Revenue:** The revenue sources other than membership are approximated at about 2,400 hours per year at \$60 per hour. This translates to about 14% of revenue coming from non-dues revenue, which is on the low side by industry averages (IHRSA average is 24% for a club of this size).
- **Club Management Expenses:** We assume no additional management expenses for this club other than what is captured in the payroll numbers.
- **Marketing Expense:** We assume marketing expense to be 2% of revenue, which is on the low side for a club of this size. This estimate is based on our visit to the club, and the impression that the club was relying heavily on its relationship with the hospital and doing little to bring in new members.
- **Capital Expenses:** We do not anticipate any additional capital expenses in this option.
- **Vacancy Expense:** We do not anticipate any vacancy in this option.

Option 2: Growth of the Medical Model

- **Membership Levels:** We expect that if the club were to make the right strategic decisions, they could grow their membership to 2,300 members. This would equate to revenue per square foot of \$71 per member, which is right in line with industry averages, and where the club should be operating.
- **Ancillary Revenue:** The revenue sources other than membership are approximated at about 9,598 hours per year at \$60 per hour. This translates to about 27% of revenue coming from non-dues revenue, which represents a slightly better than industry average that a medically focused club should be able to obtain. (IHRSA average is 24% for a club of this size)
- **Club Management Expenses:** We anticipate that to reach the desired membership levels, the club would need some additional outside consulting or management at \$30K for the next 3 years. For this analysis, we have included this expense on the P&L of the club.
- **Marketing Expense:** To reach its growth membership levels, we project that the club will need to increase its marketing to 3% of revenue, which is still on the low side for health clubs of this size but recognizes that the club has the benefit of a medical referral network.
- **Capital Expenses:** We believe that one of the key elements in improving the club is creating a tighter physical relationship between the TRACC facility and the fitness club. To do this, it would be advised to either co-locate some of the medical offices within the fitness facility or build a bridge or "pathway" that links the two organizations. These structural changes would facilitate a physical, in-person handoff between medical staff and fitness staff, which is a best practice with medically focused facilities.
- **Vacancy Expense:** We do not anticipate any vacancy in this option.

Option 3: New Tenant

- **Membership Levels:** Similar to the growth option, we expect that if a new tenant were to make the right strategic decisions, they could grow their membership to 2,300 members. This would equate to revenue per square foot of \$71 per member, which is right in line with industry averages, and really where the club should be operating. We do not expect a "New Tenant" to be able to add more members than the existing club if operated properly.
- **Ancillary Revenue:** The revenue sources other than membership are approximated at about 9,598 hours per year at \$60 per hour. This translates to about 27% of revenue coming from non-dues revenue. This is identical to the ancillary revenue for the growth option. We think with the right management and an aggressive new tenant in place, that these revenues are possible in the market.
- **Club Management Expenses:** We anticipate that to reach the desired membership levels, the club would need some additional outside consulting or management at \$60K for the next 3 years. This is twice what would be needed in a growth scenario, because there would be a need for outside assistance during a transition period. In this scenario, the club management expenses are deducted from Lautrec's P&L rather than the new incoming club.

- **Marketing Expense:** To reach its growth membership levels, we project that the club will need to increase its marketing to 3.5% of revenue, which is very close to industry average and a slight increase from the 3.0% required in the growth option given the fact that this club would need to be more aggressive with marketing than a medically focused club.
- **Capital Expenses:** We estimate that some minimal buildout costs might be required to accommodate a new tenant in the space.
- **Vacancy Expense:** We estimate that Lautrec would need to absorb an approximate 8-month period of vacancy as a new tenant is identified for the space, with vacancy opportunity costs estimated at the 10% EBITDA hurdle rate for the new tenant option.

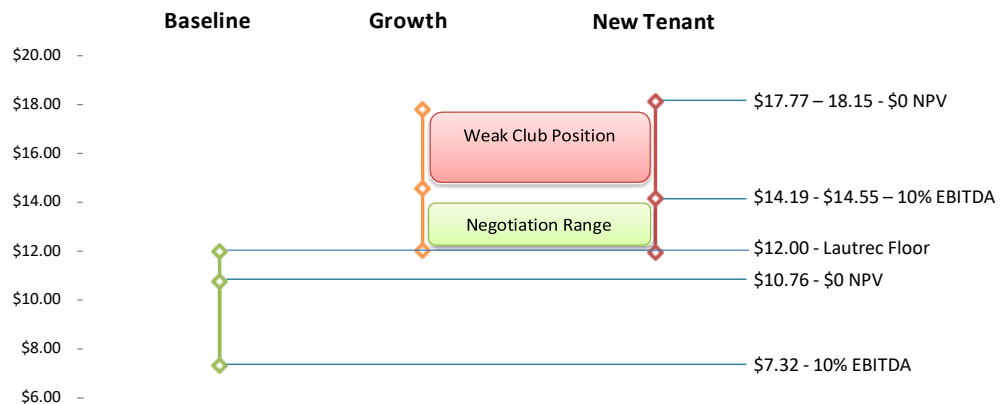
Output Summary

	Option 1 – Do Nothing	Option 2 – Growth	Option 3 – New Tenant
CLUB BREAKEVEN EBITDA (YEAR 5)	\$10.76	\$21.72	\$21.36
CLUB NPV BREAKVEVEN	\$10.76	\$17.77	\$18.15
CLUB BREAKVEVEN EBITDA - 10% HURDLE	\$7.32	\$14.55	\$14.19
CLUB % EBITDA AT \$12 FLOOR	N/A	13.56%	13.06%
LAUTREC COSTS			
CAPITAL INVESTMENT	\$0	\$500K	\$50K
VACANCY	\$0		\$300K
MANAGEMENT EXPENSES	\$0	\$0**	\$60K
TOTAL COSTS	\$0	\$500K	\$410K
LAUTREC NPV*** (10% ANNUAL DISCOUNT)	\$869,995	\$1,233,168	\$1,390,790

Negotiation Range

What the options suggest is that Lautrec should be negotiating somewhere between its floor of \$12 and a 10% EBITDA for the club in either a Growth or New Tenant Scenario, which is about \$14.50.

Anything over this price would put the future club in a very weak position, with anything over \$17.77 or \$18.15 in



the respective scenario putting the club in a position of loss. It is also clear from the analysis that the current club operations (Baseline) are unsustainable, with a 10 floor for breakeven and a \$7.32 floor for a 10% EBITDA.

In deciding between a Growth or New Tenant scenario, Lautrec would need to seriously consider the other costs associated with each option. Currently, Lautrec’s NPV for each option is very close to even, with a key consideration being the estimate of fixed investment in the club of \$500K. While our analysis currently shows the New Tenant option to be slightly preferable, a reduction of the fixed investment under the growth option of \$100K would shift the preferable option to Growth.

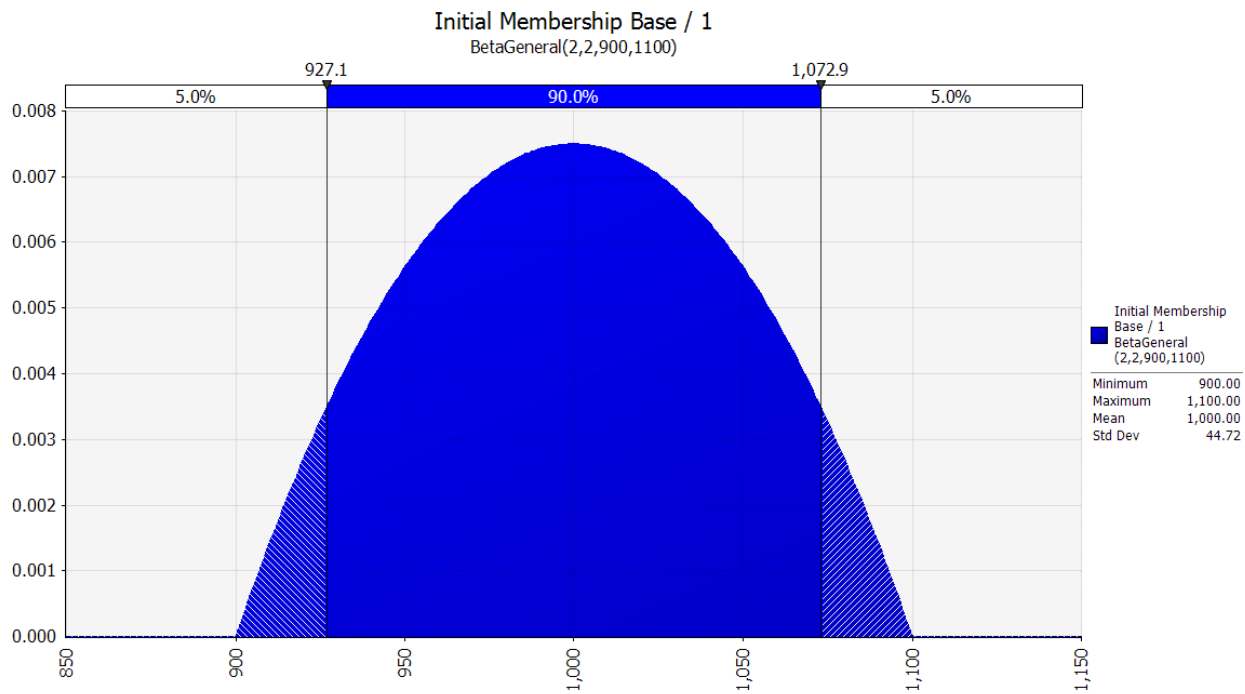
In assessing the best strategic position for Lautrec, it is necessary to further explore these costs and to take into consideration the larger feasibility context, which suggests that the strongest market demand exists for a medically focused club.

Sensitivity Analysis

As with any model, the outcomes are based upon a series of assumptions. While we have done our best to research appropriate assumptions and approximate assumptions where data is limited, it is always worthwhile to run some sensitivity analysis on the model to understand the likely (or probable) range of outcomes.

We achieve this by running Monte Carlo simulation on our model using Palisade software. Monte Carlo simulation applies appropriate distributions to the inputs and then runs the model through 10,000 possible iterations with the inputs fluctuating based on our defined distributions.

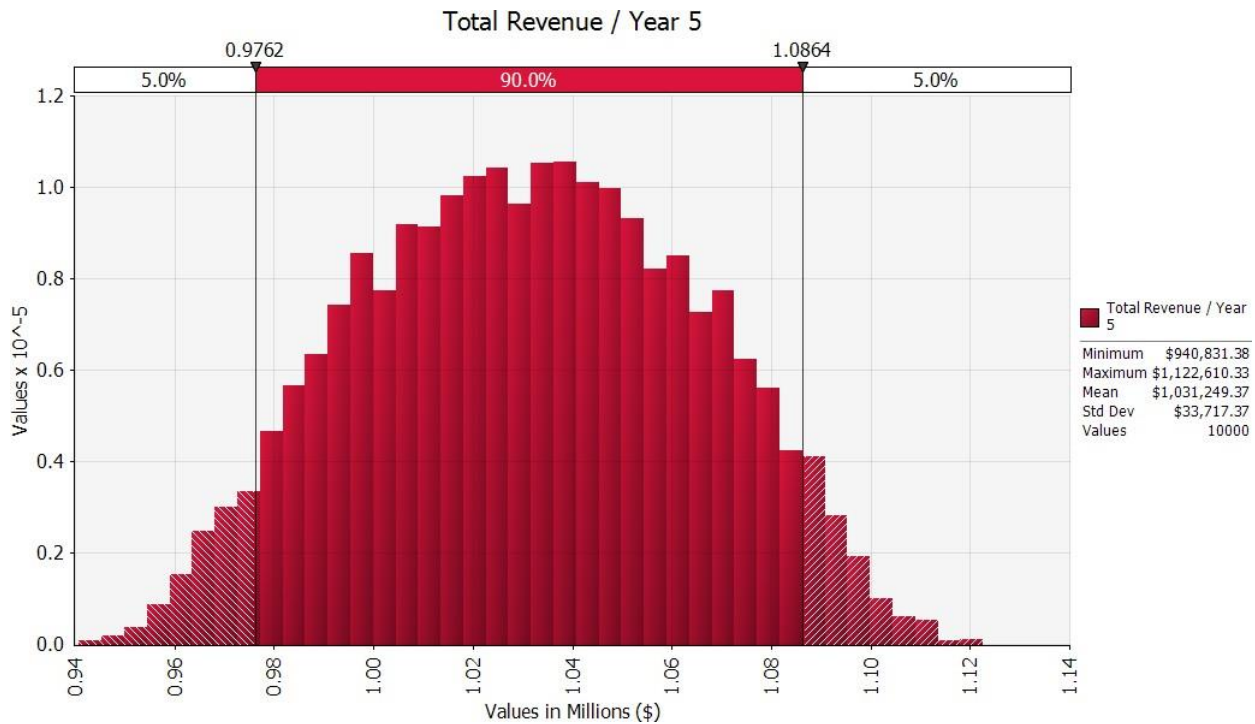
For this model, we adjusted the inputs using a "Beta General" distribution. An example of a Beta General distribution is below. A Beta General distribution assumes standard distribution around an average, allowing for a normal fluctuation of assumptions.



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TOTAL REVENUE IN YEAR 5 - SENSITIVITY ANALYSIS

Because this is a feasibility study, we have focused on **Total Revenue in Year 5** to assess sensitivity.



The Simulation shows that our total potential Revenue in Year 5 has a minimum value of **\$940,967** and maximum potential Revenue of **\$1,122,610**.

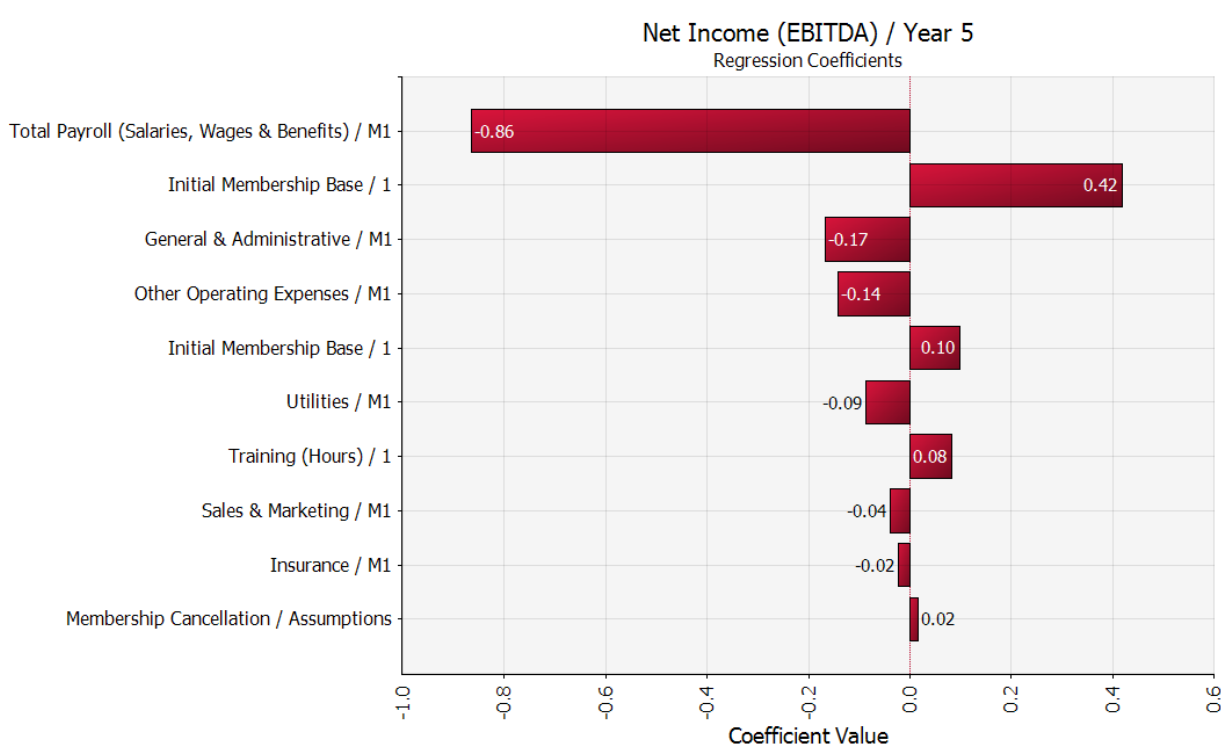
While this represents the full potential range given our model, the analyses suggest that there is a **90% probability** that the Total Revenue in Year 5 will be between **\$976,200** and **\$1,086,400**.

SENSITIVITY OF KEY INPUT VARIABLES

In addition to the potential revenue range, we also looked at those inputs that had the largest impact on Total Revenue, and calculated regression factors for each input. Our analyses suggest that our estimates around payroll and the initial membership base have the most significant impact on our projection.

This finding suggests that, if further research is warranted, it should focus on getting further granularity around these assumptions.

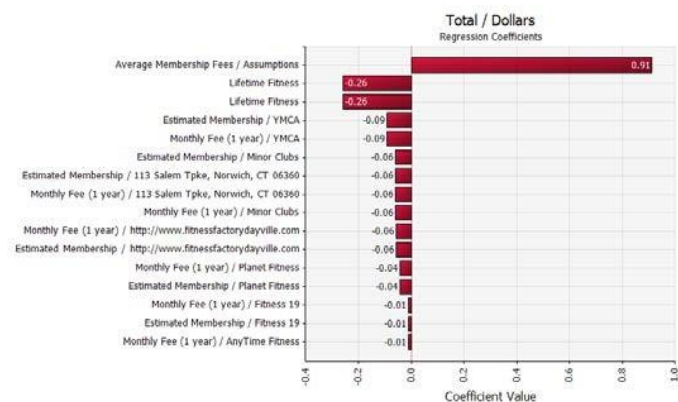
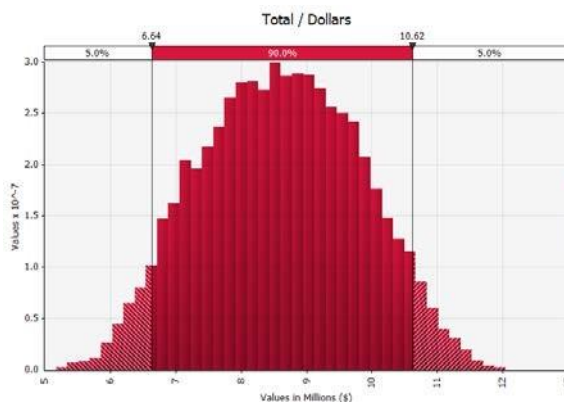
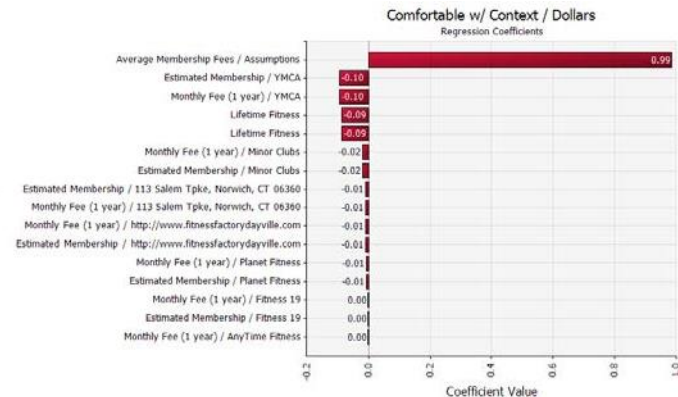
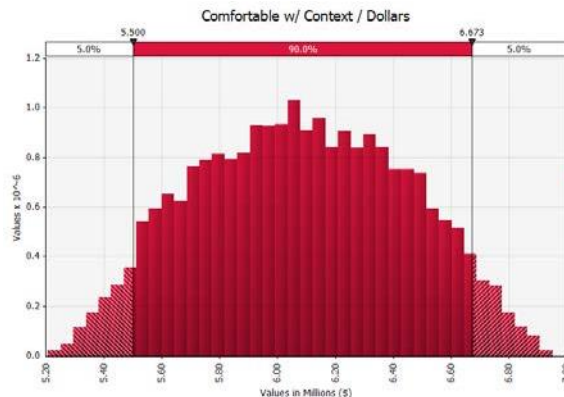
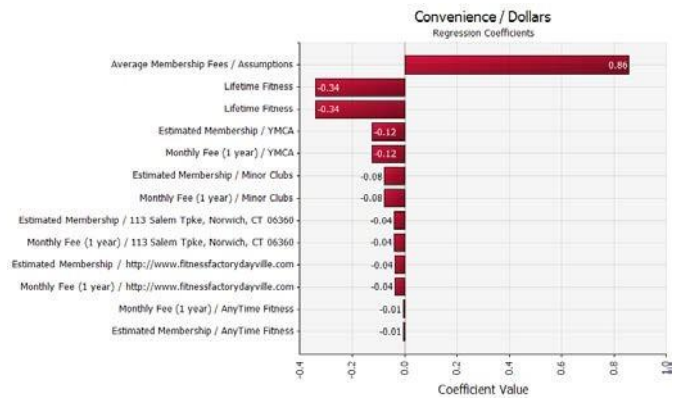
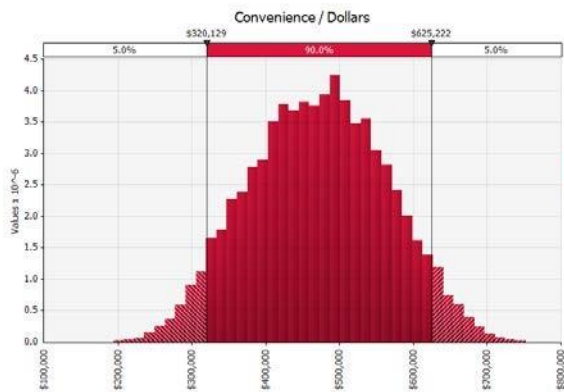
Payroll and the Membership Base stand out as the key input in the model



SENSITIVITY OF MARKET SIZING AND GAP ANALYSIS

In addition to considering the sensitivity of the financial model, we also considered the sensitivity of our model for estimating the size of the gap in the market. Our data for market size was hard data acquired from US Census reports, but we do consider, using a Beta General distribution, adjustments to those assumptions that are key to our market sizing.

	Max	Min	Avg
CONVENIENCE SEGMENT	\$625K	\$320K	\$472K
COMFORTABLE WITH CONTEXT	\$5,500K	\$6,673	\$6,083K
TOTAL MARKET	\$6,640K	\$10,620	\$8,608



Atwood Consulting Group - Background

The Atwood Group team provides a powerful blend of interdisciplinary skills and years of industry experience to offer independent health club a level of support that embraces strategic thinking in combination with the real-world experience needed to generate meaningful, measurable business results.

Our team supports independent health club owners and operators with a cross section of business and industry experience to improve their bottom line and grow their business. Bios for the individuals responsible for producing this report are below.

John Atwood is founder and Managing Director of The Atwood Group with over 25 years of experience working in the health and fitness club industry. During these years he has owned an upscale medically focused fitness center, a multi-purpose tennis racquetball and fitness club, and held management positions in marketing, sales and general management. His medical fitness center, HealthFit, has been featured in Boston Magazine, the Wall Street Journal, AARP Magazine, and other prominent national media for its innovative business practices and contributions to the fitness industry. Time Magazine called HealthFit "a pioneering fitness center" for its ground-breaking approach to working with sedentary populations. In 1999, John developed the IHRSA Financial Management Tool (FMT) to assist club owners and managers in driving profits by being more strategic through the capturing and analysis of vital financial and programmatic information. John has served on the New England Health, Racquet, and Sport's Club Association's (NEHRSA) Board of Directors in the position of Vice President, has spoken at numerous club industry conventions and conferences where he was a top-rated speaker, and was on the faculty of the IHRSA Institute.

Brian Goodman specializes in the strategic positioning of startups including market research and segmentation, branding, financial modeling, marketing strategy and feasibility analysis. Brian has over 15 years of diverse industry experience including purchasing and sales analytics for the retailer Filenes and the May Company to strategic marketing consulting with the Monitor Group to public policy experience as a strategy analyst with the City of Boston's Office of Business Development. Brian is the founder and principle of First Steps Consulting, a boutique consultancy focused specifically on innovation and startup strategy and has worked with a variety of startups and corporate innovations over the past 10 years. Brian is an endurance junky that has crossed the US by bike, completed the Boston Marathon several times and ran the Timberman half-ironman for the past two years. Brian earned his MBA in entrepreneurship from Babson College in Wellesley, MA and holds a degree in Business Administration from UMASS Amherst. Additional studies have been completed at MIT, Harvard and the University of Manchester, England.