



General Footnotes for Fitness Industry Survey

1. All of the companies included in the Fitness Industry survey have submitted their 2019 FDD as of the date of this analysis. Although we have many 2018 FDDs for companies in the industry, we have not included them in this survey. A subsequent update of this package will include companies that were not included in this survey. We felt that it is important to compare all companies based on the same time frame.
2. This **Fitness Industry survey is entirely metrics-based** and includes no hype or inherent bias. All of the information presented in each Franchisor Profile is extracted from that company's most recent 2019 FDD. The issue date of the FDD is noted.
3. The source of the information within the FDD is noted in Column Item #. Over 60 data points were extracted from each company's FDD.
4. In all cases, we assume that the new franchisee will be investing in new single unit and that he or she will not be involved in a conversion, purchase an existing unit or investing in multiple units. If there are optional ways to purchase a single unit (i.e. the inclusion of equipment or other sizable expenses), the footnotes for that company will note our methodology.
5. **Franchise Fees** in Item 5 are always for a single unit only.
6. **Royalty Fee** information is generally presented as a percentage of sales in Item 6. We include the on-going Royalty Fee that is applied after any brief trial period. In those cases where the royalty is presented as a monthly dollar charge, we have annualized the monthly charge and divided that number by the company's Average Gross Sales or Revenue, thus resulting in a percentage. Where Royalty Fees are staggered based on the level of sales, the company footnotes will reflect the methodology used.
7. **Transfer Fees** are stated as the amount noted in Item 6. These fees, however, do not include any legal or accounting fees that might otherwise be added. Many Transfer Fees are presented as a percentage of the Franchise Fee at the time of the actual transfer. In all cases, we apply this percentage to the current-day Transfer Fee.
8. **Unit Growth, Compound Annual Growth** and **Continuity Rates** are simple mathematical calculations of annual data extracted from Item 20, specifically the **Status of Franchised Outlets** section.
9. FranCompare places a very high value (and score) on the inclusion of a meaningful **Item 19**. Those companies that do not include an Item 19 are at a significant disadvantage in the scoring.

10. **Item 19** data is a critical and necessary element in terms of an investor’s ability to do a meaningful pro forma on the prospective franchise investment opportunity. Even though most (if not all) franchisors have a strong sense of what their franchisees make in terms of sales, unfortunately, only 58% of franchisors submit that data in an Item 19. Of the Maximum Score of 1,200, FranCompare allots a maximum of 350 points (29%) to Item 19 data. Franchisors who do not publish an Item 19 should be asked why they don’t.
11. When we extract Item 19 data from the FDD, we note the following: 1) Over what period are the Sales numbers generated – franchisees that have been in business for at least 12 months, 24 months, etc.; 2) How many of the franchised units (or company-owned units in a few cases) out of the then total operating units were included in the calculation; and 3) Whether the calculation involved franchised or company-owned units, or a combination of both.
12. Projecting a realistic **Adjusted Average Gross Sales** or Revenue figure is an extremely important component of the FranCompare process. In preparing their Item 19, franchisors employ a number of techniques to make their historical sales numbers look as favorable as possible. Ideally, franchisors should include historical sales figures for all franchisees who have been in business for at least 12 months or more. Although they may choose not to provide it, all franchisors should have access to accurate historical information. Maybe 20% of the franchisors choose a longer period in providing historical sales numbers. Some list only franchisees who have been in business for a minimum of 24 months or 36 months or, in some cases, 48 or 60 months.
13. To compensate for differing periods considered in presenting Average Unit Gross Sales, our strong feeling is that having historical sales numbers for franchisees who have been in business for at least 12 months or more is the most equitable basis for projecting expected sales numbers for a new franchisee. Accordingly, we have applied the multipliers noted below to level the playing field. These multipliers were applied to all franchise systems:

Period of Operating Experience	Multiplier Used
12 Months of Operating Experience	100%
24 Months of Operating Experience	95%
36 Months of Operating Experience	90%
48 Months of Operating Experience	85%
60 Months of Operating Experience	80%

If we did not make these adjustments, it would be highly unfair to compare 12 months of sales experience with 24 (or more) months of experience.

14. All **Balance Sheet data** is taken from the most recent audited Financial Statements. The date of the Balance Sheet is noted. In some cases, unaudited data is the only information that is available.
15. We view excessive Intangibles, Goodwill and Trademarks as Balance Sheet items that sometimes adversely impact a franchisor's financial stability. In most cases, these items are a result of an acquisition or financial transaction that required the Assets to balance with Liabilities and Stockholders' Equity. In other cases, they are a way of increasing Stockholders' Equity. All of the ratios shown are standard accounting ratios.
16. A negative **Stockholders' Equity** could be a potential cause for alarm.
17. All of the calculations relating to **Closures, Transfers and Turnovers** (the sum of Closures and Transfers) are based on detailed calculations from Item 20. Unfortunately, Item 20 never points out the reason for the Transfers – whether they were the result of a sale or gift to a family member (a non-event) or the result of a fire sale. If transfers are deemed excessive, prospective franchisees should pursue the reasons for the transfers.
18. An integral part of the analysis is obtained from Item 20, **Status of Franchised Outlets**. Franchisors are required to provide the most recent 3 years of data, broken down as follows:
 - Outlets at Start of Year
 - Plus Outlets Opened
 - Less Terminations
 - Less Non-Renewals
 - Less Re-acquired by Franchisor
 - Less Ceased Operations – Other Reasons
 - Less Transfers
 - Equals Outlets as End of Year.These numbers balance out 95% of the time. In a few cases, however, the numbers do not balance out and no explanation is provided. At a minimum, this is very sloppy work on the part of the franchisor and leaves a potential investor wondering if there are errors in other parts of the FDD.
19. In scoring each franchise, we have assigned a **Maximum Score** for each of line items noted in Red. These maximum scores are based on our many years of experience in the industry and our sense of which variables are most important in the investment decision. In a perfect world, a franchisor would receive a score of 1,200. The maximum score for a company that doesn't submit an Item 19 is 850.
20. The **FranCompare (FC) scoring** is based on a well thought-out and consistent methodology that we apply to all franchise systems, regardless of the industry. There is no deviation in the scoring from one system or industry to another. Accordingly, these scores are entirely free of any favoritism or built-in bias.
21. If you wish to modify our scoring methodology, we have included a column for you to do so. You are also free to modify The Max. Score values.
22. **Total Score With Item 19**. This is the sum of all the scores for each of the variables in red.

23. **Total Score Without Item 19.** This summation does not include any of the scores in the Real Unit Performance section relating to Item 19. The maximum score without Item 19s is 850.
24. Based on the limited information provided in Item 3, FranCompare is not competent to evaluate past or on-going Litigation.
25. We do not make any attempt to evaluate management strength and experience. Prospective franchisees should carefully evaluate the management team.