PureGym FY 2023
Conference call Thursday 23 April 2024

Humphrey Cobbold (CEO):
Good morning, everybody. Welcome to the presentation of our results for the full year ending 31st December 2023. I'm joined today by Alex Wood, our Chief Financial Officer, and also by Rebecca Passmore, our Chief Operating Officer. Thank you to everyone who's joined the call. A special welcome to many of our bond investors who've dialled in, some for the first time. And I'd like to emphasise just how much we value your continued support for the business.

We'll be running through the presentation that was posted on our website at 7:00 a.m. this morning. It's dated 23rd April 2024. Hopefully, you'll have this in front of you, and we'll guide you to the page number references as usual as we go through the document. So let's get straight into things.

Turning to page three, I'd like to give you an overview of the year and where we stand now. Adjusted EBITDA for the full year was £132 million, which is up 39% versus the prior year. This is, I hope you'll agree, an excellent performance, both in absolute terms for us as a business and by comparison to a number of other operators. Once again, we've also grown run-rate-adjusted EBITDA quarter on quarter, which now stands at £150 million. This is up by £36 million versus the end of 2022, the prior year, and up by £11 million versus the end of the prior quarter, being quarter three 2023.

Our growth in EBITDA has been due to progress in membership base and revenues, good cost control, and healthy maturation of new sites which were opened during 2022 and 2023. Indeed, 54 sites in total were open during the year, and the majority of these are performing ahead of expectations. Closing cash at the year-end stood at £140 million, and available liquidity was £315 million, which means the group is in a very strong position, indeed, for future development. In terms of leverage, senior-secured net leverage stood at 4.4x run-rate adjusted EBITDA at the end of the year, a very satisfactory reduction of one full turn from the end of Q4 2022, a year prior.

And in one of the largest deals of its kind in our sector's history, we successfully refinanced £805 million of senior-secured notes since September 2023, and upsized our RCF to £175 million. This refinancing demonstrated great confidence by third parties in our business, its growth plans and, I believe, the management team. And as Alex will explain later, it also gives us a strong competitive advantage and a platform to deliver on our plans for the future.

Now, looking forward, I'm pleased to confirm that the good business momentum we saw late last year has continued into the early part of this year. Specifically, total member numbers broke through the 2 million barrier in January, and we remained above that level through the end of February and into March, and now into April. We're on track to deliver 40 to 50 new corporate sites across the UK and Switzerland in 2024, and we're targeting around 200 new corporate openings in the UK and beyond over the next three years or so. And expansion also continues through international franchising, where we expect 15 to 20 new sites to be opened in the Middle East during 2024.

The key to all of this is that because of the ongoing proactive actions of management, our unit economics remains strong, our margins are well protected, and our return on capital for new sites remains over 35%. When we completed the refi six months ago, many of you asked us when we would get to a Run Rate Adjusted EBITDA back

above £160 million, and we indicated at that time that this would happen by the end of this calendar year, 2024.

Well, you'll be able to see pretty quickly from the results we're presenting today, we will be some several months ahead of that schedule. In short, thanks to relentless hard work and focus of our many colleagues, we remain confident that the group is very well placed to grow and perform as we look ambitiously to the future.

So with that overview, let me now 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 12 months ending 31st of December 2023.

2023 was a very strong year for us with accelerating growth in EBITDA underpinned by membership, ARPM, and revenue progression. Firstly, we saw significant Adjusted EBITDA growth – up 39% compared with 2022.

Revenue was up 15% versus the prior year and that was driven by 11% member volume growth overall, 16% growth in the UK, and 3% ARPM growth. Run-rate adjusted EBITDA stepped up again to £150 million, and we're pleased that we continue to maintain and, indeed, increase return on capital employed for mature gyms in the UK, which now stands at 37%, that's up from 36% in the prior quarter. And we opened 54 new sites, so at the end of the year a total of 601 sites were open across the group, comprising 581 corporate-owned and 20 franchise gyms.

With those as the headlines, let me drill down now into a little bit more detail over on page six. We're very pleased with the continued healthy progression delivered in the year across all of the key drivers of the business, which you can see at the bottom of the page here – member numbers, ARPM, and site numbers. These elements compound to deliver significant progress in revenue with a £73 million increase year on year, to £549 million. And, when we factor in the expected maturation of recently opened immature gyms, our run-rate adjusted EBITDA stepped up by £36 million to £150 million.

Turning on to page seven, you can see that this growth in profit translated directly into operating cash flow, which closed the year at £99 million. This represents an operating cash flow conversion of 75% for the year as a whole, which is a return to much more normal levels, as promised.

Cash on the balance sheet at the end of the year was £140 million, which despite the significant levels of investment made in 2023, is a similar level to December 2022 on a pro forma basis and that's normalising for the refinancing costs and pay down. And this demonstrates clearly that the business has generated ample cash to cover its maintenance and refurbishment CapEx and its interest costs in the year, as well as being able to fund almost all of the 43 new site investments.

I'm pleased to be able to confirm that those new sites are operating extremely well, and in addition, a further 11 new franchise sites were opened by our partner in the Middle East. And lastly, on this page in the bottom right-hand chart, I'd like to highlight that the business is showing clear deleveraging. Senior-secured net leverage has fallen to 4.4x at the year-end, and I will elaborate on that a little more shortly.

Let's turn to the critical area of capital expenditure next over on page eight. We invested £47 million in new corporate-owned site openings in 2023, and that was at an average cost of £1.2 million a site, and that's when normalising for payment timing. We also spent £42 million in the year on maintenance and refurbishment, and this includes about £10 million of one-off CapEx, which included the Danish rebrand, so the underlying level of maintenance and refurbishment was a little over £30 million.

We've carefully scaled up our organisational capacity to deploy capital in new sites and refurbishments and continue to be very disciplined in ensuring these investments are made wisely across the UK, Switzerland, and Denmark. As we've explained many times before, a well-invested estate is a very important part of our business model and over time will be a key source of competitive advantage.

We firmly believe that as a result of these investments, our estate is improving in quality. While the estates owned by many of our competitors, who typically have much weaker balance sheets than ours, are falling in quality. Clearly, all other things being equal, if our product offer is improving and that of our competitors is declining, we will gain market share over time. So, I think you can see that the long-run competitive advantage of having access to capital and the ability to deploy that capital in a considered and focused way that benefits consumers is becoming increasingly clear.

Turning now to page nine, this page sets out our Run Rate Adjusted EBITDA over the last eight quarters. Firstly, you can see that the business has continued to grow quarter on quarter and that growth momentum is, if anything, increasing. And secondly, you can see here how the run-rate adjustments in grey reliably convert over to Adjusted EBITDA in teal over time. Indeed, you can see that the Run-Rate Adjusted EBITDA for a quarter reliably becomes actual LTM Adjusted EBITDA about three or four quarters later. Of course, we plan to continue opening new sites every quarter, which will continue to fuel growth going forward.

Turning now to slide 10, as mentioned earlier, the business continues to evidence clear deleveraging. Senior-Secured Net Leverage has fallen a full turn over the last four quarters to 4.4x run-rate adjusted EBITDA due to cash generation and consistent growth in profitability.

So, I'm pleased to confirm that we are already within the target 2024 leverage parameters that we committed to at the time of the refinancing. And, as Humphrey has indicated, we will surpass the £160 million run-rate adjusted EBITDA threshold well ahead of schedule and within the next few months.

I've included details of the refinancing in the appendix for completeness, but in headline as many of you will be aware, the existing Sterling and Euro notes were redeemed in the year – we repaid £50 million to bondholders, and in their place we issued new five-year notes to the Sterling equivalent value of 805 million and we upsized the RCF to £175 million.

I would also like to take this opportunity to echo my thanks to our bond investors and I'm pleased, very pleased, to be reporting results that exceed the indications and the guidance that we provided during the refinancing process.

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

Rebecca Passmore (COO):
Thank you, Alex, and good morning everyone. And first, I must say it's a privilege to be part of the team updating you this morning. As the group's Chief Operating Officer, I took over direct responsibility for the Danish and Swiss businesses last year in addition to retaining leadership of the UK I have been very impressed by the energy of the teams and the opportunity right across our business.

As Humphrey alluded to in his introduction, the excellent results we delivered for last year are not just a matter of course. The results have been delivered by a relentless focus on day-to-day performance management, executing literally hundreds of investment projects, and constantly asking ourselves how we can do things better in the future than how they have been done in the past.

Huge credit is due to our teams in the UK, Denmark, Switzerland, and in the group functions for working together to deliver these results and the performance momentum we're now carrying into 2024. I have had the benefit throughout my career of working for Aldi, Walmart, TK Maxx, and Wickes, all recognized as strong businesses in their own domains. I can assure you that PureGym is, in many ways, on a par with these leading businesses and is well set up for future success as a result.

Turning to page 12, it's very important that we are well set up for success because we're growing our ambitions for development and further success. At a headline level, we aim to see 60 to 70 new site openings in 2024 and over 200 site openings over the next three to four years. As we look to 2024 specifically, we will remain very focused on maintaining and indeed seeking to improve further at 37% ROCE on new sites.

Our returns on both the existing estate and new sites will be maintained by continued excellence in revenue, yield, and pricing management – a topic we have discussed in these sessions on a number of occasions before. On the cost side of things, we remain laser-focused across the group. As a result, our cost base is well-controlled and like-for-like revenue growth in 2024 will more than offset like-for-like operating cost inflation.

Utility contracts are now fixed for 2024 and into 2025, removing volatility risk, we continue to work extremely hard to reduce energy consumption and are making great progress in this area. We're working diligently to offer great value for money to members, and believe that affords us a degree of protection against the broader macro environment. Last but not least, as Alex noted earlier, cash conversion has continued to be around 75% and we expect to be in line with, if not exceed, this in 2024.

Turning now to the longer-term outlook. The core pillars of our strategy will continue to be balancing volume and yield to drive revenue growth, and therefore core business profitability and return on capital across the core estate. Deploying capital judiciously, expanding through the opening of new, high-quality corporate-owned sites, with the aim of opening over 200 sites across the UK and Switzerland over the coming years, build on the highly successful rebrand of the Danish business, investing to optimise the Danish estate, and achieve its full potential, alongside ongoing expansion into new geographies through development of international franchise relationships.

So, that just leads me to conclude by reiterating a few key takeaways over on page 14 and pull everything together for you. Full-year adjusted EBITDA for 2023 totalled £132 million and Run-Rate Adjusted EBITDA stood at £150 million. That's up £36 million versus quarter four 2022. This is very strong performance and it's due to the growth in base revenues, excellent cost control, and judicious new site selection.

We delivered 43 new corporate sites in the year and both old and newer UK sites are delivering strong returns, at

least 37% ROCE, and continuing to improve. Together, these have delivered clear and ahead of scheduled deleveraging down to 4.4x Run-Rate Adjusted EBITDA. We completed a very successful refinancing in October, setting the business up well for the future.

So in summary, we have a very clear strategy, delivering against the compelling long-run growth opportunity at home and overseas, and we're delivering on that opportunity without sacrificing returns and near-term performance.

And with that, let me now hand back to Humphrey for any concluding remarks and comments.

Humphrey Cobbold (CEO):
Thank you, Rebecca. So hopefully, this update has been informative for you and given you all a feel for where we stand. I'd like to take the opportunity once again to thank you all for the continued support of the business, and I hope you appreciate our ongoing transparency around our results. I'd also like to call out my thanks to Alex and Rebecca in particular and indeed all of the management team and all of our colleagues across our various business areas who continue to do just a tremendous job in delivering for us.

And with that, I'd like to close the immediate proceedings.