

Peter Nanula believes in adding value through continuous enhancements.

CREATING A NEW VALUE EQUATION


Peter Nanula and Concert Golf Partners are using an old twist in a new golf venture

You don't need a Harvard degree to recognize the outsized debt load carried by far too many golf clubs today. But, apparently, it took a guy who graduated from Harvard Law School to do something about it.

Peter Nanula, who did his undergraduate and juris doctorate studies in Cambridge, was once the director of Freestone Capital Management, responsible for investing \$2.7 billion in client assets. So he knew more than a little about equity financing when he took over Arnold Palmer Golf Management in 1993. In just more than seven years, he grew the Palmer portfolio to 30 golf courses with 2,000 employees.

By Steve
Eubanks

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— PETER NANULA

Now, Nanula is the chairman of Concert Golf Partners, a self-described "boutique" company with six golf clubs in Florida, Oklahoma and Washington, D.C. Founded on the principle that equity was a difference-maker in the industry, Nanula created Concert Golf with one overriding philosophy: "Clubs thrive when money is reinvested," he says. "If you have big payments going out to a bank, you can't put capital improvements back into the clubs."

Because of his private equity background, Nanula was able to raise a pool of capital to purchase high-end private clubs with decent revenue streams. "We focus on clubs that have some scale," he notes. "We're looking at a gross revenue of \$3 [million] to \$4 million a year [per club] and a strong enough membership base to run a good business."

"A lot of clubs are generating \$1.5 [million] or \$2 million a year, but they're always going to struggle because of the high fixed costs of the golf business," Nanula adds. "Once you get to \$3 million in revenues, the clubs that struggle usually have too much debt."

Concert Golf's portfolio includes Gailardia Country Club, one of the best in Oklahoma City; Carrollwood Country Club in Tampa, Florida; and The Golf Club of Amelia Island next door to the Ritz Carlton Resort on the Florida-Georgia line, among others.

"We have six clubs now and will have eight very soon," Nanula says. "We might end up with 12 to 15. We're trying to build a collection of upscale private clubs and run each one of them very well. Our ambitions are not size, but to execute well in every club."

To achieve those goals, Nanula admits Concert Golf must be able to add value while enhancing products and services for the clubs' members. Otherwise, the deal

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isn't worth making. "If we can make capital improvements to a club that might have been deferring improvements for a while or upgrade the service levels and make other improvements, that's when you'll see us getting involved," he says.

Again, drawing from his experience in the private equity business, Nanula takes a bottom-up approach to management, minimizing layers of regional or middle management and making the general manager the CEO at each club.

"We meet with our general managers and agree on the business plan every year and we talk a lot, but that person is running the business," he explains. "It's a different model than you see from most management companies."

Nanula and his executive team can afford to give managers more autonomy because no one is sweating the next interest payment to the bank. "This is an important issue to the industry because we've seen so many clubs struggling with debt loads," he says. "Not only does that cause financial distress, but the bigger problem is that servicing debt to a bank takes away money that could be reinvested in the club. It's a downward spiral."

To keep Concert Golf's clubs on the ascent, Nanula is committed to investing in capital projects year in and year out, regardless of fluctuations in the economy. "Obviously, we have to pay returns to our investors—more in good years, less in bad years—but we'll never stop investing in capital projects." ❧

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Bigger Isn't Always Better

Texas aren't bashful. Ask any of them about the Lone Star State, and you'll get an earful of accolades. And if golf comes up, you'll certainly be told that Texas has the best courses and the best golfers on the planet.

But for Steven Held, president and CEO of Dominion Golf Group, Texas is more than a big state with a proud citizenry and a booming economy: It's the perfect spot to build a stable of successful clubs. Held teamed with local developer Todd Routh and former software industry executive Joel Katz of Austin to form Dominion in 2006. The idea was to acquire clusters of clubs and use economies of scale to make each successful.

"The key is always value—nothing new, and nothing original," Held says. "The most important component in defining that value is the positioning of each club. Every decision we make has to support each individual club's positioning within the market. To do that, you have to listen to the members and make decisions based on their needs."

Those needs differ, even when the clubs appear to be similar. River Place Country Club, the first Dominion acquisition, was a ClubCorp property with a solid membership and a good reputation. But the next club Held and his partners bought, Onion Creek, was one of the most famous in the area, having hosted a Senior Tour event for years.

"We bought Onion Creek from the original developer who had sold out the community long before," Held notes. "His priority was putting the club in the hands of someone who would be a good steward of what they rightly considered an iconic and historic club. The developer's name is important in Austin, and they didn't want to risk that name and reputation by having Onion Creek go backwards."

A little farther south but in the same general region, Held and his team purchased Dominion Country Club, an exclusive and opulent facility with a 56,000-square-foot clubhouse and members that are a who's who of the area. Gregg Popovich and George Strait live on the course, and there appears to be an Escalade in every driveway. But that didn't keep the club from going through two bankruptcies before a developer righted the ship and sold the club.

"When we purchased Dominion, they still had 350 acres and more than 500 homes left to develop," Held says. "So that purchase was an important partnership with the developer. We have to have our goals in line with theirs."

With a platform of six clubs now—including an upscale public facility, Bridlewood Golf Club, and a private club, Lantana—in the Dallas area, Held is ready to branch outside of Texas as long as the right business elements are in place.

"I look at well over 100 deals a year, and we only have six properties," Held says. "We don't make a lot of offers, but when we do, we're ready to close immediately. That's because we know we can make the clubs work." —S.E.