

Capital Strategies



Agenda

I. Introduction

II. Industry View – Capital Planning

III. Historical Financial Performance

IV. Capital Reinvestment

V. Develop Capital Strategies

VI. Tailoring Strategic Alternatives / Options

VII. Next Steps / Questions

Meet Richard I. Knowbetter

Richard is your new Finance Committee Chair and has a background in “highly efficient” operations. Richard is the owner of one of the largest quick service taco restaurants in North America.

He has several issues/questions with the way you are managing the club’s finances (he ran on that platform to get elected to the Board).

Besides the obvious that the club loses too much money on f/b which he can easily fix, he was elected to the Board, became Finance chair, all because of his "expertise". He has a spreadsheet to help the club (you) out.

Richard is going to "straighten" out the club. (R.I. Knowbetter!)

Do you have a Richard at your club? How do you deal with Richard?





Shun Change – Stagnant



Evolving Slowly

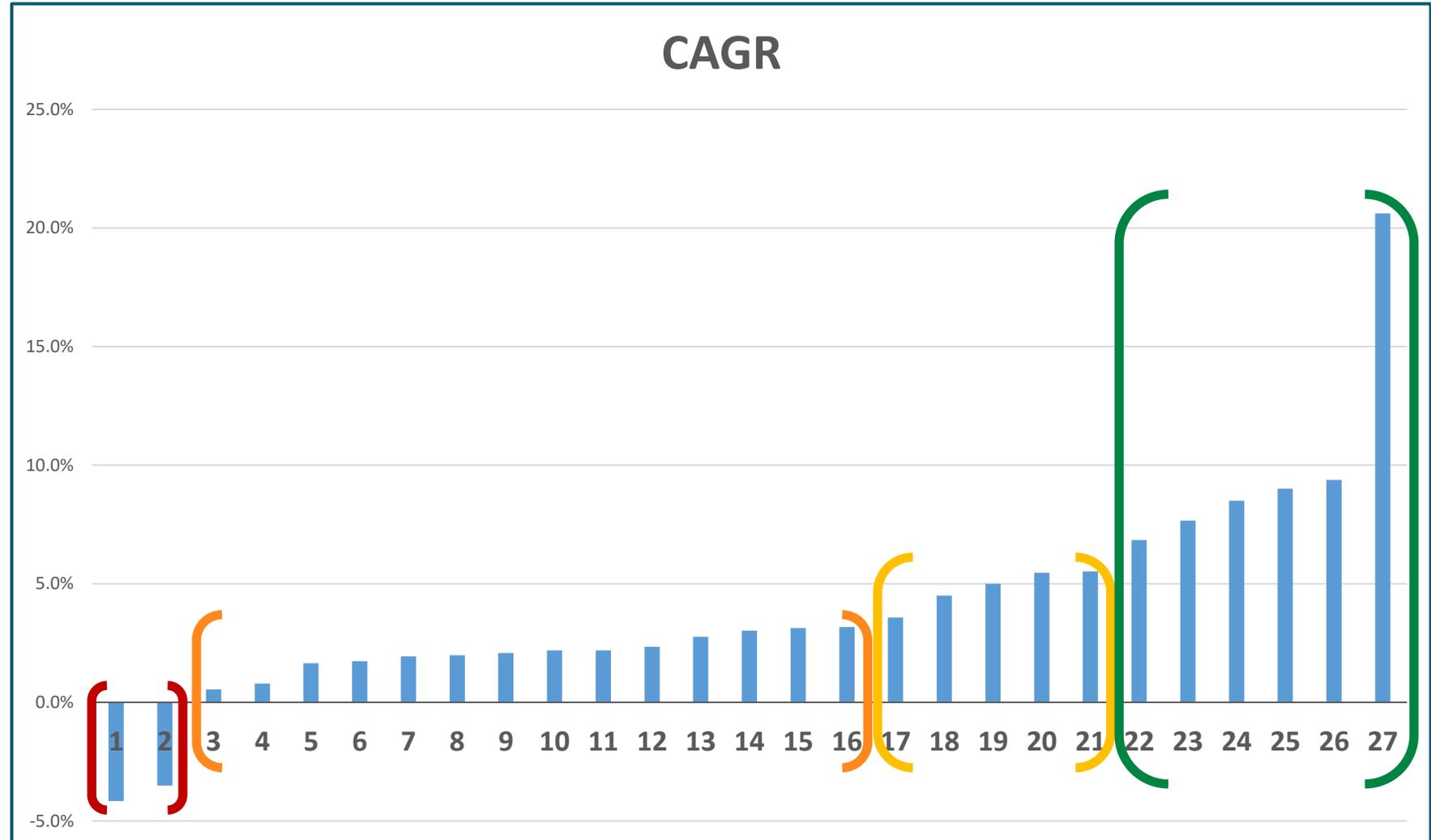


Evolving



Embrace Change - Dynamic

- **RED** = Negative CAGR
- **ORANGE** = CAGR 0% or greater but less than 3.3% Construction Inflation (Obligatory minimum)
- **YELLOW** = CAGR greater than 3.3% Construction Inflation but less than 75th Percentile (6.2% for industry)
- **GREEN** = CAGR in the top 25%



Effective, Perpetual Capital Planning

Success Requires

ENDURING RELEVANCE →

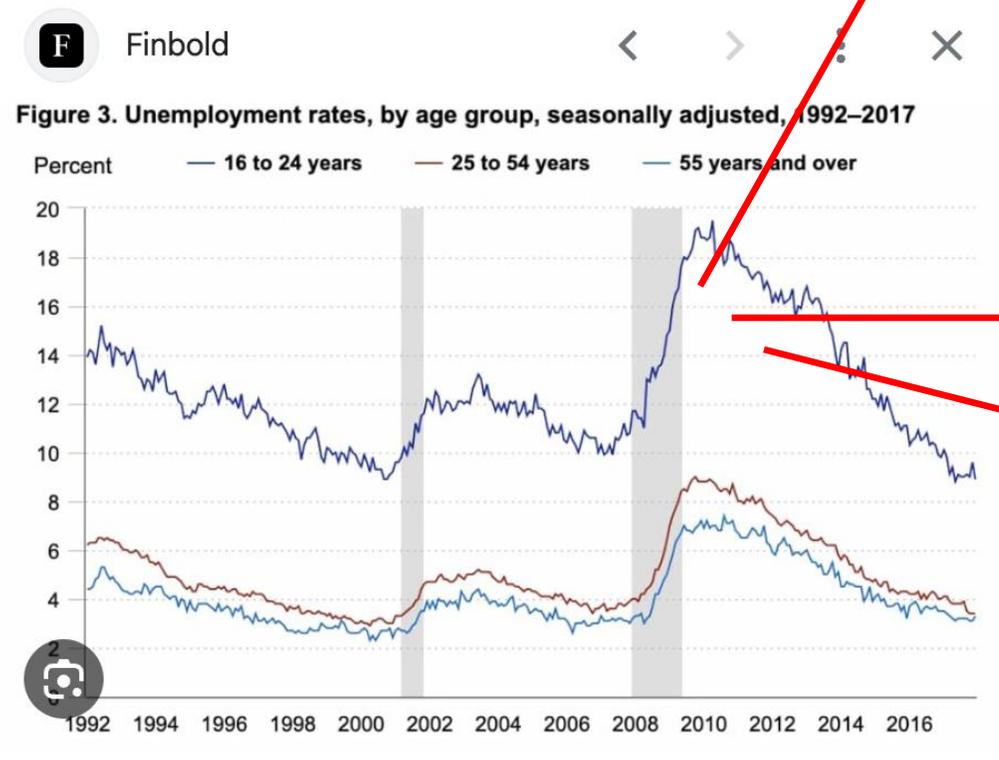
Consistent & Continuous Evolution and Growth →

Consistent & Continuous Capital Investment & Income

Do you think you have enough capital?

What has changed in the last 20 years in the club business? How did we get here?

2009 Downturn – Double Digit Unemployment



16 Million Homes foreclosed

GM and Chrysler bankrupt

What happened in the Club Business?

History of Capital Planning in Clubs

NEWS

WCI Communities' good fortune runs out as high-end market suffers

AARON KESSLER

Updated Aug. 5, 2008, 11:59 a.m. ET

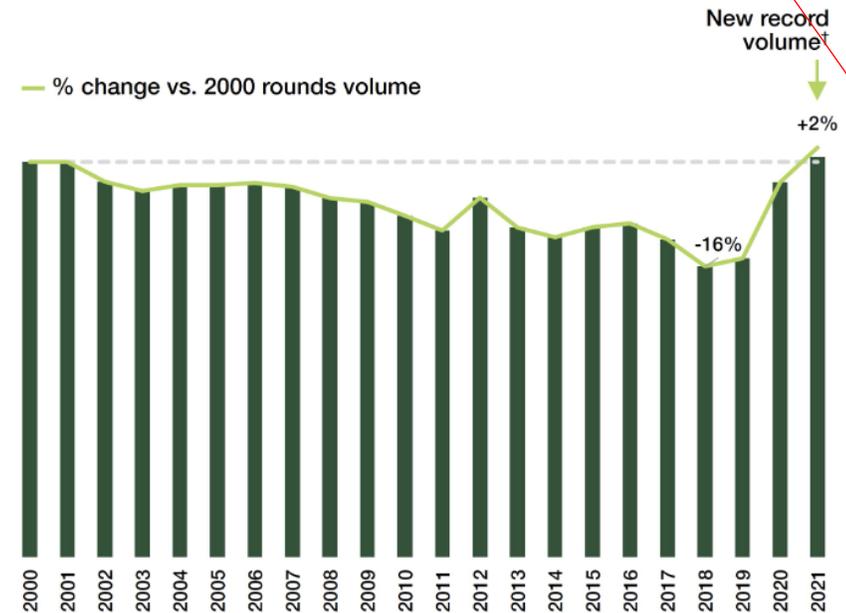


In 2005, at the height of the Florida housing boom, WCI Communities Inc. posted a profit of \$186 million and sales of \$2.6 billion. Fast forward to the first six months of this year and the company has lost \$184 million on \$367 million in revenues.

On Monday, faced with the prospect of defaulting on \$1.8 billion in debt, WCI and 130 of its subsidiaries filed for Chapter 11 bankruptcy protection from its creditors, making it one of the largest Florida-based casualties of the housing downturn.

Bankruptcies and defaults

Decrease in Rounds U.S. Annual Golf Rounds Compared to year 2000 benchmark

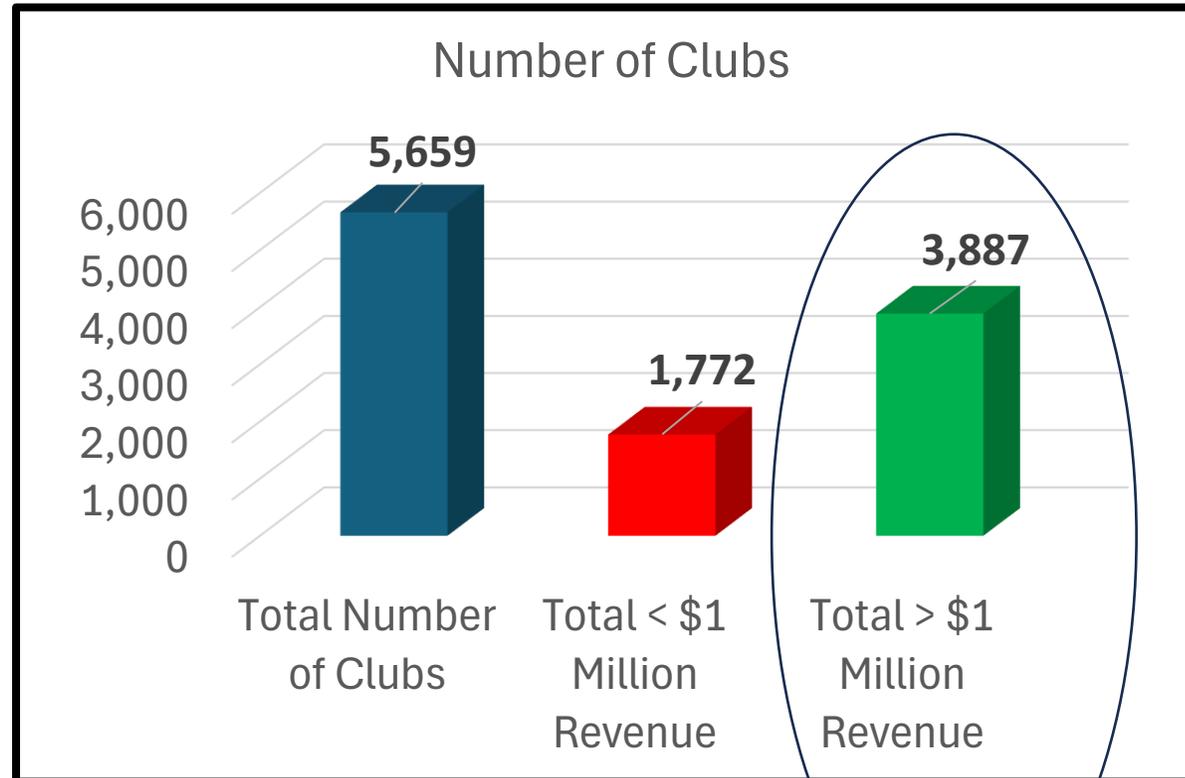


Source: Golf Datatech data, with NGF support and analysis
† 2021 U.S. rounds volume finished 6% ahead of 2020

This graphic can only be republished in its original form. Data herein cannot be visually repurposed without permission from NGF.

NGF

The Private Club Market

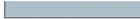


3,887 clubs with revenue over \$1 million form the basis of data for this Economic Impact Report



History of Capital Planning in Clubs

RSM 2008

Clubs  \$3,800

Joining Fees (Full Memberships)

Region/Type	Florida Country Clubs	SE w/o Boca	Boca Area	SW w/o CIRAs	SW CIRAs	North & Central	Yacht & Beach
Refundable %	44%	41%	55%	54%	-	50%	15%
2008	\$69,600	\$83,300	\$61,900	\$68,300	\$2,200	\$61,600	\$26,000
2007	\$69,000	\$79,900	\$60,600	\$67,800	\$2,200	\$63,400	\$24,900
Change	\$600	\$3,400	\$1,300	\$500	-	\$(1,800)	\$1,100
Percent	0.9%	4.3%	2.1%	0.7%	-	-2.8%	4.4%

Trend: Clubs that were turned over by their Developers in the last few years with above-market joining fees are “right sizing” and are prospectively changing their redemption formulas to refund lesser amounts. Clubs that are raising their joining fees tend to make the increases nonrefundable.

This was the beginning of better capital planning – more investment – watershed moment including beginning of capital dues. - crisis created an opportunity

History of Capital Planning in Clubs

Does management think the tooth fairy pays for capital expenditures!

Warren Buffett shares some of his thoughts on EBITDA:

“It amazes me how widespread the use of EBITDA has become. People try to dress up financial statements with it.”

“We won’t buy into companies where someone’s talking about EBITDA. If you look at all companies, and split them into companies that use EBITDA as a metric and those that don’t, I suspect you’ll find a lot more fraud in the former group. Look at companies like Wal-Mart, GE and Microsoft — they’ll never use EBITDA in their annual report.”

“The tooth fairy pays for capital expenditures?”

Warren Buffett is credited with having said, “Does management think the tooth fairy pays for capital expenditures?”

EBITDA is used to analyze and compare the profitability between different companies in the same industry as it eliminates financing effects and accounting decisions. Many times, a company changes the items included in their EBITDA metric calculation from one reporting period to the next. Because of this, Warren Buffett does not think that it is a true representation of the company’s performance financially.

Jump Ball





We figured out that the
Club business is a capital intense
business

Jump ball is not a good way of
managing your capital.

- The Capital Intensity ratio is calculated as Property & Equipment / Revenue.
- CB's recent year-end database has currently 885 clubs with an aggregate of \$9.7 Billion of Operating Revenue and an aggregate of \$27.4 Billion of Plant & Equipment (physical assets).
- MAC's Capital Intensity Ratio is 189%.

Clubs are Capital Intensive Businesses

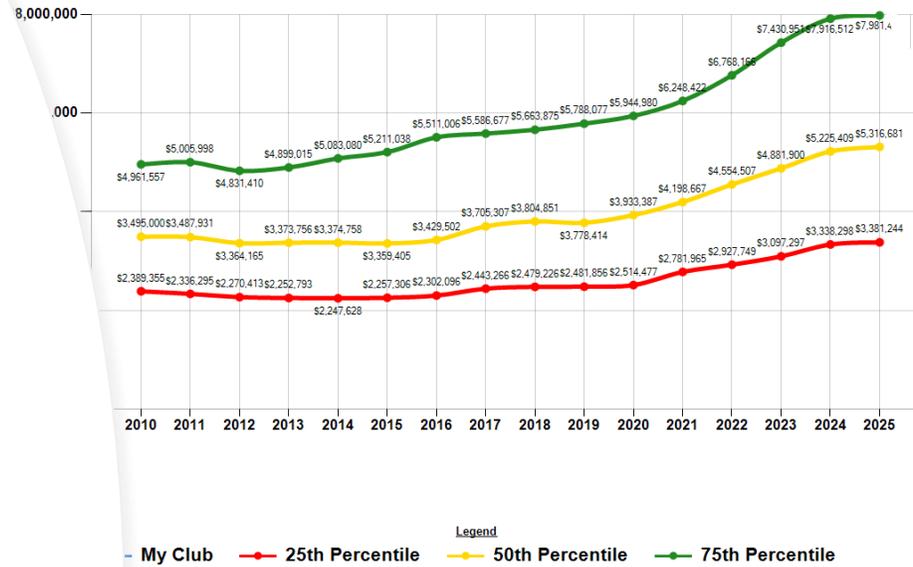
Capital Intensity	Sector	Ratio
High	Power	293%
High	Private Clubs	283%
High	Oil and Gas	108%
High	Metal Manufacturing	85%
Low	Healthcare	57%
Low	Capital Goods	45%
Low	Fast Moving Consumer Goods	44%
Low	Information Technology	38%
Low	Auto	35%
Low	Consumer Durables	26%
	Average	101%

Source: Research Gate
 Dr. Pankaj M. Madhani
 Management Consultant
 Management Consultant, Former Dean (Academics)

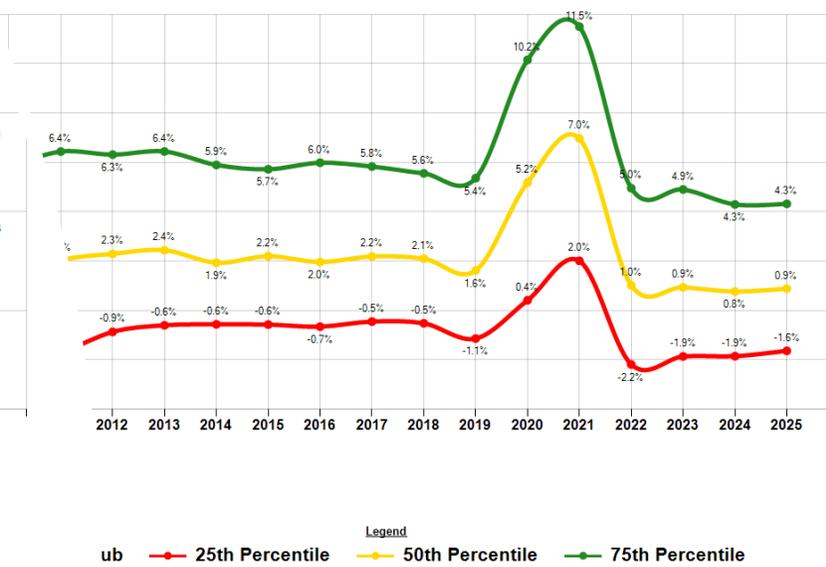


The Industry over the last 15 years

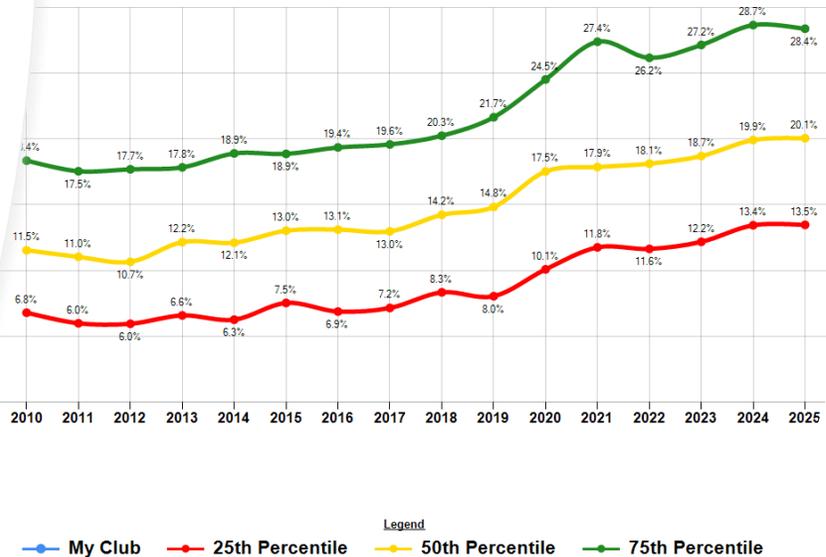
Membership Dues Revenue



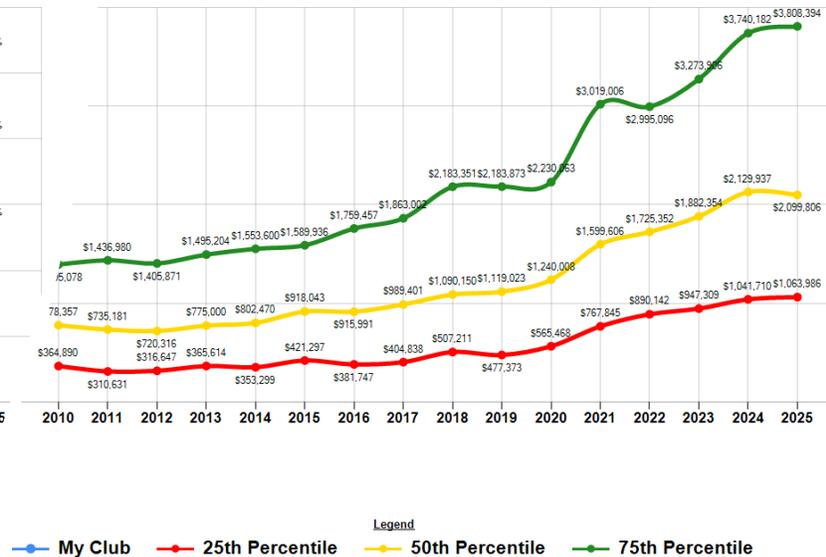
Operating Margin



Capital Income as a Percent of Total Operating Revenue

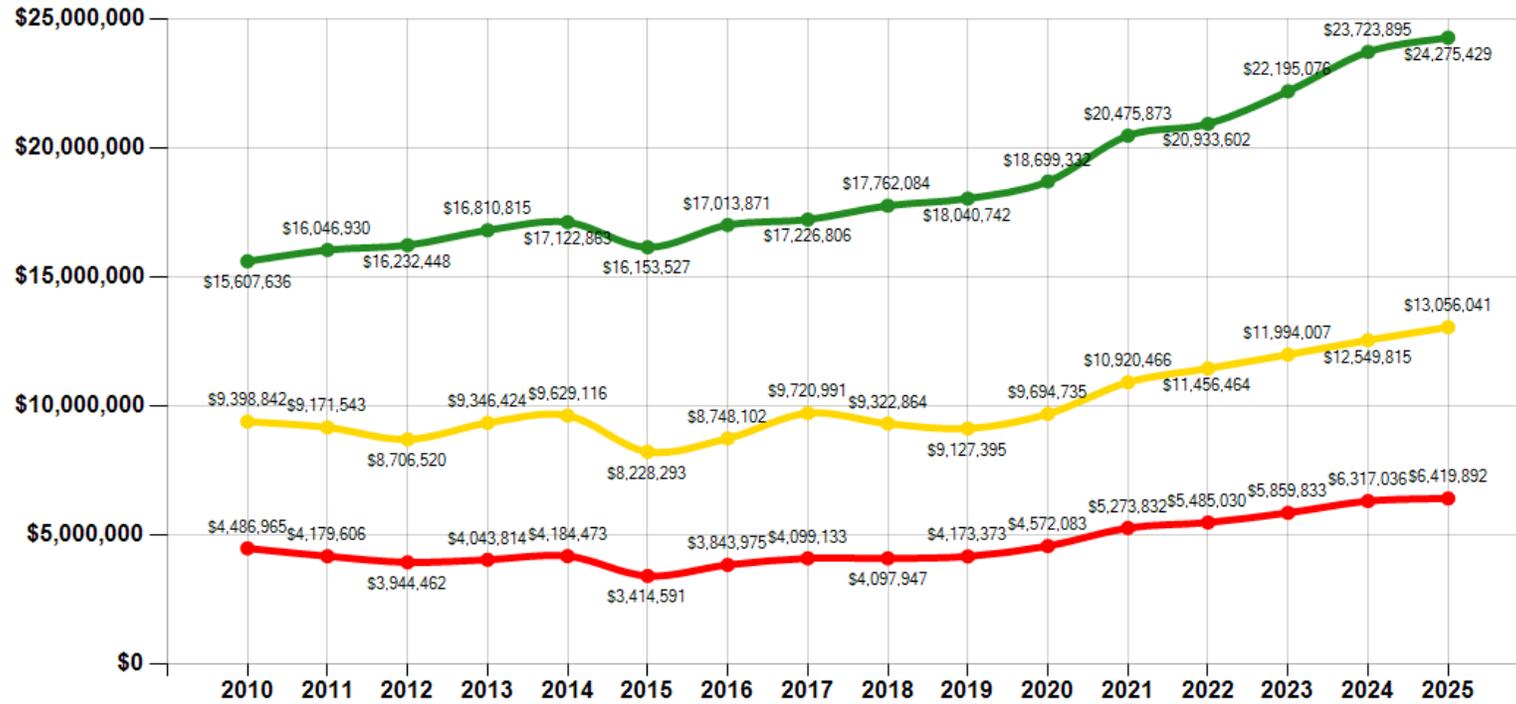


Capital Income



Unrestricted Net Assets

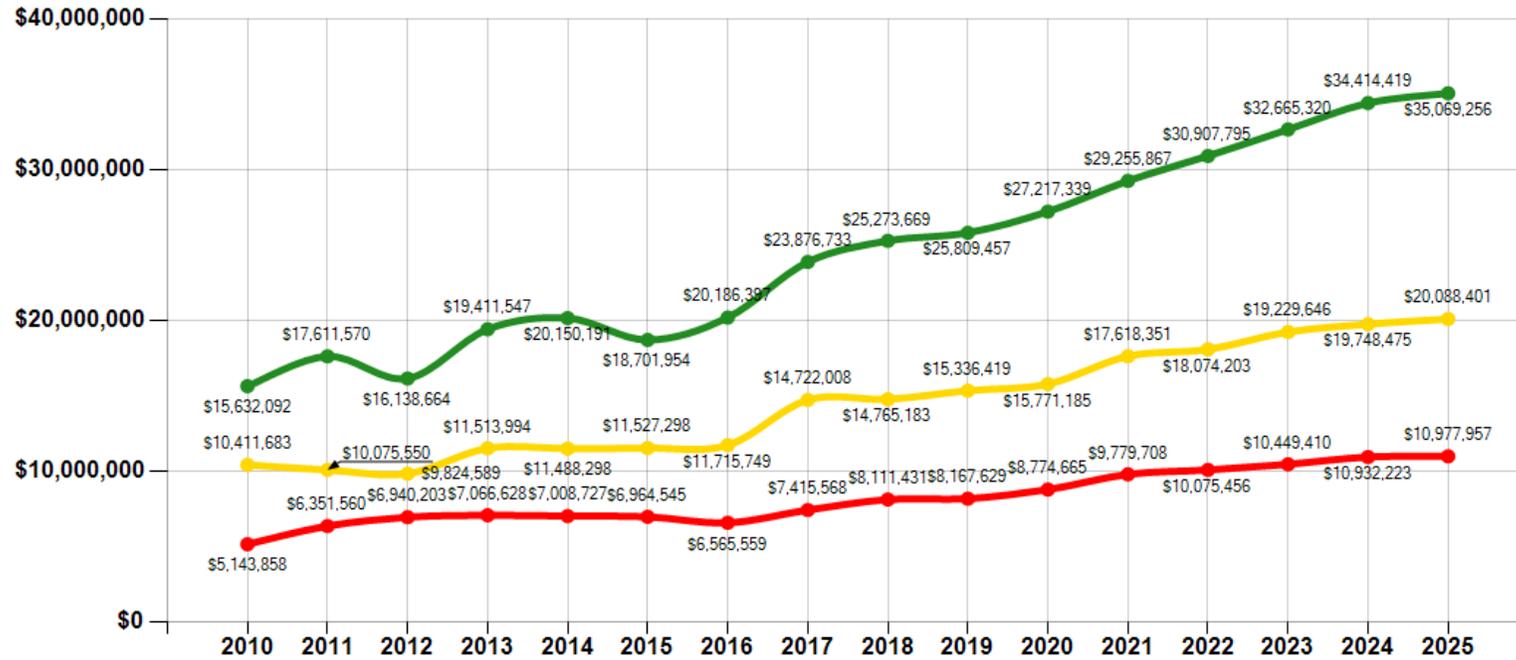
This equates to the club's net worth over time



Legend

● My Club
 ● 25th Percentile
 ● 50th Percentile
 ● 75th Percentile

Total Assets

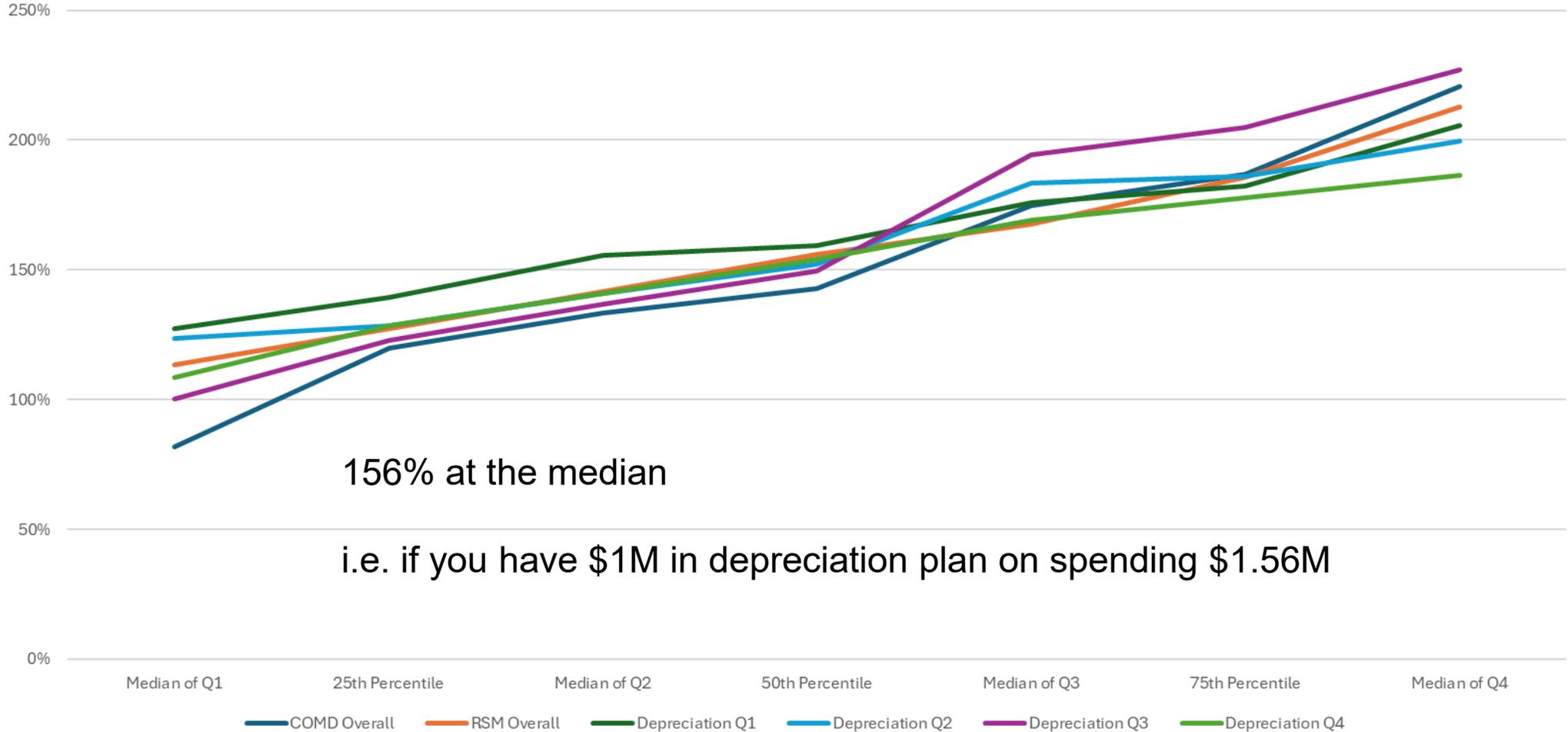


Total Assets



How much capital do you need based on club's historical spending?

Differences in Depreciation Level on CAPEX to Depreciation Ratio



COMPASS – Capital Planning Software/Process

Developing a 10-Year Forward Looking Capital Plan

PURPOSE:

- Properly identify needed capital repair and replace expenditures (Asset Evaluation), existing debt service, operating shortfalls and future improvement projects
- Calculate and project out current operating profits/losses, membership trendline and associated net transfer fees and capital dues
- Identify gaps in capital needs and funding levels
- Develop strategies to adequately fund needs ahead of time
- Provide sensitivity analysis for changes in strategy



Examining Capital Needs

Obligatory Capital (Maintenance)

- Replacement of existing assets.
- Depreciation = past cost. “Matching depreciation” is not enough
- Assets cost more to replace than when originally acquired, and fully depreciated assets in use will need to be replaced
- Past and existing members are obligated, not future members

The source of Obligatory Capital is recurring Capital Dues

Aspirational Capital (Growth)

- Expand existing assets (clubhouse expansion)
- Add new assets (new clubhouse, pool or fitness when none existed)
- Adding new amenities – croquet and pickleball
- Current and, even more so, future members are responsible
- Aspirational Capital should have a return on investment – capital income is the return

The source of Aspirational Capital is Initiation Fee Income and Debt

Capital Priorities Ladder

INCREASING CASH RESERVES

Clubs wishing to increase reserves must satiate the capital needs that come first. It is a long way to reserves increasing. Green Bucket clubs have adequate capital income to achieve Obligatory and Aspirational goals consistently over time. Proper Capital Planning is a systematic, proactive approach to assure the projected capital needs can be met by the projected capital resources.

ASPIRATIONAL CAPITAL

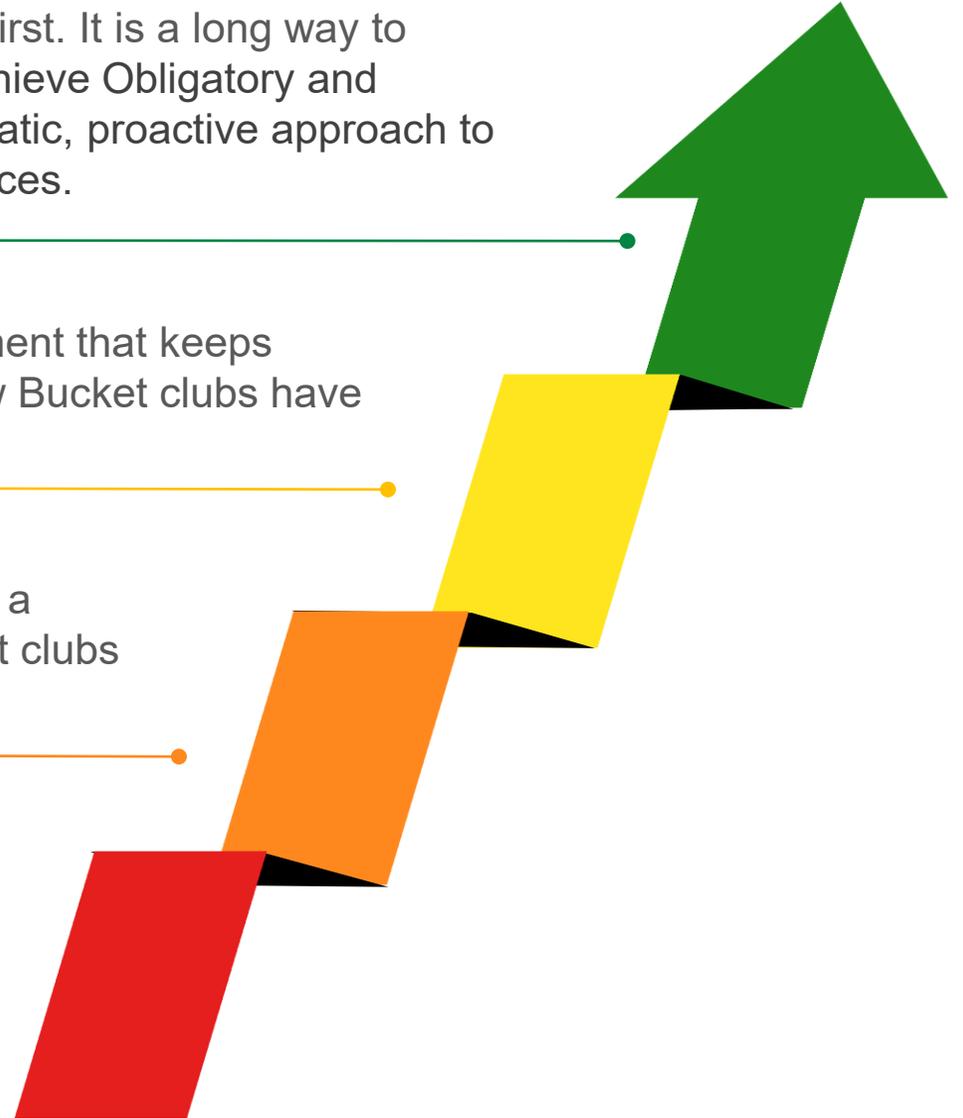
Aspirational Capital is the capital to evolve and grow the club. It is the investment that keeps clubs relevant (think casual dining, fitness/wellness, resort style pools). Yellow Bucket clubs have difficulty achieving Aspirational goals consistently and completely.

OBLIGATORY CAPITAL

Obligatory Capital must also be covered. Many clubs are “rationing” capital as a result of inadequate income resulting in deferred maintenance. Orange Bucket clubs have difficulty achieving Obligatory goals consistently and completely.

DEBT SERVICE

Debt Service comes first and must be covered entirely. Very common for clubs to do a project using debt and come up with a debt service “assessment” that does not account for the remaining capital needs. Red Bucket clubs can’t achieve Obligatory goals completely.





Developing Capital Strategies & Tailoring Strategic Alternatives

History of Capital Planning in Clubs

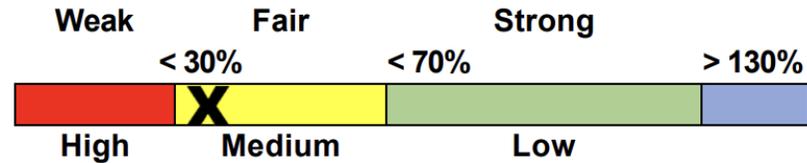
Reserve Study Executive Summary Full

Sample Association - Low-Rise Condominium Report #: 17918-0
 Anywhere, TX # of Units: 150
 Level of Service: "Full" January 1, 2025 through December 31, 2025

Findings & Recommendations as of January 1, 2025

Projected Starting Reserve Balance	\$300,000
Projected "Fully Funded" (Ideal) Reserve Balance	\$845,712
Percent Funded	35.5 %
Recommended 2025 Annual Funding	\$132,000
Recommended 2025 Special Assessments	\$0
Budgeted 2024 Annual Reserve Funding	\$120,000

Reserve Fund Strength: 35.5%



Risk of Special Assessment:

Economic Assumptions:

Net Annual "After Tax" Interest Earnings Accruing to Reserves	1.00 %
Annual Inflation Rate	3.00 %

This is a Full (Level 1), or "from scratch", Reserve Study generated in 2024 for the 2025 fiscal year.

The Big Picture

Does Your Fixed Asset Register Look

Like This?

Or like this?



CSM Framework

FRAMEWORK:

- Develop Base Case
- Confirm basic key assumptions / current state
- Develop Strategic Options
 - Membership
 - Growth
 - Rates
 - Capital Uses
 - Obligatory Capital – Asset Evaluation Study
 - Aspirational Capital – New
 - Other Funding Mechanisms
 - Debt
 - Assessments
- Approve Core Strategy
- Update periodically (at least annually)

Available Capital Levers

- Net Operating Income
- Initiation Fee Income
- Capital Dues
- Membership Growth
- Membership Assessment

Capital Dues Strategy

- The most stable form of capital income
- Tiered approach to capital dues is less likely to cause additional attrition and more palatable than a large assessment
- Current and future members contribute as capital is being consumed
- The best financial result for the club over time

Tailoring Strategic Alternatives Pt 1

Membership

- Where do we see membership levels trending
 - Consistent with recent trends?
 - Stable growth with expansion?
- Impact of attrition on membership
 - Has impact on initiation fee income and waitlists
- Capital dues
 - Aligning capital dues with obligatory capital needs
 - How quickly would any adjustments occur – right away or 3, 5 or 10 year growth plan
- Initiation fees
 - Aligning with market environment and amenity offerings

Tailoring Strategic Alternatives Pt 2

Capital Expenditures

- Obligatory capital based on detailed asset evaluation study
 - Developing plan to address on-going capital reinvestment needs
 - Developing options to address deferred investment needs
 - Communication to membership
- Aspirational projects to be identified / considered
 - Consider long-term vision for amenities, member experience, campuses.

Other Key Considerations

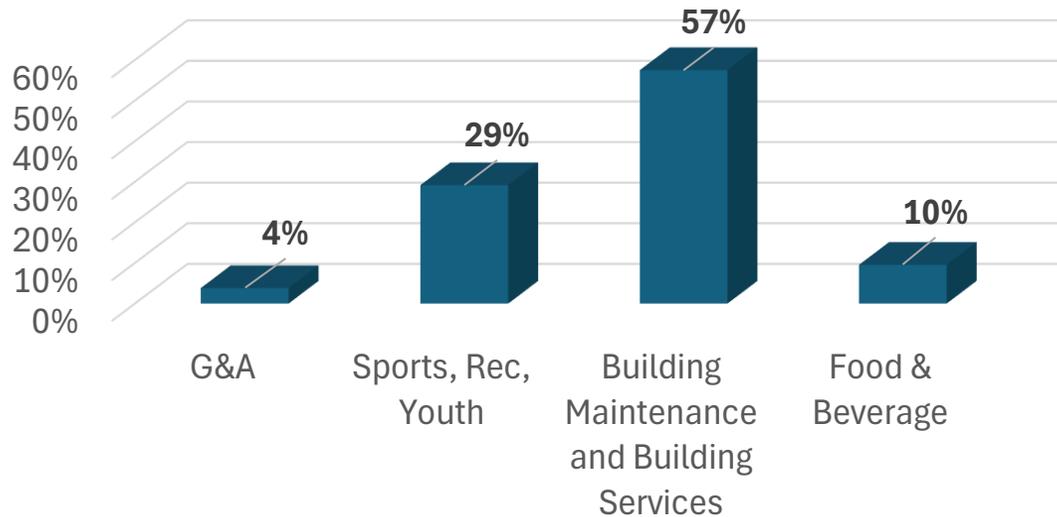
- Debt continues to be repaid until maturity. Debt absorbs capital income resources.
- Long-term vision for debt at club / Impact on capital income and balance sheet
- Net operating results – assumes breakeven cash (excluding depreciation and interest)

A photograph of a business meeting. In the foreground, a person's hand is pointing at a smartphone on a table. The table is covered with various business charts, including a bar chart, a pie chart, and a line graph. A pink sticky note is also visible. In the background, other people in business attire are partially visible, some holding pens. The entire image has a blue tint.

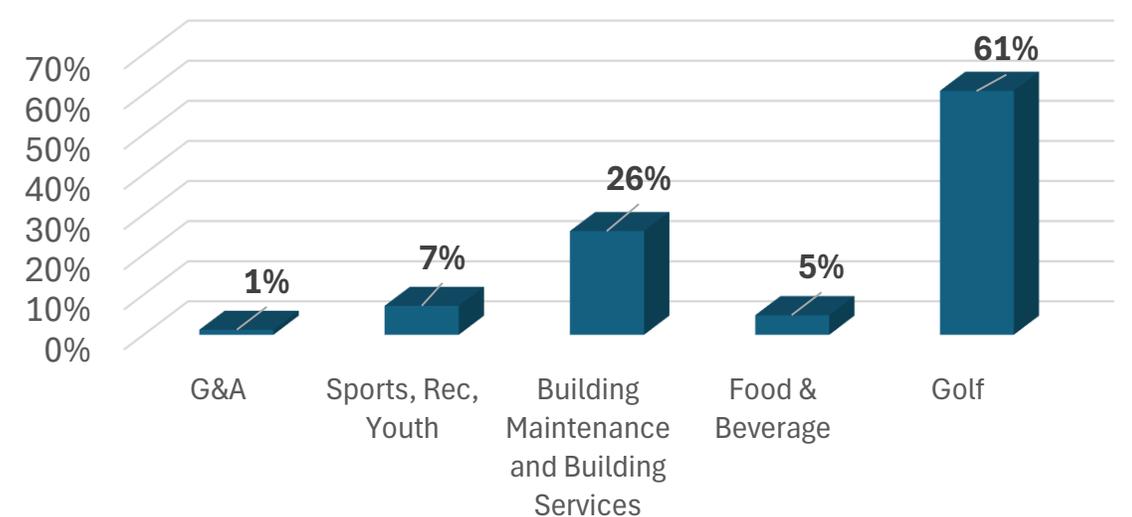
Developing Capital Strategies & Tailoring Strategic Alternatives

Replacement Costs by Department

Twenty Year Replacement Costs by Department
Without Golf

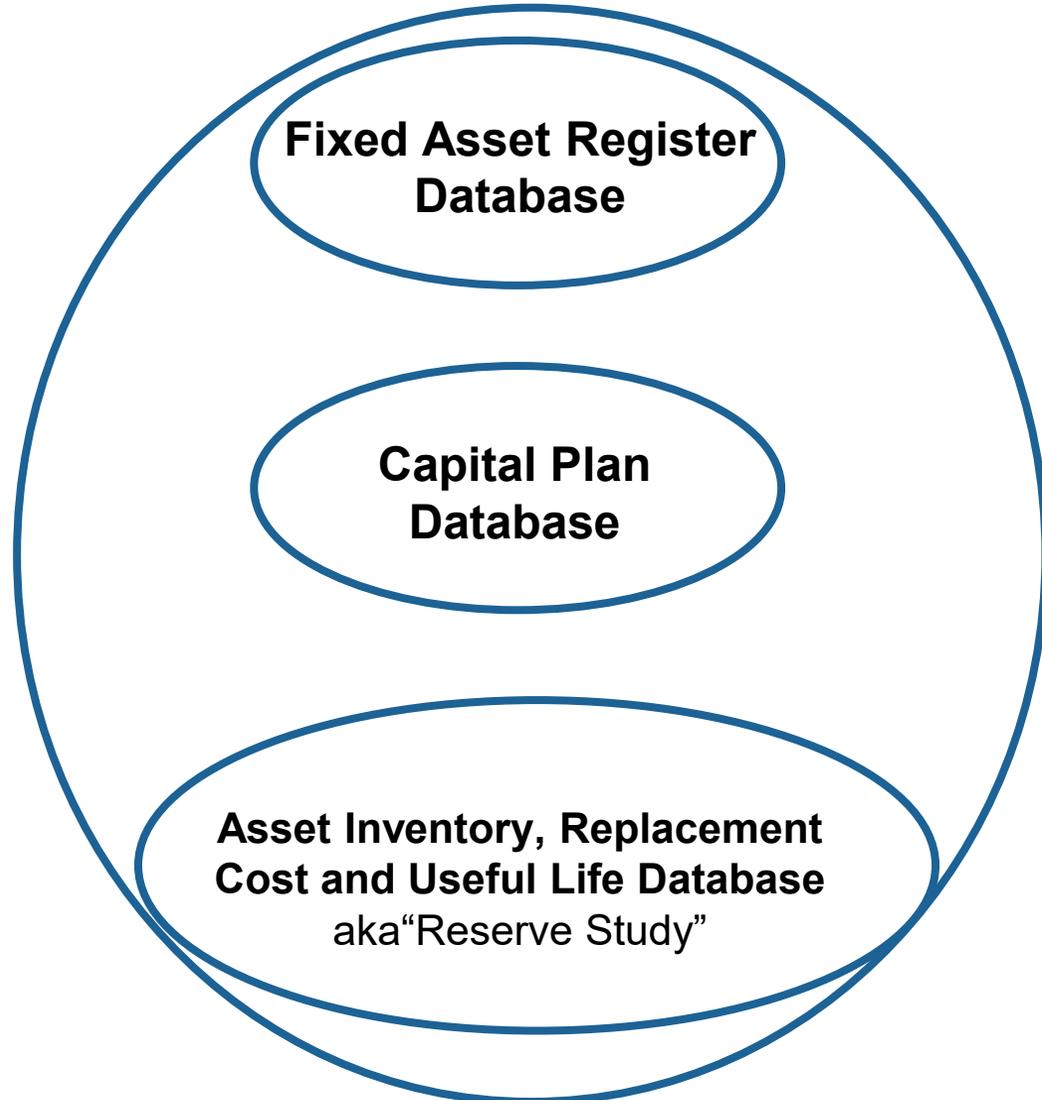


Twenty Year Replacement Costs by Department
With Golf



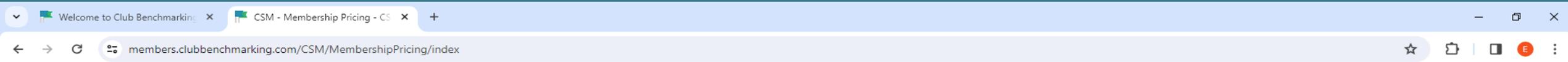
- Golf is the most subsidized amenity on the Operating Ledger
- It is also a voracious consumer of Capital
- Despite constant scrutiny, F&B consumes very little capital over time

Comprehensive, Accurate Capital Planning and Strategic Asset Management



- Capital Planning is the MOST STRATEGIC financial endeavour a club can undertake
- It must be a perpetual, systematic process – not an event
- To do it accurately, comprehensively and dynamically – the three disparate databases that currently exist apart must be brought into one database
- COMPASS – Comprehensive Asset Management is the unification of those disparate databases
- Over time – the assets identified in the Fixed Asset Register MUST BE Tied to the assets identified in the Asset Inventory, Replacement Cost and Useful Life Database
- Asset Additions and Disposals must be maintained and update in real time to keep the Capital Plan dynamic and to assure the highest accuracy.

Integrating Capital Planning Software



- Home
- User Access
- Strategy Profile
- Membership & Pricing**
- Membership Assumptions
- Operating Ledger Details
- Cash Flow From Operations
- Capital Dues & Initiation Fees
- Initiation Fee Installments
- Loans
- Assessments
- Reserve Study
- Aspirational Capital Investment
- Additional Sources & Uses
- Capital Cash Flow Projection
- Reports & Graphs
- User Guide
- Feedback

Club Benchmarking

Welcome back, Eric Gregory! [Logout](#)

Capital Strategies Modeling

Membership Pricing [Guide](#)

Base Case: 2024 Base Case

List each membership class along with associated ongoing dues and fees. Assessments with a finite end date will be listed under the Assessments screen.

Current Cash Balance
\$1,550,000.00

Total Members 448

FME 382

Rates at Model Start

Select a row to define each membership classes for the first year of the strategy. [+Add New Membership Class](#)

MEMBERSHIP CLASS	CATEGORY	OPERATING DUES MONTHLY	CAPITAL DUES MONTHLY	INITIATION FEES UPFRONT	INITIATION FEES WITH FINANCING	% PAYING INSTALLMENTS ON INITIATION	MEMBERSHIP CLASS COUNT	MEMBERSHIP CLASS CAP	FULL MEMBER EQUIVALENTS	FME
Full	Golf	\$983.42	\$137.5	\$55,000	\$55,000	75%	306	400	1	306
Social	Undefined	\$334.33	\$62.5	\$7,500	\$7,500	0%	45	50	0.34	15.3
Junior	Golf	\$904.33	\$125	\$15,000	\$15,000	0%	32		0.92	29.43
Non-Resident	Undefined	\$245.83	\$0	\$7,500	\$7,500	0%	15	50	0.25	3.75
Senior	Undefined	\$550	\$50	\$0	\$0	0%	50	50	0.56	27.96

Member Category Count

Select a row to define each membership class category. [+Add New Category](#)

CATEGORY	CATEGORY CAP	TOTAL MEMBERS FIRST YEAR	MEMBERSHIP CLASS COUNT
Undefined		110	3
Golf		338	2

Catalytic Questions

- What has the club's Net Worth been doing over time?
- Do members understand what has happened to Net Worth over time?
- How much Net Available Capital (EBTD) do we need to generate next year to surpass depreciation expense?
- What can we do to generate the necessary Net Available Capital?
- Going forward, what does our Net Worth need to be to fund debt as well as obligatory and aspirational capital?
- How much time do we spend on the operating ledger versus capital during the budget process? Which is more important?





Questions?

Thank You!

Our mission is to foster healthier clubs, more strategic boards
and more empowered managers by elevating fact over opinion

www.clubbenchmarking.com

Wray Crippin, wcrippin@clubbenchmarking.com

The logo for Club Benchmarking features a stylized green and blue graphic on the left, followed by the text "CLUB BENCHMARKING" in a green, sans-serif font.

CLUB
BENCHMARKING