PureGym Q3 Results call
Conference call Wednesday 17th November 2021

Humphrey Cobbold (CEO):
Good morning, everybody. And welcome to the presentation of our results for the third quarter of 2021. We'll be running through the presentation that was posted on our website this morning at 7:00 a.m., dated 17th November 2021. Hopefully, you will have this in front of you and we will guide you to the page references as we go through the document.

So, turning first to slide three, let me start by giving you an overview of the period and where things stand now, all of our 511 gyms remain open and are performing well operationally, we've seen a steady reduction in the restrictions through the quarter, which were in place, as we progressed. Currently, only Switzerland -- where we have 40 facilities -- faces some restrictions in the form of requirements to be in possession of a valid COVID pass when attending the gym.

Our total group revenue for quarter three 2021 has now recovered to the same levels, actually slightly ahead, of the levels that we saw in Q3 2019 before the pandemic, which is obviously good news, we delivered adjusted EBITDA of £25 million in the quarter, which totals up to a run rate of around £100 million on an annualized basis.

And from a cash and liquidity perspective, we close the quarter in a very healthy position with £206 million of available liquidity. So, we have more than adequate cushion to protect from any future disruption that may take place. As evidenced by our quarterly profitability, progress of recovery remains good with a growing number of mature and maturing sites trading above 2019 levels, and new site openings continuing to perform very well.

It's particularly heartening to see the broad base distribution of the recovery in member numbers and revenue across our estate in the U.K. and across our facilities in Europe, and that members are still satisfied with our service and the product that we offer.

In terms of outlook, we continue to believe that the overall market dynamics are very positive for our business. And for you as investors in our business. We aren't naive; however, the full recovery will take time, at least another 12 months. But I'm absolutely confident that patience will be rewarded over the coming months.

And we are not just focused on recovery, we continue to push ahead. Over the next three to four months, we will open another five sites in the U.K., along with three in the USA and four franchisee sites in Saudi Arabia. I'm looking forward to traveling to Riyadh early next month to participate in the openings there. Looking further into the future, we have an excellent pipeline of opportunities and a clear plan for accelerating the growth of the business. As we touched on at the second-quarter presentation, we're seeing great opportunities for further expansion

both in the UK and overseas. And we continue to make good progress exploring options for capital raising for the business.

So, with that introduction, let me hand over to Alex who will look first at the status update before summarizing the financial results. Alex, over to you.

Alex Wood (CFO):
Thank you, Humphrey. Good morning, everyone. Let me begin on page five. As you can see, the group was fully open in all geographies by early May, albeit with restrictions in place. And we've summarized those key restrictions by geography here. And you can see that, gradually as we move through the quarter, many of these restrictions were removed. As we stand now, as Humphrey just mentioned, Switzerland is the only geography with significant restrictions still in place, having reintroduced a COVID pass on the 13th of September. And we expect that restriction to remain in place until the end of this year or early next.

Turning onto page six. In parallel, good progress has been made particularly in the U.K. and Denmark on vaccination and caseload reduction. And steady progress has also been made in Switzerland, it's clear to us all that we're in a very different position now to where we were pre vaccinations. And whilst we've learned to be prepared for the unexpected, it's clear that vaccination progress in our geographies is amongst the best in Europe.

Indeed, if you were to pick two areas to be opening gyms in Europe, at the moment, you would probably choose the U.K. and Scandinavia. And I'd ask you to remember that we benefit from having an average age of membership of under 30 years old across the estate. And this age group, of course, is both less at risk from COVID in general, and have shown themselves keen to get back to life as normal. And over the long run, therefore, we believe this will stand us in very good stead. So, with that overall summary, let me now turn to the latest trading performance. I'm going to take you through the group's financial results for the third quarter ended the 30th of September 2021, as well as the very latest liquidity position in this section.

Let's start with a summary of the group results for the quarter, over on page eight. We were able to operate all of our gyms throughout the whole of the third quarter. Despite the restrictions in place, and there were considerable restrictions as I've just outlined, I'm pleased to report a very solid set of results, all things considered. We continue to show 2 comparators on this page; 2020, where we were in between lockdowns, and also perhaps the more important 2019 as the clean year and benchmark for comparison when the business is allowed to trade without encumbrance.

Let me start on the bottom left-hand side of this page. Now the good news is that group total revenue in quarter three was actually ahead of 2019 at £111 million. We ended the period with 1.64 million members ahead of the prior year and almost back to December 2019 pre COVID position. Moving across the page, adjusted EBITDA for the quarter was £25 million. So, we are running at an annualized equivalent of approximately £100 million adjusted EBITDA and in

terms of our formal run-rate adjusted EBITDA metric, I wanted to remind you that as defined this is a trailing last 12 months measure and will therefore take 12 months for the COVID losses, of course, to annualize out. But I would like to draw your attention to the 2019 run rate adjusted EBITDA figure of £161 million, which I believe is still a very useful benchmark for the underlying scale and performance potential of the group when it's allowed to open and trade without encumbrance in the future.

We close quarter three with a total of 511 gyms across the group, including five new gyms opened in the quarter bringing the total number of new openings to 20 in the year to date. We still continue to maintain a substantial available liquidity cushion of over £200 million across the group. And finally, we generated £14 million of operating free cash flow in the quarter before interest and growth Capex and closed September with senior secured net debt at a level of £798 million, and there's a full breakdown of that position included in the appendix for you.

So, if those are the headlines, let me now go into a couple of those areas in a little more detail. And let's start with revenue over on page nine. Total group revenue was 2 percent ahead of quarter three 2019. And there are a couple of points of detail I'd like to draw out on this page. Firstly, we have benefited from the maturation of new gyms that opened post-2019 to a degree, about 4 percent of that bar you can see on the left-hand side of the page. And secondly, total revenue has been underpinned by good member volume performance at 94 percent of 2019 level, and strong ARPM at 108 percent across the group as a whole versus pre-pandemic. So overall, therefore, I think you'll agree with me that this is a more than satisfactory result given the challenges that we've been facing.

Let me deal with members and ARPM in turn, and I'll start with members first over on page 10. So, the headline here is our total group members at the end of September were back up to 95 percent of December 2019's level. You'll note that this is 1 percent higher than the average across all of Q3 this year, versus Q3 in 2019 of 94 percent, which I referenced from the prior page. And you can see from this chart the pace of that recovery, up from 81 percent in March 2021. And on a like-for-like, or same-store basis, which is the other lens that you may be interested in, the U.K. is already back to 88 percent of 2019's level, with Denmark around 85 percent, and Switzerland around 75 percent. You'll note that in Switzerland, COVID-pass restrictions are holding back recovery a little there until those sanctions are lifted. So overall, a really strong member retention and bounce-back in volume, and, of course, member volume is just one side of the equation here. The other is ARPM. So let me cover that now on page 11.

I'd like to start by making the point that this increase of 8 percent in ARPM is absolutely legitimate. We've not been playing any tricks here. There are a number of influences on ARPM, which we've set out on this page. And I'd like to call out the two main growth drivers, which are firstly, ongoing increases in premium product mix. So our members like the flexible membership options that we offer and are prepared to pay for them. And these are things like multi-gym access. We continue to capture a premium from customers who are willing to pay a little more for a little more. And this is an important component of our commercial model.

This is not just in the U.K. In Switzerland and Denmark, we're implementing our standard operating model, and are making it much easier for members to trade up and select bolt-ons as well.

Secondly, we also continue to achieve price progression across the group. This isn't as crude as just raising prices across the board, it's much more sophisticated than that. Our variable pricing capability allows us to carefully optimize price where it's appropriate to do so. In the U.K., we make careful price increases to match the local dynamics, balancing demand and capacity. And this is a very powerful tool which we've spoken about with you before on multiple occasions. And we've now rolled this variable pricing capability out to Denmark and Switzerland.

There are also a couple of factors reducing price progression on the margins. Volume is lower in a number of our city center gyms, which tend to be higher priced. We don't have many gyms in that bracket, so the effect is modest here. But this mix effect does dilute ARPM a little. And finally, we have been promoting in a controlled way to ensure we capture our market share of returning members. And that dilutes ARPM as well. Overall, this 8 percent growth in ARPM provides a very healthy underpinning of revenue and validates that ARPM continues to progress as it's done in the past despite COVID.

Let's now cover off cash and liquidity over on page 12. As you can see on the right-hand side of this page, we closed Quarter 3 2021 with £206 million of available liquidity. And this comprised £61 million in cash on the balance sheet and £145 million of undrawn revolving credit facility. I'm also pleased to confirm that the group was cashflow positive before growth capex and non-trading related items, which you can see on the left-hand side of this page. Overall, cash only reduced in the quarter because we have continued to pay down deferred items, which are now down to £30 million in total. We incurred some exceptional costs, and we incurred a working capital impact associated with the changing of the operating model in Switzerland from 12 months paid in advance to a monthly rolling subscription. And the other area to call out in the middle of this page is that we invested £9 million of growth capex in the quarter, which comprised disciplined deployment of capex into high quality new sites. And we continue to feel that this is in the interests of all stakeholders, to move the business forward in a measured and calculated way while it's recovering.

And with that, let me now move onto the next section to that recovery and provide you with a little more color there. So look, the headline here is that we've had a very strong bounce-back, with a broadfaced recovery trend starting to emerge very clearly across the whole estate. Let's start with our mature sites over on page 14. Many of our mature sites are already trading above 2019 revenue levels. On this page, I'm comparing revenue in September versus the same month in 2019. And I can confirm that 68 of our mature U.K. sites are trading at or above 2019 revenue levels. That's about one third of our entire mature estate. Eighteen of these sites are already trading at more than 10 percent ahead of 2019 levels. Now, there are a range of factors, of course, that drive these performances, but the key point here is that this performance is distributed right across the country and across a broad range of gym sizes and

location types.

And if we turn onto page 15, you can see that many gyms that were open but not mature as of the end of 2019 are also progressing well. They are still maturing post-COVID, in fact, very strongly. There were 49 sites in the U.K. that were opened in 2018 and 2019 that were maturing through when COVID hit. And you can see that they've not only recovered back to where they were pre-COVID, but also continued to mature way beyond that point. And again, here, these performances are spread right across the country and across a range of format sizes, so evidencing a broad-based recovery trend.

The recovery is also really well distributed across the estate. I've set out on page 16 all the mature sites in the U.K. and compared their September 2021 revenue to 2019's September revenue. And you can see that there's a very healthy and flat distribution with no undue reliance on any particular gyms dragging up the averages. And this analysis shows very clearly that there are many more sites already performing better than pre-COVID than those few London city center gyms that are being held back on the left-hand side. And you'll note that there's also a very small number of those London city worker gyms that are held back at the moment. And for every London Wall, there is a Fulham that's trading extremely well. And for every Aldgate, there is a London Hayes. The key thing to remember here is that demand is being displaced, it has not gone away.

And then turning over to page 17, a very similar picture for Denmark as well. A healthy distribution of recovery across the whole estate. You'll note that Denmark as a territory is very slightly behind the U.K. in terms of overall progression, and this is simply because of the corona pass restrictions that were in place there right up until the beginning of September.

The other corroborative data that is extremely useful is new site performance. Strong use of new site performance provides further evidence of healthy, underlying member demand for gyms and facilities. And on page 18, I have refreshed the very latest updates on new site performance for you. And you can see that each gray line represents a new site that has opened post-COVID, with the teal line being the average member ramp of all these new gyms, and the dashed teal line being the pre-COVID average. And this analysis shows two things. Firstly, that new sites post-COVID are performing very well, with members ramping ahead of pre-COVID levels. And secondly, that the ramps are following a broadly similar trajectory to before, showing the sustained, consistent quality of our site selection. It's clear from this data we believe, that there remains really strong latent demand for our products and brands in the marketplace, and this is clear even in new locales where we have never been present before.

And with that, I shall now pass back over to Humphrey to comment on the market dynamics and our outlook. Over to you, Humphrey.

Humphrey Cobbold (CEO):

Thank you, Alex. And let's just pause a moment on page 19, the section divider. Look, I think what Alex has just outlined is a very positive set of results for the quarter and strong evidence of a broad based recovery, which provides further support to views we've expressed for some time. We believe that the market dynamics post-COVID will be very positive for us as a strong market leader in the value gym sector in all three of the geographies where we operate. And we believe that there will, over time, be a rising tide of demand for activity and fitness. After all, as I've said before, the message delivered time and time and time again to consumers over the last two years has been that people must take better care of themselves physically and mentally. And our belief is that the benefits of this rising tide will be captured predominantly by businesses like ours that our strong and in that context, seaworthy.

So with those thoughts let me start by providing a bit of a perspective and update on some of the elements of the competitive landscape over on page 20. Let's remember that a substantial proportion of operators in our industry have been seriously challenged and frankly damaged over the last 18 to 24 months. This has been an extremely testing period. How could it be otherwise? The pandemic turned off revenue for almost a year. We've described it before as a Darwinian event, and I think that rings true. And there have unfortunately been a number of business extinction events related to that, such as Exercise for Less and D.W. Fitness. Others, such as Virgin Active, Total Fitness and Energie have had to pass through administration, a kind of near-death experience, I guess you would call it.

And according to the leisure database company that released an update on the U.K. market just last week, a number of the smaller value gym operators have been closing sites, and an example, indeed, just in the last couple of weeks, there have been two Tru Gym sites close in Bromley and in Plymouth.

Now moving towards the right hand side of this page, it's well known that the mid-market and the public sector leisure operators needed investment to be able to maintain asset quality even before the pandemic. It's quite difficult to see how they are going to get access to the capital they need now to maintain asset quality, let alone to expand in opening new sites.

Now this picture on this page is for the U.K., but the same challenges exist to a lesser or greater degree in other markets such as Denmark and Switzerland, and indeed across Europe in the industry as a whole. And we believe that over time we will see modest reductions in supply as other gyms decline in quality, close, choose not to extend leases, and effectively release members back into the market. And returning to the seaworthy boats analogy for a moment, our view is simply that there are fewer seaworthy boats now than there used to be. Therefore, there are fewer of us that are well positioned to take advantage of the rising tide of demand that we expect to see.

Now, in terms of positioning, it's worth remembering why our business and the value gym business model is so well positioned for the future. So turning to slide 21, the value gym model is extremely attractive and relevant for consumers. We have actually been early players in the

increasingly popular sharing economy that we illustrate here through businesses like Zip Car and Airbnb, and Wex Camera Rental, these are all businesses that are gaining a lot of traction and currency. And actually, I think it's a helpful way of thinking about the gym business. Members share the equipment in our gyms. They effectively rent the kit for the time they need it each month. Now a member paying £20 per month to have the right to use £10,000- to £25,000 worth of equipment on each visit at a rate that works out at about £1 to £2 per hour. Well, that's just fantastic value for members.

And contrast that for a moment to a Peloton bike, which is £1,500 or thereabouts, plus the subscription of £30 to £40 per month. And you can see why gyms retain their appeal to the man or the woman on the street. And I think it's interesting because we just passed a week in which the share price of Peloton fell by about 35 percent and in the U.S., the share price of Planet Fitness, the leading value gym operator in the U.S., rose by nearly 20 percent. I think we're seeing a classic rotation of understanding there.

And one final point to make on this is our proposition is not only fantastic value for consumers, it's also an incredibly efficient use of resources from an ESG point of view because the equipment, the dumbbells, the treadmill, the bikes, everything is so well utilized. That's a really good use of the world's resources to make equipment available for people to share in facilities such as ours.

So with those sort of contextual thoughts, let me turn to the overall outlook on slide 22. Look, our belief is that there will be billions of extra hours of activity and fitness in the years to come. This will, over time, be our pandemic dividend, if you like, and in this market a great product at a great price in the right place like ours will be a seaworthy boat and will continue to gain market share, and that is what we absolutely plan to do in all our markets. We are pushing forward with further new U.K. sites anticipated for Q4, as Alex has indicated, and we have a strong pipeline for the year ahead, and we'll be continuing to invest in Denmark and Switzerland as well. And we'll be opening three new sites in the U.S. and four franchise sites with our partner in Saudi Arabia in the coming months.

We have had a really positive response from providers of capital and the process of securing further capital for the group is proceeding very well. You'll appreciate on this point that I'm not able to share more detail on this at the current time, but you can rest absolutely assured that we will update you when there is more information that we can share.

And so, in conclusion, turning to page 24. Remember that we are all about delivering on our vision to inspire a healthier world. Q3 group revenue was 102 percent of Q3 2019 revenue, and that was underpinned by eight percent growth in ARPM versus pre-COVID. So I think it's a good sign of the group's underlying strength. Total group membership has now recovered to 95 percent of December 2019's level. We delivered £25 million of adjusted EBITDA in the quarter, indicating a circa £100 million annualized run rate for adjusted EBITDA. We enjoy a robust liquidity position, with £206 million available as of 30 September 2021. New sites continue to

perform strongly versus pre-COVID, and we've got an exciting agenda of new site openings during Q4 and Q1 in the U.K., Saudi Arabia, and the USA.

And as I said, finally, we continue to explore capital raising options to take advantage of a great run rate for growth that we can see ahead of us. Those discussions are progressing very well.

So that summary brings us to the close of the formal proceedings. Let me pause there and with the operator's assistance, let's see if there are any questions out there.