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CAPITAL MANAGEMENT

JUNE 2014 LIFE TIME FITNESS

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Introduction

- We appreciate the opportunity to meet with the management of Life Time Fitness ("LTM", "Life Time" or the "Company") and share our thoughts
- Marcato Capital Management beneficially owns over 7% of LTM's outstanding common shares

LIFETIME
THE HEALTHY WAY OF LIFE COMPANY℠

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Introduction to Marcato

Marcato has significant experience working with management teams to unlock and increase value for shareholders

- Value-oriented strategies include taking large ownership stakes in businesses we believe in
- Long-term investment horizons typified by multi-year holding periods
- Concentrated portfolio approach with few investments at any given time allows us to conduct heavy diligence and focus our full energy on each investment
- Significant experience investing in consumer businesses, real estate and related assets
- Significant experience working with management teams to create shareholder value in such situations:

Landry's Restaurants, Inc.

Alexander & Baldwin, Inc.

dineEquity

CCA

Lear Corporation

Sotheby's

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Key Investment Highlights

- Differentiated model within competitive but growing industry
- Earnings power masked by near-term impact of newer locations
- Significant real estate ownership
- Underutilized balance sheet
- Attractive valuation

- Marcato believes LTM should pursue the following:
  1. Establish a new capital allocation plan
  2. We believe the right framework involves a more appropriate use of low-cost debt financing to fund expansion
  3. Equity free cash flow should be redeployed to other initiatives such as share repurchases, dividends and acquisitions
  4. Marcato welcomes the opportunity to join the board and be a resource in the capital allocation process

Life Time Fitness

LIFETIME
THE HEALTHY WAY OF LIFE COMPANY™

Ticker: "LTM"

Stock Price: $48.43

Market Cap: $1,981mm

Enterprise Value: $2,896mm

- Life Time Fitness (LTM) is a U.S. operator of 111 high-end mega-fitness centers
  - Unique large scale gym format
  - Multi-use facilities with spas, tennis courts, pools and other amenities
  - Suburban locations targeting higher-income, lower-attrition family customers

Valuation (FY15E)

- Adj. EV / EBITDA: 7.0x
- Adj. EV / EBITDA – mCapEx: 9.1x
- mFCF Yield:10.4%

Operating Statistics:

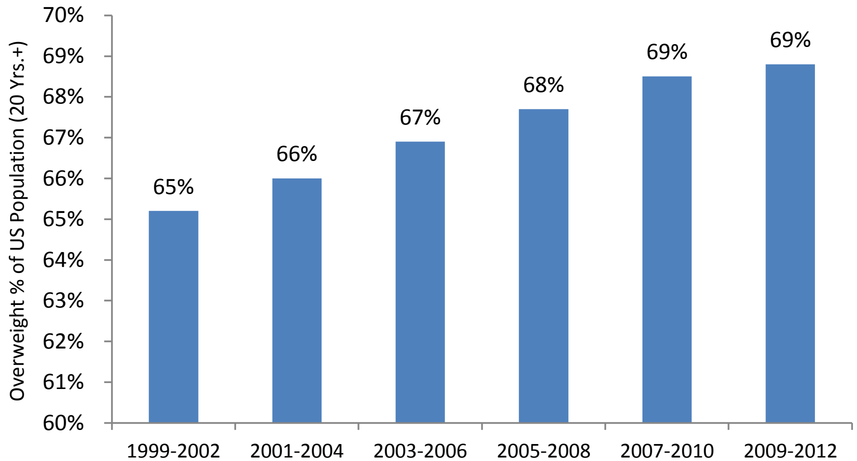
- FY15E Adj. EBITDA: $412mm
- FY15E Maintenance CapEx: $93mm
- EBITDA Growth (FY13A – FY15E): 19.3%

Source: Company filings, Marcato estimates

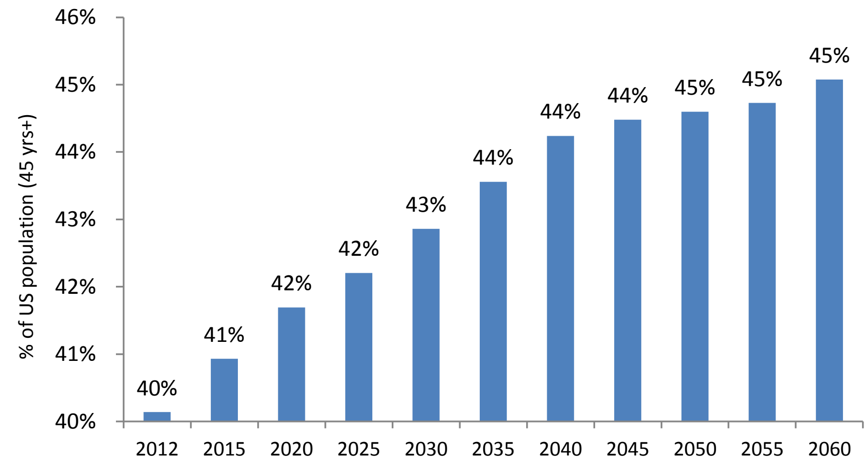
Why We Like Life Time Fitness

Health & Wellness Trends Drive Industry Growth

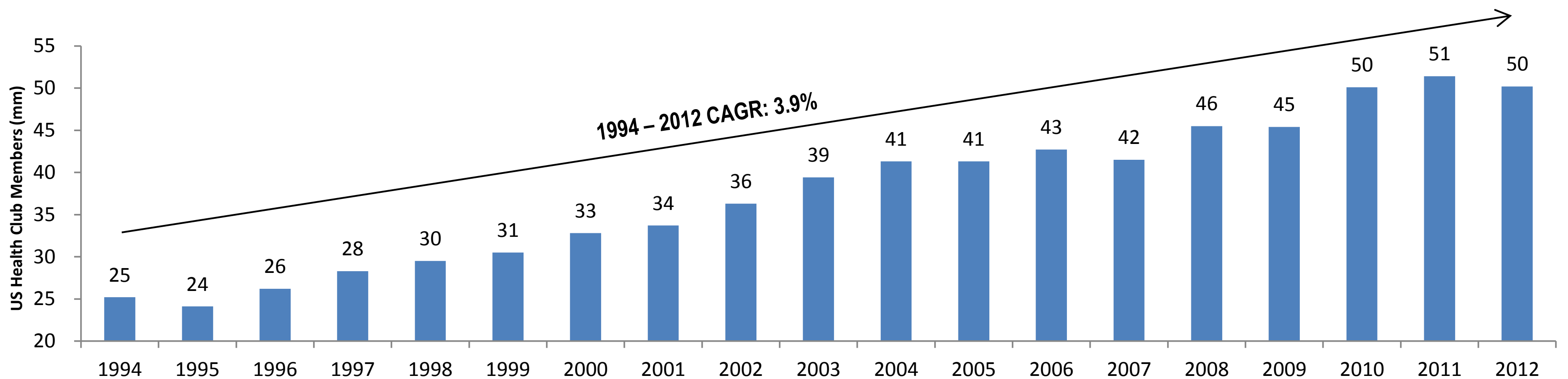
Growing US Obesity



Aging US Population



U.S. Health Club Members (mm)



Source: IHRSA, US CDC, US Census

Premium Service Provider

- The gym industry is highly competitive
- However, competition and industry turnover is primarily concentrated in the low and mid-tier value segments and less intense in the premium segment where Life Time competes

Boutique Studios	Budget / Economy / "Traditional"		Premium
CrossFit FORGING ELITE FITNESS	snap FITNESS 24-7 fast · convenient · affordable	LA FITNESS	LIFETIME FITNESS®
PHYSIQUE 57®	FITNESS 19 Where You Can Afford To Get Fit!	24 HOUR FITNESS®	EQUINOX®
FLY FLYWHEEL	ANYTIME FITNESS®	Cardinal Fitness®	SPORTS CLUB/LA
SOULCYCLE®	planet fitness® / GOLD'S GYM®	NYSC new york sports clubs	

This Isn't Your Typical Gym

- Life Time centers are highly differentiated concepts compared to a typical gym
- Low number of center closures (2) over the Company's 24 year history reflects concept resiliency

Gym

Cafe

Yoga

	LIFETIME FITNESS	*Representative Gym*	Δ / x
Members / Center	~7,500	~3,000	2.5x
Square Footage / Center	~95,000	~25,000	3.8x
Initial Capital Cost	~$40mm	~$3mm	13.3x
Attrition Rate %	~35%	~40%	(5%)
Revenue / Center	~$10mm	~$3mm	3.3x
Household Income	$100k	$50k - $70k	3.3x
Locations	Suburban	Suburban / Urban	
Target	Families	Individuals	

Tennis

Children's Activities

Pool

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Source: Marcato estimates, Company filings

Attractive Value Proposition for Family Customers

- Average monthly cost of a US gym membership is ~$55 per member
- LTM clubs are amenity-rich offerings at an average price point <u>for a family of three or more</u>

	(Gold level) LIFETIME FITNESS	planet fitness	snap FITNESS 24-7 fast · convenient · affordable	WSC washington sports clubs	SOULCYCLE	CrossFit FORGING ELITE FITNESS
Membership Dues Per Month	**$51**	**$15**	**$24**	**$60**	**$280**	**$400**
Square Footage	95,000	15,000	3,000	25,000	3,000	2,500
<u>Included Amenities</u>						
Exercise Equipment	✓	✓	✓	✓	✗	✓
Yoga Class	✓	✗	✗	✓	✗	✗
Pilates Class	✓	✗	✗	✓	✗	✗
Cycling Class	✓	✗	✗	✓	✓	✗
Pool	✓	✗	✗	✓	✗	✗
Basketball Gym	✓	✗	✗	✗	✗	✗
Racquetball / Squash Court	✓	✗	✗	✗	✗	✗
Tennis Court	✓	✗	✗	✗	✗	✗
Locker	✓	✓	✓	✓	✗	✗
Towels	✓	✗	✓	✓	✗	✗
Climbing and Bouldering	✓	✗	✗	✗	✗	✗
Child Center	✓	✗	✗	✓	✗	✗
<u>Unpaid Amenities</u>						
Personal Training	✓	✓	✓	✓	✓	✓
Spa	✓	✗	✗	✓	✗	✗
Cafe	✓	✗	✗	✓	✗	✗
Chiropractor	✓	✗	✗	✗	✗	✗

Source: Marcato estimates

Unique Resort-like, Large Scale Format

Source: Marcato estimates, Company filings

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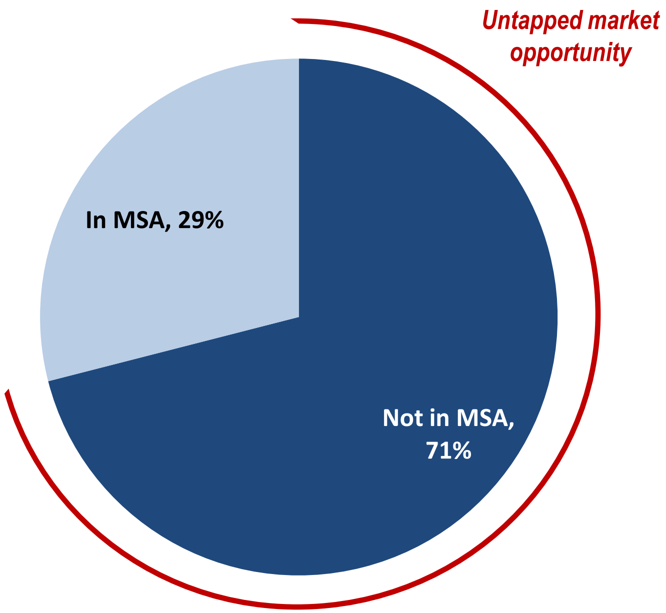
Long Runway for Geographical Expansion

- LTM remains underpenetrated in many of the top 100 metropolitan statistical areas (MSAs), creating room for continued unit expansion
- LTM management targets 250 – 300 centers across the country in the long run, compared to just 111 centers in existence today

Current Geographical Footprint

% of Top 100 MSAs With LTM Centers



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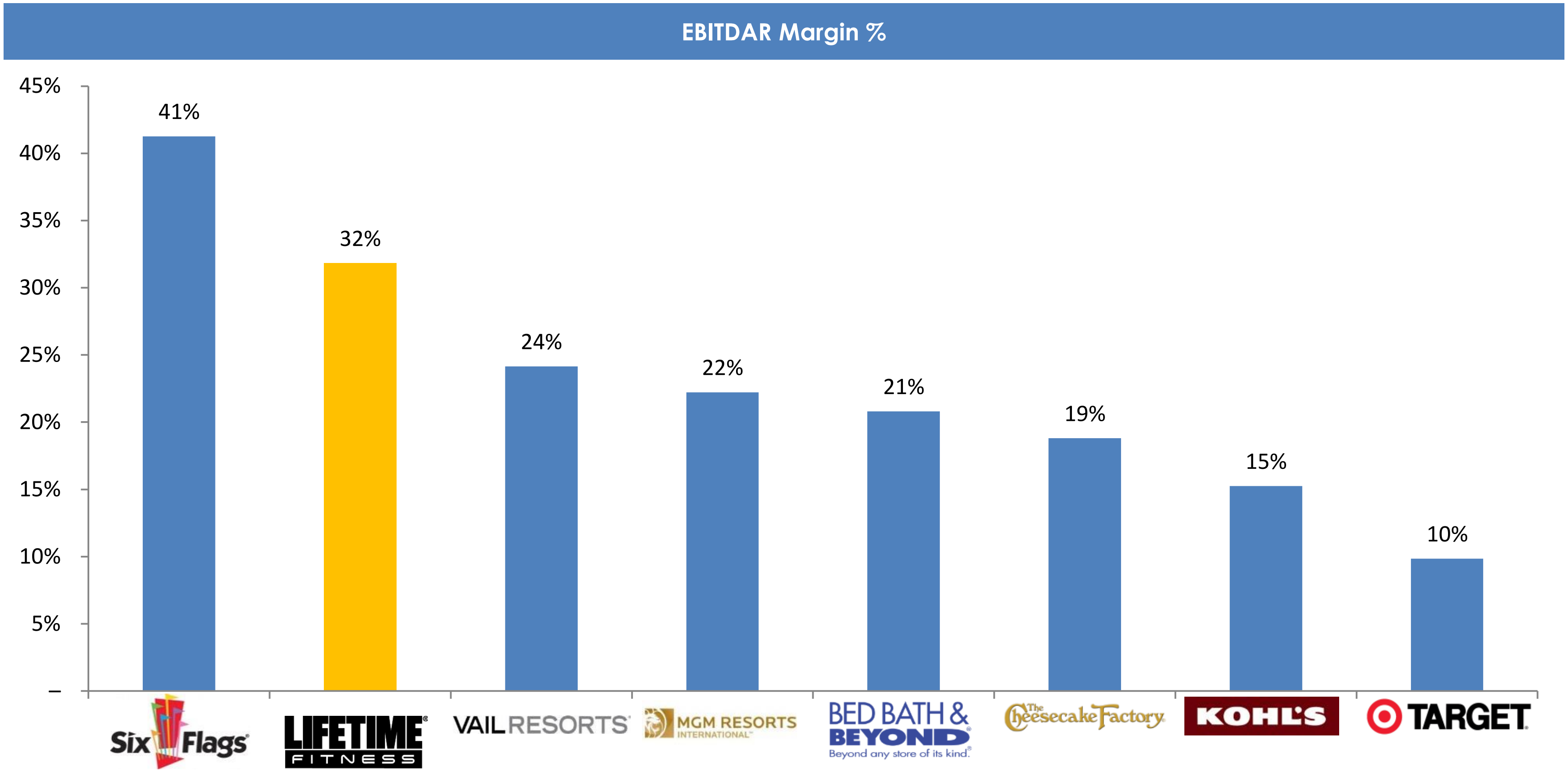
Source: LTM filings, US Census

High Margin Consumer Concept

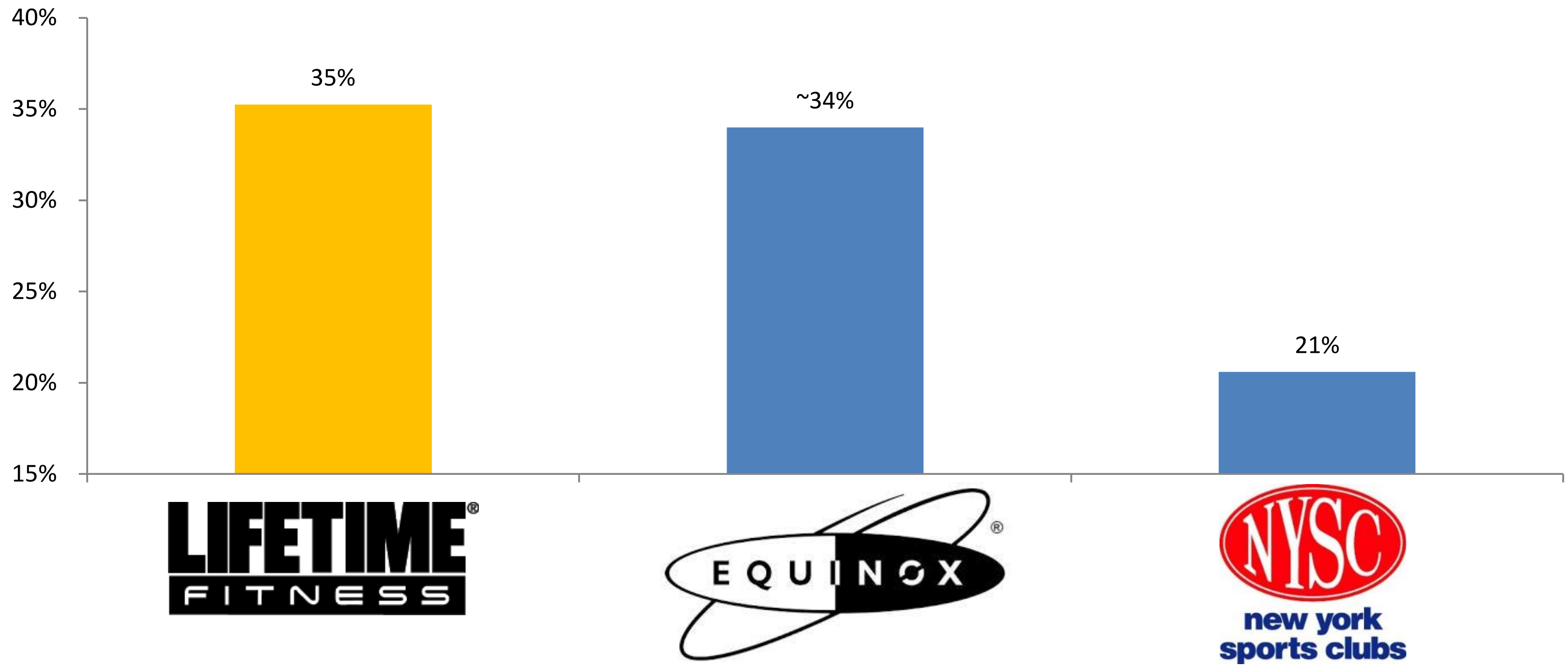


Source: Company filings

Greater Emphasis on Amenities and Ancillary Services

- LTM clubs have more to offer than equipment
- LTM and Equinox derive more revenue from ancillary services vs. membership fees than competitor gyms

% of Revenue From Ancillary Services



Source: Company filings, Marcato estimates
Note: Equinox estimated from FY05 10K

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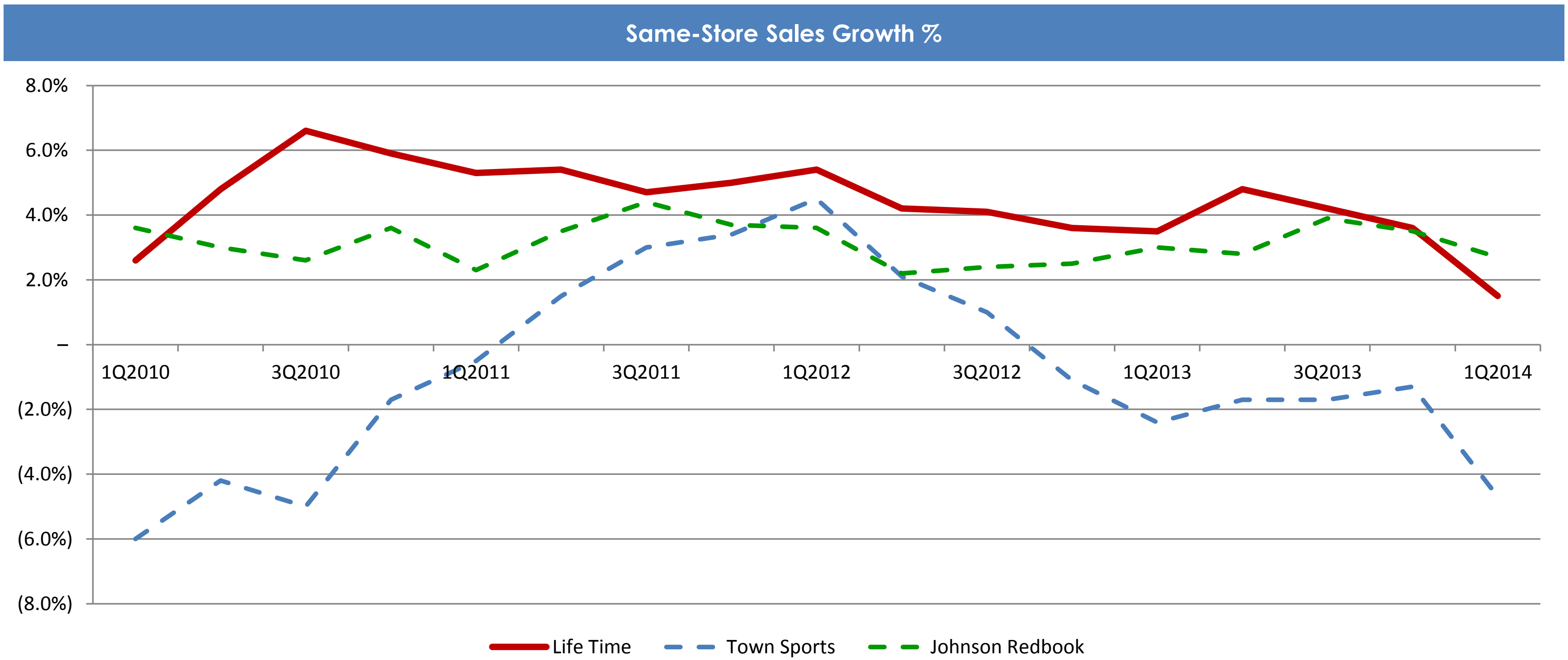
Positive Same-store Comparable Trends

- Same-store comparables have been positive for the past 17 quarters (although growth has decelerated)
- Same-store comps have exceeded pace of general merchandise retailers and Town Sports



Source: Company filings, Bloomberg, Johnson Redbook

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Value-Creative Unit Economics

- Returns on capital exceed costs of capital at maturity
- Large upfront development costs + first-mover advantages in limited-sized markets deter copycats

Illustrative Diamond Center Unit Economics

Unit-level Return on Invested Capital

Capital Investment	**$45**
@ Maturity	
Members	9,000
Rev / Member / Month	$200
Revenue	**$22**
EBITDA	**$10**
% margin	*45%*
(-) mCapEx	(1)
Adj. EBIT	**$8**
% margin	*39%*
(-) Taxes @ 40%	(3)
NOPAT	**$5**
ROIC	***11.3%***

Unit-level Cost of Capital

Capital Investment	**$45**
Status Quo	
Loan-to-Value	*32.6%*
Cost of Debt	*5.5%*
Cost of Equity	*13.0%*
WACC	***9.8%***
Spread (ROIC - WACC) (A)	***1.5%***
Pro Forma	
Loan-to-Value	*65.0%*
Cost of Debt	*5.5%*
Cost of Equity	*13.0%*
WACC	***6.7%***
Spread (ROIC - WACC) (B)	***4.6%***
Spread Differential (B/A)	3.2x

Current debt / est. gross PPE

Source: Marcato estimates, Company transcripts

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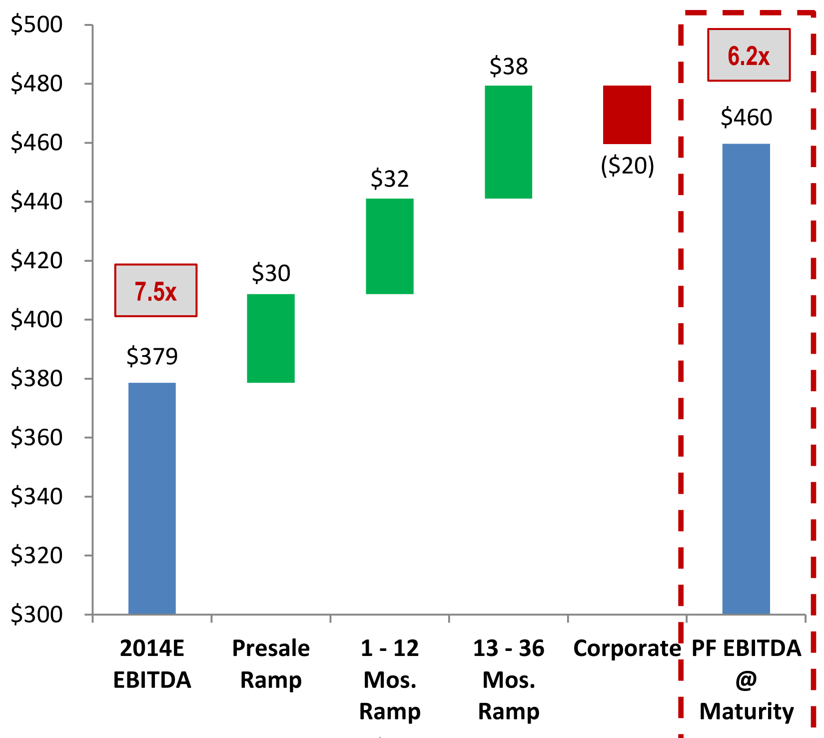
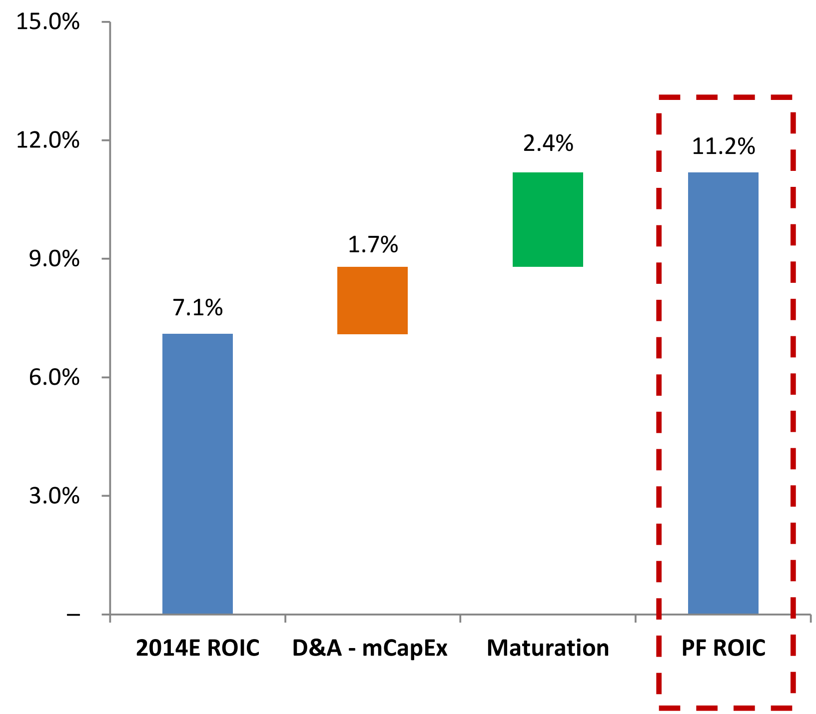
Misunderstood Economics

- LTM's run-rate EBITDA is understated by pre-sale costs on new centers and from the ramp of non-mature centers operating at 50% – 70% of targeted capacity (or less)
- Return on invested capital is understated by unit maturation and accounting D&A in excess of maintenance CapEx (resulting from excess depreciation on owned real estate and expensing of certain maintenance spending)

EBITDA Maturation



Return on Invested Capital



Source: Company filings, Marcato estimates

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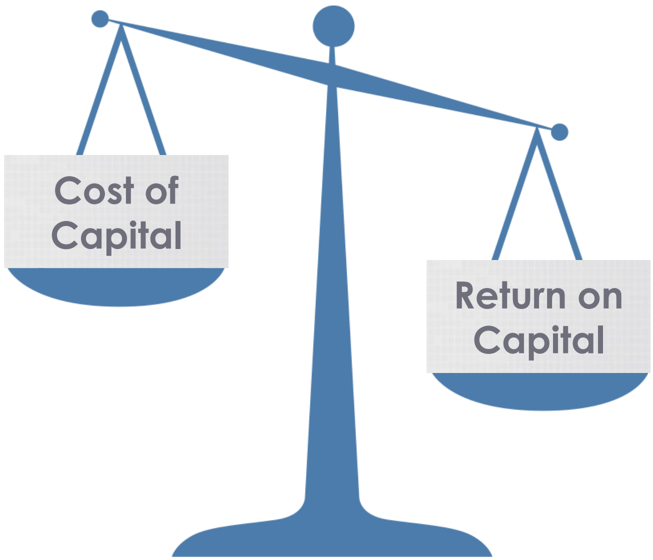
Marcato's Approach To Capital Allocation

Drivers of Value Creation

- Optimal capital structure (appropriate mix of debt & equity)
- Corporate structure (REIT, MLP etc.)
- Business composition (spin-off, sale or exit of subsidiaries)
- Buybacks vs. dividends



Drivers of Value Creation

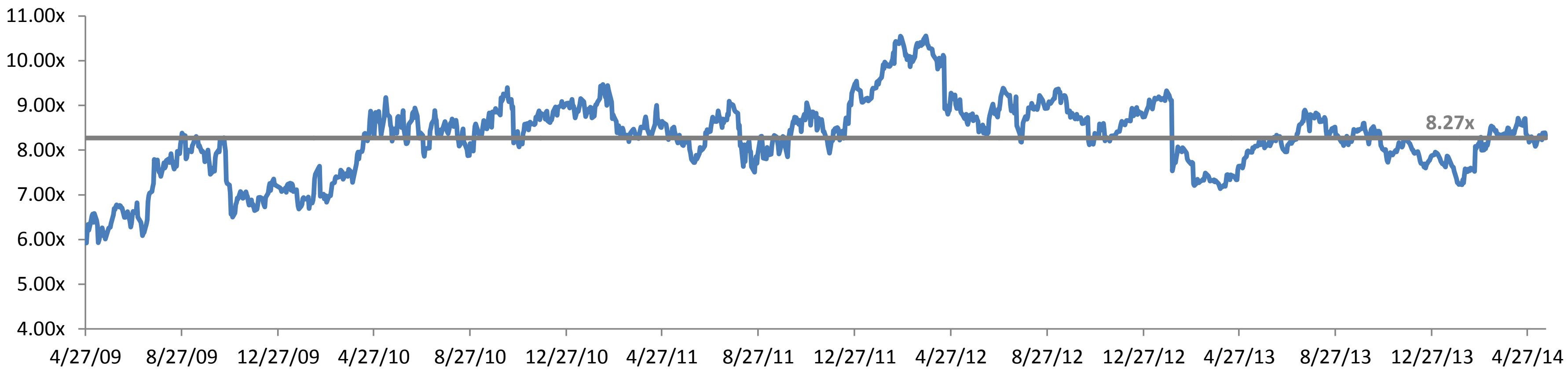
- Revenue opportunities
- Expense discipline
- Tax planning
- Capital productivity

Lowering your cost of capital and increasing your returns on capital grows the value of the enterprise

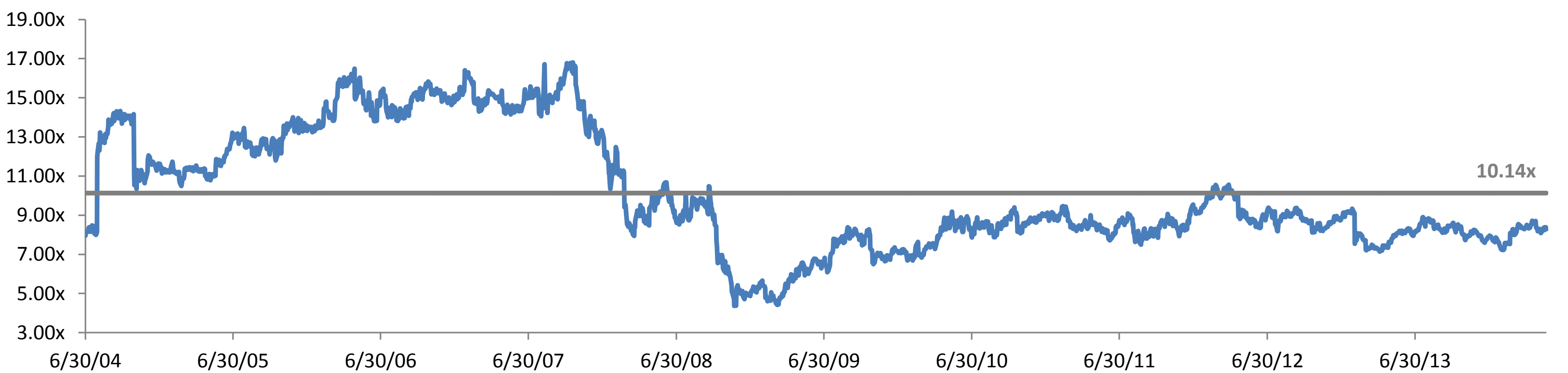
Historical Multiples

- Historical EV / LTM EBITDA multiple of ~8.25x over the past 5 years and ~10.15x over the past 10 years

EV / LTM EBITDA (Past Five Years)



EV / LTM EBITDA (Past Ten Years)



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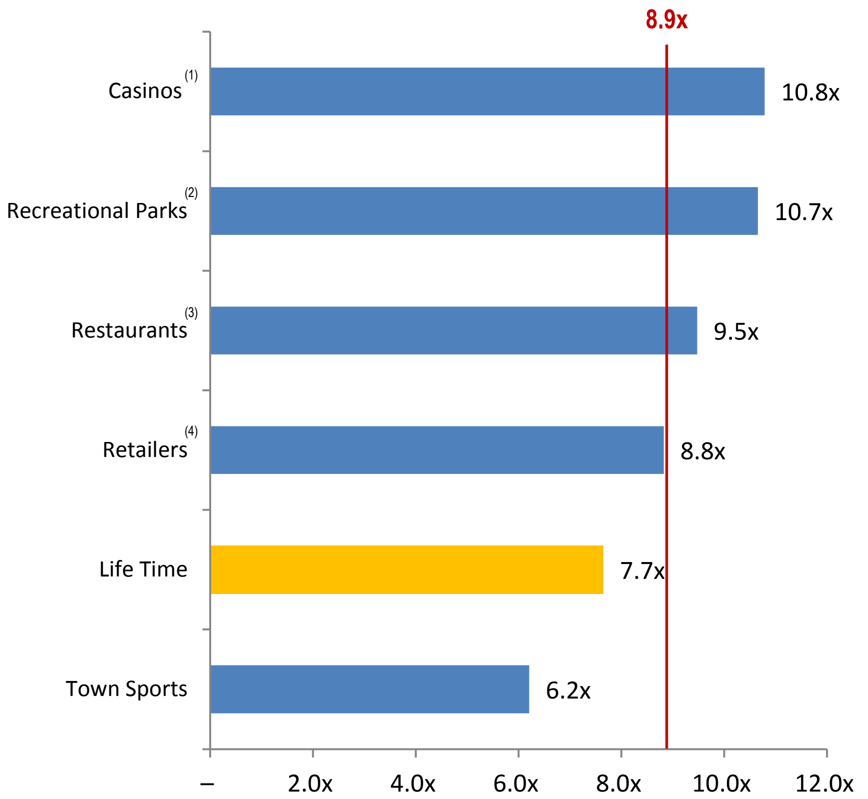
Source: CapitalIQ

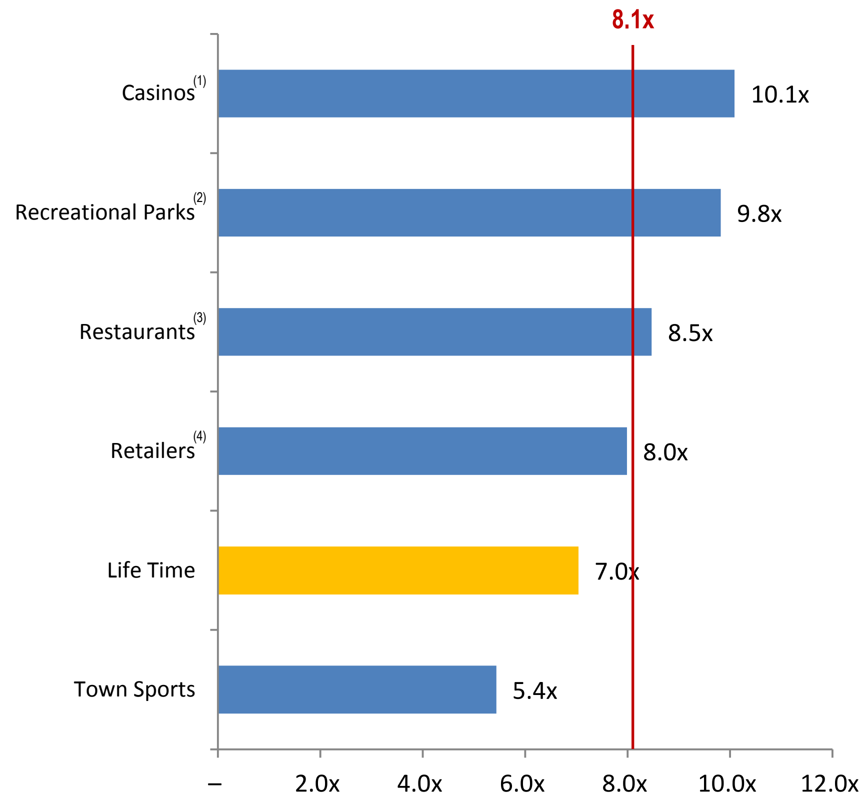
Relative Valuation

- No pure comparables
- Town Sports is primarily an "OpCo" with little owned real estate
- LTM trades at a discount to other consumer cyclicals

EV / 2014E EBITDA



EV / 2015E EBITDA



Source: CapitalIQ, Marcato estimates
(1) CZR, MGM, PENN, GLPI, PNK
(2) FUN, SEAS, SIX, MTN, WB
(3) BJRI, BOBE, BWLD, CAKE, CBRL, DRI, TXRH, BLMN, DIN, IRG, EAT
(4) BONT, BBY, CONN, GME, ROST, TJX, BBBY, PIR, WSM, SIG, TIF, CAB, DKS, KMX, DDS, KSS, M, JWN, COST, HD, LOW, TGT, WMT

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Valuation (Status Quo)

- At 9.2x 2017E Adj. EBITDA, we believe LTM is worth ~$80, or 65% higher than the current price

Implied Valuation Summary	
2017E EBITDA	$477
Multiple	9.20x
Enterprise Value	**$4,388**
(-) Net Debt	(1,099)
Equity Value	**$3,289**
FDSO	41.0
Price Per Share	**$80.22**
Share Price	$48.43
% Upside	*65.6%*
% IRR (3 yr.)	*18.3%*
MEMO:	
2017 mFCF yield %	*7%*

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Note: Company filings, Marcato estimates

Our Proposal

Marcato Proposal

- Marcato believes that addressing LTM's ROIC and cost of capital are important levers for unlocking long-term value
- LTM has the potential to improve shareholder value by adopting a "private equity mentality"
- Marcato believes LTM should explore the following four initiatives:
  1. Establish a new capital allocation plan
  2. Fund expansion more appropriately through low-cost, non-recourse debt financing
  3. Redeploy equity free cash flow to share repurchases, dividends and acquisitions
  4. Invite Marcato to join the board and be a resource in the capital allocation process

Untapped Financing Capacity

- We believe LTM has ~$730mm+ of untapped leverage capacity to efficiently finance growth, primarily with low-cost, long-term, non-recourse mortgages and untapped revolver capacity

Total Financing Capacity	
Gross Land, Building and Leasehold Improvements[(1)]	$2,168
Total Centers[(1)]	107
Gross Book Value Per Center	**$20.26**
Unencumbered Owned Centers (incl. ground lease)[(2)]	52
Gross Book Value Per Center	$20.26
Owned Real Estate Value (Gross)	**$1,054**
Loan-to-value	*65%*
Available Mortgage Financing	**$685**
New Diamond Centers	16
Cost Per Diamond Center	$45
Unencumbered Book Value	**$738**
Unencumbered Asset Coverage Ratio	1.3x
Total Revolver Capacity	**$568**
Current Revolver Drawdown	(515)
Incremental Revolver Availability	**$53**
Total Available Financing	**$738**
Cost Per Diamond Center	$45
No. of New Diamond Centers	**16**
Centers Per Year	6
Fully Funded Years	**2.7**

Source: Company filings, Marcato estimates
(1) As of FY13, excluding unconsolidated JV
(2) Per 4/30/14 Investor Presentation

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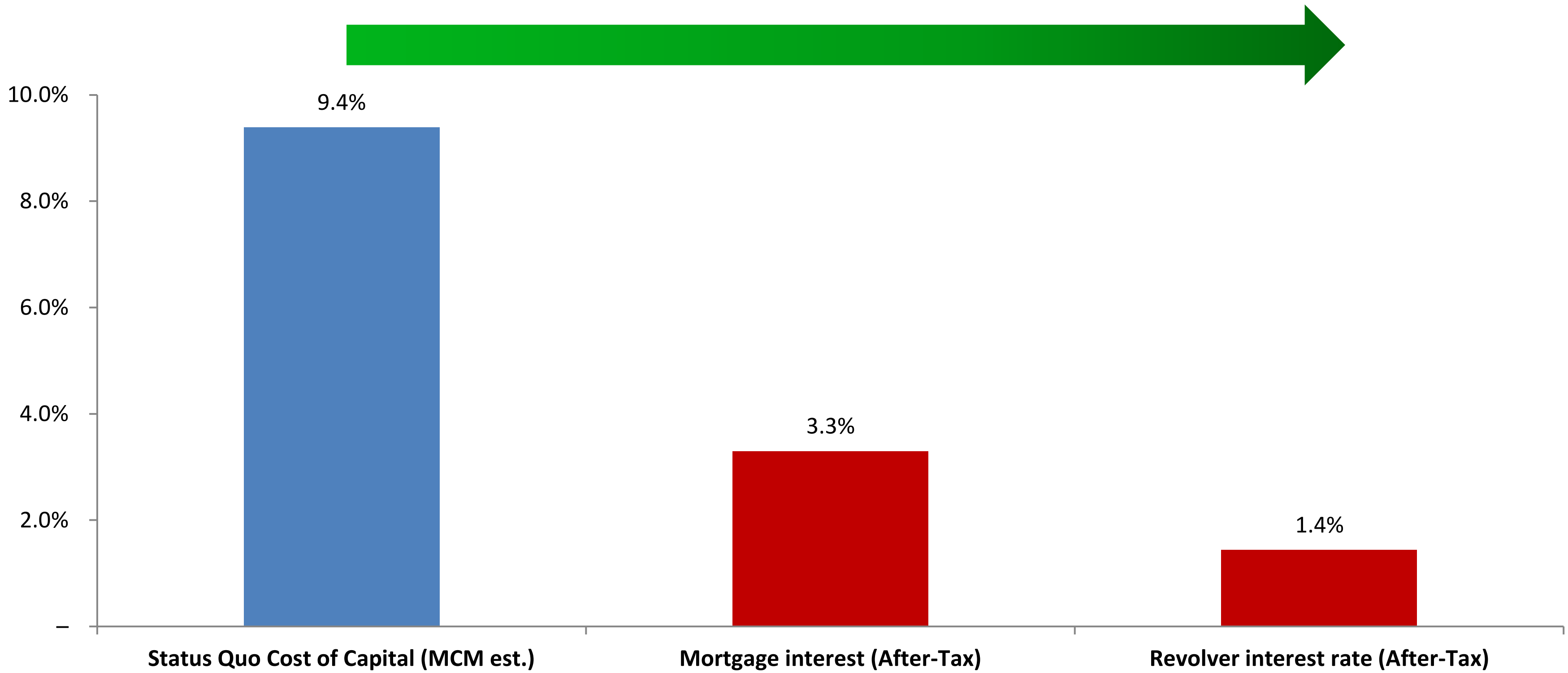
Cost of Capital Transformation

- Sources of incremental financing are very low cost and substantially below LTM's current cost of capital
- Shifting the capital structure mix towards low-risk (non-recourse) debt would meaningfully lower the Company's cost of capital and widen the spread against returns on capital

LTM Cost of Capital



Source: Marcato estimates

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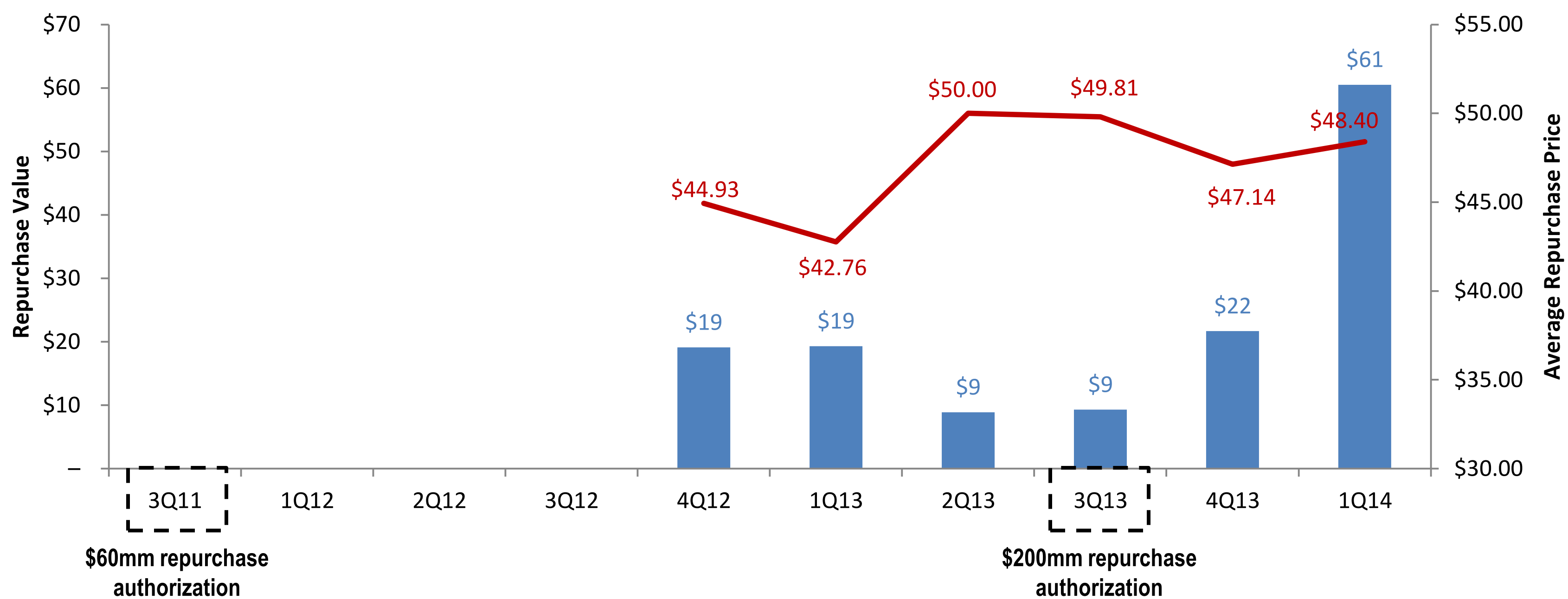
Direct Operating Free Cash Flow to Attractive Share Buybacks

- We recommend continued buybacks at today's attractive prices

Share Buyback History



Source: Company filings
Note: Assumes maintenance capex funded through operating free cash flow and growth capex funded through incremental debt financing

Sources & Uses

- Incremental financing can be used to finance both new center growth and share buybacks

Sources of Funds		
Sources	**$**	**%**
Net Revolver Drawdown	$53	*3%*
Mortgage Financing	685	*44%*
Operating CF ('15 - 1H17)	801	*52%*
Total Sources	**$1,539**	***100%***

Uses of Funds		
Uses	**$**	**%**
New Center CapEx (16)	$738	*48%*
Maint. CapEx ('15 - '1H17)	247	*16%*
Share Repurchases	554	*36%*
Total Uses	**$1,539**	***100%***

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Note: Company filings, Marcato estimates

Incremental Financing to Fund Growth Maintains A Conservative Balance Sheet

Pro Forma 2017 Leverage Summary	
2014E Net Debt	$964
Available Leverage	738
2017E Net Debt	**$1,702**
2017E Total Units	132
2017E Gross PPE	$3,679
Net Debt % of Gross PPE	*46.3%*

Credit Statistics	
Net Debt / EBITDA	3.6x
Adj. Net Debt[1] / EBITDAR	3.8x
EBITDA / Interest	7.2x
(EBITDA - mCapEx)/ Interest	5.6x
(EBITDAR - mCapEx)/ (Interest + Rent)	3.7x

2017E Financials	
2017E EBITDA	$477
2017E EBITDAR	$521
2017E Interest Expense	$66
2017E Maintenance CapEx	$108

Note: Company filings, Marcato estimates
(1) Assumes $44mm of rent expense capitalized at 6.0x per consolidated leverage ratio covenant

Valuation (Marcato Proposal)

- By implementing Marcato's proposals, at 10.15x 2017E Adj. EBITDA, we believe LTM is worth ~$97, or 100% higher than the current price (and substantially higher than the status quo price of $80)

Implied Valuation Summary	
2017E EBITDA	$477
Multiple	10.15x
Enterprise Value	**$4,841**
(-) Net Debt	(1,702)
Equity Value	**$3,139**
FDSO[1]	32.1
Price Per Share	**$97.78**
Share Price	$48.43
% Upside	*101.9%*
% IRR (3 yr.)	*26.4%*
MEMO:	
2017 mFCF yield %	*7%*

Note: Company filings, Marcato estimates
(1) Assumes share repurchase at an average price of $68 per share

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Summary

We believe Life Time Fitness is well-positioned, undervalued and has meaningful opportunities to improve value

- **Well-positioned company**
  - Differentiated, durable concept with attractive barriers to entry
  - High growth potential driven by exposure to health & wellness trends and low market saturation levels
- **Undervalued and underappreciated by the market**
  - Discount to comparable consumer cyclical companies
  - Little value attached to the Company’s considerable real estate
  - ROIC understated by maturity curve of new centers and D&A / capex mismatch
- **Significant opportunity to improve capital structure, capital allocation and strategic planning with the collaboration of Marcato**