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The New 24 Hour Fitness

THE COMPANY'S NEW OWNERS, AND NEW EXECUTIVE TEAM— PRESIDENT FRANK NAPOLITANO, L., AND CEO MARK SMITH— HAVE BIG PLANS FOR THE ICONIC CHAIN



President Frank Napolitano, L., confers with CEO Mark Smith

Mark Smith & Frank Napolitano

The new leadership team at 24 Hour Fitness intends to engage this iconic club chain to achieve even greater success

By Jon Feld

CBI: First, a rather basic question. What attracted you to 24 Hour Fitness? What led you to think about acquiring the company nine months ago?

CEO MARK SMITH: The chance to have a real impact on the industry. 24 Hour Fitness is an iconic brand that, with almost four million members, has significant critical mass—that's the total population of New Zealand, where I grew up. We've been given the opportunity to help lead an organization that's the size of a nation. I feel that, in terms of industry experience, I'm reasonably well qualified to do that. And I have a strong desire to improve people's lives.

PRESIDENT FRANK NAPOLITANO: This was a golden opportunity. Together, Mark and I, along with Fitness Capital Partners, put a proposal together that the owner, the private equity group Forstmann Little, found attractive. This gave us a chance to examine the business closely, whereas, in an auction situation, you tend to get a relatively brief look.

We pitched the proposal to private equity firms, and were fortunate to land our first choice, AEA Investors, to oversee the process and provide the capital to buy the business.

We know Mark Mastrov, who laid the foundation for 24 Hour Fitness in 1983, and respect what he built. 24 Hour Fitness has done great things for the industry, and continues to be an entrepreneurial, fast-growth company. We intend to build on that legacy.

CBI: You've been at the reins for nearly a year. Now that you're on the inside, what's your assessment of the company and its leadership? Do you have what you need to take 24 Hour Fitness to the next level?

MS: We couldn't be happier. This team, as far as we're concerned, has to be the best in the industry. We've got tenured individuals with a tremendous knowledge base about how this business works. ... The only issue we encountered was that, for the last several years, due to the ownership and capital structures, a lot of resources weren't made available. As a result, the executive ranks were thinner than you'd expect for a business of this size and stature.

Frequently, when a business is being positioned for sale, decisions will be made to not spend and to make its financial performance look good. We came in with eyes wide open with respect to that. So one of the first things Frank and I did was to fill the staffing gaps that existed. We selected the most experienced people in those different areas and put them in place as part of our team.

CBI: Can you be a bit more specific about the *what* and the *where* of the changes you made? →

Highlights

- » Opportunity knocks
- » The member experience
- » Administrative changes
- » New projects in progress

In 2005, Forstmann Little & Company (FLC), a private equity firm, acquired 24 Hour Fitness, a San Ramon, California, chain for an estimated \$1.6 billion. By 2011, when FLC founder Ted Forstmann died, 24 Hour Fitness was the last large company in the firm's portfolio. Last June, FLC sold the company to a group consisting of AEA Investors LP; the Ontario Teachers' Pension Plan; and Fitness Capital Partners, a joint venture involving Dean Bradley Osborne and Global Leisure Partners. **Mark Smith** and **Frank Napolitano**, both formerly with Town Sports International Holdings, Inc., the New York-based chain, became CEO and president, respectively. Since then, they've made two major moves: filling the senior management ranks with experienced industry executives, and acquiring 32 Bally Total Fitness facilities. Today, 24 Hour Fitness owns and operates some 450 units, serving four million members, in 18 states. [The preceding information was *not* provided by 24 Hour Fitness.] ←

MS: You can divide them into three different areas: field leadership, member experience, and administration. The field side of the business has always been strong, and is well managed by John Tovar and his regional vice presidents. The member experience hadn't been focused on for a while, and we felt it required immediate attention. A lot of the leadership had been let go over a three-to-four-year period. The existing senior vice president, Steve Schillinger, was in back-office operations, which wasn't the best fit for his talents; we made him the senior vice president of member experience.

Beyond that, the personal training and group exercise leadership positions had been left unfilled. Those two areas account for half of the employee base, some 10,000 people, who were basically

the support functions were missing. We didn't have a VP of marketing, for instance, so we hired Mike Carney, who has an extensive marketing track record. We didn't have a senior position in real estate, so we named Jane Borden, who came to us from Target, as our senior vice president of real estate; she now works with Fenn Hall, our veteran, senior vice president of design and construction. There wasn't a business development position here either, so Richard Boyd—whose background includes Collaborative Fitness, PT on the Net, and the Institute of Motion—has assumed responsibility as senior vice president of business development. We've also had the good fortune to bring in Tom Lapcevic, the founder of ClubCom, as our executive vice president of legal and media entertainment.

customers who discover what they want in a gym, and then move up to a mid-tier, multipurpose club. They complement what we do. Then, you also have the high-end gyms, including the niche players. When someone is spending \$150 to \$200 a month, whether it's for CrossFit, cycle only, or a small-group training studio—those are all more expensive options.

We think the mid-tier, multipurpose space is the best place to be.

CBI: How does 24 Hour Fitness intend to continue growing, going forward? What's the game plan?

FN: We'll resume enlarging the company's footprint. There was a relatively long period of time during which 24 Hour Fitness didn't expand its markets. Now, we plan to add a significant number of units by growing the company the old-fashioned way—one box at a time. The current site count fluctuates daily, but, at the end of last year, we had approximately 420 gyms prior to the clubs acquired in the Bally Total Fitness acquisition. At the moment, the company is entirely domestic, with units in 18 states.

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operating in maintenance mode; the one person looking after the whole thing didn't even have a VP title. We brought in three different individuals who, in terms of leadership and staff mentoring, have had an immediate impact.

CBI: And on the administrative side? What have you accomplished there?

MS: There were solid, long-tenured people who'd done an excellent job, led by Patrick Flanagan, our CFO, and Ryan Berk, senior vice president of revenue management, and a recent addition, Beth Taska, executive vice president of human resources. However, some of

CBI: In terms of 24 Hour Fitness' competitive position, where do you think it stands in the industry?

FN: As you know, 24 Hour Fitness is one of the two biggest players in the U.S. It sits squarely in the mid-tier, multipurpose segment, which makes up about 60% of the market; we offer a broad set of amenities, at a relatively modest price, and a good value proposition.

Elsewhere in the marketplace, of course, you have the no-frills, high-volume, lower-cost players who now play a significant role, bringing a large number of new members into the market. Typically, these are people who've never belonged to a club before, and that's great. These clubs tee up

CBI: Clearly, you've already begun to do that. In December, you announced that you'd acquired 32 facilities from Bally Total Fitness. Why those particular clubs? And why now?

FN: Because the opportunity presented itself. Six of the clubs are in the San Francisco Bay Area, seven are in Colorado, 13 are in New York, and six are in New Jersey. The transaction allowed us to invest in markets where we already have a strong presence, and, in addition, makes it possible for us to grow in New York and New Jersey, building our presence on the East Coast.

CBI: What's the transition plan? What will it take to turn these Bally properties into legitimate 24 Hour Fitness facilities?

FN: That plan was in place from the moment the acquisition became final. Signage, messages, as well as the Website transition—all are underway.

MS: We've already begun to integrate these clubs into the 24 Hour Fitness family, and, I'm pleased to say, everything is proceeding as we'd hoped it would. We prepared for this purchase very carefully, and will maintain ongoing communication with our employees and club members as we move forward, ensuring that the transition continues to be a smooth one.

CBI: There also have been some interesting developments on the member experience front, which you mentioned earlier—including, we understand, a new relationship with Les Mills International.

MS: Yes, one area where we're taking the lead is in group exercise. We've



Action center: Napolitano, L., and Smith, r., confer with 24 Hour Fitness staffers

struck a deal with Les Mills to provide the first Immersive Fitness cycling classes in the world, offered by a club such as ours, at our Super-Sport facility in Santa Monica, California.

Immersive Fitness adds a rich visual layer to the music and movement associated with standard group exercise.

Cinema-quality video content is projected onto the screen of a purpose-built studio, while an instructor cues exercise moves that synchronize perfectly with music and graphics. Riders experience the sensation of ascending steep glaciers, sprinting around velodromes, or cruising into

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a beautiful sunset. The experience creates a heightened sense of anticipation and reward for participants, increasing motivation and generating real energy.

Les Mills has taken the concept on tour, in a temporary, pop-up facility, in London, Paris, Amsterdam, and other European cities. We heard about it early on, and agreed to be the first group in the U.S. to showcase it.

FN: We're also looking at other innovative ways to enhance the member experience, including the clever use of virtual technologies. We think there's a tremendous opportunity to change the game by transforming our relationship with customers into a high-tech, high-touch one that's relevant both inside and outside of the club. We're really excited about creating subcommunities within our greater community that are highly focused on fitness. That's how you really change the world.

CBI: Will that involve creating a much greater social media presence than you have now?

MS: Definitely! We're already working in that area. In the past, the technology side of 24 Hour Fitness was well done with respect to running the business, but not, necessarily, on the front-end, consumer side. I agree with Frank that there's an enormous opportunity to create a dynamic social community with our four million members. As wearable technology evolves, it will become a social hub and a healthcare-equivalent hub for a club's member base. We have the critical mass to leverage that investment.

CBI: Any final thoughts, gentlemen, on your grand plan for taking 24 Hour Fitness forward?

MS: We've made two major moves since coming on board with the

company—filling the senior management ranks with talented and experienced industry executives and accomplishing our first acquisition to grow the company. That's quite significant given that this has all occurred in a matter of months since our arrival.

To add to that, this company may be the most unique platform for change and growth in the wellness space that you're going to find anywhere in the world. It's big enough, for instance, to allow us to experiment with ways to introduce people to the world of fitness without, necessarily, bringing them within the four walls of a club. And, as more people turn to their gyms to improve their general health, 24 Hour Fitness could well become the national leader in wellness. That's the opportunity we have! —

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