

## 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.