PureGym Q1 2024
Conference call Thursday 16 May 2024

Humphrey Cobbold (CEO):
Good morning, everybody. Welcome to the presentation of our results for the quarter ended 31st March 2024. As usual, I'm joined today by Alex Wood, Chief Financial Officer, and by Rebecca Passmore, our Chief Operating Officer. We announced our 2023 full-year results just three weeks ago on the 24th of April, so this update will be a short and to-the-point summary of our Q1 2024 results. We'll be running through the presentation that was posted on our website at 7:00 a.m. this morning, dated 16th of May. And as usual, we will guide you to the page number references as we go through the document. Let's get straight into things.

Turning to page three, I'll summarise the headlines. We started the year well, delivering adjusted EBITDA for the quarter of £36 million, which was up 31% versus the same quarter in the prior year. Importantly, we have sustained the momentum of growth in Run Rate Adjusted EBITDA, which increased again quarter on quarter, now standing at £159 million. This was up £39 million versus Q1 2023, and up £9 million versus the end of the prior quarter.

Our membership numbers exceeded 2 million across the group at the end of March, and indeed, that has been sustained into April and early May. 11 new high-quality sites were opened during the quarter, and we have a strong pipeline for the future. We generated strong year-on-year growth in EBITDA, and in margin, in Denmark and Switzerland; with 28% year-on-year growth in EBITDA in Denmark and over 100% growth year-on-year in Switzerland.

There is clearly evidences that our strategies in these geographies are working well and they are being translated into robust financial progress. Senior Secured Net Leverage reduced further to 4.1x run rate adjusted EBITDA. Overall, as I hope you'll agree, this was a strong start to the year, and looking forward, I am pleased to reiterate our confidence in the performance trajectory of the group.

Now just before turning over to Alex, there's one more point that I wanted to update you on. We know that some, but perhaps not all, of you are aware that we at PureGym have been the subject of some very aggressive adverse social media activity and coverage over the last few days. It therefore seems to be appropriate for us to provide you all with an outline of what happened in our ongoing spirit of openness and transparency. The social media activity followed my appearance last Thursday on Question Time, the BBC's televised debate on issues and questions raised by the public. I've appeared on Question Time twice before, and I think there's little doubt that the business has benefited from the profile this has given us.

During the program, one of the questions related to the Israel-Gaza conflict, which of course is an extremely sensitive subject. I endeavoured to answer this question in a reasoned and considered way, reflecting my personal concern for all who are, and have been, impacted by this terrible conflict. Regrettably, despite my efforts to give a balanced point of view in a complex situation, parts of my answer caused offense in some parts of our society. That offence has been translated into attacks on me personally and on our business, on social media and beyond, including a campaign to boycott PureGym. While of course this is unfortunate, rest assured that we are on top of managing the situation and we do not currently believe that there are any consequences that should be a cause of concern for you, our bond investors.

So I wanted to cover that off, and as I've done so, let me now pass over to Alex to give you some more detail on the very strong quarterly results and momentum that I've just summarised. 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-month period ended 31st of March 2024. Quarter one was a strong start to the year with sustained growth in EBITDA underpinned by membership, revenue and ARPM progression. And, the first point I'd like to make is that we continue to grow Adjusted EBITDA significantly – up 31% versus the first quarter 2023. This was driven by growth in the like-for-like base business coupled with good cost control and the strong performance and ongoing maturation of new sites opened in 2022 and 2023.

Revenue overall for the quarter was up 11% compared with quarter one in the prior year which was driven by an 8% growth in member volume and a 1% growth in ARPM. As a reminder, we closed five sites in Denmark in 2023 as part of our plans to increase the quality of the estate there, so the underlying position is even stronger than these overall figures. Run Rate Adjusted EBITDA stepped up again to £159 million, and we're pleased that we continue to maintain Return on Capital for mature gyms in the UK, which stands at 37%. And new sites continue to perform very well. We opened another 11 in the first quarter, bringing the total to 611 sites, comprising 591 corporate-owned and 20 franchise gyms. So with those as the headlines, let me provide a little more detail now.

Starting on page six, we remain very satisfied with the progress delivered across all of our key metrics. The continued growth in member numbers, ARPM and site numbers compound to support the momentum in our financials, with revenue up £14 million versus quarter one 2023 to £148 million. But also importantly, management invest a lot of time and effort managing the costs to ensure that revenue growth converts well to bottom-line profitability. So this is one of the reasons why, when combined with the top-line performance, we're delivering such strong growth in EBITDA. And when we factor in the expected maturation of recently opened high-quality immature gyms, which of course is another area where we apply relentless discipline and focus, you can see Run Rate Adjusted EBITDA grew by some £39 million year-on-year to that £159 million position.

Turning to page seven, this growth in profit translated directly into Operating Cash Flow. The business generated £30 million of operating free cash flow in the quarter, and that's after maintenance and refurbishment expenditure. And that was an increase of £17 million versus quarter one 2023, and represents an operating cash flow conversion of 85%. Cash on the balance sheet increased to £150 million at the quarter end, and I should note that's after funding the 11 new site investments in the period. Lastly, on this page in the bottom right-hand chart, I'd like to highlight that the business is showing clear consistent leveraging with Senior Secured Net Leverage down to 4.1x at the quarter end – and I'll elaborate a bit more on this in a moment.

But first, let's touch on capital expenditure over on page eight. We invested £13 million in new corporate-owned sites in quarter one. That's an average cost of £1.2 million a site and that was in line with 2023. We also spent £5 million in the quarter on maintenance and refurbishment, and it will be no surprise that we plan to continue to carefully deploy capital in refurbishments across the UK, Switzerland, and Denmark. A well-invested estate, as we've said before, is a very important part of our business model because this ensures a high-quality estate for our members over the long term.

Turning now to page nine, you'll be very familiar with this slide now. This page sets out our Adjusted and Run Rate

Adjusted EBITDA over the last nine quarters, and you can see that we are showing very steady and reliable progress in this regard. With our planned investment in new sites throughout the rest of this year, we expect to fuel this growth going forward.

And finally to slide 10, as I mentioned earlier, the business continues to evidence clear de-leveraging. Senior Secured Net Leverage has fallen consistently over the last five quarters to 4.1x and that's due to cash generation on the one hand and consistent growth in profitability on the other. And interest cover has increased quarter on quarter to 2.3x. These metrics are now well within the target range that we committed to at the time of the refinancing last year, which I'm sure is very good news for all of you as our bond investors.

So that just leaves me to hand back over to Rebecca now to conclude things for us. Rebecca, over to you.

Rebecca Passmore (COO):
Thank you Alex and good morning everyone. I've had a really busy peak trading quarter working alongside our teams across the UK, Denmark and Switzerland, and I continue to be very impressed by what I see. As Alex has indicated, we're rolling out the program of investment upgrades and consolidation in Denmark and momentum is really gaining in this area. And I'm really pleased with the way that our new Managing Director in Switzerland, who started during quarter one, has settled into the broader business and into his role specifically. Overall, whilst, of course, there'll always be challenges, we're in really good shape from my perspective.

So to conclude things, over onto page 12. I won't repeat the key facts and figures, which I trust are clear, but just to underline a few of the key points that Alex has made. The business has strong momentum, which means we will exceed £160 million Run Rate Adjusted EBITDA during quarter two, well ahead of target. Our relentless focus on the fundamentals that drive sustainable revenue growth, cost control, and new site growth is what drives this momentum. 11 new high-quality corporate-owned sites opened in the period, which will fuel EBITDA and cash generation as those sites mature.

We've also seen good growth in EBITDA and margin in both Denmark and Switzerland in quarter one, validating that our strategy is working in both of those markets. And the business is deleveraging rapidly, with Senior Secured Net Leverage now standing at 4.1x, down from 5.4x at the end of quarter one 2023. So, all in all, we have a very clear strategy, one that is enabling us to deliver against a compelling long-run growth opportunity, at home and overseas, without sacrificing returns or near-term performance.

So, that concludes the formal presentation.

Humphrey Cobbold (CEO):
Thank you very much Rebecca and to everybody for joining us. We'll be looking forward to talking to you again later in the year, and we wish you a good day. Thanks very much.