PureGym Q3 2023
Conference call Thursday 30 November 2023

Humphrey Cobbold (CEO)
Good morning, everybody. Welcome to the presentation of our quarter three results, 2023. I'm joined today by Alex Wood, our Chief Financial Officer and also by Rebecca Passmore, who I'm delighted to confirm has recently stepped up into the role of Chief Operations Officer for the Group. Rebecca is now taking overall responsibility for the Group's corporate owned assets in the U.K., Denmark and Switzerland.

I'm also conscious that we'll be joined today by many new bond investors who came into the PureGym credit at the time of our recent refinancing. We all want to extend a warm welcome to you and to emphasise how much we value your support and the confidence that you place in us.

We'll be running through the presentation that was posted on our website at 7:00 a.m. this morning, dated 30th November. Hopefully you will have this in front of you and we will guide you by page numbers and references as usual as we go through the document. So let's get straight into things and turn to page three, and I'll give you an overview of the period and where we stand now.

In terms of financial results, performance in Q3 was strong and in line with expectations that we set at the time of the bond issue with Q3 2023 adjusted EBITDA of £33m; that's up 10m versus Q3 2022. So once again, we have continued and accelerated growth quarter on quarter, with Run-Rate Adjusted EBITDA now £139m at the quarter end, plus £11m versus Q2 2023.

This accelerating momentum has been driven by ongoing recovery of base membership and revenues, good cost control, and robust growth from the predictable maturation of new site openings that we made in 2022 and earlier in 2023.

Closing cash at the quarter end stood at £213m and available liquidity was £358m, which is a very solid position to be in, indeed. Secured net leverage stood at 4.6x Run-Rate Adjusted EBITDA for Q3, evidencing quarter on quarter de-leveraging on an ongoing basis.

As you know, we successfully refinanced the prior existing bonds shortly after the quarter end, on the 11th October in this year. The existing Sterling and Euro notes were redeemed, and we repaid £50m of debt. In their place, we issued new five-year notes to the Sterling equivalent value of £805m, and the RCF was upsized to £175m, all of which Alex will walk you through in more detail later.

Looking forward, we are on track to open 43 new sites by the end of 2023. Our unit economics remain robust and our margins are well protected. There continues to be significant opportunity in our core markets. Whilst the macroeconomic environment is somewhat challenging, we remain confident that the Group is very well-placed to perform well in that environment and to continue to achieve its growth ambitions.

So with that overview, let me hand over to Alex to update you in more detail. Alex, over to you.

Alex Wood (CFO)
Thank you, Humphrey, and good morning, everyone. Let me start on page five to give you the headlines of our financial results for the three months ended 30th September 2023. Q3 was a strong quarter for us with accelerating growth in EBITDA underpinned by membership, revenue, and ARPM progression.

Firstly, we saw significant adjusted EBITDA growth up 44% compared with Q3 in the prior year. Revenue was up 16%, driven by 15% member volume growth and 2% ARPM growth versus Q3 2022.

Run rates adjusted EBITDA stepped up again to £139m. We're pleased that we continue to maintain and indeed increase return on capital employed for mature gyms in the U.K., which now stands at 36%, up from 35% from last quarter. We opened 16 new sites in the quarter, and we now have a total of 595 open sites comprising 576 corporate owned and 19 franchised gyms.

So with those as the headlines, let me drill down now with a bit more detail for you over on page six. We're very pleased with the continued healthy progression achieved in the quarter. Run-Rate Adjusted EBITDA of £139m was £28m ahead of the same period of the prior year, and quarterly revenue has grown to £138m and that's driven by 250,000 increase in member numbers and a very healthy 2% increase in ARPM.

Finally, if you look at the bottom right-hand corner of this page, you can see that we and our franchise partners continue to deploy capital to grow the estate with 60 additional high quality new sites versus this time last year.

Turning to page seven. Operating cash flow in the quarter was £29m. This represents a cash conversion of 85%, which as promised, is now well on the way to more normal levels. Cash at the end of the quarter was £213m, which was £2m higher than the closing position at the end of quarter two 2023, demonstrating that the business generated sufficient cash in the quarter to more than cover all of its operating costs, capex, and interest outgoings.

We expect this quarterly cash flow to continue to grow significantly as our growth momentum continues into 2024. We invested in 13 new corporate owned site openings in the quarter and regard quality, new site growth, and well-judged refurbishments to be critical parts of our strategy. We closed the quarter with £358m worth of available liquidity. As I mentioned last time we spoke, these liquidity reserves continue to be a significant differentiator versus many competitors, especially in the current capital constrained macro environment. Importantly, it provides the financial capacity for us to push on with our strategic plans in a measured and controlled way. I would also like to point out towards the bottom right-hand side of this page that the business is showing clear deleveraging with senior secured net leverage falling to 4.6x. I

will touch on this in a little more detail shortly.

Turning to page eight, let me spend a moment on performance of the base business. You can see solid growth in year on year, like-for-like revenue across all geographies. The U.K., which of course is our largest business, was up 7% year on year. Denmark up 4% year on year, and Switzerland up 10% year on year. So overall, you can see consistent evidence of ongoing recovery across all geographies as we reported in the last quarterly update.

Turning to capital expenditure now over on page nine. We invested £11m on new sites openings in the quarter; opened 13 in new corporate owned sites at an average cost of around £1.2m per site when normalized for payment timing. We also spent £11m in the quarter on maintenance and refurbishment works. We've carefully scaled our organisational ability to deploy capital wisely in new sites and on refurbishments, and we are absolutely obsessive about ensuring this investment is made wisely. As we've explained many times before, a well invested estate is a very important part of our business model.

Turning now to page 10. This page shows Run-Rate Adjusted EBITDA over the last seven quarters up until the end of quarter three, 2023. Firstly, you can see that the business has continued to deliver growth as it did last quarter and that there's increasing momentum in that growth. Secondly, you can see visually how the Run-Rate Adjustment in grey reliably converts over to adjusted EBITDA in teal over time. Indeed, you can see that the Run-Rate Adjusted EBITDA for a quarter reliably becomes the actual LTM adjusted EBITDA about 3 or 4 quarters later. And finally, you will note that there were 55 corporate owned sites opened over the last 12 months, delivering a high Run-Rate Adjustment and fuelling further growth as those and other new sites mature over the next 12 to 24 months. Hopefully this page is useful for you and gives you a good feel for the trajectory of the business. Of course, we plan to continue opening new sites each quarter, which will continue to fuel this growth curve going forward.

Turning to page 11. As mentioned earlier, the business continues to evidence underlying deleveraging. Senior secured net leverage has fallen over the last three quarters due to cash generation on the one hand, and gross and Run-Rate Adjusted EBITDA on the other. And finally, for this section, I would like to provide some further detail on the recent refinancing over on page 12.

We successfully completed the refinancing of the existing senior secured notes on the 11th October with the existing Sterling and Euro notes redeemed and £50m worth of bond debt repaid. In their place, we issued new five-year notes to the Sterling equivalent value of £805m, and £475 million of Sterling notes at 10% interest and €380m of Euro notes at 8.25% interest. At the same time, we upsized our revolving credit facility to £175m with five strong and supportive banking partners, being Barclays, RBC, ING, Deutsche Bank and JPMorgan. I've also included some further details on page 18 of the appendix on the refinancing for your reference. This refinancing sets us up very well for the next phase of growth and delivery of our business plan.

Let me also take this opportunity to say that we're delighted to have received so much support from our existing investors. I would like to add my thoughts to Humphreys in welcoming many new investors to the fold as well. We would like to thank you all for your ongoing support and interest in the business. We really appreciate you trusting us with your capital, and we will continue to work assiduously to use that capital wisely and continue to generate strong returns for you as bond holders and all of our stakeholders. I'm delighted to be reporting a strong set of results to you today and a set of results, which are absolutely in line with, if not ahead of expectations and the discussions that we have during the refinancing process.

So with that, let me now hand over to Rebecca to comment on our outlook. Rebecca, over to you.

Rebecca Passmore (COO)
Thank you, Alex, and good morning, everyone. Before I cover the outlook, let me just say how proud I am to have been asked by Humphrey and our board to step into the role of Chief Operating Officer and to take on the responsibility for the day-to-day work and performance of our 576 owned and operated sites across the U.K., Denmark, and Swiss markets.

I'm actually here dialling in from Zurich this morning where I'm spending the week with the team. I have worked for larger organizations in the past, but I have to say I've never worked for an organisation that has a larger heart than PureGym does. The excellent results that Alex has been able to share with you today doesn't happen by accident. They happen because thousands of PureGym colleagues collaborate day in, day out to deliver them. The team's energy and drive to maintain focus, make consistently good decisions and never give up on the fight is what stands out to me.

Now, as I turn to page 14 and look to the future, let me first provide some guidance on the way ahead. Whilst there have been several indicators that consumer spending has been more reserved going into this fourth quarter, I'm pleased to be able to reassure you that our performance momentum has continued to be robust. We are working diligently to offer great value for money to our members, and we believe that affords us a degree of protection against the broader macroeconomic environment.

Our median average headline price in the U.K. is currently £23 per month. That is the same cost as a takeout coffee about once every three days. And for that you get 24/7 access to a really great facility. I think you'll agree this is exceptional value.

I'm pleased to be able to confirm that we remain well on track to have opened a total of 43 new corporate owned sites by the end of 2023. We opened in Southport and Dalby last Friday, and we have three sites opening tomorrow in Elgin in Scotland, Watford, and Seven Sisters in London. I'm also pleased that our unit economics remains strong, with the mature estate averaging 36% ROCE, and this return is continuing to improve over time as our base business growth, and new sites are at least matching, if not exceeding those levels.

On the cost side of things, we continue to be laser focused in this area across the Group. Like for like costs remain well under control with only 5% inflation expected in 2023 versus 2022. Utility contracts have been fixed for the majority of 2024, and as we've said before, we foresee an increase of only £5-8m in 2024 versus 2022. And indeed, we continue to work extremely hard to reduce consumption and are already making great progress in this area.

Now, turning to the longer-term outlook. We provided plenty of detail on this for you in recent presentations. So to summarise, the key pillars of our strategy are continuing to balance volume and gym development, to drive revenue growth across the core, like-for-like estate, to continue to deploy capital judiciously and expand through the opening of high quality new corporate owned sites across the U.K. and Switzerland, to build on the highly successful rebranding of the Danish business and invest to upgrade and consolidate the Danish estate to help to achieve its full potential, and ongoing expansion into new geographies through development of additional franchise relationships. So all in all, very much in line with our prior guidance and nothing new to make you aware of on the strategic front.

That just leads me to conclude by reiterating a few summary points and key takeaways over on page 16 and pull everything together for you. Adjusted EBITDA for the quarter totals £33m, and Run-Rate Adjusted EBITDA stood at £139m, up £11m versus Q2. This strong momentum was due to recovery of base revenues, good cost control, and new site growth and provides clear and demonstrable de-leveraging down to 4.6x Run-Rate Adjusted EBITDA.

We're well on track to deliver 43 new corporate sites in 2023, and both old and new sites are delivering strong returns that are continuing to grow. In October, for the successful refinancing of our bonds, including the repayment of £50m of bond debt, paving the way for us to continue to pursue a very clear strategy, delivering again a compelling long run opportunity at home and overseas. And with that, let me now hand back to Humphrey for any concluding remarks and comments.

Humphrey Cobbold (CEO)
Thank you, Rebecca, and thank you, Alex as well. Hopefully this update has been informative for you and given you a feel of where we stand. No fireworks since the time of the bond issue, but I think that's exactly what you'd expect and what you'd want to see from us. I'd like to take the opportunity again, building on Alex's comments, to thank you all for your continued support in the business. And we hope that you appreciate our ongoing transparency.

I'd like to echo Rebecca's thoughts in terms of reaching out to and recognising the broader management team and colleagues across PureGym who really through, not only this year, but the prior years have done just an outstanding job in terms of progressing our business and riding the waves and the challenges that have come at us over those times. Any leader is only ever as good as the people that they have the opportunity to lead, and in that regard, I'm an extremely fortunate individual, both for the senior level colleagues that I have working with me, but also

with the thousands of colleagues that I have across the U.K., across Denmark, and across Switzerland. One of my greatest pleasures in life is getting to see them and spend time with them, as I've done recently, and to understand what happens in the front line of our business and understand just how much effort our colleagues put in to making our business successful every single day in which they're working. So huge thanks to all of them for those efforts this year and at all times.

Our next results announcement will be in April when we'll be updating on our full year results, and I look forward to speaking to you all then. That's the end of the formal proceedings, but we're happy to take a few questions from people, if there are some out there.