

# Town Sports International Holdings, Inc.



**new york  
sports clubs**



**boston  
sports clubs**



**washington  
sports clubs**



**philadelphia  
sports clubs**

**NASDAQ: CLUB**

**Q2 2012 Supplement**



## Forward Looking Statements

This presentation contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical fact included in this presentation are forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance, business and growth. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "anticipate," "estimate," "expect," "project," "plan," "intend," "believe" and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. These forward-looking statements are based on assumptions that we have made in light of our industry experience and on our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you consider this presentation, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties, many of which are outside our control, including, the specific factors disclosed in our public filings (including our reports on Forms 10-K and 10-Q filed with the Securities and Exchange Commission). Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results and cause them to differ materially from those anticipated in the forward-looking statements.

Because of these factors, we caution that you should not place undue reliance on any of our forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us. Except as required by law, we have no duty to, and do not intend to, update or revise the forward-looking statements in this presentation after the date of this presentation.

Please refer to the Company's Annual Report on Form 10-K filed on February 27, 2012, quarterly reports filed on Form 10-Q and other filings with the Securities and Exchange Commission as well as recent press releases. These filings can be accessed over the Internet at <http://investor.mysportsclubs.com/sec.cfm>.

# Investment Highlights

- Leadership from industry expert
- Leading brand & dominant position in urban markets
- Strong secular health and wellness trend
- Improving economic cycle & trends
- Improving fundamentals and earnings
- Strong cash flow and meaningful net debt reduction trend
- Sales and marketing focus

# Business Overview

# Leading Brand and Market Position



**new york  
sports clubs**

108



**boston  
sports clubs**

25



**washington  
sports clubs**

18



**philadelphia  
sports clubs**

6

## **Clubs:**

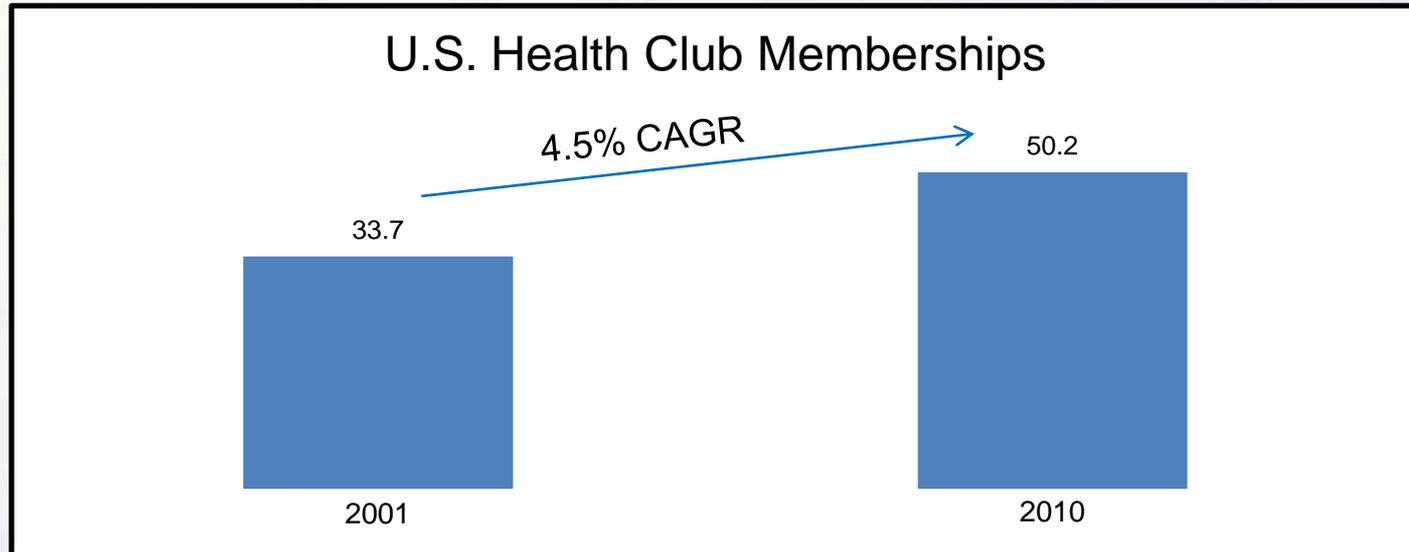
160 clustered health & fitness facilities  
averaging 25,000 sq. ft. per club\*

## **Membership:**

529,000 members\* ( includes 42,000 restricted-use members)

\*As of June 30, 2012; Includes three clubs in Switzerland

## Strong Secular Health and Wellness Trend



- U.S. Health Club Industry Revenue of \$20.3 billion in 2010 with 50.2 million memberships.
- U.S. Health Club Membership increased 4.9 million, or 10.8%, to 50.2 million from 2009 to 2010.
- Inherent industry growth drivers:
  - 17.7% of total U.S. population currently belongs to a health club
  - Underlying U.S. trends and focus toward fitness
  - About two thirds of U.S. adult population is technically “overweight” or “obese”
  - 20-somethings & Baby Boomers are growing key demographics

Source: 2011 IHRSA Health Club Consumer Report.

# Clustering Strategy Advantage

- Focus on large metropolitan areas
  - Network in urban centers
  - Suburban locations for commuters and families
- Flexible club formats allow for specialized facilities (e.g. swimming pools, basketball courts) with reduced capital and operating expense
- Corporate and family strategy



## Benefits to Members

- ▶ Maximum convenience
- ▶ Close to members' home and work
- ▶ Significant cross usage: 1.4 clubs/member/month
- ▶ Enhanced price-value relationship
- ▶ Consistency of experience

## Benefits to TSI

- ▶ Facilitates sales of memberships
- ▶ Attractive to corporations and other groups
- ▶ Higher member retention rates
- ▶ Greater operating leverage due to centralization of services and expenses
- ▶ Higher quality club-level staff
- ▶ Strengthens brand awareness

# Flexible Club Format

	Fitness-Only	Multi-Recreational
Number of Clubs <sup>1</sup>	106	54
Existing clubs (sq. ft.) <sup>2</sup>	20,000	40,000
Typical Offerings	<ul style="list-style-type: none"> <li>• Cardio Equipment</li> <li>• Weight Equipment</li> <li>• Locker Rooms w/ Showers &amp; Towel Service</li> <li>• Personal Training</li> <li>• Group Exercise/Aerobics Studio</li> <li>• Cycling and/or Yoga/Mind Body Studio</li> <li>• Sauna and/or Steam</li> <li>• Baby-sitting at Residential Locations</li> </ul>	<p>All of the Fitness Only offerings, plus one or more of the following “bolt-on” facilities:</p> <ul style="list-style-type: none"> <li>• Swimming Pool</li> <li>• Sports Club for Kids</li> <li>• Basketball court</li> <li>• Squash or Racquetball courts</li> <li>• Tennis courts</li> </ul>
Type of Location	Urban, Suburban, and Village	Urban and Suburban
Target Market Population	30,000 – 50,000	50,000 – 100,000
Target Household Income	More than \$50,000	More than \$70,000
Median Age	30 – 40	35 – 45

(1) Includes all clubs open as of June 30, 2012

(2) Average size

# Development Update

## ➤ **New Club Growth Plan**

- Greenfield locations are first priority, but selective acquisitions also possible.
  - 2012: No new clubs
  - 2013: 3-6 clubs
  - 2014: 6-12 clubs
- Club growth will be funded by cash flows from operations.
- Given this modest club growth, meaningful free cash flow generation and consolidated annual EBITDA margins of at least 20% are expected.

## ➤ **Primary Focus NYSC and BSC Fitness Only Urban Model**

- Over 50 urban target markets within these two regions.
- Capital spend per club estimated at \$2.5 million.
- Investment payback period is 4 years.

## ➤ **New Site Status**

- New lease signed for a location in Williamsburg, Brooklyn expected to open in the second half of 2013.
- 8 to 10 specific sites located for potential leases in the NY and Boston markets.
- Several possible smaller acquisition opportunities.

# Ancillary Revenue Focus

## ➤ Personal Training: 9 consecutive quarters of YoY PT revenue improvement

- Q2 2012 revenue is up 5.5% vs. Q2 2011. This is on top of a 6% to 7% increase in each of the quarters in 2011.
- Executed a soft launch of a new PT product called Ultimate Fitness Experience in Q1 2012 which contributed to PT growth in Q2 2012.
- Reasonable introductory price point helped drive success of our newly introduced PT membership program.
- Price increase on select PT products in 2011.
- Continued improvements in training and hiring including Fitness Academy introduction in 2012.



## ➤ Small Group Training Programs: ~17% increase in revenue in Q2 2012 on top of a 30% increase in 2011

- We will build on existing programs with proprietary, fee-based programs that can be mass marketed.
- Pricing will be competitive with stand-alone studios; attractive to both existing members and non-members.
- Proprietary line drives ancillary revenues while attracting new members.



# Q2 2012 Financial Overview

# Second Quarter 2012 Overview

## ➤ Operating Results

- **Revenue** increased 3.3% as compared to Q2 2011.
- **Comparable club revenue** increased 2.1%.
- **Ancillary club revenue** increased 6.0% to \$25.2 million compared to Q2 2011.
- **Personal Training** revenue increased 5.5% in Q2 2012 compared to Q2 2011.
- **EBITDA** increased 10.4% to \$26.8 million compared to an adjusted EBITDA of \$24.3 million in Q2 2011.

## ➤ Membership

- **Total member count** was 529,000 in Q2 2012. Restricted-use memberships grew to 42,000 members.
- **Membership attrition** averaged 3.2% per month in Q2 2012 which is flat compared to Q2 2011.

## ➤ Balance Sheet Strengthening

- **We reduced our net debt** by \$29.9 million in the six months ended June 30<sup>th</sup>, 2012 on top of a \$33.8 million reduction in full-year 2011 and a \$30 million reduction in 2010.
- We ended Q2 2012 with \$56.8 million of cash on hand and had no drawings on our \$50 million revolver, other than \$6.3 million of outstanding letters of credit.

Note: Q2 2011 adjusted EBITDA excludes a loss on extinguishment of debt charge of \$4.9 million

# Third Quarter 2012 Guidance

## ➤ Third Quarter Guidance

- Revenue for Q3 2012 is expected to be between \$119.0 million and \$120.0 million vs. \$116.1 million for Q3 2011.
- We expect EBITDA to approximate \$23.0 million in Q3 2012 vs. \$21.8 million in Q3 2011.
- Net income for Q3 2012 is expected to be between \$2.5 million and \$3.0 million.
- Earnings per share for Q3 2012 is expected to be between \$0.10 and \$0.13.

## ➤ Additional Guidance

### ▪ Membership

- 2012 attrition for Q3 and Q4 are expected to be at rates similar to 2011 levels.
- We expect to end Q3 2012 with the same membership levels as Q2 2012.

### ▪ Revenue and EBITDA

- Total revenue is expected to increase 3%-4% in 2012.
- Personal training revenue is expected to increase 6%-7% in Q3 2012.
- 2012 EBITDA is expected to approximate \$99 million, an improvement of approximately 11% vs. 2011.
- Comparable club revenue is expected to approximate 2.0% to 3.5% in the remaining quarters of 2012.

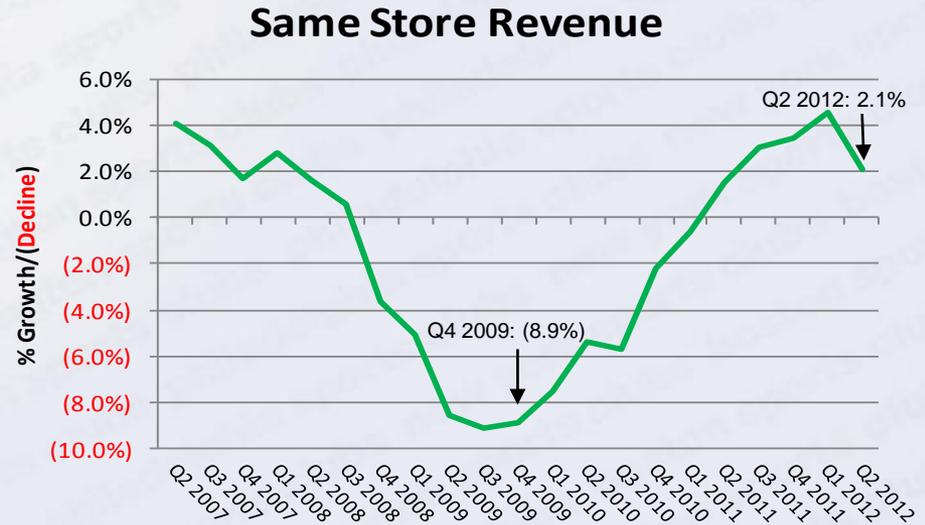
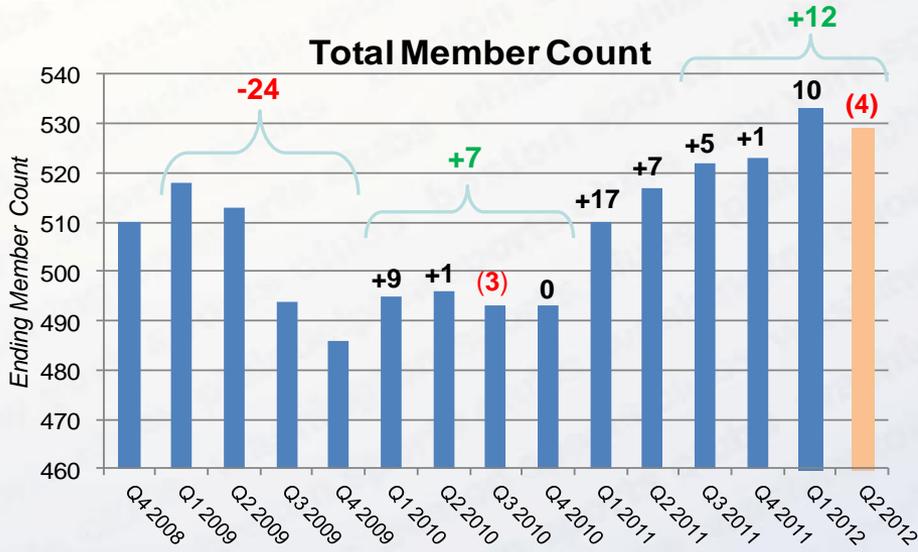
### ▪ Capital Expenditures

- Total capital expenditures for 2012 are expected to approximate \$24-\$26 million.

### ▪ Net Debt (total debt less cash)

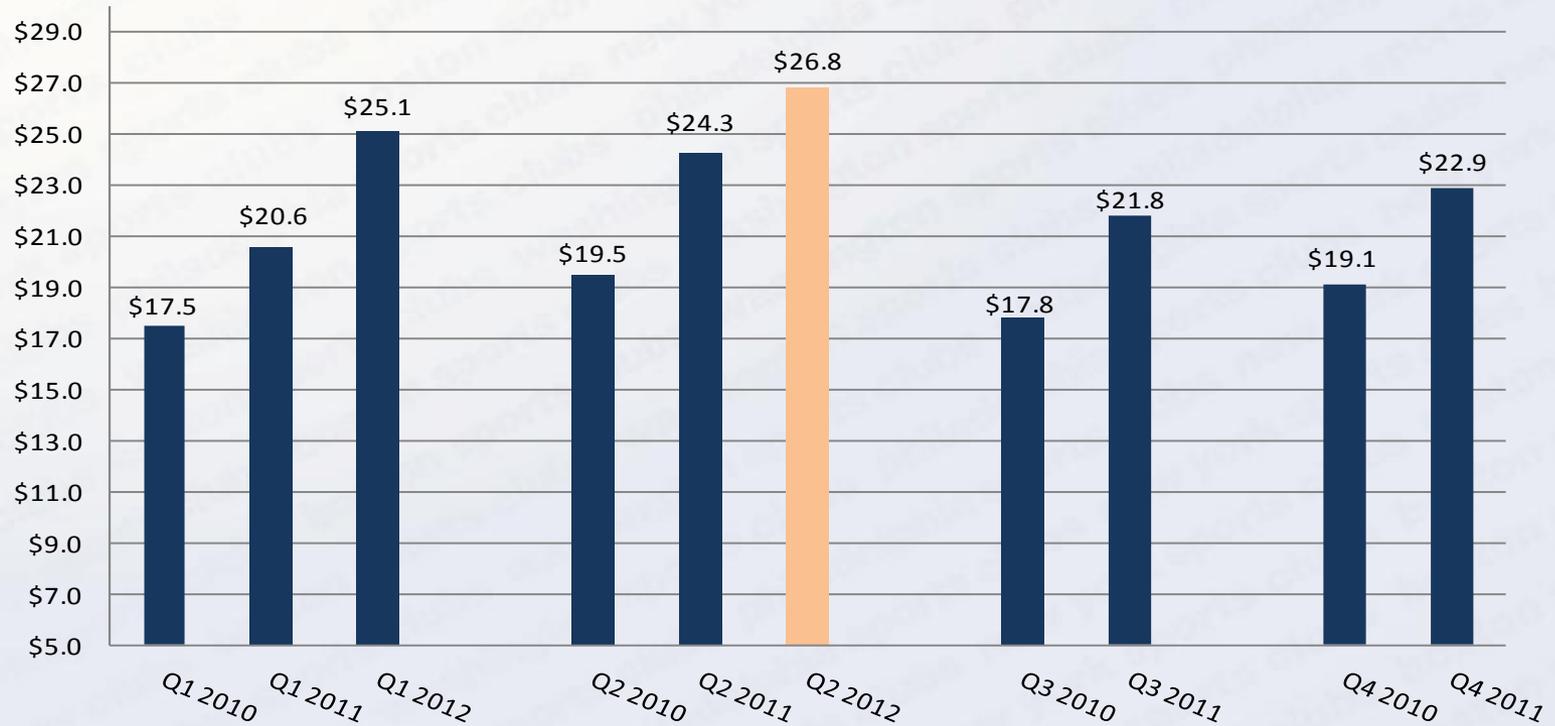
- We expect to generate free cash flow of \$2 per share and expect net debt to decrease by a total of approximately \$50 million in 2012. At the end of 2012 we expect net debt to be below \$200 million.
- Our Net Debt to EBITDA ratio is expected to approximate 2.00:1.00 by December 31, 2012.

# Improving Key Fundamentals



# Cash Flow and Credit Metrics Continue to Improve

## Adj EBITDA (a)



(a) In Q4 2010 we recognized \$2.7 million of expired personal training sessions. A total of \$570k would have been recognized in 2010 such that EBITDA is adjusted by \$2.2 million in 2010.

Our total leverage ratio is 2.62:1.00 as of Q2 2012 and is expected to drop below this for the remainder of 2012

Our interest coverage ratio is 4.28:1.00

# Net Debt Trend (Total Debt less Cash)

Reduction in net debt has accelerated in 2011 and continues to accelerate in 2012.



# 2011 Highlights

# 2011 Highlights

- **Refinanced the Company establishing a flexible capital structure with significant liquidity.**
- **Reversed many critical unfavorable trends**
  - **Net members grew** 30,000 versus a loss of 24,000 members in 2009.
  - **Comparable “same club” revenue increased** in Q2 for first time in two and half years; with further improvements made in Q3 and Q4.
  - **EBITDA grew** each quarter in 2011 after nine consecutive quarters of decline
  - **EBITDA margin increased** to 19.2% in 2011 after three years of decline.
- **Improvements in key areas**
  - We had record membership sales levels in half of our operating months; selling cycle has vastly improved.
  - Personal Training revenue increased 6%.
  - Membership joining fees collected were up almost \$9 million compared to 2009.
- **We opened two new clubs in Q4 2011 with record new membership success.**
- **Generated significant free cash flow and continued to deleverage with net debt ending at \$244 million in 2011.**

## Key Areas of Focus

- Continue to drive improvements in key fundamentals at our existing club base.
- Continue to improve and expand our product offerings to attract more members and improve ancillary revenue.
- Deliver annual EBITDA margins of 20% or better in 2012 and beyond.
- Near-term modest new club growth while establishing ourselves for longer-term club growth within our current markets beyond 2012.
- Continue to strengthen our balance sheet and improve leverage metrics with a net debt target of less than \$200 million by the end of 2012.

# Conclusion



# Appendix

# Non-GAAP Financial Measures – EBITDA and Adjusted EBITDA

EBITDA consists of net income (loss) plus interest expense (net of interest income), provision for corporate income taxes, and depreciation and amortization. Adjusted EBITDA is the Company's EBITDA excluding loss on extinguishment of debt, any fixed asset or goodwill impairments and revenue recognized in 2010 on unused and expired personal training sessions. EBITDA is not a measure of liquidity or financial performance presented in accordance with GAAP. EBITDA, as we define it, may not be identical to similarly titled measures used by some other companies.

EBITDA has material limitations as an analytical tool and should not be considered in isolation or as a substitute for cash flows from operating activities, operating income or other cash flow or income data prepared in accordance with GAAP. The items excluded from EBITDA, but included in the calculation of reported net income, are significant components of the consolidated statements of cash flows and income, and must be considered in performing a comprehensive assessment of our liquidity.

EBITDA excludes, among other items, the effect of depreciation and amortization, which is a significant component of our reported GAAP data. Depreciation and amortization, which is a non-cash item, totaled \$12.4 million in the quarter ended June 30, 2012. Although a premise underlying depreciation and amortization is that it will be reinvested in our business to restore, replenish or purchase property, equipment and other related assets, the funds represented by depreciation and amortization could, in the Company's discretion, be utilized for other purposes (*e.g., debt service*). Accordingly, *EBITDA may be useful as a supplemental measure to GAAP financial data for demonstrating our ability to satisfy our liquidity and capital resource requirements.*

Investors or prospective investors in the Company regularly request EBITDA as a supplemental analytical measure to, and in conjunction with, our GAAP financial data. We understand that these investors use EBITDA, among other things, to assess our ability to service our existing debt and to incur debt in the future, to evaluate our executive compensation programs, to assess our ability to fund our capital expenditure program, and to gain insight into the manner in which the Company's management and board of directors analyze our liquidity. We believe that investors find the inclusion of EBITDA in our press releases to be useful and helpful to them.

Our management and board of directors also use EBITDA as a supplemental measure to our GAAP financial data for purposes broadly similar to those used by investors.

The purposes to which EBITDA may be used by investors, and is used by our management and board of directors, include the following:

- The Company is required to comply with financial covenants and borrowing limitations that are based on variations of EBITDA as defined in our 2011 Senior Credit Facility.
- Our discussions with prospective lenders and investors in recent years, including in relation to our 2011 Senior Credit Facility, have confirmed the importance of EBITDA in their decision-making processes relating to the making of loans to us or investing in our debt securities.
- The Company uses EBITDA as a key factor in determining annual incentive bonuses for executive officers (as discussed in our proxy statement).
- The Company considers EBITDA to be a useful supplemental measure to GAAP financial data because it indicates our ability to generate funds sufficient to make capital expenditures (including for the opening of new clubs and the upgrading of existing clubs) as well as to undertake initiatives to enhance our business by offering new products and services in accordance with our strategy.
- Quarterly, our equity analysts often report on our EBITDA with respect to valuation commentary.

We do not, and investors should not, place undue reliance on EBITDA or Adjusted EBITDA as a measure of our liquidity.

# Non-GAAP Financial Measures – Adjusted EBITDA and EBITDA

Reconciliation of Net Cash Provided by Operating Activities to Adjusted EBITDA and EBITDA

For the Three Months Ended June 30, 2012 and 2011

(All figures in thousands)

	<b>Three Months Ended</b>	
	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Net cash provided by operating activities	\$ 18,624	\$ 9,674
Interest expense, net of interest income	5,546	6,602
Provision for corporate income taxes	3,465	72
Changes in operating assets and liabilities	844	4,462
Call premium on Senior Discount Notes	-	2,538
Amortization of debt discount	(95)	(52)
Amortization of debt issuance costs	(287)	(271)
Share-based compensation expense	(241)	(310)
Landlord contributions to tenant improvements	(332)	-
Non-cash rental expense, net of non-cash rental income	1,518	962
Decrease in insurance reserves	743	654
Decrease in deferred tax asset	(2,502)	(502)
Increase in deferred membership costs	277	1,037
Other	(713)	(552)
Adjusted EBITDA	26,847	24,314
Loss on extinguishment of debt	-	(4,865)
EBITDA	\$ 26,847	\$ 19,449

(1) In Q2 2011, we recognized loss on extinguishment of debt of \$4,865 in connection with the our debt refinancing on May 11, 2011.

# Non-GAAP Financial Measures – EBITDA

Reconciliation of Estimated and Actual Net Cash Provided by Operating Activities to EBITDA

For Quarter Ending September 30, 2012 and the Quarter Ended September 30, 2011

(All figures in thousands)

(Unaudited)

	<b>Estimated</b>	
	<b>Q3 2012</b>	<b>Q3 2011</b>
Net cash provided by operating activities	\$ 16,000	\$ 18,158
Interest expense, net of interest income	5,600	6,017
Provision for corporate income taxes	1,800	1,194
Changes in operating assets and liabilities	700	(3,410)
Amortization of debt discount	(96)	(97)
Amortization of debt issuance costs	(287)	(287)
Share-based compensation expense	(225)	(267)
Landlord contribution to tenant improvements	0	(562)
Non-cash rental expense, net of non-cash rental income	1,100	935
Decrease in deferred tax asset	(2,500)	(2,241)
Decrease in insurance reserves	200	527
Increase in deferred member costs	300	1,321
Other	408	507
EBITDA	<u>\$ 23,000</u>	<u>\$ 21,795</u>

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