

PERSPECTIVES

Insights on Healthy Living & Aging

Focus on fitness:

Equinox flexes its muscles



Interview with Equinox CEO, Harvey Spevak

The fitness industry has achieved rapid

growth with overall revenues surging from \$6.5 billion in 1993 to \$13 billion in 2002. As the nation's leading private equity firm focused on healthy living and aging, North Castle Partners searched for two years to find an exceptional fitness club operator with superior management and excellent prospects for growth. Equinox "fit the bill".

According to Ben James, the North Castle Partner directly responsible for Equinox, "Revenues for the fitness industry are huge and are supported by highly favorable long-term fundamentals which will continue to drive sustained growth. Additionally, well run fitness operators - Equinox being the prime example - generate high profit margins, possess predictable revenue streams and typically achieve rapid long-term growth. This is an attractive formula for the financial community." The market's confidence in Equinox was demonstrated when the Company raised \$160 million of high-yield debt securities with a 9% coupon in fourth quarter 2003.

Since North Castle's initial investment in December 2000, Equinox has become one of

the fastest growing operators of luxury fitness clubs in the country growing from 11 to 26 clubs (including 7 under development). Recently, the Company expanded outside New York City and into Los Angeles, as well as Chicago. The brand is nationally recognized as the premier fitness club in the industry due to its innovative programs, the quality of its facilities and its unparalleled focus on the member experience.

Harvey Spevak has been the CEO of Equinox since December 1999, previously serving as President and COO. Prior to joining Equinox Harvey served as a Vice President of Chelsea Piers, a 1.7 million square foot recreational facility in Manhattan. He is a Certified Public Accountant and holds a BBA and an MBA from the University of Michigan.

We asked Harvey about the rapid growth of the industry and how Equinox plans to continue to leverage its success.

What is driving the explosive growth in the fitness industry?

First, of course, is the increasing interest in healthier lifestyles. Scores of studies have been published suggesting that a regular fitness routine will positively impact life expectancy and prevent disease. Today, you can't open a newspaper or magazine or surf the web without seeing a new

medically based study indicating that being active in an ongoing fitness regimen will lead to a longer, healthier life.

Additionally, as a society, we have begun to focus on the costs and perils of obesity. 65 percent of the population has been characterized as overweight or obese, fostering demand for fitness clubs as well as nutrition and dietary related products and services.

Why do people choose Equinox ?

Many people choose Equinox because they aspire to the unique Equinox lifestyle. They know we focus on understanding our members' specific needs and on helping them get results. Members and prospects also recognize and appreciate our physical



design, our high standard of operating excellence and the diversity, quality and innovation of our programming.

What are the key factors in your success?

It is the combination of an unparalleled member experience and our lifestyle brand positioning.

Tell me more about the “member experience.”

Equinox delivers a member experience that is unparalleled in the industry. We strive to exceed members’ expectations. For example, if you walk into a spinning class, you’ll notice a fresh towel placed on each individual spinning bike. That towel serves two purposes: an additional service to the members so they do not have to get one themselves and it also tells the member that the room has recently been cleaned. It seems so simple, but it is the cultural bias of “exceeding expectations” that drives the experience.

Our core values, which all relate to the member experience, are innovation, expertise, service, market leadership, quality, attention to detail, and results both for our members and our shareholders. Equinox is a lifestyle brand and one of the few recognizable brands within the fitness community.

When you talk about Equinox being a lifestyle brand, what do you mean?

The Equinox offering includes the core elements of a traditional fitness club, as well as more diverse and comprehensive services. We use an integrated, holistic approach. It includes cardio and strength training, personal training, group fitness, pilates, swimming, juice bars, full service day spas, nutritionist, and our own retail operation which sells both well known and unique brands. We also recently launched “Trip Equinox” as a brand

extension that further defines our lifestyle program. We offer 8 different experiences from hiking in Machu Pichu to cycling in Tuscany.

We believe, and I think the financial community agrees, that Equinox should be benchmarked not only against the fitness industry but also against specialty



“We have very strong expertise in club development which generates critical acclaim and award-winning design.”

retailers and luxury brands which both define consumer lifestyles and generate superior financial returns.

Brands and companies we admire and gain inspiration from include The Four Seasons, Starbucks, W Hotels, BMW, Jet Blue, Prada, Gucci and Apple Computers. These brands are a lot more than simply products or services. They really connect with the consumer and become prominent and important symbols of an individual’s lifestyle.

You talked about member experience, what else makes Equinox successful?

Our people. I am extremely proud of our enormously talented, highly motivated and impassioned team of fitness and management professionals at Equinox. They are clearly the best in the industry.

Our membership profile. By leveraging brand recognition and loyalty, Equinox enjoys a distinct market position. We have targeted an underserved portion of the market – a segment with highly attractive demographics and psychographics. We serve an audience that is active, brand loyal, and early-adopters with significant discretionary income.

Our superior design expertise. We have very strong expertise in developing clubs. Our clubs consistently generate critical acclaim and award-winning design. Our programming is recognized as the industry standard in both group fitness and personal training due to quality and innovation.

Now, let’s talk about your non-New York City clubs. How do you decide which cities to enter?

Two years ago, we conducted a comprehensive market research study to definitively establish the profile of an Equinox member and what constitutes a successful Equinox location. We then applied that data across the U.S. and identified over 100 markets where there is an appropriate density of potential Equinox members.

The success of the company and the strength of our brand has made Equinox an attractive tenant and/or amenity for many landlords and developers both in the U.S. and abroad. Our long-term plan is to build a global lifestyle brand.

How have your new West Coast and Chicago locations been different from your original New York locations?

We design our facilities to cater to the local market so the community will embrace the Equinox facility as their club of choice. This contrasts with a traditional multi-site or chain operator who takes a cookie cutter or prototypical approach. Although all of our locations begin with many of the features of a typical Equinox facility, each location

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incorporates unique features desired by the members being served.

Has it been more difficult to manage a business with multiple locations?

There are certainly challenges involved in operating in more than one city, but there are also opportunities. Regardless of the location, we hire talented and experienced individuals with high energy and high integrity who successfully meet these challenges as we create a stronger brand and increase the value of the company.

How will you be able to sustain this extraordinary growth?

We plan to sustain a greater than 25% annual growth rate for the next 5 years. We have been growing in that range since 1998 and expect to continue to

leverage our lifestyle brand by adding six to eight new locations per year in our target markets.

We’ll continue to serve our target consumer, the middle to high-end market segment, and ensure our members get results. Members who get results remain at Equinox thereby improving our retention rate. We also look to provide a sense of community so our members feel like they belong to something special. They also spend more and become brand evangelists. In fact, forty to fifty percent of new members come from referrals from existing members.

We’ll also extend the brand and look to introduce new programs, products and services that our members desire and that are consistent with the core values of the Equinox brand. For example, “Equinox Gift,” is a gift card that can be used for Equinox programs, services and products that is available to both members and non-members. It is a source of additional revenue and a way to attract new members.

In addition, we employ an integrated marketing and public relations strategy to keep Equinox top of mind in our target markets. The success of the brand in public relations is phenomenal. We generate about 60 mentions a month highlighting new programs and services, including coverage in *The New York Times*, *Crains*, *Elle*, *Vogue*, *New York Magazine* and many other national media outlets.

What are the key profit drivers in this business, and how do you ensure that you maintain or improve the economics as you look ahead?

The key metrics that we look at in reviewing our performance are new member sales, retention and revenue per

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fitness club facts



- From 1990 to 2002, the number of fitness club members has doubled. Today 14% of the population belongs to fitness clubs. More than 50% of health club members are over 40.
- The number of clubs has grown from 12,000 in 1993 to 20,000 in 2003. Today there are more health clubs than McDonald’s restaurants in the U.S.
- Despite the proven benefits of physical activity, the 2000 National Health Interview Survey reports that 72% of women and 64% of men get no regular exercise.
- 44% of adults expect to exercise more in the next two years.
- The direct cost of obesity and physical inactivity account for approximately 9.4% of U.S. health care expenditures, well over \$100 billion.

member. Clearly, as we open new clubs we will increase the number of members, but we also look to maximize the opportunity at our existing clubs, particularly those that have opened within the last two years. Retention is a key measure of member satisfaction. As such, we are continuously evaluating new opportunities to improve the Equinox member experience and exceeding expectations to sustain and improve retention. With respect to revenue per member, there are two opportunities. The first is to increase the penetration of members who purchase ancillary programs and services. The second is to introduce new branded programs, services and products both inside and outside the four walls of our facilities.

You just completed a very successful \$160m financing -- what were the most compelling parts of the story that made this effort successful?

“Our members are well educated, with good jobs and significant discretionary income, and value the high level of service and the attention to detail Equinox provides.”

Clearly, the financial community was extremely impressed with our financial performance as a company and in comparison to the industry since we generate superior operating results in all key metrics. As we shared the story, what resonated were the key drivers of the

company’s financial success starting with the strength of the brand and the uniqueness of our lifestyle positioning in combination with our ability to deliver an unparalleled member experience. We also received great feedback on the strength, commitment and passion of the management team, our development expertise and the quality and innovation of our programming.

What are the greatest challenges facing you and your team as you look ahead?

My greatest challenge is attracting the best, brightest and most passionate leaders and employees to help execute our long-term vision to deliver our unparalleled member experience in new markets as we grow from 19 locations at the beginning of 2004 to over 45 locations in 2007.



Our mission is to partner with accomplished, entrepreneurial management teams who share our vision: building “great companies” that contribute to healthy living and quality of life. We strive to accomplish our mission with integrity in our process and balance in our lives. If we achieve our mission, we will create extraordinary value for these companies, their employees, investors, communities, and the North Castle team.

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