

Financial Insight

A Necessary Cornerstone of Governance



June 22, 2016

Agenda

- Financial Modeling
- How Do We Explain the Business of the Private Club?
- This is Mission Critical – How Can a Club Be Governed without Understanding the Business?
- Where is this Going?
- Q&A



Financial Modeling

- Wall Street uses financial modeling to predict success...and failure
- Relationship between “the bottom line” and revenue, margins, leverage, expenses, etc.
- Investment Banks, Consultants, Companies pay analysts a fortune to create and maintain models – because it works!
- Models reflect KEY DRIVERS both of the industry and of the competitors within the industry
- Not for Profit is a Tax Status...Not a Business Model – Clubs are businesses with KEY Financial and Operating DRIVERS



Financial Modeling

Focus on the Fundamentals

“This was our guiding principal, drilled into us...It mandated a single minded attention to financial detail – *teasing out the true nature of those drivers that determine an asset’s value.*



Financial Modeling

- A number isn't information
- Insight based on analysis is information

DATA

Cholesterol

240
220
200
180
160



Financial Modeling

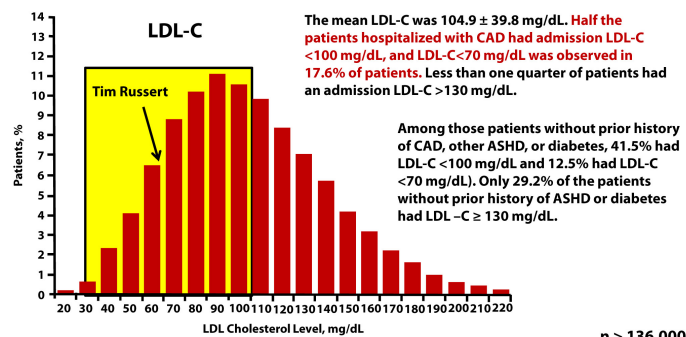
- Insight based on analysis is information
- The key is studying variation and the causes and effects of variation

DATA

Cholesterol

240
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INFORMATION



Financial Modeling

- Imagine a Doctor with Knowledge of only a Single Patient?
- To Understand Key Drivers in Clubs we Must Study More Than One Club
- Insight Requires Study of Variation
- One of the biggest issues in the Club Boardroom is the LACK OF CONTEXT
“Our club is different”
- The Language of Business is Finance and Financial Models



Explaining the Business

There is great consistency in measuring companies in the business world

Valuation Measures	
Market Cap (intraday) ⁵ :	5.33B
Enterprise Value (Mar 11, 2015) ³ :	6.80B
Trailing P/E (ttm, intraday):	14.43
Forward P/E (fye Dec 31, 2016) ¹ :	9.69
PEG Ratio (5 yr expected) ¹ :	0.24
Price/Sales (ttm):	0.91
Price/Book (mrq):	2.08
Profitability	
Profit Margin (ttm):	6.89%
Operating Margin (ttm):	8.73%



Explaining the Business

Operating Ledger

Revenue – Dues, Ancillary Dept.
Cost of Revenue
 Gross Profit

Fixed Expenses

Golf Course Maintenance
 Buildings Maintenance & Operation
 G&A
 Fixed Charges
 Sports, Recreation, Youth
 Golf Operations Labor

Net Operating Result

Capital Ledger

Total Capital Income
 (Initiation, Capital Dues/Assessments, Investment Income)

Adjusted for Operating Result

Less Lease Expenses

Net Available Capital

Net Available Capital is the amount available
 for Capital Investment, Debt Reduction and
 Increasing Reserves

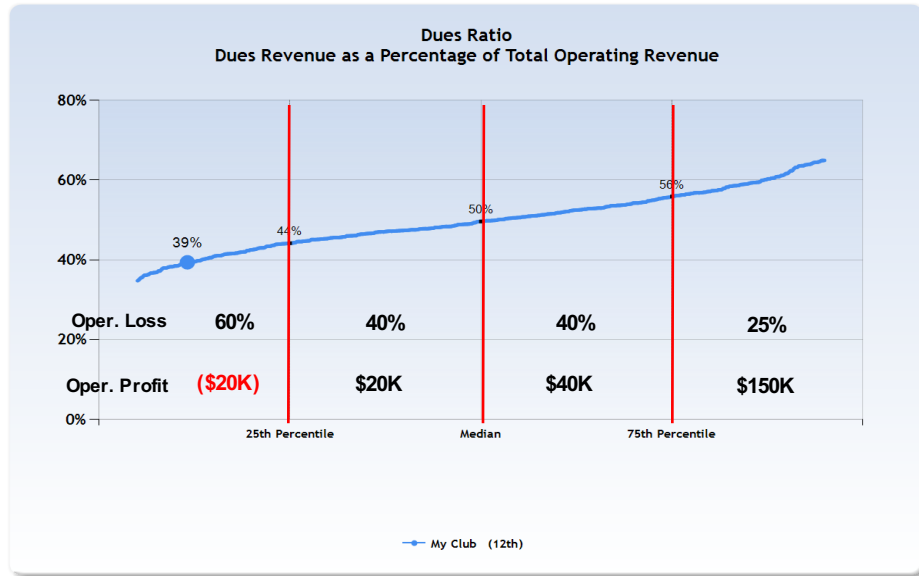


Explaining the Business

- Can a Board be Effective without Understanding the Business?
- How Does a Board Understand the Business?
 - “Clubs are in the dues business” – isn’t an explanation
 - “Cholesterol is Bad” – Is Not an Explanation

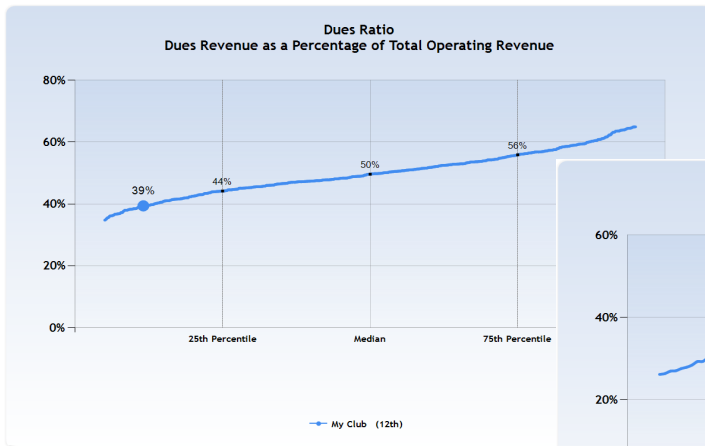


Explaining the Business

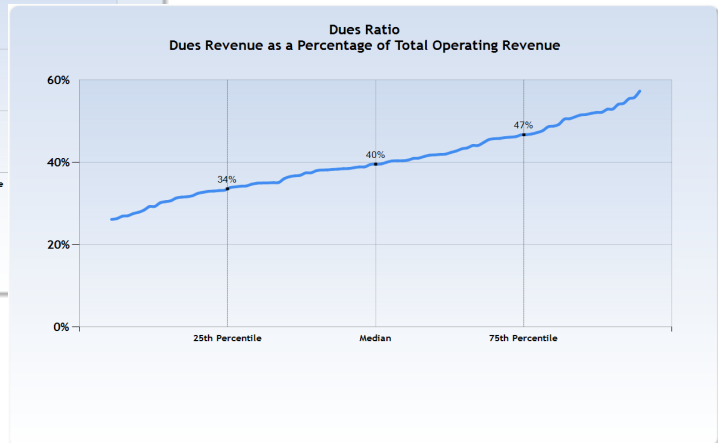


Explaining the Business

Clubs with Golf



Clubs without Golf



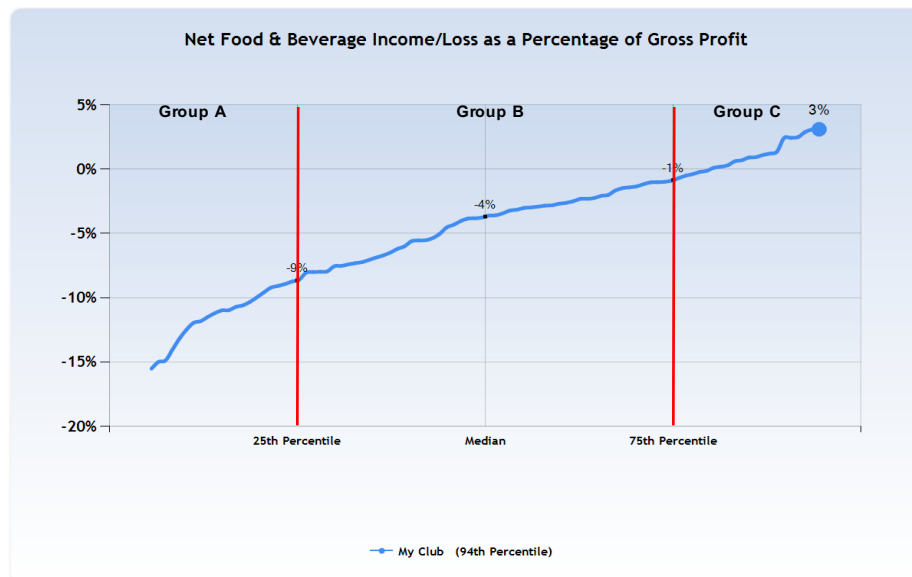
Explaining the Business

- Can a Board be effective without understanding the business?
- How Does the Board Understand the Business?

“Food & Beverage is an Amenity” – Is Not an Explanation



Explaining the Business



Explaining the Business

	Grouping A Lower Quartile	Grouping B Middle 50%	Grouping C Upper Quartile	Club in Review
Dues to Revenue Ratio	56%	50%	44%	39%
F&B to Revenue Ratio	25%	31%	38%	47%
F&B Labor to Revenue Ratio	82%	65%	54%	
F&B Cost of Goods Sold	45%	41%	38%	
Full Member Dues	\$9,780	\$6,780	\$6,630	\$7,170
Full Member Equivalents	515	480	390	413
Initiation Fee	\$52,500	\$25,000	\$14,500	\$7,500



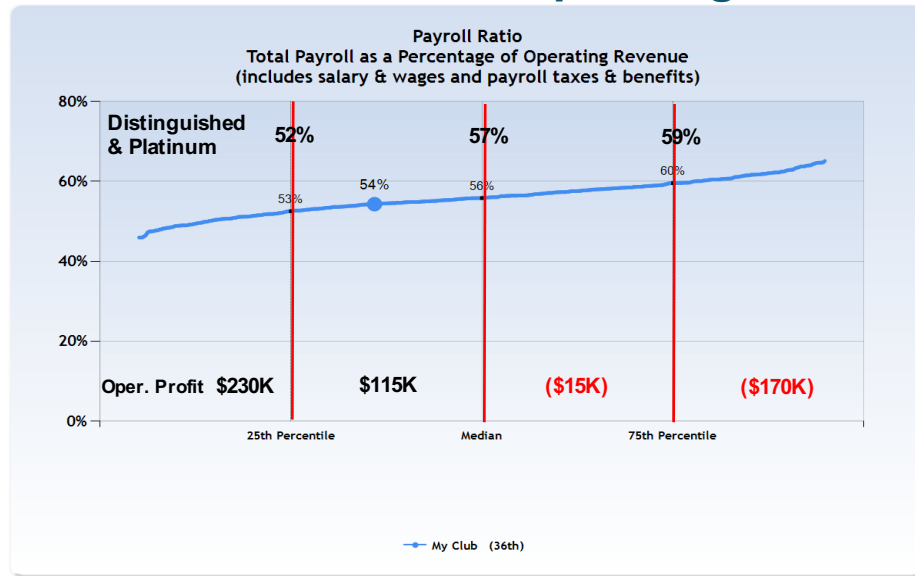
Explaining the Business

- Can a Board be effective without understanding the business?
- How do Boards understand the Business?

“We don’t have too many people” – Is Not an Explanation



Explaining the Business

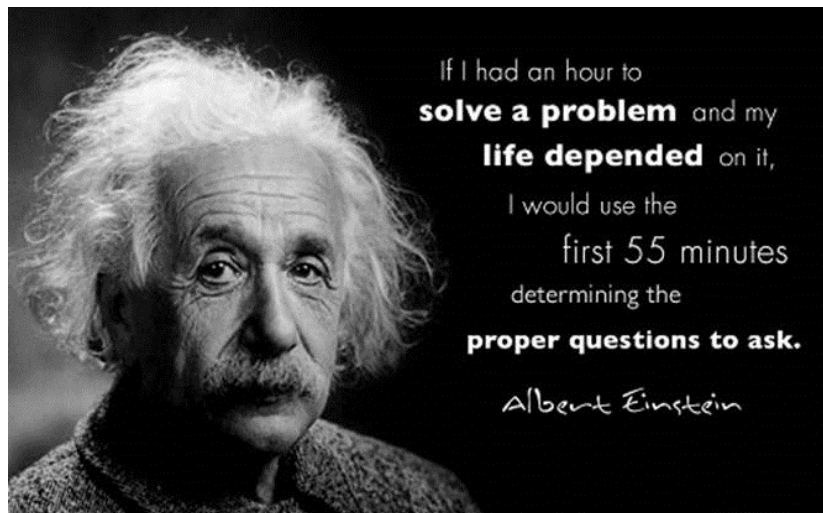


Explaining the Business

- The language of Business is Finance
- Finance must be a part of Explaining the Business
- How can a Board Govern effectively without understanding the Business?
- It Can't



Explaining the Business



What are the Key (Common) Questions?

Explaining the Business

Executive Dashboard Q&A		
Area of Focus	Key Questions	Key Performance Indicators
OPERATING FINANCE	What is our operating revenue?	Operating Revenue
	How <i>much</i> money is available to cover fixed operating expenses?	Gross Profit (aka Available Cash)
	Does our revenue mix produce adequate margin?	Gross Margin (Available Cash to Operating Revenue Ratio)
	Is the dues component of revenue suitable?	Dues to Revenue Ratio
	Do we produce enough money to fund operations? Do operations draw money from or produce money for capital?	Operating Bottom Line (aka Net Available Cash)
CAPITAL GENERATION	How much capital income did we produce?	Capital Income
	How much capital is available after adjusting for operating loss or gain?	Net Available Capital
	Do we produce sufficient capital?	Net Available Capital Ratio (to Operating Revenue Ratio)



Explaining the Business

Executive Dashboard Q&A

Area of Focus	Key Questions	Key Performance Indicators
OPERATIONS	Are we staffed at a level that balances financial results and member service? Are we efficient?	Payroll to Revenue Ratio
	What is the financial impact of F&B on the club?	F&B to Available Cash Ratio
MEMBERSHIP	Are dues rates and member count optimally balanced to produce adequate dues revenue?	Dues Engine (Full Member Equivalents & Full Member Dues)
	What is the level of member attrition?	Full Member Turnover
DEBT	What is the burden of debt on our membership?	Debt per Full Member Equivalent
	How leveraged is the club?	Debt to Operating Revenue Ratio

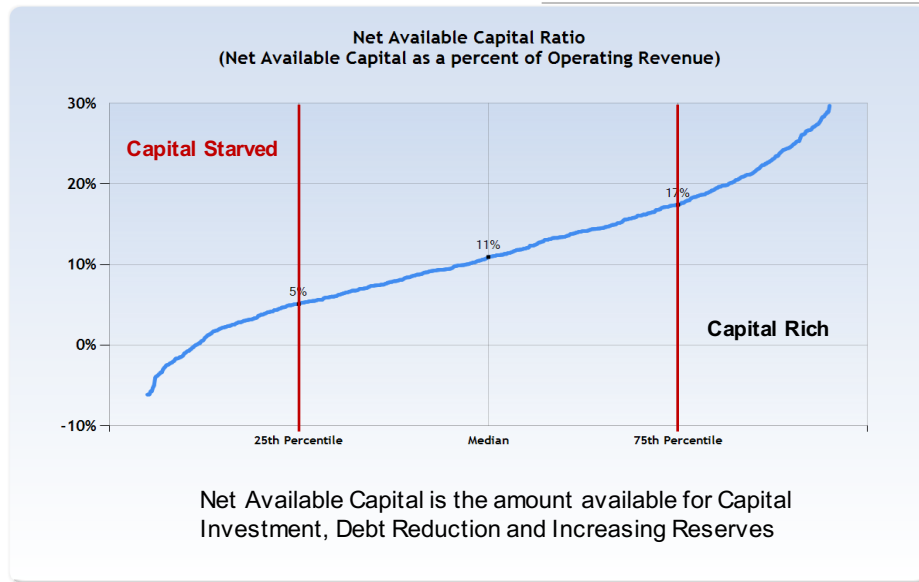


This is Mission Critical

- The “F&B Trap” is proof the industry....
 - Needs financial acumen
 - Needs factual insight
 - Needs a Common Framework that provides Context
 - We need to put this issue to bed
- The Constant Churn in the Board Room Requires....
 - Rapid alignment on what matters, what doesn't and why
 - Consistency in measures over time
 - Context
- 50% of Clubs aren't Generating the Necessary Capital over Time...And Don't Know It!



This is Mission Critical

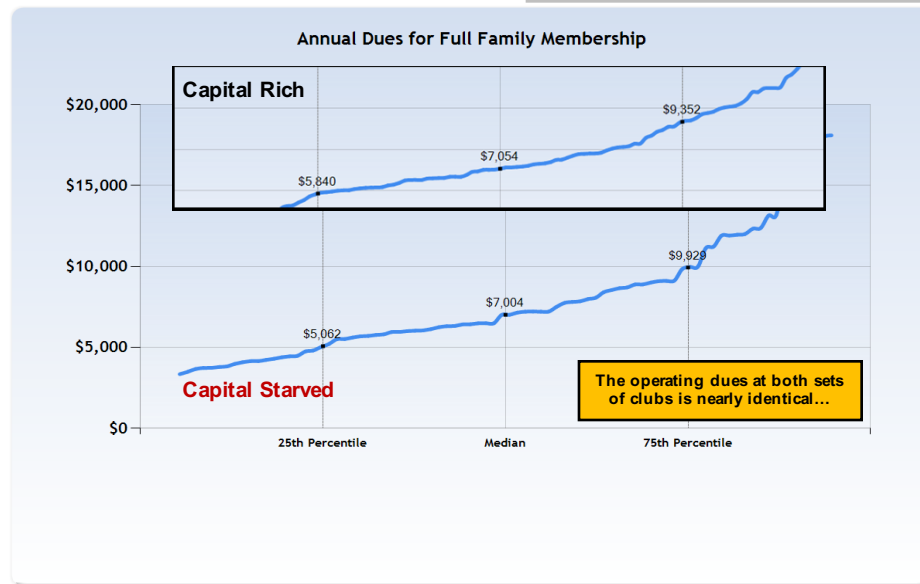


This is Mission Critical

	Capital Starved Clubs			Capital Rich Clubs		
	25 th Percentile	Median	75 th Percentile	25 th Percentile	Median	75 th Percentile
Unrestricted Net Assets (000's)	\$1,125	\$3,701	\$6,965	\$6,454	\$13,384	\$24,176
Total Capital Income (000's)	\$44	\$214	\$410	\$993	\$1,641	\$2,806
Return on Equity	5%			13%		



This is Mission Critical



Where is This Going?

It's a Number....Not a Story!

- The Club Industry Will See Data/Process Rationalization Over the Next Several Years - We Can See it Happening
- Boards WILL Understand the Business – Because they Can Now!
- This isn't Geeky – It Isn't Complicated – It Isn't Theoretical – THIS IS REAL
- The Data Has Been Analyzed and Linked to Financial Success and Failure
- Club Benchmarking Didn't "Create It" – We Discovered It



Where is This Going?

- The Process Rationalization includes....
 - Board Policy Manuals, Orientation Sessions, Education on Best Practices, etc.
 - All Critically Important
- The Data Rationalization is understanding the Business – Not Based on Supposition, Stories or Opinions....
 - But Based on Finance – the Language of Business
- Both are REQUIRED



Thank You

Please participate!

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