Welcome

Peter Holt, President, Chief Executive Officer

Welcome to all of you attending. This is the first time we've done this event and we're really excited about it. The video we just saw was actually a piece that we used to launch our national conference.

And we just completed our national conference a couple of weeks ago, brought all of our franchisees together to do exactly what our narrator was telling you, and we had almost 90 – well, we had 92% attendance of the representation in our network.

Now in franchising, I've actually never had that high of attendance at a national conference, so that gives you a sense of the engagement, the excitement, the energy of where this organization is going and we're going to talk about that today. But I want to talk about a couple of housekeeping, rules.

Number one that we do have WiFi access available, go to Mariott conference and then the code is IN2019. So for any of you who want to get on WiFi, that's there. The second thing I want to talk about is, we have a very dense day today and you're going to hear from a lot of speakers with various compact presentations and we're going to keep on time and I need your help to do that because you may have a lot of questions and if it's like any other investor conference I've been to- It's like, Okay, take me through the whole deck and then I'm like Okay, now let's get on Slide 1 and we boom, we go off deck and that – which is okay, but here we really want the presenters to get through their presentation, they set them up so they left themselves time at the end of their presentation, we'll take questions through that period and then move on to the next presenter. And so if we're not getting all the questions answered, then later on this afternoon when we're in the cocktail hour then we can certainly make sure they're addressed, but I'm going to ask all of you to help us stay on time.

Expansion Strategy and Vision

Peter Holt, President, Chief Executive Officer

Now, this is not a day to lay out a brand-new strategy. Our strategy is the same and we've been talking about it for the last three years that we believe in this concept. We believe there's room for 1700 units out there. This is a strategy of combined corporate and franchise growth that's predominantly driven by franchising. And what you're going to see today more than anything else, is the people, the executives that are going to execute to that strategy.

And so they are the ones that are really going to be sharing their story with their discipline of how we're going to get there. Now I just want to cover a couple of points in my time here. I want to talk about our mission, vision and values, because I think that's exactly how – the core of how an organization aligns itself and goes forward. You have- people, have to have a shared mission. They have to understand the vision, where are we trying to go with it and then we need to have shared values as we go through creating that vision.

And so it's those values that help us get there, or guide us in the process of decision-making so that we continually stay on track to our mission and to our vision. And then I'm going to talk a little bit about the market itself. And certainly what you're experiencing is that you're going to see a very strong franchise team in place, executive team in place that is executing on the line level and at the same time, our market is expanding. And I'm going to talk a little bit about that. So what's happening is all the improvements in the things that we doing better and better are being amplified by a market that's growing.

And that's a really great place to be when you look at where we go as an organization to achieve that vision that we set for ourselves. Now, I'm just going to go through quickly. I like you all to memorize our Safe Harbor statement, that when you're done we'll go onto the next slide, if you all can memorized, these are the things that we're really talking about – we've talked about that 1700 unit.

How we're going to get there? And you're going to see today what that's going to look like. How or who are the people driving us to that ability to achieve that 1,700 -plus unit? Now we have a really simple mission and it's a very powerful mission to improve quality of life through routine and affordable chiropractic care.

And I can't emphasize how profound that is for our franchisees, for our doctors, for the staff to get the level of engagement and commitment. Can you imagine your job is to improve quality of life. I mean, that's a very powerful place to be and as we really utilize this as the true mission, you'll see this mission on the wall of every single clinic that we have out there. Now what's our vision? Where do we want to grow, when we grow up? What do we want to be when we grow up?

It is pretty straightforward, is we want to be the premier provider of chiropractic care in wellness and health plans. We want to double our footprint. We want to be the career path and choice for chiropractors. We want to create a world-class culture. We want a robust regional community, regional developer community. We know that the regional developer community is the key to accelerated growth and we're going to spend a fair amount of time talking about that today.

And finally, we want to build and maintain a world-class IT structure. I recently was at the International Franchise Association's convention and the gather of all franchisors in the country and some from around the world and virtually the entire conference was dedicated to this whole issue of consumers are gathering information in a fundamentally different way with technology, which is influencing how they are choosing the products and services that they are offering, that the franchisors are offering.

And how are you going to take advantage of that? How are you going to make sure that you don't get left behind? And we spent a lot of time talking about the importance of the IT platform that absolutely runs our business and where we're going with our new program with SugarCRM.

Values, values are aspirational, that these are what we put on the wall every day and from my experience, ability to managing franchise system for 30-plus years, that core value, trust, defines everything, is that franchising is like marriage, in some country or some states it's easier to get a divorce than to break a franchise agreement or terminate a franchise agreement. So this isn't just a one-off field. We're entering into this 10-year relationship that can go on and go on and go on.

And in any kind of relationship – I've been married now for 36 years and one of the things that you can talk about being married for 36 years is you can have conflict. That it's part of the process. And what's important is that as long as you hold that value of trust, there's not a single conflict that you can't overcome, because what you find very often, is you're just trying to get to the same place from the different perspective and this is even more true in franchising, this is how franchisors are kept really current and able to go forward with that business model because the franchisees aren't paid employees who just say, okay, do it or I fire you.

They're people who have a vested interest in the outcome, they are focused on what we're trying to do and together, we're able to find the best solution in the various issues that we face as we grow this business. Integrity, it's a simple word, but it also really means that – to me the best definition of integrity is the words I use and the actions I take are in alignment. And that's really important.

Excellence, continually striving. There is no franchise system that's done. You're continually changing, evolving, taking place, taking advantage of the changes taking the marketplace. So if you don't have that striving, you become – you get out of market, you become not current, that you're left behind, whether it's technology-driven or otherwise. Respect, this is the core to how we talk to each other. It's that if you respect somebody, you can disagree but you can talk and you can share information that's fundamental in the franchise community.

And finally, accountability. It's really important that we share and understanding the roles and responsibilities and hold each other accountable to it. Franchising is a really interesting way to run a business. There's nothing intuitive about it. It's really critical that both parties understand the roles and responsibilities to most effectively utilize the time that we have in order to build that business.

The opioid epidemic continues. Now I'm not going to spend a lot of time on this, but this is just ripping this country apart and we're all looking for non-invasive ways to get out of pain, that are non-opioid based, non-knife based. And this is certainly one of the drivers of why chiropractic care is becoming more and more relevant as this country deals with this pain epidemic. The growth – what's going on with this chiropractic market?

50% of the American people don’t even know what the word chiropractic mean. 30% are scared, that they'd be interested if they had – somebody who could help them cross that bridge. Oh I know it's bone cracking, no I don't want you to touch my neck. I mean that's part of – that fear of those 30% who are in pain and looking for ways to address it. And finally, 15% of the American people are using chiropractic at least in last 12 months.

So what happens when that 15% goes up to 17%, 18%, 19%, 20%? You get that critical mass. Well we're right at the forefront where that's happening in that retail center. Our target audience is relief seekers. Predominantly millennials, 39% of our patients today are millennials, 34% are X Gen. So these are the people who are looking for that non-invasive way to get out of pain. And when moving forward, they need a relief, they need a story, they need to understand how chiropractor can help them and being in that strip mall or that daily use center where they get the haircut, buy a frozen yogurt, now get chiropractic care is what's driving this business.

Many of you have heard me say that 26% of our patients, we had 434,000 patients who opened that door for the first time in 2018 and 26% of them have never seen a chiropractor before. I know the amazing numbers in a retail outlet. 26% of the people open the door for the first time have never used your product your service before. That's pretty indicative of the future in front of us.

What I love about this slide, this is a Google Trends map or slide and what it's looking at it is that how many times the word chiropractor and chiropractic have been searched. Now I was told 80% of all searches take place on Google and this is going from 2004 till present. And what you see there is that steady increase in the search. People are looking.

Now if you can see the point at 2010, that wasn't what I wanted. It's started jogging up. Why? Well my theory is, The Joint Corp was formed in 2010 and we went retail. And so people had more and more exposure to the concept of chiropractic and the professional study. And you can see that trend line, which is any business would love to see.

Our path to 1,700. This is what today's going to be about. Today, we've 454 clinics, 404 franchised, 50 corporate. This is end of Q1. And that we have one of the lowest closure rates I've dealt with in franchising. We have a very small transfer rate. Our franchisees love this concept and continue to grow with us. And today these are the people who are going to tell you how we're going to get there. And I'm really excited, I've been involved in franchising for a long time and I could not be more proud of this team up there that profoundly understands our business model, is executing at the highest level and I think, really going to allow us to achieve this vision that we've set out for ourselves. So that's the end of my formal remarks. Questions for me, you can hold on because you will have a lot of time to talk to me about what made the CEO in the afternoon, and the break sort of come to me, but with that, I'm going to turn it over to Jake Singleton, our CFO.

Long-term Financial Overview

Jake Singleton, Chief Financial Officer

I'm going to use the podium, if that works. Can everybody hear me? Great. Sounds good. So again, I'm going to echo a lot of what Peter said, a lot of what I'm going to do today is table set. You guys have heard our speech, you've heard the pitch, we've gone through the investor decks together. I'm going to table set somethings and then I'm going to get out of the way. We are really proud of the management team, the executive team we have in place so we're going to let them give you that, really the heart and the details behind it, but I'll just do a little table setting for you today.

Here we go. So another footprint, as of March 31, 454 clinics open across 33 states. Two shades there, the lighter blue, that's our regional developer territory that's covered. And now, again, we're doing this at the state level. So not all of each of those states are covered by an RD, but if it's in that lighter blue that is regional developer is covering some portion of that state. The darker blue is where we're still doing direct franchising.

So we've talked a lot in the past. Currently, we've got about – a little over 50% of the MSAs in the country are currently covered by regional developer and of our franchise units, a little over three quarters are under the purview of our RDE oversight right now.

And then where are we going? This is that same 1,700 that we've shown time and time again and this is our heat map. Again if you drill down in there, we've talked a lot in the past. There is 1,700 circles out there as to where we think we can place these clinics and have a high likelihood of success.

Richard Matthews, the gentleman that does the heart of this analysis is going to present today. So I won't butcher it up here right now. I will let him walk you through all the details. It's an amazingly deep dive into how we come up with this potential? We believe very strongly in this and this assumes no growth in the chiropractic market that Peter alluded to.

Growth strategy, same thing. That's our same dual strategy. This predominantly will always be a franchise concept. That will be the majority of the units in the system. And then we're going to complement that with our own corporate portfolio. So when you talk about the franchising side that is going to be led through the regional developer strategy. They are the key accelerant of what we're doing here. So we're going to leverage them. We're going to continue to leverage them.

And then you talk about our corporate portfolio, again that's a mix. It's either going to be greenfield units that de novo developments that we're going to do from the ground up or the acquisition of greenfield units and we're going to talk about those two tactics a little bit more here in a second.

But really in 2019, you can see that the momentum that we're on right now, Q1 2018 we sold 16 licenses, Q1 2019 we sold 13. You guys heard on our first quarter call they sold 30 licenses in April alone. Now again that's – some of that is driven by the timing of our franchise disclosure document, so kind of front loaded some of the quarter there, but to have 30 license sales in a month is incredibly impressive and that's the momentum that we're on right now.

Clinical openings, again, doubling Q1 2018 to Q1 2019 and then we're back into corporate development. So when Peter came on board, we really shutdown the expansion of our corporate portfolio and we're back into that. So in Q1, we opened up those two greenfields. We also acquired a unit back. And then we also announced that in early April, we opened a third greenfield unit.

So going back to that first pillar, that franchise expansion strategy. Again, the RD model we believe very firmly that, that is going to be a key accelerant of our growth. We talk a lot about getting to that national scale of recognition, that 1,000 units, is that tipping point we want to get to. And the fastest way we're going to get there is to open as many storefronts as we can and we think the regional developer strategy is going to take us there.

So we've got 21 regional developer teams in the field right now. So for us, that's 21 people out there looking at real estate, 21 teams selling those licenses, 21 teams helping us with training, helping us with ongoing support and we're seeing that momentum. We talked about it. 22 licenses in 2016, 37 in 2017, 99 in 2018 and we've got 60 through April. We are seeing them accelerate. We talk a lot that if we're not seeing that acceleration, the strategy isn't as robust, they are absolutely performing to a high level. We're really excited about their progress. And then just a quick refresher on the economics there. For every license that they sell in their territory they receive a 50% split of that license fee. And then for their ongoing support, training and all other obligations, they do receive a 3% cut of that 7% royalty that we charge.

So then we go to the second piece of our strategy our corporate clinics. And really, those that have done a model or done some modeling on the company, it's a high cash-generative business. The unit economics are strong, we believe in our corporate clinics. So really we're going to talk a little bit more about how we are going to redeploy that capital and kind of continue to expand our corporate portfolio.

So three real ways that we can deploy that the capital. The first is really reacquiring those existing units from franchisees. The second, that de novo corporate greenfield development. And then third, is we can reacquire those regional developer territories kind of as they reach maturity and we can recapture that full economics.

So the first one we'll touch on is just a franchise unit acquisition. And really the objective here, it was the premise of the IPO. We know the unit economics of this business are exceptionally strong, so to go out and target some units that are out there, franchisees sell for a variety of reasons. We have the right of first refusal on any deal that is proposed to change hands in our system. Right now, we're focusing that in our current geography, so we have Southern California, Arizona and New Mexico is our current footprint.

So our current strategy is to continue to cluster where we have overhead. We're going to talk a little bit in a second what is the potential, where we could go for those additional unit acquisitions. So again, this was part of the premise of the IPO. Let's raise some capital. Let's go out there and start our own portfolio. I'll try to kind of give some historical background as to – we've done a number of these. We've done, I think, 19 transactions now, 17 kind of on the heels of the IPO funds. We did one reacquisition in 2018 and another one in 2019.

Now I wish we could get them all for 30,000. We're not going to see that. Again, these are very unique circumstances and franchisees, and – but you can see the average price of the kind of the early cohort there. It was about $230,000 per clinic, but we have developed a kind of buyback analysis tool that we use. So we go through eight different kind of fields of criteria, and we grade each of those to kind of give us an idea as to what we feel as economically viable in terms of the valuation of that unit. Ultimately, it's a negotiation with that franchisee that results in the end purchase price, and we'll continue to focus on those opportunistically.

The second is that greenfield development. So we've opened three units so far this year: Azusa; Carlsbad; Flagstaff, Arizona. And again, part of the IPO, we went out and built 29 of these from the ground up across four states. We've talked a lot about – that's really where we got into an issue with some of the early performance of our portfolio, was that greenfield – those greenfield clinics, specifically in Illinois. So we turned a lot of those over to the regional developer there in Illinois. We ended up closing a few clinics, but we still very much believe in economics. And we'll talk a little bit later today how those new clinics are starting out and kind of the continued increase in that time to breakeven that we're seeing across the portfolio.

The other key stat I wanted to put out there is that we continue to evaluate the territory that we have. We believe that there is ample runway from us to continue this strategy. So Peter has talked a lot about in the past between 10% and 25% of the portfolio could come from corporate clinics. What we've looked at is that our current overhead structure is what we call an Area Sales Manager and a Clinical Director. That's our outside the four-wall overhead that we put in a kind of clustering of about eight to ten units as their level of oversight.

So what we did here is we just went out that same 1,700 circles that we looked at. We looked at all those territories and said, "Where is there at least eight? Where could we build out that level of overhead?" And so you can see there's still 250-plus clinics that could come in that purview of a market that holds at least eight units. If we step back and look at a market that just has four or more units, there's over 400 clinic potential if we look at something like that. So plenty of runway for us to develop our corporate portfolio in conjunction with our franchise strategy.

And then last is the regional developer acquisition. So again, not something that's new to us. A lot of the IPO friends were, again, dedicated to recapturing space for us to move into corporate clinic expansion. As we see the time line there. In 2019, we repurchased South Carolina. So a very mature market for us. It made a lot of sense for us to go in there and recapture that full economic potential.

There are continued runway. We have 21 of them out there. The key there is that we believe in the strategy. We are not going to go out and bring these people on to develop territory and then come back and buy out their territory. We've brought them into accelerate that growth. We will look at it when they mature. It's kind of a natural evolution of a franchise system that we would go back in if they're looking to monetize their asset or allow us to kind of continue our expansion footprint. So that'll kind of happen over time as we move into those opportunities. So really like I said, a high-level table setting.

I'm going to turn it over in just a minute here to our VP of Sales and Development that's kind of going to go to a different layer for you there. So I might ask also that we hold my questions until the end because I think a lot of them are probably going to be addressed by the team that's coming up. So really excited to introduce VP of Franchise Sales and Development, Mr. Eric Simon.

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.

Real Estate Selection & Strategy

Richard Matthews, Director of Real Estate Research

Hi, my name is Richard Matthews. I'm the Director of Real Estate Research at The Joint. I've been here for four years. My background is in academics. I was a geography professor at the University of South

Carolina. My specialty in geography is economic geography, which is the science of the location of business. So they always say if you – those who can do are those who can't teach, so I moved from teaching to doing. And I worked at PetSmart for 10 years and helped open 700 clinics and developed their models. And I've been at The Joint for four years, and we've built 220 clinics in the time that I've been here.

So today, I'm going to talk about what we do in the real estate team, what our goals are; what our models are that we built and the tools that we use; what our deployment strategy is, where we look for clinics; what our location criteria is, what the kind of centers and sites we look for; how we go about getting a site accepted into our portfolio; and then kind of an expansion of new potential markets that Eric touched on briefly.

So what we do in the real estate team? The first thing I do is organize and describe real estate data. I have hundreds of thousands of patient information, patient points, patient data. I have 400 demographic criteria for every clinic. So the first thing I do is organize all that data into a big database. What does average look like for us? What does a standard deviation above and below look like for us? What does good look like? What does the challenge look like on all those data points? And that answers the question of what. What do we have? What kind of information do we have?

But that doesn't tell us anything about how or why, so the next step is to build explanatory models to help develop strategy. When I build an explanatory model, that's usually regression-based, and that helps us answer the question of why things happen, what is the relationship between certain demographics, certain site characteristics and our clinic performance. So by building explanatory models, we can understand why things happen. And once we understand the why of the data, then we can develop a strategy and replicate that criteria across different parts of the country.

So after we build those explanatory models, we communicate the results and best practices to our RD and franchisee community. We work with franchisees on opening clinics. I evaluate the sites using those tools – models that we build the explanatory tools on and so we use those tools to build the strategy and then to build our actual day-to-day operations. So in short, we want to understand the importance of location and apply those learnings to new centers.

So what – the first thing we do every January, I get very excited on January 1 to get new data. I go and ask our IT department to give me a list of all the patients and how much money they spent at any clinic that we visited. Last year, I had 557,000 patients from 430 units in 31 states. And I – and we have a lot more than that, but some of them didn't spend any money, some didn't have useable addresses, some aren't in the United States. But in the United States, this is a map of our 557,000 patients that came into our clinics last year, that gave us usable addresses and spent some money.

We had 31 – we have clinics in 31 states. We have patients from all 50 states, including Washington, D.C., Puerto Rico, all Canadian provinces and territories, so the Northwest Territories and Yukon they're coming now. We have patients from 24 countries on six continents. But this is a map of just the United States, and I get very excited when I see all this stuff. So we still have statistically 557,000, as Eric said, that's only 1% of the chiropractic universe. So we've got a huge runway even in places where we have a lot of patients currently, it's a huge runway potential for us right now.

So after I map the patients, I sign each patient to a zip plus 4 location. Zip plus 4, as you know, your zip code, every zip code has about 7,000 to 10,000 people in it. The four digits that are added on, no one really knows their nine-digit zip code, but everyone – somebody see it on a piece of mail. Zip plus 4 has 10 households, so that's essentially the number of houses on one side of one street for one block. So that's the kind of granularity we can apply our demographics to. So a lot of retailers use zip codes. You go to Home Depot, they ask you what your zip code is. They're trying to get the same information that we get from our intake – patient intake form.

The lowest level of geography that's in the census is the census block group, which is usually 1,000 to 3,000 people, so we get really granular information about our patients. And I divide that up by every clinic we have in the country. This is a map of our patients in an area of North Phoenix probably about 8 miles from where we are right now. We are right about here.

So this is a map of various clinic locations in North Phoenix and where their patients are. The different color dots are assigned to different clinics, so we can – by doing this every year, evaluating 400, 450 clinics, we really understand how our patients behave; how they react to things like interstate highway systems; how they react to natural barriers such as mountain ranges, which you see these green spots right down here show where there's mountains.

So the people – how do people interact? How do they interact to other clinics? We see one clinic, which has the dark blue dots, have patients that bypass other clinics. How? Why does that happen? And in this case, it might be that, that shopping center is a much more regional draw located on a highway system rather than a neighborhood location. And also, it shows the loyalty that our patients have.

So by getting in in-depth at every clinic level, we're able to understand how that trade area operates, how our patients behave in various geographic settings, how far they're willing to travel, how likely they are to come to a clinic based on the types of centers they're in. So I have 400 demographic and psychographic and site characteristics for every clinic that we have. Demographics are measurable attributes of the population, things like age, income, education, number of people in a household, languages that people speak. All that information, that's measurable attributes of the population, and we get that from census information.

And then we have psychographic information. Psychoanalytic analytics came about 30 years ago, and that shows behavioral or aspirational attributes of the population, things like how people spend their money, not just how much money they make but what their lifestyles are, what their priorities are. And there are several different versions of it out there, but usually they have about 60 to 80 different clusters, psychographic clusters are the term. The one we use has about 70. And how they're divided, the companies that create these tools are marketing firms merged with credit bureaus to really evaluate how people spend their money.

And so one example of a cluster, cluster number one, is the wealthiest people in the United States. They account for about 1% of the population. They have graduate degrees. They're between the ages of 48 and 64. They're empty nesters. They drive German sports cars. They belong to country clubs. We know how many of that cluster goes to our clinics, and we know how many of – what their spending behavior is in our clinics.

Another clinic – another cluster is cluster number 49, American classics. These are downscale retirees aged 65 and above. Money is tight. They drive Chevy Malibus. They subscribe to Reader's Digest. And they go on gambling junkets to Atlantic City. We know how many of them are our patients and how they have spending habits for us. So we regress the demographics and psychographics against our sales, and our goal is to put a dollar value on every household in the United States as a potential customer for us.

So there are 70 clusters in the United States. I've sorted all our clusters on our most – our over- indexed customers, which is our most important cluster, and then I compare that to the U.S. population as a whole. The lower line, that orange-colored line, is the U.S. population as a whole based on sorting our best customers.

So about 25 clusters, where our most important customers come from, those 25 clusters account for about 45% of the U.S. population. Those same 25 clusters account for 70% of our patients. These are what we call our core customers. So the same is mapped with this dark blue color, that color, this say this is where our core customers are, those 25 psychographic clusters who have told us that they're our best patients and how they react to us and how they spend money and how far they're willing to travel and what their lifestyles are like, we can – we know who they are, and we know where they live across United States.

So we look for those people, those 25 clusters who account for 70% of our patients, we actively look to see where they live. Who are they? They make up a wide age range. We heard that millennials are 39% of our customers, our patients. Generation X is 34% of our patients, but we have baby boomers as well. So that's a wide age range. So we're not a niche market, we're really a wide mass market. We have a wide economic spectrum, both white collar and blue collar. White collar are good patients. They say sitting is the new smoking. So you got to get up and be active. And our – in the video that we showed, there's people coming into the clinics because they sat at a computer all day, so white-collar people are good patients for us.

Blue-collar patients are great patients for us because they're out working there body hard every day and need relief from us. And we have a median household income range, median is the better predictor for us than average because average tends to be skewed by some very high incomes. So our median household income range is between $50,000 and $100,000. Again, a very wide spectrum of the population, so we're not a really niche provider, we're a very mass provider. We have urbanicity, of a wide urbanicity too, smaller towns, suburbs, cities, most of the clinics though right now are in shopping centers in suburban locations of major cities.

And we have that large straight A database. Every time we open a new clinic, we add new information to our database, which is 400 different variables across 450 clinics and 500,000 patients. So we really know who our patient is. Our patients tell us who they are. All we have to do is listen to them and find out – find more people like them. So here's our national build-out potential. This is the county map, you're seen this twice, I think, already today. Where you see the darker blue colors, those are where – those counties have a very high incidence of our core customers, those 25 psychographic groups.

We know where they live. We know every household in the United States, what their psychographic component is, and we just look for where our best customers live. And in those, we found where shopping centers are, the circles that Eric described. We found there's a shopping center in every one of those circles. And in that radius, about a distance of how far people are willing to travel because they've shown us how far they're willing to travel, we see a certain number of core customers. And if you have those – that number in that distance of traveling, we can put a clinic there that has enough core customers to support a clinic. And that's how we come up with these 1,700 right now.

And that's based on current usage and our current business model. So where do we put – where do we put clinics? What are we looking for? We want to be where people are. This is – we call this the little mermaid philosophy of site selection. The little mermaid sings a song, I want to be where the people are, and that's where I want to be, I want to be where the people are, too. So that's really where we want. We want to be where there's lots and lots of people because that's where it makes it convenient for them.

Our three real estate pillars, when we evaluate a site, there's three components that we look for. First, the trade area demographics. Does that trade area have the components of the population that we're looking for? Does it have a group of those core customers? Does it have that mix of white-collar and blue-collar population? Does it have the age dynamic that we like? Does it have an income level that we like? So if that trade area isn't possible, we look for the centers. And we want to be in the centers that most people appear the most often, those busy centers. And then within the location of that center, we want to be in visible, accessible locations.

So we want those three things of what we consider when we evaluate the location. So when a franchisee says can we be into this center, those are the three components we're looking for. The first thing we really look for is the population, do we have enough people that can support a clinic because as we've seen, we are only doing – getting 1% of the population to come into our cities. So we want to avoid thinly populated areas. And clustering clinics help build the brand. Clustering, we've talked about this phrase before, is really locating clinics in adjacent trade areas. So we find it beneficial to locate in contiguous trade areas 1, 2, 3, 4 as opposed to putting one far away from the second, far away from the third. That helps us build our brand awareness, it helps us operationally, leveraging in markets.

So putting clinics in adjacent trade areas is really fundamentally important for us. And that income range matters. We talked about being between $50,000 and $100,000. We'll go above and beyond that or below that. We'll go into $40,000 income ranges or $125,000 income ranges if other characteristics apply. There's enough density to support a clinic or the kinds of centers that can draw enough people to us, we'll consider them. So the income range is not static. We can be very fluid in that income range. And still, that's most of the people in the United States.

These are our location-specific learnings for our site selection. A daytime workforce population helps. Our intake form people indicate where they live, so that's more of a residential approach to real estate. So we don't really know the impact of an all-workforce clinic where we have a lot of daytime work population, we do see in those clusters, that master of patients of much more far-flung trade area because people are coming during the day to go to us, to visit us during the workday. But we don't know what it's all about in just an all-workforce and no residential population.

Convenience is the most important thing for us really. We want to be a part of the patient's daily activity space. And our mission says routine and affordable chiropractic care. We – the routine part of it is part of the real estate function. We want to be in the routine you're already on. We want to be in the places you're going to already: in the grocery centers, where you get your haircut, where the nail salon is, where you go for lunch. We want to be in those centers where you're already at.

We don't want to make it a different trip. We want to be just five minutes of your daily trip, which you're already taking. That's the kind of center we want to be in. So we want to be in those centers where the people appear the most often. Sometimes, you see a center that has a lot of people in it, but they're only going once a quarter, once a month. We want to be in those centers that people are going to twice a week, three times a week, every day for your coffee, for your lunch, those are the centers we want to be in as part of your daily routine. So we want to be in your routine space.

And we want to be best-in-class site characteristics. We want to be visible and accessible. Our clinic storefronts are 15 to 20 feet. We don't have a lot of space in our clinic storefront. It's our most important marketing tool, most important brand building tool that we have. So we want to be in a place that's visible and accessible. A lot of franchisees tell me what's the magic formula, and I say being visible and accessible to lots of your customers. There's not a scientific formula that can really get that really easily, but that's what we need, being visible and accessible to our patients.

We want to be in those centers that have daily drivers, things like top-tier grocers, multiple restaurant options, health care, beauty tenants. We can be in a – if a center has some kind of a regional mini – mid-box tenants, things like a Ross or Marshalls or it's a HomeGoods that people like to go more than once a week, more than once a month, we can be in those kind of centers as well but still visible and accessible. So we want to have smart growth as well. We just don't want to put 17 clinics out – 1,700 clinics or 1,000 clinics just for the sake of having 1,000 clinics or 1,700, we want all of them to be profitable.

And our franchisees sometimes get nervous. If one is located kind of close to where they are, they feel very protective of their space. So since I joined The Joint, I've been tracking all our clinics that locate within five miles of an existing clinic. Right now, we have 62 openings since the beginning of January 15, and what I'm trying to calculate and capture is the behavior of how patients move from one clinic to another. And it's far less in The Joint than other forms of retail. People – the patients that we have become emotionally attached to their doctors, then they're loyal to that doctor.

As opposed to, say, buying lumber or dog food, people don't have the same attachments to that provider. So people are willing to drive past one clinic to go to that patient, to go to that doctor that they trust. So we see far less patient interaction, patient movement than other traditional retail. But I track 62 cases, and we still have to keep track. Every month I'll keep adding to that. Our average revenue increase in the existing clinic has been 13% over the previous six months. That's because that clustering helps build brand awareness and because the franchisee, if they open both, can leverage marketing and leverage operations as well. And the new clinics that opened are 50% above historical ramps because they're entering a market that already has some existing brand awareness.

So we want to have smart growth, and this is how we capture that with our encroachment policy to ensure that franchisees maintain their existing patient base. We have a site acceptance committee, sometimes called a real estate committee. We try to meet weekly to review and evaluate new sites for clinic development. A lot of retailers meet once a month for a real estate committee. We try to meet once a week, and that is so that we can get that engine moving faster and get clinics to open faster. More clinics open faster by meeting more often.

The site committee is made up of senior team members. So we provide due diligence from multiple frameworks. We get inputs from marketing and operations and their experience. And the purpose is to accelerate that clinic opening process. That regional developer in their territory really is – plays a crucial role because I can't get out to look at every site so that regional developer has to be our eyes and ears on the ground because they want to open strong, successful clinics as well. So they are – I train them in what to look for, and they're out looking for us.

And the result since we established our site acceptance committee, 88% of the clinics we evaluate are above average. So we've had great strides in marketing and in operations. But the real estate, the due diligence that we apply through the site committee has helped build a brand as well. And the new clinics that we open are 104% above historical ramps, so that 88% means – of the universe of clinics that we've opened, 88% are above historical ramp, and what they average is 104% better than historical averages.

So we eventually – we are beginning to get into new markets. We've seen our universe kind of expand. Our typical suburban shopping center is moving in both directions on the urban hierarchy into small markets. We have seen some recent openings in small markets that are in the orbit of larger cities but sort of at a distance, and we've seen some successful smart markets opening. And that gives us great encouragement as to where we can go in the future. We're also looking at a more urban focus. And what we're seeing in every city in the United States is that people are moving back to cities.

The move from suburb to suburbs that began 60 years ago is now going back particularly amongst younger generations. Millennials love to live in cities. They are great patients of ours. So they're living in cities, and we're going to have move back into the – we're going to have to find those cities. But those cities don't have a lot of traditional daily-use, automobile-focused shopping centers. So as time develops, we're going to have to move into those markets as well. And we're looking at non-traditional airports, dual concepts and university locations as well.

We have another growth source, and that's infill. We've seen recently, beginning in the fall, two clinics that were doing really well, two of our top 10 clinics really said, we're doing so well, we can't handle how great we're being right now. So they had to – they opened in non-adjacent trade areas. They weren't clustering by moving into the next trade area over. They open the second clinic in the same trade area where we already had the strength. These two clinics, both of them opened around September or October of last year. Six months later, they're doing 38% better in the market. So they've gone from two clinics to four clinics and, in six months, we've added 38% to the overall marketing.

So we think this can happen in many, many more of our best markets. This top – for instance, our top 50 clinics are now 87% above the chain average, and they're comping at 24%. So at some point, we should think about what our strategy might be into developing an infill characteristic for development. So our takeaways for today are that our core customers come from a broad spectrum of the U.S. population, and that gives us the ability to go into a wide variety of markets.

Our sales forecasting tool and our build-out potential is based on reliable and proprietary analytics. Our current database has 400 predictive variables and our model and data is used throughout the business. Our operators, and our marketing team and our finance teams uses that same data structure that we've created. And we want to optimize the growth based on expanding brand and industry awareness. Our patients tell us who they are, they do a great job of telling us who they are, and we just want to find more people exactly like them because they've told us who they are. Al right, any questions?

<Q>: [Question Inaudible]

<A – Eric Simon>: I was prepared to repeat the question. What are the common things that the top-50 clinics share, that you think might be driving that big outperformance versus the average unit volume?

<A – Richard Matthews>: That's a good question. I think it's dense population and maybe a skewing towards a younger work – a younger population. So – and we tend to be – most of our clinics are in Sun Belt cities we started there, that are older for us so we've had time to build that brand awareness. But density and a little – and a shift towards that younger population.

<Q>: How are you seeing the earnings or property earnings give you either more incentives or fill you into Tier 1 to Tier 3 kind of locations? How has that changed over the past few years?

<A – Richard Matthews>: Well, commercial real estate is really competitive now. There's a theme that's out there, that's we're over retailed. And I'm in a group that advises the International Council of Shopping Centers, accompanied – among the North American Research task force and the ICSC, the International Council of Shopping Centers is sort of the shopping center lobbying group has – is constantly worried about that message that we're overbuilt. Not a lot of retailers – new centers are being built now. So we're competitive for these new kinds – for the small-box space in good centers, we're not the only one looking for them.

We are desirable for owners of space, for landlords and developers because we have a very easy buildout. We don't take up a lot of space. We turn over in parking very quickly. So landlords like us now. Five years ago, we weren't all that – the service sector, which has a different tax for a lot of municipalities, is different than retail. So we have shifted from being sort of a questionable tenant to really a desirable tenant now.

<Q>: Do you find that your store footprint, while I know it's attractive from a small size perspective, but do you think it is big enough and attractive enough to really drive patient traffic over time in that key variable of, sort of, awareness and visibility?

<A – Richard Matthews>: Yes. If you take an idea that you get large, it should get larger and larger. And this is some of the big box retail stuff. If you get larger, then let's build a 100,000 foot box somewhere because we could put more items on the shelf as opposed to 3,000-foot items, and you see some retailers like tenant – like target for instance, got bigger and bigger and bigger, 100,000 feet, 125,000 feet, and now the targets are opening 10,000-foot stores.

So the rent structure for us then going from 1,000 feet to 2,000 feet gets a little – we prefer that 1,000-foot box. And if we have to – we have some clinics that are 1,800 feet, 2,000 feet but they don't do the size of the box doesn't do – isn't a variable that is a good predictor of sales unlike a – the number of a retailer that can put more product on the shelf. So just this becomes – we're not – we're getting less return on that investment. So we really have to have good visibility and accessibility of that 15 feet. That 15 feet to 20 feet has to be in the line of sight when you come in that center. We don't like being around the corner in the elbow of places. So while 15 feet doesn't give us a lot of flexibility, we really want to be in those. We really have – we have to maximize that visibility and accessibility.

<Q>: It's terrific that you have embraced the clustering strategy. Just wondering what it looks like, I guess what the metrics will look like, when you go into a more virgin market? And then also, if you could just touch on the traffic stats for the type of centers that you typically go in to?

<A – Richard Matthews>: Yes. The second question first. If we get average daily traffic counts are, sort of, divider between weak and strong, is 20,000. So if you're below 20,000, that's – we're going to need some extra incentive. But 20,000 is the sort of the key that we're looking for there. We've seen some good openings, some strong openings in newer territories in the past 1.5 years or so. So I have every confidence that, that cluster – that clustering is going to just add onto that.

So our – sort of our marketing tool or marketing team has helped get that initial up – that initial sales up in those new territories. And then when we cluster, it's going to be an exponential effect. Yes, the ramp – our ramp in new territories is really strong as well now.

<Q>: I was curious just may be a history lesson on the initial corporate buildout in Illinois and New York that was unsuccessful. What were some of the characteristics of that lack of success and what are some of the learnings on that front?

<A – Richard Matthews>: Do you want to handle that?

<A – Peter Holt>: The short answer is, I think it was – Chicago was an amazing market. We opened up those 11 clinics in a relatively short period of time, and that was just the time when we got over our scheme. And that was the time when our breakeven was running between 18 and 24 months. That wasn't what was expected. And so as those clinics were underperforming and putting financial pressure on the company, that's when I was coming on board and looking at it, okay, that's underperforming, that's why it was bought in the first place.

And so what's the most effective way to deal with this? And that – the sizes were all okay, they – yes, some could be better than others, but there was reasonable size, it was an amazing market. Illinois is an absolutely chiropractic market. And I would say the issue with Chicago more than anything else was our former management did a great job of opening up very quickly about 61 corporate clinics, half built, half bought. And we weren't putting enough time on the operations side of it, which was putting that financial pressure on.

And then we now have our deal in the Chicago market, they took six of those 11 clinics. They have been turning it around and being successful. There's still room to improve, of course, but it's not a Chicago market. I really think it was, more than anything else, it wasn't a site issue, it's probably more than anything else, it was the over site that we had put in place to support those brand-new clinics in a brand-new market, where we opened them up in the middle of the winter without a marketing campaign behind it.

You're going to hear from Jorge Armenteros, our VP of Operations, who really came in, completely restructured our oversights and support of the clinics, and you'll see the – and you've seen the results every quarter about the impact that's had on overseeing the clinics.

Anything else? Okay, I think we're on time for a break and then lunch.

Regional Developer

David Glover, Texas Regional Developer

<<Peter Holt Introduction>> And now I would like to introduce David Glover. David Glover is a very sophisticated franchisee. He's actually the very first regional developer that this company ever had. And he's continued to outperform all of our other regional developers. You'll see it in his presentation. He and his team were our Regional Developer of the Year in 2018. They were Regional Developer of the year in 2016. They've done an amazing job utilizing this model as a regional developer to really accelerate the growth in the territories that he's a part of.

And so I'm going to ask David to come and join us. Let's give him a great round of applause.

<<David Glover, Regional Developer>>

Can you all hear me? Awesome. All right, this one on the right. All right, hang on. And they've moved my speech around just to confuse me. All right. Well thank you, Peter, for having me here today. Greatly appreciate it. This is very exciting to talk to this group of people. The – this will be the first time I've ever spent 30 minutes with you in a meeting, and I do all the talking. Hope I don't get in trouble for that. As Peter said, my wife Anne and I are the regional developers for Houston, Dallas-Fort Worth, Austin and San Antonio, Texas. We were the first regional developers into the system back eight years ago.

A little background on myself, just to start. I got started with an accounting degree from the University of Texas in Austin. I then went into Public Accounting for three years through Anderson. And at that point, I said, I don't want to be an accountant for the rest of my life, sorry, Jake. And a family friend introduced me to a guy who is a young real estate developer starting out, and I said, what the heck. And I went ahead and I started out first building an office building, overseeing and constructing an office building for product manager and leasing. And that was where it was started.

Ultimately, I became President of the firm and partner with him. 20 years later, our company thrived despite the oil downturn in Houston. And then after 20 years, in late 2003, I sold out to my partner. So I was 46 years old, and that was like too young to retire. And Anne and I only knew real estate well, that had been our background. And by the time I was done selling the company, it was 2004, and I saw that there was a real estate crisis coming a few years from then, so I did not want to go load up on real estate right then. So what do we do?

Well, we talked to some franchise brokers because we did not know what else to do. And one of them told us about a concept that had just started, it's a very let alone concept called Massage Envy. And there was only 15 or 20 of them in the nation at that time. And our family told us we were nuts. So –

don't worry, Peter, I'm not here today to talk about Massage Envy, I'm here to talk about The Joint. But I'm going to tell you a little bit about my experiences there because it formes a basis for us going forward.

So after our families told us we were crazy, we bought three licenses to open three clinics in Houston. Well, they wanted to do these little 1 mile circles, and I drew them on the map, and I see Richard back there going, drawing on maps, I like that. But we had circle cleavage and stuff, and I was like, don't – I'm not controlling that whole area. So I said, why don't we do this rectangle? It's less square miles but it's more efficient and gives me control of that area. So we did a clustered rectangle for three clinics in that rectangle in the heart of Houston, Texas in the River Oaks, Galleria and Memorial areas of Houston, if any of you all are familiar.

So clustering is really powerful and it provides shared local print advertising. And back when we started, the Internet was just getting going. We didn't have a lot of digital marketing. So also, we were able to easily share employees between our clinics. Okay, you work today at River Oaks, we need you over tomorrow at the Galleria, well it's only 10 or 15 minutes apart, no big deal. Also our customers were migrating back and forth in that area and so we were sharing the same customers in our clinics, which resides. So they were getting our level of service, which they are all the same but our's is special.

So we opened our first three clinics in 10 months. I mean we kind of hit it hard. We subsequently bought two more licenses. So we ended up with five licenses after four years in Houston. We have this powerful rectangle. Our River Oaks clinic, which was our first one to open, was a number one massage Envy in the United States out of 800 clinics, so it was cranking.

So what did we learn from this? Well, Massage Envy taught us the incredible power of the regional developer model. You remember I said when we got into Massage Envy, it had only 20 units? And then four years later, we were number one out of 800? Regional developer model, that's explosive growth. That's incredible. It also taught us about the advertising co-op system and advertising co-op is where all the franchisees in a region or a city get together and they pool their money and they buy advertising they can't afford to buy individually. For example, radio, TV. They do a lot of big events together.

And so co-ops are incredibly powerful. The other thing we learned in – from Massage Envy was brand building. I mean it's important to build the brand, the people know – that's Massage Envy, that's The Joint not that's Joe's chiropractic place. So that's incredible and we learned about clustering of the real estate. So what we – from the shortfall we saw in Massage Envy were, we were the only one that was really clustered. Everybody was else was one here and one there. I remember there was a Massage Envy in North Phoenix and one in South Phoenix and we were like, oh God, it takes an hour to go between the clinics. And that was bad design.

So the other problem was they were selling licenses on a to be determined basis. People would buy a license but didn't have real estate attached. And I saw that and I thought people were going to kill each other. So I was like, okay, I'm going to make sure that people know where they're going from the get-go. So I did not want to have to be determined licenses floating around. So after four years, we sold all four of our – all five of our clinics. And due to the strength of the recurring cash flow model and the memberships we sold on a 6x multiple, we sold it for $6.25 million cash, and that was pretty nice. I'll tell you the best part. We already have this scheduled trip that was two days after our closing to go for two weeks to Tuscany. So we closed and we went to Tuscany for two weeks. That was the best part. And all the time we were there, we were like, oh we're not getting our daily reports, why not? Because we don't own it anymore.

Okay. So let's talk about The Joint now, no more mention of the Massage Envy. So now we can check being a franchisee of our list and it's time to be a regional developer. Well, that other concept I won't mention again was funded by a guy named John Leonesio here in Phoenix. And when an investor group came in and bought the original Joint that had been founded by a chiropractor long ago and it was kind of semi-dormant. They were bringing John in as a CEO, and I used to talk to John, and we talked about what was going on and what do we see out there. And he told me about this.

So we, Anne and I, immediately flow out to Scottsdale and sat down with John. And we said we want Houston, Dallas, Austin and San Antonio, and we ended up buying 58 licenses that time. So what does that mean we bought 58 licenses? I thought franchisees buy licenses? Well, a regional developer pre-buys them for inventory, if you will. So we would pay $0.25 on the dollar. So if our license costs $30,000 to the franchisee, as a regional developer, we would pay $7,500 in advance.

So we bought 58 licenses, $7,500 – $7,508 each. That was about $425,000 back then. So that was our buy in of the poker game. So you're going to say what is a regional developer? What do they do? Well, we develop regions. That's real simple, right? The – oh, I'm totally sure. I had these 58 licenses, but I wasn't quite sure what we did or how to do it. So being the CPA nerd I am, I went out and bought a book, and I bought this book, Grow to Greatness: How to Build a World-class Franchise System Faster?

And I said, boy, what a great game plan. And I bought this book brand-new, and you can see I actually used it quite a bit. I learned a lot from it. So that was embarrassing. I hate to say I learned a lot of this from a book. So what a regional developer does is we award franchises. Now awards is a fancy word for sells franchises. We generally prefer people that live in that town and even near their clinic location, so we can leverage off their relationships that they have, whether it's with the Chamber or other groups.

The other thing a regional developer does is we support our franchisees and it's not just selling licenses. So I think one of the most important things that we do is help them find good real estate. And I remember Richard flew out to Houston one time. He was like, hey why do your clinics do so good? Let's go look at it. I said, well, they've got real estate. It's real simple.

So what we did in each region, we'd find a really good broker. We teamed up with CBRE in all four of our regions and had a different broker for each city. And they were good, they were hungry, had a lot of energy. Then I would call that broker and I'd say, okay, John Smith is buying River Oaks and Galleria and clinics, and we need to do a tour. So they'd take a couple of weeks. They would call all the landlords in that area and they'd find potential 1,000 to 2,000-foot spaces that they were going to show them that were currently available or the most important part of, I think, could be available.

So by having a good broker, having a proven franchise brand and early on, we weren't a proven franchise brand, but – these landlord would have a tenant that was slow paying on their rent. And they'd go oh, I'd surely like to get rid of them and you guys seem pretty good, and you guys have several open that are doing well and I like this and I like the others' background. So they would move that tenant along to greener pastures or they would choose not to renew a tenant who didn't have a renewal option. And failure to have a renewal option in their lease is a big mistake that most people don't even catch.

So all of a sudden, they've been there five years and the landlord says, sorry, I'm raising your rent $10 a foot and – because I want to put these other guys in. So that's how they could be available or became available, and we got a lot of spaces that way. So I'd call that broker and I would say, okay, Joe's buying these trade areas, et cetera. So they'd put together – they'd find out that real estate. They had put together – yes. All right, they would put together a tour book. This one is for actually one trade area but it's got tabs. And each tab – at the front, it would have a map of them all.

And then it would have pretty landlord brochures for each center. And we'd hop in a suburban, myself, the broker and me and the franchisee. And we would hop in a suburban and spend half a day to a full day, depending on how many licenses they bought, and we'd just drive around. And when they got in that car, a lot of them were like, well, I don't know about real estate. But by the end of the day, they had a pretty good working knowledge because we'd school them. So then they'd find us a lease, say work in NOI and get that going.

Now most of these people don't kind of have a real estate background or a legal background, so they'd get this big old thick lease and go, oh my gosh, what do all these words mean? I would say, well, you need to hire a real estate attorney or a lease reviewer, and there's people out there that are like real estate attorneys that are called lease reviewers, and I haven't really figured out the difference. But – so they review the document for them and help them negotiate it. And I was very involved in every lease, helping them strategize, and I'm like, no, it's probably not that important or you really need this or whatever.

So we spent a lot of time working with them on their lease negotiations. I did not review the lease for them because I wasn't an attorney. We then – once they got a space, we'd help them with their space plan, their layout, their design. This is good, that's bad, that's inefficient or you'll hate that, whatever, just so they'd have an efficient clinic. We'd refer some general contractors we need to them. They would hire the general contractor themselves to build it out, but we knew some – and typically, as regional developer, we preferred a general contractor who's built one of these before just to make our life a lot easier and so we didn't have to train somebody every time.

So we'd help them with their opening. They're getting ready to open. Well, how do you market? How do you advertise? This is the old days. This was before digital marketing was big. Anne and I were big into postcard mail-outs, and it's what we did in another brand. And we were big in mailing out 10,000 postcards a month, every other month, all around. And people got them, and most people just ditched them in the trashcan. But they saw them and that was an impression. And Jason, don't impressions count?

<<Jason Greenwood, Vice President, Marketing>>

Yes.

<<David Glover, Regional Developer>>

So then once they get opened, we helped them with their opening. And we'd usually have a tamp that said The Joint and they could put it at their opening with balloons on it and make a splash. And after they opened, we helped them with their future business planning and operations, disseminate information that comes on from corporate. And in order to maintain good brand continuity, we did a lot of periodic inspections. And we do – we'd inspect several times a year. We'd go out and look at their clinic. And occasionally, you'd find someone who decided, hey, I need a fish tank on my front counter. Well, that's not how we look. But – so you cancel that.

Okay. So back to when – we back up – we purchased 58 licenses, okay? Okay, I do need this. And now I've got 58 licenses to sell. So where are we going? What am I going to do? So this is Houston, for example. You see all these little squiggly weird shapes. They're not circles. They're – I don't know the name of them, but those were defined by streets, major roads, rivers, lakes, whatever. And those are trade areas. And so these were projected Houston trade areas. And there's a lot of them and they were pretty good sized.

Because when we first started doing this, people were like, well, I want protection around – I don't want anybody near me. And we subsequently learned, well, it's better off if you aren't close together – close with the other, but the typical franchisee's reaction is I don't want anyone near me stealing my customers. That's just basically franchising. So we built these maps. And then, we – I mean, I think I have a couple of them, I do. That's Dallas and there's Austin. Some of them are crossed out. I don't always get this updated as much as possible. And there's San Antonio. So I've got my maps. I know my inventory in these franchisees.

So my next job is to sell our licenses. Well, I said, okay, I've got 58 licenses to sell, that's a lot. But I like clustering. What's going to do it faster? Faster. Okay, word on the book. In Dallas and Houston, I required every franchisee to buy three contiguous trade areas. In Austin and San Antonio, two. So being the CPA I was, I've – well, that would be faster to sell 58 if I divide it by three. So that's what we did. We required them to buy three contiguous ones in Houston and Dallas and two in Austin-San Antonio. And that upped the ante. It meant we got, I think, an even higher caliber of people that had some money to play with and they were definitely more engaged.

Okay, so we sell these units. We signed a bunch of agreements, paperwork. Well, the name of this game is opening the units. And up until then, I don't think they're good till they're open. So we pushed to get them open quickly, and sometimes that takes a little longer than you want and landlords sometimes like to pull your hair out. Okay. So once they started getting open and we have four, five, six in a market, we would start to establish advertising co-ops. So everybody would come in and we'd say, okay, well, you guys are getting ready to do some big and powerful here in Houston or Dallas or wherever. And they were like, what? I don't know. So – and the co-op again can leverage the power of, say, 10 clinics to buy radio or Austin lights TV. And different markets are priced differently.

Austin is a cheaper TV market and so they do that there. But Houston and Dallas were expensive for TV so we went with radio. We used to do radio at that other brand I'd been involved in before, and it got the word out and made impressions. So we really got those going early on. Our Houston co-op, who actually won an award at the last conference, is I think they're the top of the food chain for co-ops. I mean we've got some really good real franchisees there, very powerful, strong motivated people. And just recently, see if my slides are in order, the Houston co-op became the official chiropractor for

University of Houston Athletics for the entire school, every one of their sports. So you see that in the lower-left corner down there.

So we –- the co-op paid the University of Houston $150,000 to be their official chiropractor. And that is very different but it's going over well. So once this happens, who do we hear from next? Dallas Cowboys called us. And we've heard from, I think, SMU and we've heard from other team. They were like, oh, we want you to come be our official chiropractor. Obviously, they're seeing the money potential but it's still a great relationship. So anyway, our strategies appear to be working. So why is a regional developer so powerful? Because we're getting accelerate growth of the concept before copycats come in, and that's huge. We don't want to go up in 20 and then somebody else goes up in 20. I mean we want to have world domination.

I set the bar kind of high. Also, when you're in early, you control the best real estate. Four minutes? Okay so you control the best real estate. You get in early and you find the best real estate. And that's how you dominate. So where do we stand today? We have 109 licenses total that we've awarded and sold, 80 units opened in Houston, Dallas, Austin and San Antonio, Houston has 31, Dallas has 30, Austin, 14, and San Antonio, five, okay. We've got two more units under construction, we've got eight more leases that are already signed, and we have nine units that are in negotiations with landlords and 10 other licenses that are out looking for real estate.

So one of the things I was told by Peter last night. Franchising is such an unknown opportunity for people. There are so many people stuck in jobs that they hate. They have a lot of talent, and they don't know – no one knows about franchising. I barely knew about franchising, and we kind of stumbled across it. And what does it take to open a clinic? Well, our FDD, our Franchise Disclosure Document, says it's like $180,000 to $340,000. And let's just say for talking purposes, let's say that number is $250,000 because there's a minimum and a maximum, but let's just use $250,000 for talking. The SBA will loan somebody 80% of that.

When you come here with a proven concept and we have an SBA registry number, I mean, boy, they just love – those are just slam dunk borrowings. They look at the borrower. I mean, it can't just be somebody with zero – or they'd pretty close to zero where this concept is so good and strong. But they'd come in and borrow 80%. So a $250,000 franchise, they need 20% down equity. That's $50,000. Well, I think most people could go pull together $50,000 from family, friends, create a partnership, somehow syndicate it out and you can get a clinic.

So that's really a – one thing I want to say as I wrap up is I want to complement Peter Holt on an incredible job he's done turning this company around, building a culture here, a culture of trust, a culture of honesty and a team that's an incredible strong team that a 4,000-unit franchise would be proud to have this team that we have at corporate. So that's pretty incredible. Good job, Peter. So anyway, I want to say, thank you, and any questions? And all that. So Manjula, you would like give me time or we – was that my time to start questions or time to be done?

Q&A

<Q>: How do the economics compare between the prior brand to join the franchisees?

<A – David Glover>: That's a good question. The first franchise was pretty strong, and it flew off the launch pad. And I have a lot of friends that are still in it, and they are all kind of wanting to get out of it, and it's morphed and changed, and The Joint is – we have, okay, so we have five clinics. We had 180 employees. That's a lot of employees. It's 140 of them were massage therapists and 40 front desk. And that will wear you out. Our concept has a much lower headcount. I mean, you've got – when you open a clinic, you have one at the front desk and one chiropractor in the back.

Now obviously, they can't work all the hours of the week and all that, so you'll have multiple of those. And then as you get busier, I mean, I've got clinics in Houston that are running three chiropractors full time because they are that busy. So – but it's still much easier to manage. And so our multiple basis may charge good money with this. And I mean, we have one of our franchisees picked the conference here recently, and he is clearing $1 million a year with six or seven clinics. So it's – if someone wants to scale up, it works.

Marketing and Patient Acquisition

Jason Greenwood, Vice President of Marketing

Thanks, David. That was awesome.

So my name is Jason Greenwood. I'm the Vice President of Marketing here at The Joint. We've heard a lot about real estate, talked to some brilliant people, heard from some brilliant people this morning that comprise our development and the real estate machine. And it's really impressive. But we're going to shift gears a little bit now, and talk about consumer because after all, we are a consumer brand. And that's where my head is all the time, is building a consumer brand. So a little bit about my background. I have had a 20-plus year career, and that's what I do. I build brands.

And when I say we build brands, I don't just mean the advertising or working and positioning statements, but I mean build, build a company that resonates with consumers in an emotional way where it resonates with our identity and it resonates with the consumer need and it is a fulfilling and rewarding and emotional and enriching entity. It becomes – it's a strong relationship. And those are the situations where the whole is greater than the sum of the parts. So that's what I do, it's what I specialize in. And that's not an overnight thing. That's a brick by brick kind of the thing. That's what I told Peter when I interviewed. And I had been with The Joint since January 2018, I said, "Peter, I'm a builder. I only know how to build things brick by brick." And that's the sustaining thing. Those are the types of things that are enduring, the brands that can go on for decades.

And that's what I'm interested in building. I have done it. Like Eric, I have done a franchising myself. So that's always interesting because sometimes, when you work for franchise businesses and you're a marketer, they don't think that you understand what it means to be a franchisee or they think you're disconnected from profitability or the operations. And that's not the case with me. I've actually run my own franchise business for five years, and I know what it's like. I know what it's like to take somebody else's model and run with it and execute it, and I was a darn good franchisee.

Things just changed in my life, and I decided to go back into the corporate world, but – so I know what's that's like, I think it makes me a well-rounded marketer. I've also been in advertising. So heavily steeped in automotive, which is a huge industry, and very sophisticated and very much in the strategy. And the things working for Y&R advertising, consumer trends, consumer research, brand positioning, portfolio positioning, that kind of the thing, I was just that guy. And then most recently, headquartered in Phoenix at a company called Peter Piper Pizza. It has restaurants – it's a food and entertainment chain with restaurants in the U.S. and Mexico. It's up for 10 years. And we pretty much – we built every part of that company. So I have long stints, and now I'm at The Joint. And it's my first bite at health and wellness, and I absolutely love it. I will never go back to restaurants, because the skies are blue in this category. It's nothing but growth and opportunity, whereas restaurants are cutthroat and you scratch and claw for a 10% of the traffic growth, and I'm just not interested in doing that anymore. I love The Joint.

This is – every marketing team is built differently. I'm not going to get into the details. But functionally that you need to take away from this slide is what is marketing do for The Joint? And really, it's four things. Obviously, I just talked about – do I have that little arrow? I don't know if I have that arrow. I do. We talked about strategy, and that drives everything. You have to have vision, and that's one of the ways that I can contribute to the leadership team and to serve, and Peter and myself, senior executives, that I should be one of those people that are really plotting and making sure that we're on course, we know where we're going from a vision standpoint, that we're recalibrating that everything is in alignment. I'm a big believer in alignment. And that's what I do.

Underneath me, you have three basic disciplines, some are core competencies, some are growing competencies for The Joint. So for example, we're a really good digital marketer. And we'll talk a little bit about that in a minute, particularly with what we call lower funnel digital marketing. If you don't know what a funnel is, I'll talk about that in a minute. So it's a very good competency for us.

We're also really good at promotions. So Peter has spoken multiple times on his calls about our holiday promotions, where we actually just started one over the weekend. It's our summer sale where we target lapsed patients. So we're really good and really dialed in terms of promotions in this category, and yes, they do exist. We're not a heavily – we don't discount heavily, but every promotion doesn't have to be a discount. In this case, our summer sale we're targeting lapsed patients. And that's one of the things we can do with the data that we have. We know everybody is coming, we know how long they've been in and we can do mass market promotions and then we can do highly targeted promotions towards our own patient base.

So I would say those are our competency spreads that are established and we have some growing competencies. One of them is content. We are a good blogger. We produce more chiropractic content than any entity in the entire world in the public domain. The Joint has produced, I think, in the last seven or eight years, 40,000 articles about chiropractics, so we are a prolific blogger. But there's more to content than blogging. And that something that we're learning how to be better at and that helps you – it gives you stuff to promote that doesn't have to be an advertisement or a sale or a discount. Creative and communications. We're learning how to position our brand better, and that's going to be very important because we want to build a great consumer brand. We don't want to just be a referral machine, we want to lead.

So creative and communications, I would say, an ongoing competency. And then David Glover, just set me up really nice because he talked about co-ops. And he talked about the clustering and the benefits of clustering. And that allows us to play in the traditional marketing space. And just because digital is hip and cool doesn't mean there is no room for traditional marketing channels in your marketing plans, it's the exact opposite. There's a great opportunity there. It's – TV still the number one brand-building entity in the world. And we would love to be on TV all over the country, we just can't afford to do it yet, not in every market, but we can in some of them. And so these are all things that are – that would be a growing competency. So we're going to talk about all this stuff.

But let me start off by saying – so when we talk to franchise prospects, and we're in there and we're marketing, everybody gets a slot, so we go in there, we get our 45 minutes. And how do we sell them on The Joint? I don't really feel like I have to sell them that much. There's really just two things that I talked about, and I won't read all of these, maybe three. One is it's just beautiful, it's the right brand at the right time. That's what I think of The Joint. When you think about all the juicy things that are happening in the marketplace right now, it's self-care. And what Amazon has done to the brick-and-mortar retail for products, but services have taken their place. And more and more people are investing more of their personal dollars in the brands that help them live better, feel better, look better. That's the space that The Joint plays in.

So we're in this – not only is chiropractic growing, but wellness is growing and health is growing, and this is just an emerging part of the market. And we're right in the middle of that. And we're a category leader. The other category of chiropractic is $15 billion, it's not as big as the other industries, but we're in a leadership position. It's the first time in my career that I have ever been able to help launch or grow a brand and a leadership position.

Peter mentioned this statistics before, it's huge, 26% of people new to chiropractics that walk through our doors. 25% comp growth. That's freebie. I've never experienced that in my career. So obviously, there is just a lot of great stuff here, and I talked about that all the time. What's great about in terms of timing, you're not coming in, you're not going to be a guinea pig. We've kind of work that a lot of the kinks, so that's huge. And then something that's someone mentioned earlier, it's franchising. There's a lot of franchising experience. It's what Peter prioritizes on his senior team is that you have to understand franchising. It's not intuitive, it's a skill. And he always prioritizes people in leadership position to have that experience. And so I think you put all these together and it makes it The Joint an enticing opportunity.

I want to talk about three things. I want to talk about brand identity, I want to talk about marketing methodology and I want to talk about – I'll talk a little bit about grand opening, but now I want to talk about the future, and then I'll take your questions. The first thing is the brand identity. Being a consumer guy, being a brand builder, this is really important to me. And one of the things that we did in 2018, the first things that we did is we conducted the largest consumer research initiative that this company has ever seen. I don't think any chiropractic entity has ever done what we've done. And we mapped that patient journey to chiropractic. What does it look like? How does it start? What are the considerations? What's the behavior? What are the key points along the way? And how do we win at that patient journey?

And after we did that, we presented it last year at our franchisees, and then the next thing we did is we built a brand architecture and I know I probably have a lot of financial types of folks in here, but maybe you're interested in this kind of stuff. But just to give you a little bit of an identity, a consumer identity that go along with the mission statement that you've heard Peter talked about earlier.

So when you talk about brand identity, start with your target consumer. Who comes to The Joint? Richard just told you it's a very broad demographic. I can't necessarily define it cleanly by standard demographics. Richard said, to get the scale, you need 26 of those clusters, right? So one of the things that we talked about is, okay, what about mindset? And certainly, that is something that all of our new patients have in common. These are open-minded people and have a problem. And their problem is pain, and it's messing up their life. It's debilitating them. They're searching in the marketplace for solutions to that pain, and there are not a lot of answers.

They really get to a breaking point. They've tried different things. They've tried popping Advil, they've – God forbid, they tried opioids, they tried massage, they tried stretching, acupuncture, you name it. They go all through the stuff. They're open to chiropractic, but up until now, at least for them, it's been really hard to understand, the market is super fragmented, it's weird and they don't get it. And I'll tell you what, people know they've got to go to a doctor when they got a broken leg, when you got strep throat, you know you got to go get your antibiotics. But when people have just random pain, they just deal with it.

Because at the end of the day, who wants to spend the time and money to go on a wild goose chase when you just – you have no confidence that you're going to be any better off at the end of the rabbit hole, so people just blow it off. And that's why we are where we are, where we have a serious pain epidemic in our country. And then comes The Joint, and Peter talked about it earlier. Our mission to improve quality of life through routine and affordable chiropractic care. And we do it differently. We've taken something that's complex and confusing. We've simplified. We've broken it down to its most fundamental parts. We made it sociable, it's approachable, something that's easy to understand and access. And I think we could do a lot better there, but we've come a long way. We're knowledgeable. We produce more chiropractic content than any brand in the world.

We're aspirational. We just don't want to help you, we want to change the world through chiropractic legitimately. That's what we wake up every morning looking to do that. And then we are vested. Because if you are a chiropractor and you're putting your hands on people's bodies every day, that is an intimate relationship and you have to be vested in your patient's goals to be a great chiropractor. So the three legs of the stool, Peter have showed them in a video. Peter talked to them about earlier. This is what we came up with them: Accessibility, credibility and empathy. The core delivery, the three legs of the stool for the perfect Joint chiropractic experience that helps patients live a better life.

So I told Peter when I got here, I said, "We have a great mission statement, but we still need to answer the why from the consumer standpoint? Why improve quality of life? What does it mean? What it means is that when you have a better quality of life, you get to live a better – a best version of you. And that's really what it means to the consumer. So that's our brand identity in a nutshell. We have a lot of metrics that we marched to the marketing department. One of the key ones is new patients, and that's unique for me and my career. I've never been judged on that. But that's not as important in a model like ours. So it's a significant area of focus.

And Peter has mentioned this a lot. There are three general sources. If our wellness coordinator asks new patient, which they do, how did you hear about The Joint? Who can we thank for your visit today. They tend to say one of these three things. First and foremost, it's usually a referral, right, because we're a medical service, and that's definitely tied to a strong patient experience. A lot of them say digital marketing, one in three. And then the rest of them, attributed to some kind of a laundry basket signage or community engagement or they saw an ad. But that's basically the three areas. So we – another thing that we did with the research that we conducted last year is we used it to refine our marketing methodology. Because at the end of the day, small box retail is about providing tools, a tool and a blueprint that franchisees can run with.

The whole point of them coming into The Joint is they don't have to be marketing experts. We do that for them. All they have to do is execute and run with our blueprint. And that's what we're encouraging them to do. Don't overthink it, just do what we say because we figured it out. And so part of – in order to do that, to have credibility with people that are successful, somebody mentioned, David suggested they hate their jobs, but they are successful people, maybe had great corporate careers, they're just tired of it. So it's not like you're dealing with people that are necessarily wet behind the ears.

They just want to know that you know what you're talking about. So one of the things that we do is we spend a lot of time talking about marketing methodology, and what we do is we call the purchase funnel. And this is important. And I could talk about this for an hour, and it's a little bit of a secret sauce stuff when it comes to The Joint. But the big picture is we know how to market a corporate – we know how to market a clinic successfully. Period. We're really dialed in, and it gets better and better every year. And it's because we understand the patient journey to chiropractic, we've got 450-plus test kitchens and we've tried, we've improved it every single year. So The Joint is dialed in, and we know how to grow a clinic. We know how to open it. We know how to grow it.

And it involves three phases. So you've got this prospect, and you know it's coming into the funnel. And every industry has its own funnel, and they all look different depending on what the category is. And there are three layers to this funnel, and they're all important. We all have to be present in a well-balanced marketing plan in our industry. The first one is your awareness layer. And this is the largest audience who may or may not have ever heard of chiropractic or maybe they just don't understand it, they don't even know they're looking for a chiropractor. This is more your mass market.

Then you get to a lead generation layer, and this is a refined audience. This is when Richard spoke earlier of him loading his real estate stuff into the marketing database. We can use Richard's information. We update it every quarter. We can sign those people in our platforms, and this is – and digital marketing drives this almost exclusively. So this is where we get really dialed in with what some of industries call hand razors, or people to have flags online or they look like somebody who might be a relief seeker.

And then we talked about our smallest audience and – but these are the most important. This is – we would call it foundational. We don't even call it conversion because it's, for us, it's the foundation. They are the easiest and cheapest to convert. Many of them are actively seeking a chiropractor and can be closed with the right information. So this is very important. And we teach – this is how you build a successful local clinic marketing strategy. Not like this like other brands I've been, I've worked on, but it was like this. So this is really important.

So on a high level, when we're talking about foundational marketing, these are tactics that help establish the visibility, trust and credibility of clinics and staff. Effort here makes all of your other advertising more efficient. And we do most of this for our franchisees, and we do it through search engine optimization. Most of you have heard of SEO. It refers to unpaid results from user queries on search engines. There is no voodoo with SEO. It's pretty well defined the best practices. You just have yet to commit to them. You just have to do them. And you have to do them consistently and there has to be seamless between the local outlet and what we do nationally. And if you do it and you commit to it, and it's powerful.

Because what it allows us to do is open up a clinic and crush somebody almost instantly, at least in terms of online visibility from a chiropractor or local mom-and-pop who might have been working in that trader for 20 years. It doesn't matter because he or she is not doing – not following SEO best practices, and we are. And we know how to do it. And we're way ahead of the game. So when our franchisee signs his or her lease, and their franchisee are already working on an SEO plan. And so it becomes really powerful for us. It's something that we funded the national marketing fund that requires some activity on behalf of the franchisee. But this is foundational for The Joint. I've never worked for a brand where it's been so important.

And the other thing is community marketing. Some things will never change, and you cannot launch a retail concept from behind the computer screen. Digital marketing will make great strides in the future but at the end of the day, people are still human beings, living and breathing and you got to get out in your trade area and you get to meet them, and you've got a network. And so these are really foundational tactics for marketing and it's what we build on, it's what we teach and if you got a problem and you're not satisfied with your local clinic performance, this is where we start. We layer on top of that lead generation. This is probably – Peter had this chart earlier.

This is something that any of you, by the way, can look up if you don't know, Google Trends and just type in the keyword, and it will tell you how fast it's growing. But this refers to the amount of the rising interest in chiropractic search. And this is something that we can target through primarily through search engine marketing, it's probably our number one – this is the tool that competitive chiropractors actually use the most. Chiropractors are not big advertisers, but they've learned about search engine marketing, and so we train our franchisees to maximize their leads. It's very important. And then we also use the Facebook and YouTube platforms as well. They have a traffic-driving ads in units that we use as well.

So this becomes our lead generation layer. Like I said, for most franchisees, they are going to spend more on this layer than anything else. But one of the things that we're running into in some markets is we're running out of leads. I mean they're only so many they come and they're there and they're gone. And you've got to buy them all up. But what do you do when the leads are dried up. And this is when you get to awareness marketing. And this is something that is a growing competency for The Joint, particularly in markets where we have clustering, we can take advantage of media that allow us to get out in the marketplace and create our own demand, like a real consumer brand, not just a referral or a lead generation machine.

And this is where we are have a growing competency. We’re investing more and more. We are teaching our franchisees how to play here. Sure it’s easier when you got 30 clinics in the market like David referenced earlier. He talked about the University of Houston sponsorship that would certainly qualify in retail marketing. Outdoor, broadcast, print, these are all tools that we can use that are all about measured differently.

It's all about impressions. Paid digital. Digital also plays in the awareness game. We have national buys with YouTube and within the Facebook platform to do awareness advertising. And what is also important is public relations. If we're going to start a national conversation about chiropractic as the leader of this category, and PR becomes an important tool for that. And increasingly, that's a growing competency for The Joint. We want to be a national player in the PR scene and that's something that we're working towards.

So these are all channels that support this top layer. So really, a well-balanced clinic marketing plan should include all three of these elements and that's what we teach. In addition to ongoing marketing methodology, there are grand openings. And we're really proud of this. It gets a lot of attention. We have reduced the time to breakeven or cash flow positive from roughly 18 months down to six months. And we're pretty proud of that, It didn't just happen automatically. It's just like anything else. You roll out a plan and

out a plan and then you make it better and then you make it better. And some of the franchisees even contribute to that. And it just gets more and more dialed in and we have a pretty strong grand opening plan, it heavily driven by grassroots tactics. We give franchisees specific benchmarks that they need to hit, and they know. They know if they hit those benchmarks, that they're almost guaranteed to have a successful opening. And so we feel proud of what we've been able to do. It's a step-by-step pre-and post-opening plan, heavily driven by grassroots tactics, also supported by PR and digital and social media. And we certainly support them at headquarters. And also your RD or your FBC, whichever the case may be, also supports them. So we're very proud of the work that we've done. This is definitely a is definitely a huge upside and a strength for The Joint.

I want to talk about the future because while we're really dialed in and we're proud of what we have accomplished today, there is so much work. That's what's beautiful about this business, there's so much to do, and it's just a question of where you're going to focus. And these are the two areas that, as a Head of Marketing that I'm really dialed on in, one is in the area of brand advertising. I talked about those consumer research insights earlier. And I talked about – I shared the brand identity with you. I want to activate it. I want to actually launch an ad campaign in the fall of this year that brings all that together into a consumer presentation that is consistent, that establishes not only the authority of The Joint, but it helps establish the relevancy of chiropractic as a whole.

If you're going to be a leader, I think we have to take a leadership role in our advertising and not just preach to the faithful but talks to the wider audience of relief seekers and make chiropractic more familiar or – and relevant to them. And many position The Joint as the trusted source. So it certainly can't be all of our advertising, but there's got to be a portion of our advertising dedicated to that. So this is really exciting. One of the things you'll see in the fall is a national, although we're not a national brand yet, but a national ad campaign, really focused on bringing that brand to life from the consumer standpoint.

That's the first thing. And then the second thing is marketing automation. Manjula will be up here later to talk about Axis, which is our new CRM platform. Peter has mentioned it in multiple investor presentations. It's huge. I mean, huge doesn't even – how it begin to cover it. It's really harnessing the power of all of our data in new ways, and obviously, there are huge marketing implications to that as well. Today, we have an e-mail campaign in place. We do SMS marketing, but to be honest, it's like you're on the autobahn and you're driving, I don't know, your dad's old Chevy. It could be so much better.

And what we're talking about is the right message to the right time to the right consumer that happen automatically that aren't so five minutes – that aren't so manual. Things are just reacting to behavior naturally and matching a message that meets their needs where they are in their purchase behavior. And that's really the goal of The Joint. We'll do that through e-mail and SMS, but we'll also do that through the patient portal and on mobile app. So this is a whole new territory. We've hired somebody on our marketing team to lead this. But this is going to be, I think, it's going to be – it has the potential to be enormously powerful, as you can imagine, not only improving our lead conversions, but also extending lifetime patient value improving patient satisfaction, all those types of things that are so important in a model like ours.

So I would say, for the future, that these are the two things that, at least, for me in 2019 that I'm – big picture that I'm focused on as much as anything because I do think it will just give us that engine for growth in the future. In terms of takeaways really just three. To recap, number one, if you don't remember anything else in my presentation today, I want you to remember that The Joint has really a refined model when it comes to attracting new patients whether it's ongoing marketing or its grand openings that we are very dialed in, and we have a very robust and refined marketing methodology that's working. That's of the reasons that you're seeing the good results that you are is because we've got a pretty good handle on how to grow a clinic.

Number two, that we are going to be taking further steps very soon to enhance our brand identity, to activate all of the research that we uncovered last year. It's going to be an insights-driven advertising campaign that will really help make that top of the purchase funnel more robust, to create a true consumer identity in chiropractic regardless if you are a chiropractic user or not. And then lastly, focus more on the bottom of the funnel, really robust one-to-one marketing machine that's just cranking and reacting to the data that we already have that we're tracking to enhance a lead conversion and lifetime patient value. And that is really it. I hope – I'm sure I talked fast, but does anybody have any questions for me?

<Q>: Can you just remind us the grand openings, what those include? And are you actually giving away freebies for an adjustment?

<A – Jason Greenwood>: We do. It's – well, first of all, we can't tell a franchisee what to do, but that's part of our model. So we have a text-in campaign. It's one of our – it's like our strongest call to action, and we typically will give away – I don't think I'm giving away anything secret. You can – anybody can see that. When you go online, you can get a free adjustment, and we usually have a grand opening weekend, a two or three-day period where they can come in and get an adjustment. And I can't emphasize enough how it really just comes down to hitting those metric so we know the exact amount

of phone numbers that we need to collect to make it a successful grand opening, and that's our primary care. Yes, sir?

<Q>: You think six to nine months breakeven is kind of the wall? Or can you get that…

<A – Jason Greenwood>: I'm going to defer to my boss because I'll be just speculating. The question was six to nine months, is that the end of the road? Or can it get any better?

<A – Peter D. Holt>: I'm going to help you answer that. In small box retail, that six to nine months time to breakeven is golden. How far we can push it, we're focusing on meeting the six to nine months as our minimum.

<Q>: There you go. Thank you.

<A – Jason Greenwood>: Anyone else? All right. One more.

<Q>: What is the national advertising campaign look like during the summer?

<A – Jason Greenwood>: The question was what does the national advertising campaign look like, what does it look like for The Joint?

<Q>: Yes…

<A – Jason Greenwood>: We're doing a national promotion, and that is a direct marketing campaign. So what we do is we utilize our own data. We identify a group of lapsed patients, and we target them with an incentive to return to The Joint and purchase a membership. We did it for the first time last year, it was the first time The Joint ever did a promotion like that. It was very successful. Anytime we do a promotion the second time around, typically, we get better at it, it's just human nature. So that actually started in June. Okay. Thank you very much. I appreciate it, everybody.

DC Recruitment & Compliance

Amy Karroum, Vice President of Human Resources
Dr. Steve Knauf, Director of Chiropractic & Compliance

<<Amy Karroum, Vice President of Human Resources-The Joint Corp.>>

All right. Hi. I'm Amy Karroum, and this is my friend, Dr. Steve. I'll tell you a little bit about my background. I joined The Joint four years ago. My background has been startup, high growth human resources. So I spent five years in homebuilding when homebuilding was the hot market. I spent three years in oil and gas when oil and gas was the hot market. And I joined The Joint four years ago because I believe the health and wellness is really where the future is going. Go ahead, Dr. Steve.

<<Steven Knauf, Senior Director of Chiropractic Operations for Arizona-The Joint Corp.>>

All right. And I'm Dr. Steve Knauf. I'm the chiropractor on the leadership group. I got my degree, my doctorate in chiropractic from Northwestern Health Sciences University in Minnesota. I've been with The Joint since 2011, started in the clinics, working full time for about four years, went to management level and has now been in this position going on in my third year here. I also am part of the state licensing board here in Arizona. I was appointed by the governor in 2017. And I also serve on a couple of other boards for associations within chiropractic as well.

<<Amy Karroum, Vice President of Human Resources>>

Okay. So we’re really going to focus today on talking to you about our chiropractor DC recruitment. What’s our vision? Who do we have on our team? What’s the professional overview? Why chiropractors choose to work for The Joint and then The Joint model. What the clinical experience that they have working for us is? What we’re currently working on and then a little bit about compliance.

So Peter mentioned this in the opening, one of the big part of our vision is to be the career path of choice for chiropractors. We say it that way because we’re happy to have them work for us or be an owner, and this is all encompassing. So however you want to join our team, we want to have – we want to be the place that chiropractors want to go. Just a little bit about our team. On my team, I have human resources, corporate support for our corporate clinics. We have 50 corporate clinics now. So I have a team that supports the corporate clinic. I also have our recruiting team. And then they have our Director of Risk and Compliance Services. And then Dr. Steve also has a new member joining our team to focus on DC relations with the colleges and training.

So this question came up earlier today, I think, where are the chiropractic schools? So I think it’s a helpful visual to get an idea of where those schools are nationwide. There’s 19 campuses. They are definitely in little clusters, not evenly spread across the country as we would like. They graduate about 2,500 students per year, and there’s approximately 70,000 licensed chiropractors in the country. If you lay this map across our map, you can get an idea of where we might have a little more challenge, kind of convincing the doctors to move further away from those schools where they graduated.

So you get an idea of where markets that might be a little bit easier to graduate students into and where we may have to help them decide to move when they graduate. So about 1,200 chiropractors currently in The Joint as employees. And then about 40% of our chiropractors have 15 or more years of professional experience post-graduation. We get about 23% that are Palmer grads, which is one of the biggest chiropractic schools, and then 16% came from Life University. Okay.

So Jason mentioned some patient research that he did recently, and we piggybacked off his patient research and did research with our chiropractic team. And we wanted to find out perception of our brand as an employer, what they’re looking for when they’re looking for a career path when they graduate, what they’re looking for 15 years later, how do those interests changed. Really, it’s an engagement survey, but bigger, because we looked at more than just the current doctors working for us. We talk to the schools, we talk to the associations, we talk to doctors that have left us. Just to get an all-encompassing view of how our brand is perceived.

And it was the first time anything like that’s ever been done, and it was a really exciting initiative that we did. And we’re going to use that information to really refine our recruiting messaging and make sure that the things that they're looking for in a company when they graduate or when they're looking for a career path that our messaging is clear that we're addressing those issues. We're also working on relationships with the schools constantly. You can see here it's a little bit light, but this is our lobby. At Sherman College, you can see it's a brand, it's The Joint Chiropractic. So these are huge steps for us and building those relationships with the colleges. And we continue to focus on that and continue to support the education process so the doctors go to – go through. So they see us as supporting their career path.

Okay, so why do chiropractors choose The Joint? So this is out of that research study that I talked about. There's definitely some reasons why they like this model. The doctors mentioned not having to do marketing. If they were to start their own independent practice, right, they would have to deal with insurance, they have to deal with marketing, they would have to find patients. Here, what they really enjoy is that they can just be a chiropractor. They can just come to work and just do what they wanted to go to school for. So that's really what makes this model attractive to those professional chiropractors that might have 15 or more years of experience. They might have had an independent practice in the past. They may have struggled and, my gosh, I don't want to run my own company anymore. I want to do what I want to do, which is just be a chiropractor. We find that students are interested in our model because they can get a lot of experience quickly. They don't get a ton of adjustments experienced in college. They get more adjustment experience working one week at The Joint than they probably got in their entire student experience, just with the amount of volume that we push through the clinic. And of course, the DC pass the ownership program that Eric mentioned during his presentation. It's a great opportunity for chiropractors to join our team, get the experience, get to know the model and then potentially have that ownership piece down the road.

<A – Steve Knauf>: So we talked about the simple model, and I just kind of want walk you through maybe a day in the life of in one of the clinics. And you actually heard David talked to this earlier, starting with just what does the staff look like in our clinics? It's really very simple. We have a front office worker, and we start off with one chiropractor working in the back office. As patient visits continue to grow, we see patient volumes increase or the number of new patients increase, we need to start adding doctors, staff into the clinic. But even running at three or four, running very high capacity clinics, managing only four staff is a much different world than when you have to manage about 20 or 30 as David was talking about.

Now how many of you have been in The Joint clinic? Have you ever visited? I see a lot of poor posture out there. So you definitely have to go there. I think you should definitely go and check it out. I think a lot of you could benefit. But what our doctors are typically seeing in the day is somewhere around 60 patients. That's what they should be able to see in our clinics. If you think about your traditional medical practice and you think about all the time that you spend, either with your primary care or an urgent care, like how do doctors see 60 people in a day? I spend an hour and a half just waiting to see the doctor by myself. How do they get through 60?

But we have a really very focused model. All we do, our consultation, exams and adjustments. And so it allows our doctors to focus on the chiropractic adjustment. If many of you had visited other chiropractors or other models, traditional ones might add exercises, rehabilitation, stretching, they might hook you up to electric stim and shock you a little bit. And those are all things that we just don't spend time doing with our patients. And we're getting really incredible results in affecting the lives of the people that we do see and treat by focusing on the adjustment.

I think one of the questions that we get asked probably most often, I know Peter has gotten in on some of the calls, well, when is that you're going to do something than the adjustment or are you ever going to? And the answer that's been given is, it's just a matter of timing. There's not a week that goes by where we don't get some proposition for weight loss or stem cell injections or [indiscernible] mattresses, pillows, there's a lot of other things out there that chiropractors can do and get involved in, but we're just not there yet. This is a really successful model. It's really very easy for our doctors. It's really very easy for our franchisees, and we're focused on this right now.

One of the other things that we typically get questions about is how do we know that we have good doctors and staff in our clinics? We've got a lot of non-doctor owners owning these clinics that may not know much about chiropractics. So how do we know that we have good doctors? And this is kind of how we determine that. First of all, our doctors have to be licensed in the state in which they're practicing. It's similar with other providers. There's the licensing board, there's the one that I sit on here that looks at any issues with chiropractors, make sure that they don’t have it if they’re not doing it well. So that’s kind of our first layer of protection for chiropractors in our system. Our able to be covered by malpractice work with the three required vendors right what our limits are, the requirements for the malpractice coverage.

They understand who needs to be covered so that all the parties are covered appropriately and we’re making sure that we’re covering ourselves from a liability standpoint. In that malpractice process, there is also some checking into, have there been previous claims with these chiropractors, because that starts to affect the insurance premium as well. So they have to covered by our policy and our limits as the second layer of protection. Thirdly, doctors at The Joint have to complete our training.

And we need to have certification of that, and we track that as a system, full-time part-time doctors. I think it’s funny, people say, well, why do to be a chiropractor? That’s what you go. What else is there? And actually it’s really very different when you practice as a chiropractor in model versus an insurance model. In an insurance model, to you out of need, out of necessity. Often, they don’t have a lot of options in who their provider are.

You’re either in network or you’re out of network, and so a lot of these determinations are already made for them. It’s different in a cash practice. Patients are electing your care, and they’re really voting for you with their dollar. Didn’t necessarily have to see. They can take that money that’s not necessarily the flexibility that you have in insurance kind of payment systems.

Our doctor is received training not necessarily in the clinical side of things, but what they receive training in is how do you interact with patients? How do you just provide a really great patient experience? How do you connect with your patients? And that’s what really starts you set us apart from other just providers, in general. I don’t think a lot of providers are worried about this doctor-patient relationship. Often, it’s I’m here to diagnose you, I’m hear to treat you and you’re on your way.

And that can’t be the mindset or the mentality in our model. One of our things that we talked about is having routine care with our patients. We’re going to be around our patients a lot in this model. And if we’re not continuously providing value or they don’t like coming to us, they’re going to stop really, really quickly. And so a lot of our chiropractic training, a lot of our doctor training focuses on how to build these relationships with patients, how do they communicate effectively, so that they understand the value and the benefits of ongoing chiropractic care.

That's really where our focus is. Of course, there's also some medical training on top of that. We'd like to make sure that our doctors are up to date on practices, but really that's more what school and continuing ed is for. Switching gears a little bit in compliance. We're going to talk a little bit about the professional corporation structure. So you heard Eric Simon up here earlier talking about some of the hurdles that franchisees have in this system versus concepts, and he mentioned the PC model. So I just want to briefly cover what that is, why it's here and how we comply with that in all of our states. The PC model stands for our professional corporation model. So there are states that limit the practice of medicine in varying degrees. And by that, I mean, some state set it up so that only licensed professionals can own the clinic or the practice. In other states, that's not an issue. You can be a nonlicensed individual and you can own a chiropractic clinic. So for example, California is a PC state where you have to be a licensed provider to own and operate a chiropractic clinic.

So what does it look like for our franchisees? How do we comply? How do we manage that? And really, what we do is we manage that through a system of contracts that really set up the responsibilities for each role in the – that participate in the clinic. And it's really broken down by three parties. You have your PC.

This is the doctor, this is the licensed individual who owns the practice and PC states. Next up, you have your franchisee. Your franchisee acts as a management organization. And so they can do all the on-site management of the clinic. This is making sure that the equipment is in the clinic. It's maybe hiring the wellness coordinators, training the front office staff. They can have – they can do payroll for the PC in some states.

So it just depends on what the state allows or does not allow. And then we have the third leg here is the chiropractors in the clinic who obviously practice and provide care to the patients. And really the PC model, you have contracts between all the parties that lay out all the responsibilities and roles and clarifies it, and what this does is it ensures that licensed individuals are properly overseeing the clinical side, and franchisees or unlicensed individuals are participating in the clinic and the capacity that they can. And again, it varies by state.

And so it's really important that as we go into these states, our franchisees work with local health care attorneys to understand those little nuances in each state rule or regulation. Now I tend to spin this a little bit in franchisee training and discovery day because a lot of franchisees are not interested in this complication. They think there's a lot of extra paperwork for them. They don't want to do it. It's more legal work potentially. But for me, what this actually does is it sets a franchisee up with a chiropractic partner.

Now Amy spoke to the DC survey that we did earlier this year. What we found out is that DCs who worked under a doctor or who worked under a PC are much more likely to be satisfied with their job with The Joint than they are working with an non-doctor. And so there's built-in chiropractic partner in the PC model that kind of serves as the bridge between the business side and the clinical side. They know how to speak to the chiropractor, they can engage about chiropractic and they can help the franchisee or the management organization really understand the chiropractic side of the business. So even in non-PC states, I still encourage franchisees to find this chiropractic partner who they can work with in this capacity. This is just really formalizes the relationship.

The other thing is – this is really the first big brand in chiropractic, which is interesting, typically the chiropractic profession is defined by a lot of independent owners and practitioners, and a lot of doctors operate that in that model one way or another. And what’s interesting is that when we bring on other chiropractors into our system, we really have to define what it is we do in our clinics because there has to be a level of consistency between all of our clinics.

One of the things that’s in scope of practice for some chiropractors, and they actually do this, is they’ll use crystals to work on the energy of patients. Now that’s not anything we do at The Joint currently or maybe future, who knows, we’ll see when it comes. But we don’t do it now. And so we need to define what is our scope of practice at The Joint, and make sure that our doctors understand what it is we do and what we don’t do. We enforce that through our standards enforcement protocol.

Now this is a protocol really for the total operations of the clinic in which we say, look, here's what we do, here's what we don't do. If you're not following the rules, here is the process for how we get you back on our team and within guidelines. This includes everything, including clinical services, products if we ever get to that point.

Like I said, this is definitely something that we can control. I think there's maybe a misperception that there's too much oversight on the clinical practice of chiropractic. But it's really very similar to what trauma centers do. If you look at trauma center levels, you have a levels 1 through 5. In trauma center levels of 1 offer way more services than a level 5 does. And so really what we're doing is just we're defining what it is we do within chiropractic, and our provider's responsibility is making sure that they provide the services safely to their patients.

Key takeaways. Recruiting and retaining DCs is critical. In achieving Joint's growth goals. 1,000 clinics, 1,700 clinics requires a lot of doctors. Right now we have about 1,200 in our system working under The Joint Chiropractic model. What is 1,700 look like? We know that we need to add doctors staff as clinic volumes grow. So not only are we opening new clinics, but we're growing our existing clinics. So what is staffing look like for that? And that's really where our partnerships with the schools and other professional associations comes into play.

We also have to have an effective compliance programs that protects the patients, doctors and investors, while adding to our reputation as the leader. It's interesting being really the first big brand in chiropractic. A lot of people tend to look at you differently because you're doing something that hasn't been done before. And so us to be buttoned down on compliance is really very important for us. And it's a key to our success in building that culture of quality and trust that I'm going to talk about later in a second here about.

Any questions? Do you have the microphone?

Q&A

<Q>: So do you find that there is a pretty robust acceptance among the chiropractic community for The Joint's concept? Or do you find there's a lot of resistance out there in terms of corporatization and what you're doing?

<A – Steve Knauf>: Yes. That's a great question. So I started in 2011 under the CEO, John Leonesio, CEO. And so I watched a lot of this progression and maturity of The Joint Chiropractic over the last few years. And it certainly started out that we were competition. We're undercutting the profession. We're something new, different, we're the McDonald's, we're the Walmart of chiropractic. And that's just completely not the case. We heard some presentations on the usage of chiropractic. There is so much available out there that we don't have to be fighting over the 16%. Our model is looking to grow it. We can get outside of that 16%.

So our reputation has been improving. It started really with our partnership with Sherman, and we are able to give a pretty generous donation to them. We've been invited to several college campuses. And so at this point, it's just about having those conversations face-to-face. This isn't about undercutting the profession. This is about providing a different level of access to care that just doesn't exist out there right now. And just having that conversation is starting to turn the tide for us. So it's certainly getting better.

<A – Amy Karroum>: I would just add to that, too. I think, initially, when the model came out, there was this belief that this won't work, right? Patients aren't going to do that. They're not going to go to a strip mall to see their doctor. And I think the patients have spoken, and they don't have a choice now, but to believe that it will work and it is increasing the availability of chiropractic. And so I think time has kind of forced them to be more accepting of the model.

<Q>: Is corporate actively recruiting docs? And then sort of helping them figure out where in the chain they can work? Or are you not at that level as far as helping the actual franchisee hire?

<A – Amy Karroum>: Yes. Actually, I have recruiting – I have individuals on my team that were recruited on the corporate clinic side and on the franchise clinic side. So both. Yes, we are doing both.

<Q>: Thanks. I just had a question on malpractice. In light of your high compliance standards, just wondering if you can give us a sense of what the incidents of malpractice cases are in industry? And then how Joint compares to that?

<A – Steve Knauf>: That's a good question.

<A – Amy Karroum>: I know that when we looked at – I don't recall exactly the incident rate in the industry, but I know ours is much less, and a lot of that has to do with the simple model. So because we're not doing all these other things, we're not treating injury victims, we're not treating people who have these – or are doing wellness chiropractic. Our incident rate is much less. I can't give you the exact number and I don't want to filter out a wrong statistic. But I can tell you, much better than the average. And that's reflected in our malpractice rates within the carriers.

<A – Steve Knauf>: And if you look at chiropractic as a whole versus other providers, one of the ways that you measure safety of a profession is by the premiums they pay for malpractice insurance. So you

look at the neurosurgeons whose annual premiums could be through the roof because through the roof because there's a lot of risk with their profession. And if you look at chiropractors, the malpractice premium for chiropractors is typically below $3,000 a year. It's such a safe profession to operate within. And to Amy's point, to expand a little bit. You look at what are some of the common incidences, chiropractic is really a hands-on profession. And so a lot of the complaints tend to be dealing with doctors inappropriately touching patients, which we have actually eliminated through the use of our open bay – not eliminated, but reduced quite a bit. There is just not as much risk being in an open room with other patients and other providers, whereas behind closed doors or closed rooms, you are more likely to have those kind of claims.

<<Amy Karroum, Vice President, Human Resources>>

Anything else? Okay, thank you.

Franchisee

Teresa DiGiuseppe, Multi-Unit Franchisee

[Video Presentation]

Am I on? Okay. That video is such an icebreaker because I'm like, well, they have already seen me cry. I mean, yes, how worse can it get? And it's just so interesting to go back to those days because it's so different than who I am today. I mean I wanted to be a dancer and here I am owning chiropractic clinics. But I am grateful for those years because they taught me perseverance and dedication and teamwork, and they gave me courage.

So thank you, everyone, for having me here today. It's such an honor and privilege to talk about this brand that I am so proud to be a part of. I'm going to talk about my journey and how I got into The Joint, how – my husband and I, we got a flyer in the mail is how we came across it. And usually, we just toss our junk mail. But we got this flyer from one of the first Joints that opened up here in Scottsdale, and my husband had been looking for a chiropractor because his, I'm going to walk around, his chiropractic – his chiropractor actually closed her office because of the health insurance cuts, cutting back on reimbursement. So we got the flyer. He calls The Joint, and Dr. Steve Gubernick actually answers the phone. And Dr. Steve told him that they're not scheduled to be open for another week, but he assured him that it was a walk-in clinic. He didn't have to make an appointment.

So a week goes by, and Tony walks in. And as he explains it, he walked through the door, and he was sold. Everything from the look, the feel. It was a minimal staff, the minimal space. It was next to a Starbucks. He didn't have to make an appointment. I mean just anything completely different than what he had been used to. And so he goes in, and luckily, Dr. Steve Gubernick was there. And luckily, they had just opened, so there was no patient in the lobby. And he – if you know my husband, he's asking questions. What is this about? Tell me more. And all he needed to hear was that The Joint was a franchise and that he did not need to be a doctor to own a clinic in Arizona. So we're not a PC state. So he leaves and he calls me, and he says, "Teresa, I know what we're going to do for our future." And as you can see, you know my response.

So as soon as we could get corporate to call us back, we quickly went in – yes, very, very different than our corporate team today. And it's true. My husband must have called them five times. And this is my husband's thing. I just was like, okay, hon, we can do this. And he, he called and he called, and he got them to call him back. We scheduled an appointment, we went in, and they completely forgot they had scheduled an appointment with us. They were like who? What? Where? How? And we walked in, and we purchased two licenses. Just two. And in fact, most of the licenses in Arizona were sold out, but nobody wanted the West Valley. I don't know if you know Arizona, but nobody wanted Avondale, Goodyear and Surprise. So we purchased two licenses.

And we opened Gateway Crossing in 2012 and two more clinics later that same year. So we purchased two, we opened three. We were aggressive. I don't know what came across us, but we were aggressive. So we didn't even wait for one clinic to break open – to breakeven before we were opening the second and third. We wanted to secure a territory, and that was kind of our thing. We didn't even have an SBA loan option. We were a new concept, very different than today. They didn't know who The Joint was. So we borrowed money from family. We liquidated our 401(k). If there was a Massage Envy within an eight mile radius, that's where we're going to put a Joint. And that's what we did. We opened five clinics in three years. It's crazy.

So the first two, three years, we actually hired a manager or two to help do the buildout, manage our Joints, and we stayed in the mortgage industry. And that was our whole goal all along. It wasn't we're going to open chiropractics and we're going to manage them. I would have said no. But we stayed in the mortgage industry and we thought, okay, we're just going to open these, we're going to put staff in there, and then they're just going to grow. And that's not how it works. So things were tough. We were – we had five clinics, three years. We were struggling. The clinics that were breaking even, it was a very minimal profit. Failure was not an option. And I kept – I had sleepless nights thinking of all the money that I had borrowed from my parents. I'm not even kidding you, $150,000.

So I made the decision to quit my career and manage The Joints, and that's what I did. I thought, I'm going to go work for free. That's fine. They're my businesses. It's my investment. I'm going to do it. And so I jumped in to managing five clinics, and I had an assistant. I thought I could really do it, and it was very hard. I was trying to lead others. I was trying to motivate doctors, I was trying to develop our team, and I had nothing to give. I had no background in running a franchise, let alone a chiropractic clinic. And like Dr. Steve says, you're not going to find common ground with a chiropractor if you're not a chiropractor. So I knew that in order to grow my clinics, I needed to develop my team. I needed to train my doctors, train them The Joint way. They're used to the traditional chiropractic. Remember, we're very, very unique. We're very different.

And so I brought in a chiropractor to come in and coach my doctors. And he had experience with The Joint. He had experience adjusting high-volume patients or – and working in high-volume clinics, and that's what I wanted. I wanted a high-volume clinic. And so I brought him in, and he started going from clinic to clinic, working with my doctors, observing them, teaching them, talking to them, motivating them, showing them something I couldn't do. And we worked together. We restructured our comp plans. Remember, as a nondoctor, you really are given a business and you don't know what to pay. So having a doctor come in and say, this is what this doctor is worth. If you want to grow your clinic, this is what you're going to pay him. And so it was risky.

We upgraded our tables. Our tables weren't even that old, but he said, you want to save your doctors, you're going to upgrade your tables. And we worked, and we motivated until our sales continued to grow. I mean then it was daily, and it was a weekly thing. And I thought I was going to bring in this coach on a temporary basis, just come in and train my doctors. We'll be fine. We're going to get to the next level. But it was no. It was like as our sales started to grow we were adding second doctors on our busy day. And then our busy days turned to every day. And now we have three doctors working in our clinics. Three doctors, and those are clinics that we're seeing well over 100 patients a day with around 15 new. So that's where we wanted to go, and that's what it took to get there. I had to hire a chiropractor. I had to hire a coach. And that's something I'm not good at. So I really went through that.

But I have to tell you the story. Because in my video, I talked about acquiring a clinic. Well, we just acquired the clinic. It closed last month. And it was a clinic within our territory. Sales were below average. And – but we knew it had potential. So we go in to meet our new staff. Not easy, but we go in, and we say, we're your new owners, we're here to help. We talk about our expectations. We talk about our goals and our growth. We talk to the doctors about the importance of keeping up with their notes. We talk to the wellness coordinator about what she needs to do in her downtime, utilizing corporate resources. I mean all the things that make us successful. And the next day I get a call from the previous manager, letting me know that I have lost all my staff, except one.

One, and I couldn't help but shake my head because these employees that did not want to work for me were completely comfortable working in their comfort zone. Seeing 32 patients a day, maybe one or two new patients, I mean – and I say this with certainty because I was there, I was there three years ago. I was there before I brought on my coach. Seeing 32 patients, maybe one or two, breaking even. It's not fun. It's not worth it. So I shook my head, and it was just like, oh my gosh, here's a – these people work for The Joint and they're just completely happy with being status quo. And I don't want them on our team. And I just told the previous manager, no problem, it's fine. They can get off our train because we're all about getting people that want to make a difference and not want to – that see the value in what we do. I mean we are changing lives every day, and I certainly didn't see this seven years ago when I got into it.

I did not realize the impact that we have on patients' lives. I mean I really was just like, okay, I'm going to open a business. But our clients are seeing 120 people a day, 15, 20 new. It's like, every night, Tony and I look at our numbers, our atlas, and we're just like this is nuts, this is crazy. And we keep growing and growing and growing. It's very exciting, but I thought that was just interesting because as an owner, what I learned is that if you're not intentional growing your clinic, you'll always be average, always. And I wanted to be more than average. And I wanted to be more than average. And I thought to myself, no wonder we acquired this clinic. The owner allowed it to be average. And that's something with having franchisees is you're going to have your good ones and your bad ones. But this Joint is a phenomenal model. And we've definitely taken up to the level, to that level of just extraordinary, extraordinary success.

So what I never realized eight years ago when I told my husband, let's do this, is that it would not only change our life, but it would be the road that I would discover my purpose. And so my video. And like I said three years ago, I did not feel this way. I did not have this attitude. I did not feel I was living out my dreams. I felt ineffective. I was frustrated. And it all started to change when I created effective team leaders. I brought in a coach, and I brought in someone that could work with my wellness coordinators. And every one of us stays in our strength zone, and that is why we're consistently successful. And even my husband, he has his full-time job in the mortgage industry, and he continues to handle the finances for our businesses, but we all work in the area of our giftedness.

And so now that I have found my purpose, I have reason to be disciplined. I'm intentional with my life. I'm intentional with my work. I'm intentional with my family. And I'm intentional in adding value to others. And with awesome – it's just awesome that The Joint is still in its growth stages as Peter says that we don't even know where the cap is. And it is just so exciting. And what's truly amazing about me discovering my purpose is that passion just makes me continue to climb the hill, and there's no stopping me. So does anyone have any questions? Thank you, thank you. Yes.

<Q>: So I'm just curious, as you think now about where you are, where you're going, do you think the future is 200 patients a day in your clinics? Or is it 16 clinics in your territory? What are you thinking?

<A – Teresa DiGiuseppe>: Well, that's a great question because we actually had our Surprise clinic that was exceeding $80,000, $90,000 a month in sales, and we were capped. We couldn't grow anymore. We couldn't hold any more patients in our lobby. We couldn't add any more doctors in that clinic because it was just getting too congested. And we actually asked the landlord if we could expand our space, and that's actually something that Joint looked into. And we've never done that. The Joint has never expanded to over more than 1300 square feet. But the landlord said no. And I'm glad it all worked out. We ended up opening a clinic 3.5 miles down the street, and we broke even in the first month.

<Q>: [Question Inaudible]

<A – Teresa DiGiuseppe>: Yes, yes, yes. Now…

<Q>: [Question Inaudible]

<A – Teresa DiGiuseppe>: No. No. We were very strategic about that because what we did was the doctor – in a clinic, you always have – you want all rock star doctors. But sometimes, you always have that stronger doctor and that weaker doctor. Well, we took that strong doctor, and we moved him to the new clinic. So we actually had a lot of patients follow, which was okay. And then we just replaced his position with another lead doctor. And – but – and so now, I mean, they're neck and neck. A lot of patients did follow Dr. Tyler over. But what's interesting, my husband sets the number of patients, number of person, is that between those two clinics, we see about 173 people a day. Now you can't do that – and well, I shouldn't say that. You could do that in one clinic, but I mean, that's pretty congested. I mean – and the thing is, is that The Joint is a phenomenal model, where the patients are coming in and out. You still want comfortable. You don't want it to be a sweatshop.

So I think it's important that you keep it to where it's not like this machine where it's just churning, churning people. And that's what we did at 3.5 miles down the road. I mean that's what we did. So – and no, as Peter says, that's – the first month breaking even, that's not normal. But what we did is we moved our doctor, and our patients loved it because now if they go into Waddell and it's busy, they can go into Surprise. So it really just gives them that option, and they're not waiting 30, 40 minutes. And that was something that our coach taught me is – when I was struggling with bringing the second doctor in, is he said, okay, you're seeing 55 people with seven new patients. If they come in, and you've got – and they're waiting 20, 30 minutes, they're not going to come back. So what he really taught me is you've got to be proactive. You've got to be prepared. And not to mention, you don't want to bring your doctors out. So that's why even though we might see 90 to 100 patients in one clinic, we have two doctors because you never know if you're going to get five, 10, 15 new. So we're always prepared, and that's why we're successful. And that's so key to talking to franchisees.

And when they tell me, oh, my doctor can handle 80 patients. Not for long, not for long. And what happens when you get seven patients that day and those seven patients, they come in first time to see The Joint and they're waiting 30 minutes?

So that's the tricky part of this model. And you got to invest this – you can't stop investing when you open, and that's something I learned too. Yes. So as far as – I don't know what the cap is. And three years ago, I said no more clinics, I'm done, I'm not opening another one. So now that I started to see the growth and the potential just because I stepped away and I put someone in that knew what they were doing, it's limitless. It's absolutely limitless, and that's where I said, I can do this, I've discovered my purpose. Yes?

<Q>: My first question is why hasn't Joint tried to hire you as a corporate? And aside from that, how many per day are you doing now with the unit that you bought that you said were on 30? I'm just wondering how you – where you are on that. And that's just kind of a ballpark question, but I guess, yes, to summarize, what is the key element that you think brought to 120 a day other than just more doctors and is that, say, going to be just repeatable elsewhere?

<A – Teresa DiGiuseppe>: Yes. Well, so first question is I love working for free because what I do benefits everybody. I mean we all work for one brand, and that's The Joint. And so I have franchisees calling me all the time. And I am more than happy to help them. So me helping Peter is him – is just – it's just really going to help me. So the new clinic that we just purchased only a month ago has only seen about 32 patients.

But we know what it's going to take. It's going to take working with that doctor. And that's really all that it is, is going in and working with the doctor, not – and not just once a month, but weekly. And just seeing how he interacts with the patient and sometimes tweaking just the minor things, just how he even recommends treatment to the patient, and that's something I couldn't do.

So – and then how he interacts with the wellness coordinator. The wellness coordinator and the doctor have to have synergy. So that was another huge transition for us. The doctor has to be coachable, too. I mean we have doctors in there that have 15 years experience. And here, we have a coach coming in and telling them what to do. So what Dr. Chris did is that he sold them on the vision.

He didn't sell them on how to adjust. He sold them on how many more lives we can change every day. And that's how he interviewed them. He said, do you want to adjust? Do you want to change people's lives? Or do you want to take notes all day? And so that's – he can really tell just in the interview if they're going to be the right fit for The Joint. Not everybody is Seeing how we get to 100 and 120 is that we have three doctors, and that's a big investment on the owner's part because for the first two hours, you might see 20 people and you've got three doctors.

And I just try not to even look at it. But at the end of the day, you have 120. They will all come in from four to seven. And if you're not prepared, you're going to lose patients. If you're not prepared, it's The Joint that gets the bad name. It's the – and it's like I don't care if it's corporate, if it's camelback, we are one brand. And so that's why we see so many patients. And why we see so many new patients because our doctors are trained to ask for referrals. So I hope that sums it up. Anybody else? Yes?

<Q>: Yes. How do you keep your doctors motivated over time? Do you see a natural evolution where they will be really engaged for a couple of years? And do you need to manage that in year three, four?

<A – Teresa DiGiuseppe>: Yes, that's another good question, too, because I struggled that – with that early on. How we keep our doctors motivated? Well, if they're rock stars, you're going to pay them well. And you're going to pay them a percentage. You're going to pay them a bonus. And the percentage is on that sales. And as an owner, your bottom line comes second, and that's just the way it is. You've got to focus on the long term. I mean – and as a franchisee, I think coming in, I was always focused on, oh, my God, how am I going to pay my money back.

You're always thinking of your leverage. So that's just been key, is paying the doctors. Now however, they got to prove it to grow a clinic, and that's exactly what this doctor did at Surprise. And I moved him over to – basically, he has his own clinic now. He has help. But I pay him a percentage of sales. I pay well. We pay well. Well, I should say we pay well. But they have to prove themselves.

And the conversion has to be out there. If they're in the 30s and 40s, they're not converting. So that's where we make our money, is the memberships, the wellness plans. So – and then keeping them motivated, that's tough, too. They burn out. They burn out in this model if you're not getting them help. And that's this thing is that Dr. Chris, my coach is in there.

And it's funny because you think of – I really, like I said, thought about him coming in and just training them and then kind of we don't need you anymore. But he has to be in there weekly, weekly, weekly. And if they're sick, he covers. He's always got their back, always training them, always training them. He gets them help, and that help better be trained because if that help's not trained, they're no good to him because, again, he's seen the majority of the patients.

So my second doctors, I usually pay them hourly, and then I pay them a bonus. But my lead doctors, we pay very well. So for them, it's a career, and that's what we want. We want them to say to themselves, I'm making more money than if I own my own business. And I'm making money than the owner, and that's how it is sometimes. They're making more money than me. But that's how we have to keep them motivated. It's no different than us. Yes?

<Q>: Can you talk about now that you have eight clinics and you've said to yourself and this sort of doctor that's in charge of your hiring and things, who else do you have or who else does it take to run eight clinics above the clinic level?

<A – Teresa DiGiuseppe>: Okay. Great question, too. So we open Buckeye, our 8th clinic, in the fall. But already, Dr. Chris needs an assistant because what we're finding is that if he's out there covering or – and when I say covering, I mean, a clinic that doesn't have that third doctor that day. He's in there. I

mean he works his butt off. And I noticed, and we noticed, if he's covering too much, people start to get lazy. Our conversions start to fall.

And so we realized that we already have to bring him an assistant, so he's out there constantly motivating, constantly working with the doctors. And I think that's the toughest part of this model is because our doctors will see a high volume of patients, is that you have to constantly keep their purpose on the top of the hill because that's what where we're all going is up there. And the more money the clinic makes, the more money they make.

And I think that's where the mindset has to be because when I first opened, the doctors were kind of like, all right, getting paid, $30 an hour. I'm going to work for $30 an hour. And that's all you're going to get. Minimal effort, minimal results. And so that's where Dr. Chris' key job is, is to be out there constantly motivating them. So in time, we have to hire him an assistant. So in that way, the assistant can cover as needed or he can fill in if we have a high volume of patients that day.

I also have someone that handles – an HR. She's my operations manager, but she handles my payroll, the wellness coordinator schedule. She interviews them. She was a wellness coordinator herself, so she understands the questions to ask. And then I also have an assistant operations manager that handles my supplies, my marketing. She's worked with OTT. She's engaged with corporate.

And that's really our team that it is. And then me, myself, my job is to make sure that everything is humming along. Things that are needing to be approved, just making sure that I'm serving them. Whatever you guys need, I'm there for them. So it's just really a team of four managers, I should say, yes, four managers for eight clinics. Yes.

<Q>: With all the big success you've achieved, have you started seeing copycats or anything like that? I'd love to hear more about like the competitive environment, what you feel like the real barriers to entry are for your business.

<A – Teresa DiGiuseppe>: No. I mean, in Arizona, absolutely not. You have CHIROFIT, which I think they have about eight clinics here in Arizona, but no one does what The Joint does. No one. And it's such a convenient, affordable, easy model. I – it's almost – sometimes, it makes me nervous, and that's why I think I'm out there trying to reach out all the franchisees because it is our responsible – it is our responsibility to this brand to keep it just The Joint. That's it. No competitors. And I don't know how long that's going to be, but I think it would be very hard to compete with what we've accomplished. So no competitors that I know of. Any other questions? No? That's it?

Operations Overview

Jorge Armenteros, Vice President of Operations

Well, Teresa's also a national – one of our National Franchise Advisory Board members. She didn't mention that, so she also does that. So I didn't get mic-ed up, so I'm going to stay right here. So a little bit of my background. I started my career with McDonald's. I'm not going to – I'll go through the years, but it's a little bit deceiving because I'm really like 45 years old.

But I have about 40 years in the franchise industry. I started with McDonald's. I was there about 10 years. But I actually started there when I was 14 years old. And I started working with a franchisee and worked my way up, up to a field consultant, which is like one of our franchise business consultants. From there, I went with Dunkin' Brands, and I was with Dunkin' Brands for about 20 years.

And I love the brand. It was a great brand, but we went through a – there was a time where there was a lot of talk about splitting up the brands, and it was sold to – Allied Domecq sold the brand. So I became a franchisee, and I still thought the brand was phenomenal. So I became a franchisee at Dunkin' Brands. I was a franchisee for about four years. Like Jason, I had a very successful opportunity there and got out right in time because, as you know, the value of Dunkin' was very high.

And when we had the economic downturn, purchasers couldn't get the money, they couldn't borrow the money, based on what the brand was selling for. So I got out right at the right time. From there, I went to a company by the name of Pollo Campero, which was a startup, and that was a great experience because I spent 10 years there. And I had a great opportunity to work with a startup, and we did really well there.

And then from that, I ended up coming to The Joint, and I'm really enjoying it here. And I think it's – we have a tremendous opportunity. We've done a lot of work, talk to you a little bit about that, but we also have a lot of work to do. So what I want to do is I want to talk you about four things. One is our operational structure and our roles. I want to take you back a little bit to what we've done in 2017, 2018.

And then we want to talk a little bit about what we're doing moving forward here. We have four operations pillars. I want to take you through that and then give you some key takeaways. This is the operations organization. We have – there's three components to it. One is we have the company operations team, and that team is led by one director of operations, and then he has a regional sales manager.

And then like Teresa described, we have a clinical director for eight to 10 – for every eight to 10 clinics, and we have an area sales manager for every eight to 10 clinics. And then we have a franchise side. And then in the franchise side, we have a director of RDs, which manages all our RDs. And then we also have three franchise business consultants for the non-RD areas that we have. So we have franchisees.

And then last but not least, we have a clinic support center. Dr. Steve is part of that clinic support center. And then we have a director of training and operations services. And then we also have a director of planning and analytics. So if I take you back a little bit to 2017, 2018, we kind of started our journey during that period. And the first thing that we did is, is we needed to prioritize our operational initiatives.

And one of the things that we wanted to do is, well, if I can give you a little bit of background. I just spent about three months out visiting franchisees, trying to understand what was going on with the system. And I think it's important have this background. And basically, franchisees didn't have the tools that they needed, they had created their own systems. Every franchisee was doing their own thing.

And they're really upset at The Joint because they felt that The Joint wasn't giving them the tools that they needed. They weren't being supported. And I think you heard some of that from some of the franchisees and the RDs that spoke here. So one of the things is that we wanted to prioritize our – what we wanted to do from an operational perspective. We evaluated and implemented new policies with NFAB support.

And these policies were very specifically focused at improving our patient satisfaction, and I'll talk a little bit more about that. We created and implemented plans to increase the capability and capacity of our franchisees. And that relates to what I just mentioned, which is we created tools for them, we created e-learning programs, a way to train their people, and I'll talk a little bit more about that.

We built and implemented complete clinic operations plan, including a restructure of our team. At the time, there was two director of operations for the whole operations team. So if you can imagine, there was two – not director of operations. There was two district managers managing, at the time, was 48 clinics. So you can imagine what that could look like. And you just heard Teresa talk about the organization and the results that she's getting when she's doing it with four people.

So it was really unmanageable. So what we did is, is we restructured the organization in an affordable fashion that we could scale and that we're able to kind of do the necessary things that we needed to improve our operating bottom line. We implemented accountability measures. Basically, we have – the ops team has weekly follow-up, weekly phone calls. They talk about the numbers. They have specific calls with clinics that are underperforming.

So there's a whole cadence that we're following that didn't exist before. So that's really worked very well. And then we started our journey to build a chiropractic culture, which is Dr. Steve will talk about a little bit more later, but we've started to kind of – as you'll see, some of our improvements have come from our performance in the clinics, and we'll talk a little bit more later, but we've started to kind of – as you'll see, some of our improvements have come from our performance in the clinics, and we'll talk a little bit more about that. And the fact is that these initiatives are working. If you look at some of the things that we did is we implemented these tools. And these are – were really fundamental tools to the business. There wasn't an operating model, so we created an operating model. We created a one-page business plan. We created the e-learning and training techniques for the clinics to be able to train their people. If you can imagine, there was nothing.

So, we wanted the people trained, and we want them to be trained consistently. We created these tools, and they go on and on, including we created toolkits. If a franchisee was having a problem converting, they could pull this toolkit. Or if they were having a problem retaining patients, they could pull this toolkit and work with that. From that, we saw franchisee satisfaction go up. And I'll talk about that in a second here. And then you see that, that ultimately delivered to a better patient experience. And the good news, and we're pretty proud of the fact that we were able to improve our NPS score from 1917 that was 47% to 56% or almost a 20% improvement. And for those of you that – I'm pretty sure almost everybody probably knows what an NPS score is, but it's a Net Promoter Score, which means that, today, where we had 47% of the – the promoters less the detractors is your Net Promoter Score. So, we went from 47% to 56%. And franchisee engagement has improved 40%.

So we started – this is 2017. Your pie chart on the left is 2017. We did a franchisee survey, and we had an independent company do that for us. They do hundreds of thousands of surveys every year for franchisors. And we wanted to set a benchmark, where are we, where are we today, what are our franchisees telling us. And it was pretty sobering. It wasn't a lot of fun to look at, and it was difficult. But from there, we developed plans, and we developed initiatives around the way our franchisees felt about how we were delivering to them.

And we're happy to report that all these tools and e-learning and support and the feelings that you see with Teresa, and you would have seen it at the conference, and 93% of participation in our conference, we feel really confident that our support to those franchisees is really getting them energized. And when we see this energy, we also see that translating into profit because, obviously, we have – where we had 44% of our franchisees that were engaged, engaged means actively engaged, engaged means actively engaged in the business in 2017. Today, we have – as of our last survey, we have 61%. And that's a phenomenal increase. Our company has told us that they don't see that. 12 points is just pretty significant. So we're pretty happy with this, and we think some of this is some of the results that we're seeing.

So briefly, to talk about 2019 and our four pillars, we're continuing down the same path. So the pillars don't change. We had – one of them is patient focus, and we continue that. You'll hear some of the same themes that we started in 2017, we continued to 2018, and we're expanding those into 2019. We tweak them, we learn from them, and we're making them better, but it's the same four strategic initiatives that we have. We want to continue to increase the capability and capacity of our franchisees. We think that is super important.

At the end of the day, we can't do it for them. We have to enable them to be able to do it. And we don't have the capital or the resources or the DNA to provide – to operate their clinics for them. That's what the franchise business is for. But we have to be accountable, and we have to provide them the tools, and we're doing that. The second – the third thing here is our corporate clinics.

So, we went from losing a lot of money when I first got here, to last year, we made – can I say that number? $2.8 million or 100% improvement over the prior year. And we're going to continue that path. And now our objective is just to optimize that, to continue that path, and then at the same time, to open successful greenfield clinics. And I'm happy to say that we've done a pretty good job with those, and the ones that we have opened are performing above the traditional ramp.

And then last but not least is Dr. Steve will talk about this later, which is building a culture of chiropractic in quality and so on and so forth. So I'll talk about the first one. The – as lead with patient focus, we want to implement policies that align with the patient experience. And we saw an example of this with policies that we implemented in July of last year that now we're seeing the benefits and the results of that were – our conversion rates were up. We see and we can tie training specifically to a lot of our key metrics when they use training, and the clinics run training for – as an example, if a clinic has trained their people, our conversion rates are 2% higher as they train their wellness coordinators.

So we can clearly see that, and we can clearly use those with franchisees to motivate them to use the tools. Second, we want to focus on a lot of the blocking and tackling. I think Teresa kind of spoke to that a little bit. But if a franchisee thinks it's going to just come to them or from a corporate side, it's not, and

Teresa said something at the national conference. She didn't it say here, but I thought it was very important. She – her closing statements at the national conference was just follow the system. If you follow the system, you're going to be successful. And that's our primary focus, and we've been focused on it. We started it last year. We developed a ton of tools for franchisees, and our primary focus has been to get them to use those tools and to see the benefit of them.

So, development delivered world-class training. I talked about that a little bit, but we want to improve that and enhance it. We want to do shorter segments, constant training. We think it's really important, particularly with the type of business that we're in, we have an opportunity to show them sales tactics and get it out to them. And with some of the new technology with access, we'll be able to do that. Invest in patient satisfaction measurement. So what that is, is, yes, we go in and we measure clinics. And then we get some patient satisfaction, but it's limited on the marketing area.

Well, this, to me, is one of the most important things that we need to do, which is to measure every patient that we can so that when talking to franchisees, we're saying, this is what your patients are saying about you. And it gives more credibility at the end. So we're implementing, with the new system, a patient satisfaction dashboard that's going to be in front of their face, what their patients are saying about them, and it will give us an opportunity to be able to consult more with those franchisees and coach them. And then define and prioritize system needs based on results. And yes, that's a pretty simple – sometimes, we go out and we develop a system, but is it really something that we need?

So this is more about tying the results that we're getting and making sure that we are – that we're focused on improving those and through – making sure that we're aligned with the patient experience. So I talked about improving the capability and capacity of our franchisees. I'm not going to talk much more about it other than we need to provide them the tools. From an RD perspective, there was a conversation earlier, where now, we have quarterly business reviews with all our RDs. It's a big task. It's 21 RDs. We spend a couple of hours with each one of them, but it's really making a difference and it's really driving the business and we're able to talk to them. And they have – they're over 16% of our system. And so we really need to take the time and make sure that they're progressing, that we're giving them the tools that they need and holding them accountable for what they're supposed to do.

And then last, we're – this is a big project. It's taking up a lot of our time, but we want to make sure that we support Axis in our new system that we're going to be implementing towards the end of the year. And our third pillar is to optimize corporate clinic. I talked about that from a 2017, 2018 perspective. It's no different. We want to optimize our profitability. We introduced at the conference a labor optimization model for franchisees to be able to use because there are opportunities, and it's already – there's an opportunity for franchisees to see where their patients are coming and to be able to schedule for that. And we're trying to teach them how to do that because one of the biggest issues that we have is that franchisees don't want to put that extra doctor, although Teresa did, right? So we got to show them what the opportunity is, and we started that through the conference. But not only the opportunity, but how do you do it efficiently and how long does it take to break-even and if you're investing any money in this.

And then we want to reduce our turnover. And Amy talked a little bit about, and Dr. Steve earlier, about the research that we've done, and we're going to learn from that and then put some actions in place to deal with those. And build bench strength. Obviously, we're building greenfield clinics. We've been able to do that within our current infrastructure, our current labor models. We haven't had to – some businesses, you have to hire ahead. We've been able to manage that throughout, and we'll continue to do that. So it's not a big investment in that regard. But if we're starting to open a lot more clinics, we'll have to relook at that. And then new greenfields, we are very focused on achieving targets within breakeven targets within six to nine months.

<<Steven Knauf, Senior Director, Chiropractic Operations for Arizona>>

I'm back. All right. So the fourth pillar for operations is building chiropractic culture of quality and trust. This is not just in the clinics between the doctor and the patient. Obviously, that needs to exist. But what does it look like from The Joint to the rest of the profession, that's really what we mean by this slide. So this is talking about how do we lead the chiropractic profession. We're the biggest thing in chiropractic, how do we act like it.

So, the first thing is we need to improve industry reputation and relationships with colleges, boards and associations, and we talked a little bit about how that's continuing to improve. Our first school that we partnered with, Sherman there is in the bottom right. We need to increase chiropractic influence in our system. And so what this really speaks to is how do we ignite the passion for chiropractic between franchisees and even our doctors so that they can achieve more success. You heard Teresa talk pretty passionately and emotionally about her ties into the business. And we know that when doctors and franchisees have that passion for helping patients, that they're more successful than the average franchisee.

So how do we cultivate that culture, that's a piece of it. We need to be the career path and choice for chiropractors. We talked a little about that. How do we increase the opportunities for success as employees or business owners for our chiropractors? We need to improve our DC employment. So we talked to that in the DC survey that we did earlier this year. We need to be able to have our doctors see 60 without having them burn out. How do we protect our doctors? And then we need to improve clinic training and oversight. Like I said, and what you heard from Teresa, that interaction between the doctor and the patient, the doctor and the wellness coordinator is critical to the success of the clinic. So how do we continue to improve and build on what we have today? Those are all our focuses.

<<Jorge Armenteros, Vice President, Operations>>

So although it's not up here, I just want to summarize because I kind of heard some of the conversation earlier. But if this brand is easy to use for franchisees, if we give them the tools, it's easy to use. You have two to three employees, four, five depending on the volume. There's not many franchisors that can give that to a franchisee. So it's easy to use, easy to operate. And what we've tried to do is – and what we're going to continue to try to do is get our franchisees to have one-stop shopping, make it easier for them to use us, make it easier for them to operate their business. And if we do that, Eric will have a lot more franchisees than he's getting today because the easier it is and the easier to operate, the easier it's going to be for them to put their money up and say, okay, this is a worthwhile brand.

And I think if you look at it from that simple perspective, our goal, our goal is to make it easy to use, easy to operate to get these franchisees. I will say as takeaways, we have a strong partnership with our franchisees. Maybe it wasn't so strong 2.5 years ago. But I believe, and I've been 40 years experience in this, I think we have one of the strongest partnerships, if not the strongest that I've ever seen. I think that Teresa is not the only franchisee to feel the way that she does. We have many franchisees that feel that way, and that's a great place to be. We're making progress in that regard, and that doesn't mean that we're there. We still have detractors, and we still have franchisees that don't believe in us. And we're going to continue to work on those. We have the right strategies and plans in place, I firmly believe. I mean it's easy, our economics are great.

So it's easy when the economics are great, but you got to back that up with the other strategies because the economics won't be great if you don't have – if you don't implement them. So I think we have – we definitely have the right strategies. We have a solid management team. And combined – and we're committed to doing the right thing for our patients, which is the biggest thing. We're committed to do the right thing for our franchisees, but more importantly, we're committed to do the right thing for our patients. So any questions?

Q&A

<A – Jorge Armenteros>: Yes sir.

<Q>: So, one of your like 2017, 2018 progression still showed kind of 60% satisfaction, 40% not satisfaction. How high can it go? How long will it take you to get there? And what will the impact be when you get to 80% or 90% positive?

<A – Jorge Armenteros>: Are you talking about the – for franchisees?

<Q>: Yes.

<A – Jorge Armenteros>: Yes. Well, it's – I think we don't have a lot further to go to be in the top quartile. We're right there with – or above-average what a franchisor would be. Our goal is not to be average. Our goal is to go higher. But from a – we have more promoters. 50% of our franchisees are promoters, and that's a big number. Because when you look at the Net Promoter Score, if you're zero, that's good. Zero – I mean is zero to 30 is good. 30 to 45 or 50 is excellent and anything over that's exceptional. So, we're in a good place, but we could be much better because we have – the brand is doing so well, the economics are doing well. And I think that as well as we're doing, we can be doing better with our franchisees. So I don't have the answer for you. I don't – 90 is almost impossible. I'm not sure – I mean, I'm not sure there's any franchisors out there, 90 or 80 or – but certainly, it's going to get better.

<Q>: Can you just talk about what training tools or support you find make the biggest difference between someone's failure and someone's success? Teresa talked a lot about Coach Chris. He seems to be very impactful to her success. So what have you found that's the key tool to get somebody above-average?

<A – Jorge Armenteros>: Well, what we did is, as I mentioned earlier, we built the – we built all our tools based on best practices. So I spent three months going out in clinics, talking to franchisees, trying to figure out what are they doing. So all our tools were built with what's working and what's – who are the top performers and what is it that they're doing. So we built those tools. And then what we found is, is

how do we get the franchisees to use them, and we knew that, right? I mean that's – so now we're going to get them to use them and we got to give them the proof. It's not just a hammer and saying you got to do this.

The newer franchisees is easy because they didn't have – they don't have any system. That's the system. That's their training systems. The older franchisees created their own systems, and you know how hard it is to get somebody to take you away from your spreadsheet that you created the spreadsheet, right, you created spreadsheet, now I'm coming with my spreadsheet, I want you to use it. And you're going to say, no, I'm comfortable with mine. And – but anyway, I think that the things that I think will have a greater impact, I mentioned, which is less training, more often less size, more often hitting the field level for them to be able to capture these small bites of training. Hey, have you thought about doing this, have you thought about doing that, here's how you can get your conversion up, here's how you can retain a patient longer, which, by the way, all the numbers are heading in the right direction. Does that answer your question.

<Q>: You've done a lot of repair work with your franchisees. And I guess I'm just wondering why some franchisees, even though you're still – you're up at the – you said approaching maybe the top quartile. Why would some franchisees not be – not want to be engaged? I just don't understand that.

<A – Jorge Armenteros>: Well, different reasons. Some have a history that they just can't get over. They just can't get over the history. I had a franchisee – I'll tell you a story without a name. I had a franchisee that we were talking to him about certain acquisition of his clinics because he was just so disengaged. He could care less. He was like, you guys are horrible. You're mean. And so we talked to him for quite a while, and he's completely changed his mind. He doesn't want to go. He wants to grow. That's a good story. But there are some that won't change. They just won't change. They – it's almost like if my wife had an affair, would I be – if I felt – would I be able to stay married to her or not?

I don't know what my answer – what, that's a bad example? But the point is it's a good example because some example because some people are able to get over that and some people aren't. And there was a period here where they felt that they were mistreated, they weren't treated properly. For whatever reasons, I wasn't here. I don't know the story. This is the way they feel. And some of them haven't been able to get over that.

And then there's the ones that came into this for a different reason, and they had different expectations and they'll never get to their expectation. We'll never be able to move them through that expectation.

<Q>: Great. Thank you.

Information Technology

Manjula Sriram, Vice President of Information Technology

I guess so. Can everybody just stand up and maybe want to stretch once and then sit down? Because IT's always wanting you guys to focus.

Thank you, everyone. My name is Manjula Sriram. I'm the VP of Technology as you've been seeing me run around back and forth every time Peter raises his hand.

But I live and breathe technology. My background is Computer Science and Electrical Engineering, 20 plus – 23 years, to be exact, of technology background. Started out totally by fluke on the field of medical. I was ready to go to med school, but totally changed direction because of a lab PA and loving it since then. I have a Masters in Business Administration, again, Technology Information Systems, very focused on technology, and that's the field that I live and breathe. I go home, and I go write code, even today. My work experience from the perspective, more recently, anybody who is in the finance industry has heard of Early Warning and their Zelle product, I helped launch that and get 19 banks on board with that; United Airlines, worked on their optimization model; Walgreens, working on their Medicare Part D and working through those implementations; U.S. Food, working on setting up their data warehousing and again their revenue optimization model. And Vail from a telco infrastructure perspective, with clients like Microsoft, Allstate and State Farm. So a lot of technology background. 15 months ago, when I looked at this position, it was extremely exciting for multiple reasons.

This organization is on a trajectory, it’s a 45 degree angled trajectory going straight up, which, as you know, for somebody who's into math and computer science, is phenomenal for me, right? I want to be on that track, to be going up. So I'm here and not look back and loving every day of it.

So I want to kind of talk about a little bit from the vision strategy where we are going and kind of as an eye opener, want to run a couple of factual pieces of information for you. It takes a blink of an eye to realize that the technology has outrun us. An example as of this morning is, if you look at all – some of the laptops, none of us have HDMI cables. So we're carrying this dongle around trying to hook up, and then there's another computer that Lancelot who's sitting in the reception area shows that has mini HDMI. So we don't even have a dongle for that. So technology is changing. Technology is ever-changing, and you look away for a minute, it changes.

The other aspect, 6,000 viruses are being introduced every month. And we – whether it's finance industry, healthcare industry, any industry you take it, we need to protect us, our organization and our data from it. And then 51% of the Internet traffic is nonhuman, 49% is real people, obviously, or a variation thereof, 31% of the traffic that comes on the Internet is with a malicious intent, 19% are spies, 5% is automated hacking and 5% from spammers and the scrapers and spammers are the 2%. So if you look at what we are seeing in the industry outside, technology is advancing, a lot of malware attacks, a lot of virus attacks, spyware attacks, a lot of that happening. So the real traffic is much smaller. So we need to make sure we are protecting our data with the large majority.

But then I kind of want to go over the team that we have, the vision on why we moved from build to buy, you've heard Peter talked about that little bit, the focus we've had in 2019 – 2018 and 2019, the near-term road map and then the technology vision, where are we going from here.

So it's a very small organic team that I have that focus on support, development and security. And we want it that way because you want us to build systems and processes in such fashion that we can keep our teams smaller to be able to scale our business much faster and quicker. The smaller the team and the organic growth that we focus on, the more money goes to the bottom line in a lights out environment. So Peter has said this in many of his calls. We have currently today a homegrown proprietary system for anybody who understands technology. It's written in .NET Framework, which is almost nonexistent today.

We host a lot of data in our database and to be able to make sure that it is refined and normalized sometimes can have challenges. So the vision is, right, let's come up with a technology that helps us grow, that helps us scale. So as you heard, I said 6,000 virus attacks each month happen in any industry you take. I need to make sure that The Joint, from a technology perspective, is prepared to handle any of such attacks and its protecting our patient data, and that's truly what our focus is.

So we basically focused on partnering with a world-class system, and we chose SugarCRM for their on-prem as well as cloud-based system support, which is why we partnered with them. They are SOC 2 compliant, which is why it was a big thing for us as well as European certified. So if we ever choose to go to the Europe, we are covered there from the certification perspective. And we are progressing towards the HIPAA compliance, going into a private-hosted cloud network and stuff. Those are steps that we're taking towards that. While we are not required to be, we are taking a step towards that. So we changed our strategy completely, 15 months ago when I came, we were on 75 miles an hour in 55 miles speed zone going towards a build – buy strategy – build strategy. And when I came on board, the question that I ask myself is do I want to be in an organization that we want to continue to write proprietary software to continue and work through and make sure that I have the right talents available to me every time or go towards a build strategy and our board members with our board members' support, obviously, with the management support from Peter and the rest of my peers, we were able to make the decision to go to buy.

So I want to kind of talk about SugarCRM as well as the legacy systems. Again, there's a lot of things that we're already doing in our current environment, but I'm talking from a vision perspective here. So the legacy system, if you looked at the older CRM systems or older technology-driven systems in any organization, they were transactional, one transaction at a time, not aggregated to a larger level to be able to see some of the data that we have. They're siloed, right? You've got your – if you look at the manufacturing load, you've got your shipping on one hand that's siloed. You've got your inventory on the other hand that was siloed. But now everybody wants to bring in all together.

New sales, service is cost and data-centric. Now let's fast forward five, ten years now and we are in a recurring kind of system, right? A patient is – from start to finish, it's a patient journey. It's not about a single transaction of a patient. But it's how is the patient progressing through the system from the lead all the way to be able to get them into our system and being able to use our services. It's seamless. You cannot have a siloed environment, right? I need to be able to what is my inventory, who are my patients, how am I treating them, who are my franchisees, who are – so I need to be able to get a full view of the system as is, be able to continue to convert my patients, continue to sell them additional services that we offer. And then services marketing, right? How – to me, referrals are the best way of doing this, right? If a patient refers The Joint to a second patient and brings in five other patients, that's what we're doing through the seamless, modern CRM system.

And then it's relationship-centered. We want to build a relationship with the patient. We have so much data as we're going towards this new environment to be able to understand the patient from start to finish, be able to market to them, be able to service them and make them feel better, as Jason said earlier, deliver better yield. So the Sugar and Joint relationship, right? Sugar integrates seamlessly with systems to provide enhanced insight into your patients. It is a CRM platform focused on that, right? And I say that because I should be – I can take that, configure that system, be able to deploy it with some customization and then go and bring in industry-level class systems for – whether it's marketing, whether it's point of sale, and be able to integrate. And you're going to see that a little further down.

It's modern and intuitive. While it takes some time to understand the interface, it is still modern and intuitive. There are several ways of doing the same thing, and as you become a power user of the system, you start to see the returns on that. And then it drives enhanced productivity and gives us an opportunity to view how are we performing and get additional metrics on additional data. So we're going to switch gears. I talked about all the facts that we have in today's technology, our policies and procedures in terms of how we went from build to buy.

We're going to focus a little bit in terms of what we have done so far and what we're doing in the near future. As I said earlier, Atlas was a homegrown system and it's still being utilized as a homegrown system. So my initial focus when I came on board, we have several outages and system impact, while it did not have impact any of the revenues or any of that, we still have some of those. It's to gain that stability to make sure that we have a system that performs in every franchise clinic that we have and continue to service our patients and our wellness coordinators.

We're in the process of completing the EMV implementation from a PCI perspective. It gives us better insight in the PCI certification from the perspective of not hosting of not hosting any of the data, being able to tokenize data, et cetera. So we're in the process of rolling that out as we speak. We also upgraded our franchise communication platform, bringing in additional sales services that we're working towards implementation right now. We've upgraded our e-mail system to an enterprise e-mail system, improve e-mail retention, spam and phishing e-mail, reduce that and obviously encrypted e-mail as we progress towards the HIPAA compliance aspect. I want to focus the majority of my time in the rest – on this slide on Axis 1.0. We're extremely proud this is what are going to be rolling out. We're still targeting winter of 2019. So that's still moving along, on track. The first and the foremost piece that we're going to be able to give to our patients is digital on-boarding. That is one of the key pieces.

Today, the patients come into the clinic. They fill out paper forms. And we take that data. We scan it in. The doctor takes notes. And then we scan that document again. Now from the comfort of their home, the patient can fill that information. They can either fill it at home or come into the clinic and fill it on a tablet. That data is immediately available to the doctor to be able to take action on, be able to take notes on. You don't have the scanning or printing of documents. That not only saves time but it also gives invaluable insights into patients being able to continue to market that – to that patient the type of treatment we want to give them. Those are all tied together as we continue to build this system. And I'll talk about this.

We're just scratching the surface because as we're collecting this data, we're going to be able to provide additional features and functionalities to build on. Patient Portal. The patients are going to be able to see their own data. Patients are going to be able to update their credit card information. Patients are going to be able to pay the balance at view. So those are some of the key pieces that we're introducing with that. Being able to actually mobile check-in, being able to check and to see, hey, I'm near a clinic, clinic, what's the wait time, let me go check in and go see the doctor, potentially see the doctor who's on call at that time or working in the clinic at that time.

Automated policies and pricing enforcement. So that's one of the key features we're giving you. We're giving additional policies of – I think Jorge mentioned about anti-poaching. So we are bringing those kind of features in an automated fashion. Exception reporting. Quick mobile access to information. So how many visits do I have? When was my last visit? Those are some of the pieces I'm going to be able to see on the mobile.

Credit card process. Again, as we talked through linking all the thought processes in the system itself, being able to charge my balance to you. I want to talk about automated soap note. Soap is called subjective, objective, analysis and plan or – it's how you call it. And Dr. Steve, I think, has a different word for A, but I call it analysis. It's being able to automate some of that information, being able to give referrals. Today, in our current system applets, we don't have a view into why the patient left our systems. If we're giving them a referral to go see another doctor to go get some x-rays done, we're able to track that information and take action on that. That's a huge benefit to see why somebody is leaving. And obviously, PCI compliance, that is one of the most critical pieces. We're going to [indiscernible] that one.

From a near-term road map perspective, I call it 2020 and beyond, but it's very near term. It's being able to do some digital bluebook. We currently have a hard copy of it. They write daily metrics, et cetera. We want to digitize that. We want to integrate the learning management system to actually again build a cohesive system. Automate clinic health reports. Patient experience survey and assessment, being able to automate some of those rather than have to build them outside of the system and keep systematic view into that.

We are working in – Jason mentioned that about, the automated CRM, again, bringing in a world-class system to be able to automate our marketing campaign and being able to build a patient journey. Integrated POS system to get better insights of what sale got a patient got back into the clinic. And then BI tool, being able to do a data warehouse and be able to give actionable reports that clinics can take action on, operations team can take action on and we as an entire corporate system can take action on.

So I want to talk about where we're heading. So I talked about Axis, which is what we're very proud of. That's our focus. We want to make sure we lift our current system and shift it into this new, world-class platform, SugarCRM-based system, gives us the – take the flexibility and [indiscernible] that we got. If you think about if I had to have a developer write security protocols, that would take me six months. I didn't have to do that because I have an extension R&D team of the SugarCRM time of it who actually built that platform. I just have to configure it for what I need for it to do.

So Axis is the focus. We want to get Axis implemented, as I stated. We are on track towards the end of the year as planned. Once we get Axis done, we're looking at marketing automation, whether it's the existing platform integrated together at a single sign-on or being able to look at a futuristic product set that we want to integrate with.

Looking at the point-of-sale system, being able to see what additional features can I bring, being able to get business intelligence, patient feedback and the financial system, build a cohesive ecosystem. Now you are looking at being able to view an entire system, being able to view an entire set of data that's available to everyone to be able to take action, to be able to give a patient a better experience that ends up being in our bottom line.

So better systems, better data, better insights, improved patient experience, increase in profit. That's pretty much my presentation. From a key takeaways perspective, aligning with an industry standard world-class CRM platform prepares The Joint for its ongoing growth. We are on a growth phase. We are in trajectory. This is what helps us get there – or continues to help us get there. We have minimized the risk of stagnation by choosing to buy. Build is always – sometimes, if you're not an IT organization with 30 to 40 developers on staff, there is always a risk. You're going to lose everybody, right, that's on team. What am I going to do? How am I going to support the system?

So always buying a system that can be configured helps us minimize that stagnation risk. Technology is ever-changing. I started thinking, at a blink of an eye, by the time I blink five times, it changed five times. And we are in a continuous innovative environment. We want to innovate. We want to provide our operations team, our marketing team, our sales team opportunities to bring in more revenue, and the only way we can do that is giving them that technology automation that we can provide.

We want to provide optimal care for our patients. Those are some of the key takeaways. Anything you want to take away from this presentation is that that we are continuously improving what we are building.

So questions?

<Q>: What do you think the biggest concern or hurdle is around the switch over to the data conversion side or getting franchisees to buy it and use it? What do you think it is?

<A – Manjula Sriram>: I think – I'm going to answer your question in two ways, right? The first one is the data. Obviously, we – like I said, as we have so much data already in our system, taking that, making sure it converts accurately and represents what the legacy system have is the key risk and to ensure that we are providing that accurate information to the patient. And as we put the system into the hands of the patient, that becomes even more elevated because now the patients can see their data. That is the key risk. The other risk as well, the franchisees don't have an option, right, because this is the system of record. This is what we're going to do. Our existing system will get retired. The day we cut over, it's going to go into a read-only. And after a certain time, we're going to retire that. So they don't have an option of not accepting the system, but obviously, there is that risk always there to say – we're going to hear, hey, this doesn't work as we want it to work. Just that field view of things, change is always not well received. So it's that transition time, that is a secondary risk as well.

<Q>: I guess just following up on that, so there is training or something to sort of mitigate any sort of disruption that they're required to be part of?

<A – Manjula Sriram>: Thank you for asking that question. We have built in about 3.5 months of training. Our operations team is extremely focused. We have partnered with them. They're building a very robust training system for them through webinars, through e-learning tools. And then we've got additional four – 8 to 12 – I think it's about 12 weeks of time that our team – clinic staff can go through and run through the training. And we want to make sure we are going to use – we're also working with our field staff like

our RDs and our FCCs that George mentioned about to make sure that, that word is getting through to all the franchisees so they're able to register and enroll in all the training classes.

<Q>: And then just one more if I could. Could you provide any sort of examples of a new marketing technique that can about post-implementation? Because you guys have so much data to work with. Is there something new that comes from the system?

<A – Manjula Sriram>: Yes. I think today, a lot of the marketing that happens is very manual, right? The marketing team comes to us and says, can you provide us this type of data? And then when we give them this data, then they take an action to be able to build whatever campaigns they want to build. That goes away, becomes more automated, right? It gets into the hands of our marketing team. The secondary aspect, and I'm going to speak and I'm going to make sure Jason validates that because he is the marketing subject matter expert. It's simple things like I want to market to all the college-going teens, right? Maybe I'm opening up a new clinic where there is a whole slew of universities that there are and they were part of a younger crowd who came once or twice, being able to capture that information more readily. Maybe I want to capture moving workers, right? Those are some of the pieces that additional data gives us. And now we're going to be able to capture how many of these patients are new to chiropractic, and that's going to provide them the opportunity to be able to market to them as well. I don't know, Jason, was that…

<A – Jason Greenwood>: We have so many campaigns. Certainly, I discussed in my presentation, our summer sale, and that is a very manual campaign. We have to – we go to IT. We – they pull the query, we load it in our system and it runs. But those win back campaigns should be happening constantly. It's just one example. We have two tracks right now. One is the pain track and one is the wellness track. When I say track, it's a content track with people. But people come to us for neck pain, back pain, migraine. You can think of how rich those tracks would be and it would all be automatic. It would be happening. So people would be getting content that is most relevant to them and customized to them. Those are just two examples off the top of my head, but there are dozens more.

<A – Manjula Sriram>: And futuristic. This is not – again, we're just scratching the surface with our initial release. But from the futuristic perspective, I have – if the compliance and medical compliance allows for us to do being able to send them videos related to their pain issues, right, being able to say, hey, here are some of the exercises they can do at home, when you come back, that will make you feel better kind of a thing. Again those are all things that we have to look at, and they're all dependent on compliance and certification. But those are some of the data that's readily going to be available to us.

<Q>: Are the franchisees bearing the cost of Axis?

<A – Manjula Sriram>: There are some of it that the franchisees are helping from the perspective. From a – it's basically they have a subscription-based technology fee that we charge them. So that's how we are helping them. It is going up by $149 each month for the franchisees just because of all the capital costs, et cetera, that we're putting in to make sure that the technology is up.

<Q>: After Axis launches, what are the key metrics or KPIs you're looking for internally to judge the system is having the return and effectiveness that you expect?

<A – Manjula Sriram>: I think the first and the foremost KPI to look at is the uptime, right? We are targeted to be – five 9s is where we want to be, 99.999. And right now, we're hovering about 99.998, roughly. It's not a significant difference, but there is a lot of the slowness, et cetera, that we work through being able to capture some of the pieces. The other metrics that we would look at, being able to capture revenue numbers better, right? We do a very good job right now but more automated fashion as we link it to our financial systems, et cetera. So those are the other key metrics we're looking at as well. Obviously, uptime, number of support cases we get. We want to – we expect to see an increase immediately after the rollout, but as we achieve steady state, we want to see a decrease, at least by 10% to 20% of the tickets. So that's one of the key pieces we're looking at as well.

Investor Day Wrap Up

Peter Holt, President, Chief Executive Officer
Jake Singleton, Chief Financial Officer

Jake, do you want to join me? We're just going to open up for a couple of minutes. Any questions because you didn't get the time – the opportunity to talk to Jake and I about questions? And so if you – I know you have gone through a lot today. We've heard a lot of content. It's been very dense. I appreciate how engaged you all have been. But just one minute here, if you have any specific question for Jake and I. Or are you just actually stunned by the information that's been shared with you today?

<Q>: Just wanted to circle back on one thing. You were talking about the DCs, and maybe you could just touch on or remind us what the attrition rates of the DCs is, how it's changed since you guys took over and then just give us a sense of when a DC leaves, why do they leave.

<A – Peter Holt>: Well, as we've been following our DCs, first of all, we don't have a lot of information from the franchisees' perspective. We haven't been collecting that. We talked about the survey that we've just done for all of our DCs, and so we've collected a lot of information about why you came in the first place, what are the things that keep you with us. And with just at the initial phase of looking at that, and certainly it's the standard things you can imagine, compensation, benefits, do I get lunch, just what's my career path from here. So those are some of the key questions that our DCs have been asking us.

Now we have made changes in our own compensation in those corporate clinics. And we have roughly about 100 DCs on staff. And we've changed – we've kind of raised their compensation, given them a different bonus plan starting in 2018, and what we've seen is it looks like in 2017, our turnover with DCs in the corporate clinics was roughly around 50%. It's 30% in 2018 and falling.

<Q>: What revenue – sorry, what multiple of revenue or EBITDA do you – have you paid in the past for your RDs you've acquired?

<A – Jake Singleton>: For the regional developers?

<Q>: Yes.

<A – Jake Singleton>: Yes, we haven't disclosed any sort of multiple on that. All of the fixed costs are in each of the 10-Qs when we make those acquisitions. So you can see the total pricing, but we haven't disclosed valuation.

<A – Peter Holt>: You guys really are stunned. You're just waiting to get to the bar, right? All right. Hey, listen, I just want to close this out and say, okay, what are the key takeaways from today. Number one, we are in a chiropractic market that is only becoming more and more relevant to the consumer of this country. You should come away feeling that there is an extraordinarily talented group of executives who are driving this company to achieve the vision that we've laid out. You should come away believing that we have some very sophisticated regional developers who will be instrumental at accelerating the growth of this business.

You should come away feeling that there are some unbelievably passionate franchisees who are on that line level, making the change – or making a difference in the lives they touch every day. I don't know how many times we've heard today the mission statement repeated. We improve quality of life through routine and affordable chiropractic care. It's in the DNA of this organization at the executive level right down to the franchisee. And we believe it. We're moving towards it. And we will achieve our goal.

And I thank all of you for the time you've given us. Any other questions, you can meet us at the bar. And I surely thank you all for the time and attention. I know it's a lot for you guys to come out of your – come to Scottsdale, take a day, spend it with us, and we're very grateful that you did. So thank you all very much.