The Value of Recapitalizations for Private, Member-Owned Golf Clubs

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Private golf clubs have felt the pinch from on-going economic turmoil and uncertainty. Over the last 15 years membership rosters have shrunk considerably. The majority of private clubs have fewer members today than a decade ago. Changing demographics, combined with fierce competition and changing lifestyles, have made attracting and retaining members increasingly difficult.

Of the 14,000 golf facilities in the US, approximately 4,500 are private clubs. Of these, approximately 60% or 2,700 are "equity" clubs that are owned and operated by the club's members. For a variety of reasons, the number of these private member-owned clubs has declined by over 20% since 1990.

For certain clubs serving the very affluent, i.e., those with initiation fees of $100,000+ and annual dues of $15,000 or more, being a member owned club will always be the preferred structure. This ownership structure allows them to be highly selective when admitting new members and they will always have highly affluent members who can afford to pay for this exclusivity.

However, for the majority of clubs, i.e., those with initiation fees of less than $100,000 and annual dues below $15,000, the member-owned business model may not be a perfect fit anymore. Members at these clubs often report that it is difficult to actually sell their memberships so for these members their "equity" in the club has little real value.

Why is this the case? These clubs are usually competing with several similar clubs in the same geographic market that all have comparable features and amenities. This means families interested in joining a club have several options to choose from. For these clubs to succeed they need to actively compete for new members based on service, amenities, and price. In short, they need to be run like any other premier fitness or hospitality business - they need to be run like a five star hotel or restaurant. This typically means the best ownership structure is for the club to be owned and operated by a professional manager who has their own capital at risk. This makes them focused on delivering an outstanding membership experience.

The process of transitioning a member-owned equity club to a professionally owned and managed club is not complicated and has been done hundreds of times - and it usually provides significant benefits to the club's members.

NEW OPTIONS FOR MEMBER-OWNED CLUBS

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Rich Jackim
Managing Partner
Sports Club Advisors, Inc.

The Benefits of Recapitalization

Some of the benefits of recapitalization include:

- The club becomes debt-free with fully funded capital improvements.
- The club is professional managed, with input from a member advisory board.
- Member dues and privileges remain the same.
- Members are guaranteed there will be no more assessments—ever.
- Members are not burdened with management or oversight, they can simply enjoy being members of their club.
- Members often receive reciprocal memberships at other clubs owned and operated by the management group.

While an equity recapitalization is not the only solution to a club's problems, it is a viable, well-tested solution that can lead to sustainability with tremendous benefits to a club's members.

What Makes a Club a Good Candidate for a Recapitalization?

Consider the following questions about the member-owned club:

- Is membership below its cap with no wait list to join the club?
- Does the club have a lot of debt with little to no long-term capital reserves on hand?
- Are capital improvements being deferred because of lack of capital?
- Are members getting regular assessments to fund capital improvements or operating losses?
- Are members complaining because the club isn't offering modern, well maintained facilities, or amenities?
- Do members have difficulty selling their memberships at their original cost?
- Does the club have gross revenue of at least $4 million?

If a club responded "yes" to most of these questions, the club's board should consider whether an equity recapitalization could be an effective solution to the challenges facing the club. In most cases it can be.

BENEFITS OF RECAPITALIZATION

1. The club is debt-free
2. Capital improvements are fully funded
3. Members are guaranteed there will never be assessments—EVER.
4. Member dues and privileges remain the same.
5. Members can enjoy being members of their club again without the burden of management.
6. Members receive reciprocal membership at other clubs owned and operated by the management group.

EXPLORE YOUR OPTIONS

Sports Club Advisors is a boutique financial advisory firm focused on the global fitness, sports and leisure industry.

We specialize in helping clients develop strategic plans to accomplish their long-term goals.

In addition, we provide buy-side and sell-side advisory services, acquisition and facility financing, fitness & sports club valuations, and consulting services for fitness clubs and sports related businesses.

Richard Jackim is an experienced investment banker, a licensed attorney, and a published author. He has been involved in over 60 transactions with a market value of over $400,000,000.

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How Does a Recapitalization Work?

The basic elements of an equity recapitalization are as follows:

- The new owner (typically the management group) forms a new corporate entity.
- The existing club (often a 501(c)3 non-profit entity) transfers the real estate assets to the new corporate entity.
- Any debt the club owes is paid off by the new owner so the club is debt-free and unburdened by debt service payments.
- The club's members sign new membership documents with the same privileges, dues and virtually identical by-laws. Membership dues are typically frozen for a period of time, usually a year or two.
- Covenants are put in place to ensure that the club remains private and there will be no assessments—ever.
- All needed capital improvements are funded up front by the new owner/manager. This is in lieu of paying the members for their equity—in effect, all of the member's equity is reinvested into the club allowing the club to upgrade its amenities and significantly improving the member experience.
- A member advisory board is created to advise and guide the new owner/manager on capital improvements, service issues and long-term planning.
- Members receive reciprocal club privileges at other clubs owned and operated by the manager.

Once the club's board decides to move forward, the manager prepares documents and completes due diligence; then, the membership votes to approve the equity recapitalization. The whole process can be completed in two to three months with little to no disruption to the members or the operations of the club.

Get Independent Advice

If you would like to explore whether an equity recapitalization is right for your club contact Rich Jackim at Sports Club Advisors at rjackim@sportsclubadvisors.net.

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