PureGym Q1 2022 Results call
Conference call Tuesday 24th May 2022

Humphrey Cobbold (CEO)
Good morning, everybody. Welcome to the announcement of our results for the first quarter of 2022. Today we'll be running through the presentation that was posted on our website at 7:00 a.m. this morning, dated 24 May. This quarterly update marks a return to the old way of doing things, with quarterly updates being a relatively short, focused, and to-the-point summary of our quarterly results.

In summary, Q1 was a solid start to the year and completely in line with our expectations. We continue to make steady progress on recovery, despite some of the challenges and headwinds that we face.

So, with that brief introduction, let me now hand you over to Alex to take you through the details. Alex, over to you.

Alex Wood (CFO)
Thank you, Humphrey, and good morning, everyone.

Let's get straight into things, starting on page 3, where we summarise our group results highlights for the three months ended 31 March 2022. In overview, it was a solid trading performance to start the year, with Q1 revenue for the group 7% ahead of 2019's level. We closed the quarter with nearly 1.7 million members. Revenue in the quarter was £116 million, delivering £25 million of adjusted EBITDA, which converted into £12 million of operating cash flow. All very much in line with our expectations.

We opened nine new sites across the group, including five in the UK, three in the United States, and one franchise gym in the Kingdom of Saudi Arabia, closing the period with 518 sites in total. A £300 million fund-raising deal to support our expansion plans formally completed in January, so we closed the quarter with £325 million of cash on the balance sheet, £450 million worth of available liquidity, and senior secured net debt of £543 million.

With those as the headlines, let me now go into a little more explanation in detail, turning to page 4. As a reminder, this page shows 2019 as a comparator, as well as the prior year, given that both 2020 and 2021 were impacted by COVID closures. Let me highlight a few key points to you. Starting with membership on the left-hand side, you can see that the total membership position is now back in line with pre-COVID levels, and 21% ahead of the prior year. Average revenue per member continues to be around 7% ahead of 2019, for the reasons that we've talked about before, continued price progression and premium product penetration being the main drivers of that. Given total member volume is broadly in line with 2019, revenue reflects that average revenue per member growth, also 7% ahead of pre-pandemic levels.

In terms of like-for-likes, which is the other lens that we look through to track our recovery, like-

for-like revenue in April was 94% of 2019's level in the UK, and 89% across the group as a whole.

Moving across the page to EBITDA, I'd like to point out that our run rate adjusted EBITDA metric is starting to become much more meaningful now. As a reminder, this defined KPI is a trailing, last-12-months measure. I have said before that it would take some time for the COVID closure months to annualise out, you can see that starting to happen quite clearly now. This measure continues its upward trajectory, reaching £106 million at the end of the quarter. This was £47 million higher than the previous quarter. We expect this metric to progress as COVID losses continue to annualise out of the trailing LTM frame of reference, and new and mature site openings are added into the mix.

The 2019 comparative run rate adjusted EBITDA was £161 million, which is still a very useful benchmark for the underlying scale and performance potential of the group. I mentioned this last time, that this is certainly the number that we are focused on as a management team, which we expect to return to and surpass as the business reflates and we continue to roll out new high-quality sites.

To give some details on capital expenditure, over on page 5, we invested £14 million in the quarter as we begin to ramp up new site openings and deploy capital into the estate. You can see that £11 million of capital was invested in eight new corporate-owned sites, five of these UK and three in the United States, taking the total number of the corporate-owned sites in the estates to 514. In the period, we also opened another franchise site in the Kingdom of Saudi Arabia, taking the total number of franchise sites to four. You will note that this franchise site required no capital outlay at all from the group, which of course is the beauty of the capital-light franchise model. We've also continued refurbishment activities, with £3 million invested across the estate in the quarter.

Let's touch on the net debt position now, over on page 6. We covered this in detail in the April presentation - if anybody missed that, I would urge you to listen again on our website. In short, the funding deal with KKR completed in the quarter, bringing in £300 million of additional cash onto the balance sheet. That has allowed us to push on with investments in the quarter and puts us in a robust financial position to take advantage of opportunities for growth post-pandemic, with liquidity of £450 million, and significantly reduced net debt to a position lower than pre-COVID at £543 million.

As you would expect, we plan to deploy our spare cash wisely into new sites. And so, you should expect the net debt position, which I've set out on the right-hand side of the page, to rise gradually over the coming quarters, in a controlled way and coupled with increasing run rate adjusted EBITDA, as the business reflates.

Onto page 7, where I summarise our outlook for the rest of the year. As you would expect, costs and cost management are very high up on the agenda for us as a management team. And the good news is that while we acknowledge the current cost inflation storm out there, we are comparatively well-protected from cost pressures in the near term. Again, we covered this in

some detail in the April presentation, and I've included some information from that presentation in the appendix for your reference. But in summary, our property costs, which you'll remember are the largest proportion of our cost base, are contractual in nature and largely bound by caps and collars.

Next, moving to people costs and utilities, PureGym operates a low-labour cost model, and comparatively, a low-utility cost model, without swimming pools, which are very costly to run, especially at the moment. Our utilities are also fortunately on forward contracts and are therefore fixed through 2022 and part of 2023. So, we have limited exposure in the short-term. We also invested in building a high quality procurement function during the pandemic, which is helping to deliver savings that will offset underlying cost inflation to a degree.

In addition, moving further down the page, being able to manage the top line in an inflationary environment is also clearly very important. Yield and revenue management is key in an operationally geared business like ours, and we think we've built the best technology systems and methodology to increase yields on a gym-by-gym basis, where it is appropriate to do so. We also capture a premium for members who are willing to pay more for enhanced membership, and premium product penetration continues to increase, as it has done in the past. So, we continued to see price progression, which clearly provides a degree of protection in an inflationary environment.

And finally, on this page, we will be putting a lot of effort, as a management team, into ramping our new site and refurbishment activities across the group. I flagged in April that there were some supply chain challenges for equipment and raw materials, which may slow things a little in this area. And to update, whilst there continue to be challenges, these are, in general, being well-managed and should be no cause for concern to bond-holders.

And so, to sum up, then, over on page 8, we received £300 million worth of cash in the quarter from KKR to fund our expansion plans. This puts us in a robust financial position, with £305 million of cash and £450 million of total liquidity. Our first quarter trading performance was strong, with Q1 revenue 7% ahead of 2019. We closed the quarter with 1.7 million members, a 21% increase versus the prior year. Our run rate adjusted EBITDA continues its upward trajectory, reaching £106 million by the end of the quarter. In terms of outlook for the rest of the year, we are focusing on ramping our new site and refurbishment activities, as well as mitigating cost pressures through management action, yield management, and procurement activity. We continue to reiterate that we believe that the part of recovery is now clear, and we are advancing well on that path, even though, as I mentioned in April, recovery will require a bit of patience.

So, with that, I will now hand you back over to Humphrey for any closing remarks.

Humphrey Cobbold (CEO)
Thank you very much, Alex, and thank you to all of you, our bond investors, for your continued support for the business. Our next results announcement will be in August, when we'll be

updating on our Q2 results and H1 results, and we very much look forward to speaking to you again at that time.

So, let me close the formal proceedings now and just say I think we'll be happy to take a couple of questions, if there are any out there.