Development Strategy

Eric Simon, Vice President of Franchise Sales and Development

Thank you. Thanks Jake. Great job. Good job. The official baton. I got my security blanket up here, my notes, as I fly through – are we done? Okay, I guess. The other way. All right.

Thank you everyone, for letting me come up here and talk to you for a few minutes today. Again, I'm Eric Simon, the Vice President of Franchise Sales and Development, and I've been with The Joint since November 2016. And I can tell you it's been an absolutely amazing journey so far, and I am extremely excited and optimistic about what the future holds for this company.

So I'll jump into – well, I answered the question, who am I? What am I doing here, right? I have about 22 years of franchising experience on just about all different levels in the franchise model. From a franchiser perspective, I worked with big brands like Mail Boxes Etc. and the UPS Store, where I did domestic and international development. I worked from AAMCO, A A M C O, for a while as a Director of Franchise Development. I was a franchisee and a regional developer for a period of time with a brand you probably never heard of before called Extreme Pita. It is actually a small box QSR-type concept. Subway with a grill is really the best way I can explain it, right?

I did that for about five years in Southern California between 2007 and 2012. And if you have remember that, that was a really interesting time get into business for a personal aspect there. We were regional developers of that concept as well. And then for a while I worked for FRANdata out of the D.C. area, which is a research and consulting firm that specialized in the franchise model. So we worked with a ton of brands, legacy brands, big brands, small, emerging startups, all helping them with whatever challenges they might have specific to how they're getting to the next level.

We did a lot of comparative analysis, a lot of benchmarking. Worked with a lot of private equity groups, who were looking to acquire franchisers based on whatever criteria they had, EBITDA, category; a lot of big time vendors who were trying to tap into the franchise space, and we help them navigate through the sea of brands that are out there. Because as you know, and I think somebody said, that franchisees are contractually obligated to knew a lot of things, and vendors are always looking to get their services in front of franchisees and vendors, so we helped them with that.

So being a part of all these different levels, I feel, gives me a little bit of a unique perspective on things, and I feel have I good understanding of the impact that our decisions have on the company, on our franchisee base. Because, to me, franchisees are – they're putting real money into this, right? They're putting their lifesavings into this, into a brand that they trust, into a management team that they trust, and to help them and support them reach their personal financial goals. And coming from that world at one point, I take responsibility and role pretty seriously.

So that being said, this is what I'd like to walk through with you today. And if you were to ask me one question, like what do I want to accomplish in my role? What's the number one goal that I have? I know we talk about 1,700 units as our long-term goal. My short-term goal is the one I think about every day, is how do we get The Joint to 1,000 and open and operating clinics as quickly and smartly as possible, right? And the reason being is because there is probably about 3,800 franchised brands out there

domestically, okay? 3,400, I would say, are active, have done some sort of franchising within the last three years. And there's only a handful, maybe about 150 of those brands that have hit that thousand-unit mark, and those brands are looked up like on a pedestal of every other 3,200 brands that say, "You know what, I want to be like them. I want to get to 1,000 units. How do you do it?" And I think about that every day, and that is my goal, is to get there – for The Joint to get there as quickly and as smartly as possible.

So with that being said, I want to review with you how our regional development strategy is leading us to that goal. I want to talk about what our current market share is and our current state of development and what we're doing to get to that goal in terms of the future and then ultimately not just the 1,700-unit mark that we talk about as kind of our maximum build-out, but some of the new programs, some of the new tests that we are doing that as we – chiropractic care becomes more mainstream and more and more people use it, that we're going have to start thinking beyond that 1,700 mark and what are we doing in – with new things to capture more and more of that market, okay?

So the first thing that goes through my head is, is that 1,000-unit mark a attainable short-term goal, okay? That's the first thing I think of. And one of the first things that I wanted to do when I was thinking about that is, what have other brands done that are on that pedestal? How long have they actually – from where we are today in terms of our opening operating units, 450 clinics at the end of Q1, how fast have they got to that 1,000-unit mark when they were our size? If that makes sense, all right? And I think brands that are in our industry, right, that are – that I admire over the last 22 years that some of our franchisees are actually in, in addition to our concept, which is Massage Envy, Orangetheory, Planet Fitness and Anytime Fitness, Sport Clips, Jimmy John's, okay? These are brands that, I think, are good look up to.

And it's clear that all these brands have reached that 1,000-unit mark in a four-year to seven-year time frame. And the two brands that actually hit that seven years, if you remember that 2007 and 2012 mark, they actually – it was a lot harder for franchise brands, in my view, to grow their unit count during that time, right? Franchisees were growing their unit counts because they were picking up maybe clinics that were, or restaurants or whatever the model was, that were maybe underperforming, and they were able to grow their unit portfolio for franchisers that are having a little difficult time to grow their entire unit.

So this slide tells me that it's very realistic for the short term to grow to 1,000 units from where we are today, okay? And then the next question I have is, is our strategy currently right now working to get us – or enabling us to get to that short-term goal of 1,000 units between, let's say, five years or six years?

And this is a slide that shows our RD growth versus non-RD growth. And the light blue category here, this is from 2010 to last year, right, where we really started aggressively franchising, and the light blue is all the clinics that were open and operating under an RD, regional developer area, past and present, all right? The darker blue is for clinics that were sold and opened and operated under a corporate data. And the dark blue is our corporate clinic portfolio, okay?

And what you see here is that, if you go down to that access, is that the regional developers are responsible for 77%, approximately 77% of our unit growth or unit count. That's a big number. And how that relates to the overall systemwide sales is that at the end of 2018, we had $165 million in

systemwide sales. Those clinics that were under an RD model or under an RD territory accounted for $104 million of that. So big numbers. And in addition, not just from a unit count number and a systemwide sales number, they are also responsible for a big part of our national marketing fund, which includes our brand – more brand awareness, becoming a household name. So the regional developers have made a huge impact, in my view, in terms of where we are today and continuing to use them for the future, okay

So the next question I have is, okay, where do we go from here, right? First, I want to know what is our – where do we fit in the chiropractic industry, okay? And there's 327 million people who live in America today. According to the Gallup-Palmer study, 16% of Americans abuse chiropractic care in the last 12 months. That's 52.3 million people. Last year, in 2018, we had approximately 516,000 active unique patients. And if you do the math, we only have 1% of the actual business that's out there. So we have a massive opportunity that's in front of us. And In fact, we have to get these clinics open fast enough so that people who want to use our services can. All right?

And then the next step is, how do we get there? And what are we doing? So this is our current footprint now. Red triangles are our franchise clinics. Yellow triangles are our corporate clinics. 64% of our clinics are under RD territory as it sits today. And the next 1,000 – this is where we're going. The next 1,265 units to get to 1,700, this is where we're going. And what I love about these circle maps that it's – we don't have as many of the brand that I went to. If I went to subway and paid $5 for a sandwich, you really don't have any idea who I am or where I came from. I probably worked in the neighborhood. I probably lived in the neighborhood to have a 15-minute drive time, right? Guessing.

Every single one of our patients, and I don't want to take Richard's thunder, but I'm only just kind of give you the gist of it and he will go into more details about these circles and about patient count, all that kind of stuff. But every single one of our patients has to fill out an intake form. We almost have a complete demographic of who our patient is, and we plot all these 560,000 people on a big map, all right? And we understand the demographics and psychoanalytics and then we purchase other information based on our customer today who our customer of tomorrow is, and we draw a circle around it. If you count up all those circles, you get to 1,700 – 1,719 clinics.

So these are our core – these are the areas where are core customers are. This is where we're going in the future, and this is what our maximum build-out will look like when we get to 1,700. It's almost 1,000 of them are going to be in the RD areas that it sits today, okay?

So to make sure that we get to that point, one of the things that we make sure is – as you know, our franchisees are our number one asset, but the numbers – very close to that, my side of the world is our regional developers. We have to make sure our regional developers are prepared, have the tools, have the support, all the processes and everything at their hands so they can reach their goals so that we can reach our goals, all right? So we develop all sorts of real estate manuals, franchise sales process, construction manuals as you can imagine.

And in addition to that, something that Jorge Armenteros has brought up about 1.5 years ago, our quarterly business reviews that we do every quarter with our regional developers. Every single one at the end of the quarter gives a complete review of what's happening within their region. And for me, what that allows me to do is make sure that these regional developers are proactive in identifying spots

in those circles because that's where we are going even if they don't have franchisees ready to go. Because we know that, and you've seen a little bit here, real estate is our largest – or takes the most time in our opening process, find a site, negotiate a lease, if there's is a third-party involved. That takes the longest time. If we can get proactive about that because we know the areas we want to go into, we just got to find the shopping centers in the right space within those shopping centers. If we can have three deals approved by corporate and letter of intent signed that we can show a prospect right when they come in or a candidate would become a franchisee and signed an agreement, we knocked off months at a time in terms of opening these clinics.

That's something that we try to push in that QBR. And then if we don't have a franchisee for that circle, then what are we doing to get there, all right. Because the regional developers are contractually obligated to generate leads for their area, right. There's an economic piece to this, the resource piece to that. And this is the organizational structure for the franchise development department, real estate construction.

Our national regional developer director's sole purpose is to support our regional developers and the franchise sale site all the way to lease execution. Because once we have an executed lease, we plan on opening that store, right. So that's the major part right there. There's about eight people who are in our department, including ourselves. Six of the eight are really focused on the regional developers and supporting them in everything that they do. And now we get to the – we talked about this a little bit early, but now we get to talk about how well are we doing with all the resources and the regional developers. And you can see on the – your side, left side, franchise sales.

We've seen a huge spike in that in the last year, right. In 2016 and 2017, we totaled 59 franchise sales. Last year alone, we had 99. And what would you call that, 82.9% of that is from the regional developer areas. And what's great about that 99 is that 60% of that is coming from current franchisees who are reinvesting back into the brand. They feel good about their support.

They like the economics that they're having. The break-even numbers are doing right. The morale is up. And the other 40% are buying because in a lot of cases, the positive validation that they're getting in the field, right. And we have, again, 40% of new people, new blood coming into the system, which is extremely valuable. And this year, almost all the sales have come from the regional developers. We already have 16, which is more than 2016, 2017 combined.

The one thing I wanted to mention here is I know franchise sales dollars have necessarily hit the bottom line because they have to amortize over 10 years with the franchisee fees and stuff like that, but this is cash that we can use to do other things with, like corporate greenfield, like acquisitions, like build the infrastructure so we can get to 1,000 units and beyond.

So very important that we keep filling this pipeline for a variety of reasons, most notably, to get them open, right. We, at – 2016, we have 56, and we need to get these open faster. There's no question about it, right? The real estate portion takes the longest time so we got to figure out ways to get proactive, and part of that is to get our regional developers with the draw full of signs ready to go so when they have a prospect ready to sign, that knocks out, again, months at a time.

The good thing is, is that we're on the upswing about this. And at end of Q1, we have 12 that have opened. That's five more than we had Q1 of last year, and we feel very strong that we're going to hit our guidance numbers, 70 to 80. A bunch of that reason is because we have 172 franchise agreements and have 10 signed but not open yet in various stages of development, right.

If I came up here and said we have 50 or 40 of those, then I'd probably have a different conversation with you guys. But we have – we already have the sales in place to get these open. We're not looking for sales right now to get them open. We're looking for future years, but we have the sales ready to go. They're just in various stages of development. And 172 are not going to open in eight months' time frame because franchisees buy more than one and their development schedules are stacked. They might open a couple one year and a couple next year. But we have the numbers to get to where we want to go, and 85% of these deals are from regional developer territories, okay.

All right. Now we have to continue to feed the pipeline, right. Because if I do the math in my head, we have 454 open and operating clinics, we have 172 franchise agreements and letter of intent signed, but that does not equal to 1,000. So we have to keep feeding the pipeline to get to where we want to go in the short-term. And I just wanted to give you guys a quick idea of how our tools and processes and sales are working – or protocols are working because that'll tell you based on a lead-to-deal percentage what are all the support tools that we're giving our regional developers. Are they working or not? And then also, where we get our deals?

And what I mean by that is we have really three buckets of franchisees. I can put our franchisees into three buckets, okay? One is doctors, who are open and operating clinics, okay? I would say that's anywhere from 26% to a third of our network. The next, which is a great bucket, because these doctors or opening clinics are not looking at any other franchise to open. They're not looking at QSR, gyms, business services. They're only looking to open a clinic. That's their passion as doctors, okay? So we have a whole lead database that nobody else has, and we'll talk about more of what we can do with that in a second.

The second bucket is our biggest bucket, and in there, what I would call, typical franchisees. They own between two and seven clinics. They might be transitioning out of corporate workplace. They might be serial franchisees, which means they own a couple of brands, same industry, but maybe a jump brand. In my personal experience, there is very few people that jump industries like QSR to health and wellness or something like that, maybe a few, but they usually stay in the industry and jump brands.

And everybody's fighting for those franchisees, so we have to cast a wide net in terms of marketing to get those. And then the third bucket is, and we have a few of these, are, I would always say, family, mini-private equity groups that have 40 or more clinics. They have strong financial resources. They have strong organizational structures, and we have a few that are coming up that'll probably also be in that 20 to 30 category. And each bucket has different messaging and each bucket has different places where to find these people. So we have to really kind of get creative, make sure we're zeroed in on our message to attract these people, okay.

And from a franchise sales perspective, we have all the same challenges as a typical franchise company has, all right? But it – to extend on that, we actually have three additional ones that no – very few franchise companies have. And one is that when you think about owning a franchise, do you think about

chiropractic, right. When people think about a franchise, it's food or a gym or something like that. The second, if they do realize that they can be a chiropractic franchise owner, they have to be a doctor. And again, that's not the case.

And then three, when we get past those two things, we have the PC model, which I think I finally understand, it's a little bit difficult when you first are exposed to that. All speed bumps, everything that we've actually accomplished in overcoming, actually our national developer – regional developer director has done a great job in having our candidates and franchisees comfortable with the PC model. So all of it – yes, sir?

Q&A

<Q>: How – what percentage of the chain is sort of the mega franchisees?

<A – Eric Simon>: Very few. I would say like – I mean I don't know the percentage, but we have two franchises that are over the 40-clinic mark. And we have a couple that, though, will – are going to, let's say, get their toe in the water by opening two to five clinics and then grow to that 20, 30, okay. So where was I with that?

All right, well, we'll just go to this slide right here. So one of the things I wanted to show you is our overall lead – this is the most important KPI, this one over here on the left, right, the lead-to-sale conversion rate, right. That's the one that will tell you just about everything. And overall, the franchise industry is at 1.6% lead-to-sale close ratio. And I like that number. It might seem high because, for years, in franchising, it's been 1% to 1.2%. But a company called FranConnect, who is very well known in the franchise industry, develops – they have a contact management system, which a lot of franchise companies use, right.

End of 2017, they had 462 brands that use their franchise sales module. That counted for 11,500 actual sales. And it goes into the cloud. They aggregate all this information. So to me, this is goal, right. This is – the people who put in their reporting want to have a report that comes out that shows fact of what they're doing and validating everything that they're doing. So I feel very comfortable that 1.6% is what we need to benchmark ourselves against.

And you can see that last year and this year that we are, at least, doubling that number, right. Our region developers are doing even more than that last year in terms of lead-to-sale. So from our processes, our marketing, where we're getting leads, everything right now I feel comfortable is working, right. And then where are we getting these leads? The majority of them is through the internet. We get referrals. Chiropractic economics is like a trade publication. And obviously, patients are our big fields by source. And the website is not necessarily a bucket, you got to break that down. We do a lot of blogging, a lot of fresh content so that we're on top of the Google page.

Facebook has done great for us. So you can see kind of where we get our leads. And just some other notes is that, obviously, we got to track our cost per lead and cost per deal. We're right in line with everybody except for our cost per deal were much lower. We had – we believe in clustering, and we got a lot of franchises that buy more than one unit, more than one license, so that would be why this is much lower. So we're very – I'm very proud of that number.

And then from a timing perspective, that lead-to-sale, we're at that 152-day mark. In my experience with other brands, they're really more in the 90 to, let's say, 120-day, but because we have those three extra challenges, sometimes our franchise sales process takes a little bit longer. And I don't think we're going to really get out of that, so we might be able to shave off 20 days and stick to the 120-ish time frame mark for a sale but I'm pretty comfortable in knowing that we're going to be a little bit longer than a typical franchise.

And then once we get a deal to open in the eight months' time frame, we've got to shorten that, right. And part of that is getting proactive on the real estate side because that, in some cases, takes months, okay. And that's what we are doing now. And then finally, some other things that we're doing – I should say as chiropractic care becomes more mainstream, as we go from that 60% of Americans that have used chiropractic care in the last months – 12 months to 18, 19, 20, 25 we need to start thinking where else we're going to go beyond that 1,700 unit mark. And here are some of the things that we've been either testing, talking about and actually executed on.

So the first thing is the rural and the super urban model. When we talked about that first category of doctors who are franchisees, the unit economics change in the model because they're not – if they're owner/operators, they're not paying for a doctor, they're actually paying themselves. So the question now is how many more circles are out there if we can lower the population density but we have a doctor who's the owner/operator. What are profitability and unit economics of that store because there's a lot of those in Texas, Oklahoma, Alabama, California, Upstate New York where there are no circles. And we can immediately take a look at that now and see what – where should we go in terms of population if we have an owner/operator, okay.

And then the super urban model locations. Now we have circles already in Manhattan and the Bay Area, Peninsula, for instance, or Boston, but we really need to take a look at the economics. Because rent is more expensive, personnel is more expensive, we need to start to think about getting creative in terms of entering these markets because there's a lot of population and there's a lot density there, people need chiropractic care there or what is the best way for us to enter that market.

So those are some of things we're talking about in that. And then this one I think – this is kind of near and dear to my heart, the DC path to ownership program. We, again, have this pool of leads where they're not opening up any other business besides the clinic, right, whether it's us or an independent, to be quite honest. That's the two things you can do. And at a very early stage, doctors are taught to open a clinic, right, to be successful.

And we want to be – I think a program like this moves the industry instead of just The Joint, right. We want to help the industry get these DCs to reach – or doctors to reach their dream of owning their own clinic. And a lot of them can't because of financial issues with just student debt. A lot of them don't necessarily have the business experience to do it, some of the DC fail. But if we can team up our doctors with some of the most successful chiropractic business owners in the world with our franchisees, I think we got a program that we can really market and grow.

And the way we would do that is through apprenticeship, through mentorship and then obviously through partnership with our franchisees. We have a doctor that come in, works for our franchisee for a

couple of years, hits certain KPIs, next stage is mentor him on just running a business in terms of a marketing plan, managing people, how to read a P&L and then together open up a new clinic at, if the franchisee is putting a bigger initial investment into it, at maybe an 80%-20% ownership stake and things like that.

And from a transition period, the franchisee to feel comfortable is that, that DC will actually backfill his physician, train that physician because he's going to have to do that stuff on the new store, anyway, and then build the business plan for the new clinic. So I could probably spend an hour talking about this slide. But I think this thing, as we go forward in the future, is something that we really need to dive into and sink our teeth in.

And then as we continue to grow and as we understand who – more about who want or need our services, you begin to realize that in order to bring more brand awareness and expand, we have to start thinking about out-of-the-box, nontraditional type locations, okay. And by teaming up with other concepts, we're able to reach a customer base and people who need our services that you might not – we might not have been able to get before.

So one of the things that we've already done is team up with a concept called Relax The Back. And if you haven't heard about this, Relax The Back became our franchisee in 2018, and they opened up the first location February 2019, okay. And they are a franchise concept. They have over 100 units, two are corporate. And one of those are in Burlington, Massachusetts, which is a brand-new state for us to get into. And they are a retail concept that caters to people who are in pain. They have a similar patient that we do, right.

And they select like massage chairs, the sell ergonomically correct furniture, they sell pillows and all sorts of stuff that helps people get out of pain. And what we did was we carved out 268 square feet in a 2,400 square foot footprint and put a Joint inside the Relax The Back location, okay, in an area where – well, I shouldn't say that. And it's a great model. You walk in, you go to the desk and the wellness coordinator gives you the intake form that you need to fill out in an $8,000 massage chair, okay.

So the person is in the massage chair. Assuming the wellness coordinator can drag them out and not sleeping, they walk 10 steps in front of all the merchandise, and they go to the clinic, which is right there. The doctor does his assessment, his adjustment, the treatment, walks back across all the merchandise, gives it back to the wellness coordinator, and he or she converts the sale and they have a new member, right.

This bolt-on project that they're doing is already above historical ramp-up clinics that are out in the street in a typical concept. So we're really excited about it. Relax The Back is a great franchisee. They're a franchisor. They understand what it means to be a franchisee. They haven't changed the model, and we're excited to see where this can expand in the future.

All right. And now – I know – so this is as we continue to go to cities that are more on that maximum build-out level, right, we still have to figure out ways to continue to gain get market share. And I have been talking about airports for a while. Millions of people – some of you guys just come from it – go through the airport every year. And they sit in a small chair. There's lots of tall people here. They get uncomfortable. They get back pain. They get migraines in trying to rush through the gate, take their kids.

I know you pack about 75 pounds of stuff in your carry-on that you're pressing over your head into the storage bin.

These are our patients times 10 in terms of dealing with pain, all right? And AviationPros, in 2017, which is a trade publication, said that in the major hubs, once people go through security, they spend 137 minutes at the airport. In Austin, Texas, where one of our franchisees is going to be putting – this just – this is going to break ground this week, the dwell time is 90 minutes, okay. And that doesn't even include the people that work at the airport.

In some cases, tens of thousands of people who work at the airport that are throwing around your heavy luggage, standing on their feet all day, getting yelled at, same pain, same stress, same migraines, that's a perfect patient for us. So we've teamed up – our franchisee has teamed up with XpresSpa, which is the leading spa massage service in airports. They – according to their deck, they have about a 50% market share in that, and we'll be opening up the first Austin, Texas XpresSpa Relax The Back. By the end of Q3, it should open. Okay, should be breaking the fleet. And that's really it.

Our regional developer strategy is working, okay. We got to continue to feed them and support them and give them the tool that they need to succeed so we can hit our goals. We're outperforming the franchise industry and terming the most important KPI, which is lead-to-sale, and that's where I look at a lot. And then we are setting the groundwork for new initiatives and new programs, so that way we can not only hit our 1,000 units as quickly as possible and our current maximum build-out schedule of 1,700, but beyond that. And that's it. Any questions? Yes, sir?

<Q>: Can you just talk a little bit about the relationship between franchise sales to franchise openings because if you look at the year number in 2015, 2016 – 2016, 2017 and 2018 they don't quite – don't match up. So can you just talk about the flow?

<A – Eric Simon>: Yes.

<A>: Okay, Eric, you just come to microphone and please repeat the questions, its actually difficult to hear that the question so please repeat it.

<A – Eric Simon>: Okay. So let me make sure I understood. So how does the flow work in terms of franchise sales to openings because we have 99 sales, let's say, last year, is that going to equate to 99 sales in…

<A>: We could start with 2016, I suppose, too.

<A – Eric Simon>: Yes. So this is my theory behind it, okay, and I'll tell you. In 2016, the morale and everything opposite of what was happening right now in the franchise community happened in 2016, in that time frame, which means people weren't excited to expand, right? Validation wasn't out there or it wasn't positive due to other candidates that sell more stores. So the – feeding the pipeline in terms of franchise sales was very low in that time frame, which means you're going to have a lull in the opening process because you just don't have that pipeline filled.

Now one of things that we did have that kind of helped us, we didn't take as big of a dip maybe is kind of what you're insinuating is that we had a bunch of franchise agreements sold but not opened. And our franchisees were waiting to see how the unit economics were going, how the new breakeven numbers were going, what new patient accounts were doing. And then the last, obviously, last year in particular, we're seeing a lot higher morale, more franchisees excited about the brand and that usually equates to more openings. Did I answer?

<Q>: Yeah.

<A – Eric Simon>: Yeah? Okay. Anyone wants to add to that? No. Yes?

<Q>: [Question Inaudible]

<A – Eric Simon>: Yeah. We have a – these guys are probably going to talk about…

<Q>: [Question Inaudible]

<A – Eric Simon>: Sorry. Do we help our franchisees who are not DCs with finding a doctor for their own clinic? We have a toolkit that we provide our franchisees and a process and a procedure for them to go out and find it. I don't know what's going to be in your presentation in terms of where, but we do help our franchisees, support them and helping them find DCs for their clinic. Yeah, we toss a limb out there.

<Q>: [Question Inaudible]

<A – Eric Simon>: That's what he's going to talk about in a little bit. Yeah, absolutely, yeah, which is a big part of not just DC recruitment but reputation and all that kind of stuff, yes. Okay, I remember this.

<Q>: I'm just following up on Mike's question, but do you see a fallout from franchise sales to clinic openings? Are there people who sign up and then decide, I'm not going to open a clinic for whatever reason?

<A – Eric Simon>: Good question, yeah. So do we see a fallout in franchise agreements signed, but they never open, right, essentially. And we did – and I guess, it depends what the fallout is. There's always going to be franchise agreements that don't open, right, and for whatever reason, personal, wives get in the way and all sorts of stuff. But we have very few in our system that we had to, let's just say, terminate without opening. I probably can count on two hands over the last three years how many of that has been. And a lot of it had to do with people on pause.

Well, a lot of people who were delaying opening was on pause because of the unit economics, because of the breakeven time frame. Now with everything on the up and up, we've been seeing more of these guys not only just fulfill their requirements from the previous agreements they signed but buying new licenses. So it's been actually kind of a 180. So we haven't – there are franchise agreements that signed but not open, but for us, the termination process is very few, very few. Yes, sir.

<Q>: You mentioned the super urban model. I'm just wondering how do you get creative in what you do? Any thoughts on how you approach those markets?

<A – Eric Simon>: Yeah. So now it seems like a team effort to come up with a lot of these answers, but some of the things that we've been thinking of before is – sorry, sorry. What are we doing in terms of thinking – how are we thinking about getting into the super urban markets, all right? Real estate is one thing, right? We have an 800 to 1,200 square foot model right now. It's kind of our sweet spot, which is what everybody looks for in the small-box retail to be quite honest, like how small can we go to make sure that a real estate rent is in line with our unit economics, can we do it a 500 square feet.

The Relax The Back model says we can go pretty small because we only have 260 square foot model inside their clinic. If – I hesitate to say it without talking to the team back there, but the idea is if we're on the street level, which is where they're more expensive, can we maybe go in the second floor, right? Can we team up with some of these other concepts to have a – like Relax The Back to go into more of these urban locations where they're in already.

So those are kind of the things, do we have to raise our prices, and all that kind of stuff, I think, is on the table in terms of super urban because – the other thing is the hub-and-spoke model, which is always in my head, right? You – maybe you have one on Main Street, but that same franchisee has four or five. I grew up in Long Island, you can have one in the Chrysler Building on floor eight as long as it's – they have a – their main day is on main street – on the floor level. So I think you have a – we can get creative on that, and I think there's some good ideas in terms of that. We just have to get together as a team and test it out and make sure it's the right way to do it.

I keep pressing, sorry. Yes, sir.

<Q>: In terms of momentum you have, are there longer-term opportunities to play with the economics, with future RDs or with franchisees? Like is associating with 3% back…

<A – Eric Simon>: Change in unit – so is there a plan sort of talks about changing the unit economics on an RD? I haven't had any. No, no.

<A>: It's really hard to do. I mean a franchise system consume – change from time to time change the growth structure, they can change the RD structure, but once you've established now your framework and sit – because if you're buying and as you inform the experience, it's very difficult to make a change in those numbers. It can be done. There's nothing – there's no law that requires you not to do it, but it's not going to be an easy thing to do, and we have to have real compelling reasons to make that number change.

<A – Eric Simon>: Yes, sir.

<Q>: So in one of the slides, I think you showed that future growth is going to be about evenly split between RD structure and non-RD structure.

<A – Eric Simon>: As it sits today.

<Q>: Can you just talk a little bit about – and you're seeing tremendous growth in the RD unit today, why is it you think you're going to get more balance between the two models as you go down the road?

<A – Eric Simon>: Well, that's a good question. And I'm not sure that's – so okay, let me repeat the question.

<Q>: [Question Inaudible]

<A – Eric Simon>: Yes, and that's because – that's – so do we have more – in the future, let me go back to that slide, that might help me do the question here. This one, right? So in the – why are we going to be more evened out as opposed – from an RD territory and a non-RD territory. Well, I can tell you right now, this is as it sits today with the RDs that we have today. And there are some major markets that do not have a regional developer.

And I'll tell you the whole north – well, just about the Northeast, I would say, from New York North, it has no RD, and we're going to put – we can have like – these are – you can't really see the circles because they're so concentrated, but you can have 400 units up there. So my plan is to have an RD up there because they're going help us on the ground. You got somebody local who understands brokers, understands the way to do business in New York because it's different at doing business. I do, right, I know I said different. But I do plan on – I think it would be wise for us to continue to look for a regional developer in that location, which means this will actually go into that site, yeah, yeah. Yes, sir.

<Q>: Would comps at Denver make sense in the retail pharmacy, CVS and Walgreens wanted unit subscription in the clinic, there's just more medical services and stuff, and like will there ever be an option for, at least, a pilot?

<A – Eric Simon>: I could would tell you from a franchise development standpoint, everything is on the table, and it depends on everybody else's operations and stuff like that.

<A>: What was the question?

<A – Eric Simon>: Sorry, sorry. Pardon me, it might be the New York in me. 5 minutes, okay. So would we go into one of these big companies like Walgreens or CVS and do some sort of model where we'd be in one of their type of venues because they have so many stores across the country. Especially, Walgreens has a great real estate, right? They're known for like their real estate.

Again, I don't see why we wouldn't entertain that idea. We're in daily-use centers. As long as – the biggest thing for us, I think, is being in daily-use centers where the convenience factor is there, I think affordability would be there. So as long as it's where people go that they would want to do that on a weekly basis, I would say, absolutely we should look at that. I don't see why we wouldn't. I think the rent would be good.

I think the – on a franchisee base, we have to see if the unit economic makes sense because I don't know what the number of patients we will get through there. We just have to see and do a test, but I think it should – I mean it's a great idea, there's a lot of locations.

<A>: 20,000 will be opening up.

<<Eric Simon, Vice President of Franchise Sales and Development>>

That would be – that's much more than 1,700. So thank you guys very, very much. And now I bring up the brains in terms of all the real estate side. He's going to get into a lot more details with the demographic and how we created these circles, which I'm sure you guys are going to love. So Richard Matthews, please, come on up, our Director of Real Estate Research.