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Town Sports International Holdings, Inc. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions) Your first question comes from the line of Sharon Zackfia with William Blair. Please proceed.

Sharon Zackfia – William Blair

Hi, good afternoon.

Dan Gallagher

Good afternoon, Sharon.

Sharon Zackfia – William Blair

You may have said this, but I didn't catch it. What was the membership number at the end of the September quarter?

Dan Gallagher

519,000

Sharon Zackfia – William Blair

Okay. And then can you give us insights into what you are really looking at in the fourth quarter from a membership standpoint? I know you said you expect it to soften further, but it will be helpful to maybe compare and contrast the last six weeks versus how much pushing you've given yourself for the next two months?

Dan Gallagher

Generally I'm disclosing – I'm trying to give a little more guidance than we would typically do under normal circumstances. So, don't want to make this to be a preclusive to what would come in future quarters'. But it's safe to say that October we've seen a higher rate of cancellations than we would have expected. This time we had our call back in July. We are actually forecasting attrition to an approximate 3.8% for the quarter – fourth quarter based upon what we are seeing in October.

Sharon Zackfia – William Blair

Are the issues that you are seeing are primarily concentrated in New York or are you seeing that lead into your other regions?

Alex Alimanestianu

Sharon, this is Alex. The New York metro area suburban markets, not all of them but certainly a majority of them are being impacted significantly more than other areas. Manhattan is actually performing better in most respects than areas. Boston is also performing well. And as Dan said, we are not going to breakdown regional variances to this degree. But it's really the New York City suburban market that seems to be having the most net member loss impact.

Sharon Zackfia – William Blair

You guys have been doing this for a while and you have seen attritions spike before. Then are there any kind of tools that you can use going forward, try to minimize attrition? I know there are a lot of customers facing initiatives that take a while to implement.

Alex Alimanestianu

Yes, I mean, it is a similar environment to what we saw after the outcome in 9/11 disaster. But it's more of a consumer recession this time. So, it does feel a little different to us, but some things are similar. For example, the – in tough economic times usage actually increases in the clubs. September same store usage number of visits was up 10% over the prior year. So, the fundamental demand among the core members is very good. The difference between now and 9/11, another significant difference is that half of our members are under committed programs. So, that's either one or two-year programs, so we don't expect the dropout rates to get the historical highs that we had in '02 and '03 when almost all of the members were month to month, our members. But we are – we are developing several programs to reduce the growth in attrition primarily by fostering – by trying foster greater member engagement, but we are segmenting the membership in different groups based on – to what degree we think they are at risk in a consumer recession like this. And the – so we are trying to target specific groups on such things as usage and ancillary spent patterns, and then we are always trying to get the controllable cancels trying to improve there by pursuing the initiative that Marty is pursuing on the member experience side. We have intervention programs to save members who have given the 30-day notice of cancellation, and I can't talk in too much detail about them. But we are fully engaged in trying to minimize the impact of the consumer recession on our attrition.

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