PureGym Q3 2024 Results Conference Call

3 December 2024, 10am UKT

Humphrey Cobbold (Chairman):

Good morning, everybody. Welcome to the presentation of the results of PureGym for the quarter ended 30th September 2024. Joining me in my new role as Chairman today are Clive Chesser, who has just completed his first month as our Chief Executive Officer, Alex Wood, Chief Financial Officer, and Rebecca Passmore, Group Chief Operating Officer.

Before we get underway, it only seems appropriate for me to formally welcome Clive to the team. I have to say, it feels like we have been working together for much longer than a month, not least because of the very close collaboration since July relating to the Blink acquisition, which Clive will cover later. But it has been great to have Clive join us, and he's doing a tremendous job in managing the inevitable learning curve in the industry and in the organisation. Looking forward, just to manage expectations, I will be involved in this update and the update on our full-year results in April next year. But thereafter, I will, in general, 'bow out' of these quarterly reviews, and Clive, Alex, and Rebecca will together manage the updates to you, our bond investors.

So, with that bit of "admin" done, let's get down to business. We will be running through the presentation that was posted on our website at 07:00 a.m. this morning, dated 3rd December 2024. As usual, we will guide you to the page number references as we go through the document, and we will be offering a chance to ask a few questions at the end of the presentation.

So, let's get started. On page 3, first, I'll cover the headlines of the Q3 business performance and results. Q3 was in line with our expectations, delivering adjusted EBITDA of £35 million, which was a £2 million improvement over the same quarter last year. We continue to provide steady, ongoing growth with run-rate adjusted EBITDA increasing to £165 million for the last 12 months at the quarter end. That's up £26 million or +18% year-on-year. We opened six new high-quality sites in the quarter, which is lower than the prior quarter, only due to variations in site availability, planning and contracting and certainly not a cause for concern. Indeed, the forward pipeline is really very strong, and we still expect to open over 40 sites this year. And I suspect we may even have a day in December on which we open five or more sites in a single day.

In the quarter, we increased our program of investing in re-equipping and resetting the PureGym branded estate in Denmark, and we further increased our support to the Danish business by appointing one of our most senior UK colleagues to run operations in partnership with Morten Bentzen, our fabulous Viking on the ground in Denmark. Now, the sharp-eyed amongst you will have noticed that the progress that is beginning to be made in Denmark, and for that matter Switzerland, is standing out. Both of these businesses now report into Rebecca, our Chief Operating Officer.

During the quarter, we completed a rapidly executed private placement issuance of £150 million equivalent Senior Secured Notes. And the primary purpose of that fundraise, as I'm sure you are aware, was to fund the acquisition of the Blink business in North America. At the end of Q3, our

Senior Secured Net Leverage had fallen to 4.0x run rate adjusted EBITDA. The capital raise is, of course, neutral for net leverage until we start to spend the cash, which we did last week, and Alex will be updating you a bit on that later. But it should not be a cause for concern that leverage is going to rise a little. The business is very well set for the future, and we will continue deleveraging rapidly as we go from there.

These results in the third quarter build on top of a strong first and second quarter performance and, overall, I'm pleased with the excellent progress and the solid performance delivered during the year to date.

So, with that summary completed, let me hand over to Alex.

Alex Wood (CFO):

Thank you, Humphrey, and good morning, everyone. I'd like to start by sharing with you the highlights of our financial results for the period ended 30th September 2024, on page five. Q3 was another solid quarter, with steady ongoing growth in EBITDA, supported by revenue and ARPM progression. Let me start with run-rate adjusted EBITDA, which increased year-on-year and quarter-on-quarter to £165 million. Adjusted EBITDA in Q3 increased by 5% year-on-year, and I'm pleased to share that return on capital employed for mature gyms in the UK remains very strong at 38% because we regard return on capital to be the key indicator on performance for our business. Now, turning to the drivers of this solid performance; revenue for the third quarter increased 5% year-on-year, being a combination of 4% growth in members (and please note that this is after 16 planned site closures in Denmark) and 1% ARPM growth versus 2023.

Lastly, on the highlights, I'd like to call out that we have continued to expand our site footprint in line with expectations, having opened six new corporate sites in the third quarter. And we have supported our franchise partner with the opening of two new sites in a new city in Saudi Arabia, Jeddah. This takes us to a total of 611 sites at the end of the third quarter and, of course, we will open more high-quality new sites over the final quarter of this year and beyond.

So, moving on to page 6, let me provide a little more detail for you. Overall, we are seeing solid performance across all key metrics and across all key geographies. Run rate adjusted EBITDA increased by £26 million or 18% compared to the same period last year, and adjusted EBITDA increased to £35 million for the quarter. These metrics are as a result of efforts across the Company to manage costs and deliver solid revenue growth to ensure EBITDA flow-through. Revenue growth was supported by the addition of over 70,000 members versus the prior year, closing the quarter with a fraction under 2 million members. This member performance can be attributed to growth in new and maturing sites, at the same time as managing our core estate base well. And this member performance was further enhanced by controlled ARPM growth of 1% year-on-year.

Turning to page 7, the business generated £36 million of operating free cash flow in the quarter, and that is after maintenance and refurbishment expenditure. You will see that Cash Flow Conversion was over 100% in the quarter, and this was a function of some favourable working capital timing. As we have said before, the underlying level of cash conversion is 75% to 80%. Capital expenditures

for the quarter totalled £29 million, including the funding of 6 new sites during the period, bringing our total site footprint to 611, comprising 589 corporate-owned and 22 franchise gyms. And lastly, I'd like to call your attention to the bottom corner of this page, which shows Senior Secured Net Leverage holding firm despite the investment in the estate and new sites at 4.0x run rate adjusted EBITDA at the quarter end. And I will touch on this in a little more detail shortly.

On capital expenditure, moving over to page 8, during the second quarter we invested £8 million in new corporate-owned site openings in the UK, at an average cost per site of £1.2 million, and a further £8 million of capital was invested into the Danish estate during the period. As I've said previously, this is a key part of the strategic plan for Denmark to support the long run unit economics in this geography, improving the quality of the product and the proposition and consolidating sites to ensure that they are well invested, efficient and yielding high margin returns. Alongside growth capex, we spent £10 million on maintenance and refurbishment during the quarter, as we continue to carefully deploy capital across our existing estate in the UK and Switzerland. As we've said before, we believe that this careful investment in maintaining a high-quality estate is absolutely key to driving value for our members and business over the long term.

And finally, I'd like to cover leverage on page 9. The business has de-levered significantly during the period since refinancing in October 2023. This has been driven by cash generation and steady improvements in profitability as investments in high quality new sites reliably convert into EBITDA as those sites mature. Following that, and deployment of surplus cash on the balance sheet into new sites, leverage reduced to 4x run rate adjusted EBITDA at the quarter end. The big event towards the end of the quarter was the new issuance of £150 million equivalent of notes, which Humphrey referred to earlier. As we stand at the end of Q3, this transaction was leverage neutral as all the funds raised were held as cash on the balance sheet. Naturally, having completed the deal last week and paid for the Blink business assets, you should expect leverage at the year end to rise but remain below 5x run rate adjusted EBITDA. This should not be a cause for concern for you. We are very confident in the quality of the assets that we bought and confident that the business will de-lever reliably from the point of acquisition.

And with that, I will shortly hand over to Clive. But before I do, I'm delighted to add my welcome to Clive. I have thoroughly enjoyed working with him since he joined the business. And as he will explain, we worked very well together in securing the Blink transaction, so he has been impactful from the off. Clive, over to you.

Clive Chesser (CEO):

Thank you very much, Alex and Humphrey, and good morning to everyone on the call. Thank you for joining us. Let me just pause for a moment on page 10 and first briefly thank Humphrey, Alex and Rebecca and our equity investors at LGP and KKR for showing the confidence in appointing me to the role of CEO at PureGym.

Quite a few of you will know me from my time at Punch Pubs & Co, so I'll spare you from the generic CV summary. However, I just wanted to be really clear with you how excited and privileged I feel to have joined PureGym as CEO and to work with the team and you, our investors. For me, the logic of

joining was really simple. I have been passionate about fitness for a decade or more, and, as I have travelled the length and breadth of the UK, I have visited and worked out in countless PureGyms, and I have always been impressed by the excellence of the business and the operational model, the consistency of the execution, and the positive environment and atmosphere. And it is simply a great UK business with still tremendous growth prospects in the UK but what was even more attractive was the early signs of success internationally.

I loved my time as an international executive, working in over 50 countries when I was with Häagen-Dazs, and I believe I can bring that experience to bear in continuing the growth that Humphrey and the team here have already started. And international development is pretty much where I have started!

And, as Humphrey said, he first called me about the Blink transaction back in July, and it is to that that I would like to turn your attention now, starting on page 11. So, in summary, we are confident that the Blink transaction will be financially accretive and strategically valuable to PureGym. We completed the transaction last Friday by means of an asset purchase agreement, buying up to 67 gyms located in a pretty tight cluster in New York City and New Jersey. We also agreed to take on the majority of the corporate operations and the management, which we will need to run the portfolio.

Given the transaction, which I've been very closely involved in, was completed under the Chapter 11 US bankruptcy code, we worked hard to negotiate a very valuable position by which we can continue to negotiate with landlords and suppliers for improvements in contracts, leases and rental terms for a period of 90 days or so. And it is for this reason that we and our advisors are still in a pretty intense process of negotiation to finalise exactly how many of the total 67 sites we finally choose to operate. Clearly, we are looking to improve the site level economics of as many of the sites as possible within this 90-day period. And to be clear, if we can't get deals that make the sites strong performers, then we will reject those leases and literally "hand the keys back to the landlords". Indeed, we have already started that process and have already rejected five sites so far.

And in the meantime, the Blink management team on the ground are doing a really solid job at keeping the business focused on good performance and getting ready for the busy January and February period and our team at group level is providing support to their efforts. And in addition, we have already appointed a very high-quality Transition and Integration Director and a team to support him, so we are really hitting the ground running on the post-merger integration front. And strategically, we are very confident that the Blink business fits very well with the PureGym business.

Humphrey, Rebecca, and experts from the PureGym team have visited and assessed every single one of the 67 sites. And even I, as a relative newcomer to the sector, could see and feel how similar the Blink assets, and helpfully the culture, are to PureGym. It is also great to know that our detailed work and analysis to date has revealed clear opportunities for performance improvement in the Blink portfolio. And it is worth noting that in paying $121 million, we believe this is a very good value for a portfolio of this nature, and we expect the deal to be very value-accretive for PureGym. And last, but by no means least, the strong foothold in New York, New Jersey and the scaled-up presence in

the US as a whole clearly provides us with a platform for growth in the largest fitness market in the world.

Moving on to page 12, this simple map illustrates that the assets we are acquiring are in some of the most densely populated markets in the world. The estate as a whole "makes sense" in that this is a very coherent, contiguous geographic area that lends itself well to good operational management. The whole area is about 70 kilometers east to west by about 50 kilometers north to south. That's the kind of area within which a brand and business in our sector can be managed and anchored. And in looking at this map, it is important to note what is not on it. We rejected acquiring any of the 20-plus Blink sites in the Chicago area, Los Angeles, Pennsylvania, and Texas. These sites were not performing well, and we felt they spread the business much too broadly. So the sites on this map make sense as a portfolio, and our existing sites around Washington, D.C., are notably not too geographically detached. Now, one of the first things I asked Humphrey as we talked back in July and August about Blink was the degree to which we knew and really understood the business, as I would always look for this when considering M&A opportunities.

And turning to page 13, I was really encouraged to learn that PureGym had been looking at and seeking to understand Blink from as far back as 2018 and it was clear from these early visits and meetings that there were more similarities than differences between Blink and PureGym. The second stage of more detailed interaction was when the Blink business was put up for sale by Equinox, Blink's owner, in 2022 and Humphrey and the PureGym team did some pretty detailed diligence of the business at this time and met with the management team. However, having submitted an initial indicative bid, it became clear that price expectations were too high. So at that time, PureGym withdrew from the process, as indeed did all the other bidders.

And it was in July 2024 that a connection was reestablished. Having been approached by Moelis who had been hired to find a buyer, Humphrey and Alex prepared and submitted an initial bid for the company in late July, which was positively received. Due diligence work also revealed that the situation was very interesting because it was clear that Blink would have to file for Chapter 11 for protection from its senior secured creditors sooner rather than later. And indeed, this happened on August 12th. It was at this stage of the process, all while still very much in the background and obviously busy tying off my commitments to Punch Pubs & Co, that I started to get a bit more closely involved.

And turning to page 14, there were five main steps that the business went through to get what looked like an increasingly good transaction delivered. First, Alex, Humphrey and PureGym's internal advisor team worked really hard to be the "stalking horse bidder". This is a pretty formalised position in the US Chapter 11 process, in which a bidder - in this case PureGym - front runs the process and makes a binding offer to acquire the assets that the debtors' estate has put up for sale. This offer and all the associated documentation, including a 200+ page asset purchase agreement, is - once endorsed by the court - filed and made publicly available. And in return for going out on a limb and being the "opening bid" for the auction, PureGym received certain benefits of having a degree of cost coverage and a requirement for other bidders to bid a premium to PureGym's offer. Immediately after being accepted as the "stalking horse bidder", PureGym then decided to raise the extra funding we needed to buy the business. The purpose of doing so was to signal a very clear conviction and

commitment and, frankly, to dissuade other bidders from investing the $5 million or so in fees and diligence costs necessary to prepare a credible competing bid.

And in the main, this was highly successful, as we know that other potential bidders, both private equity and trade, downed pens on the deal at this time. However, one bidder remained committed, and that was Supreme Fitness, who are Planet Fitness' main New York City franchisee, working in partnership of some form with Planet Fitness corporate that owns and operates sites on Long Island. Clearly, we worked very hard as a team to be able to beat this Supreme/Planet combo in the auction. And I can say "we" here because my first formal day on the job at PureGym was to get on a plane with Alex and to join him and our team to participate in the auction held in New York City. I think it is fair to say Alex and I could write a book on the twists and turns of what became a three-day auction, but the end result was clear, and we were deemed to have won the auction with a bid of $121 million.

Unusually for a Chapter 11 process, however, the game did not finish there. Working with the Unsecured Creditors Committee, the Supreme-Planet Fitness team submitted a substantially increased bid of $155 million two days after the auction finished. This obliged the judge in the Delaware court to hear arguments in favour of and against this new bid, and Alex had to get back on a plane to be ready to testify in court. At the end of the day, the arguments Alex and others made in favour of our bid prevailed, and the judge ruled unambiguously on November 12th that our bid should be accepted. And since that time, we've been working very hard to complete on the transaction. My first action on November 13th, immediately after the court resolution, was to get on a plane with Eve, our Chief People Officer, to be able to reassure in person all the Blink team about our plans for the business.

Now, why have I chosen to take this time to explain the process we have been through to get us to this point? Well, quite simply because I was, frankly, hugely impressed by the rigor of the process, preparation and professionalism of the PureGym team throughout all of this process. It significantly exceeded my expectations for the quality of work and capability of the organisation, and that's saying something, because my expectations were already pretty high. I think, therefore, you should all feel confident in how much work has gone into the preparation of the transaction and is now going into how we, as a business, are working to transition and integrate the acquisition into the PureGym fold.

So I hope these pages have given you some understanding of the Blink transaction process that we have been through and why we are confident in the outlook for the business. We will be providing more detail at our next announcement when the remaining details have been worked through, and we appreciate your understanding in that regard.

It has certainly been a fascinating and brilliant introduction to the PureGym machine at work and as I have alluded to above, the machine has impressed me greatly and further increased my confidence in the outlook for the business. Another area in which I've been impressed is how the existing businesses are led and managed, with really excellent levels of rigor and operational discipline. And, of course, most of that happens under the watchful eye of Rebecca. So, let me hand over to Rebecca now.

Rebecca Passmore (COO):

Thank you Clive, and at the risk of being a little boring, let me also add my welcome to you and thank you for the way in which you have hit the ground running. You have likened joining PureGym as being like jumping onto an already fast-moving train. Well, I think in your case, it is more like a fast-moving plane to New York. But whatever the case, welcome, we are all very much looking forward to working alongside you.

I'm going to run through a few points of guidance, and then I will summarise the key conclusions for this update. So, turning to page 16 and looking to 2025. We will open somewhere in excess of 70 new corporate sites across our business next year. This includes 15 sites derived from a 'bulk deal' that we did with the administrators of the Carpetright business in the UK. Over the last few years, we have converted dozens of sites really similar to the Carpetright boxes into PureGyms, and in general, they have done really very well for us.

It was not a huge secret that Carpetright was likely to fall into administration, so we got ourselves well prepared with a tonne of pre-work. Within days of the administration being announced, we had agreed with the administrators a very specific parcel of Carpetright sites on which we had completed very extensive pre-screening. I think this is a great example of the proactive and strategic approach that we take to our new site rollout.

As you know, I've been in the retail operations business for over 20 years at places like Asda and Aldi, and the approach and process we have here at PureGym is, I think, better than anything I have seen elsewhere. And the results are clear to see, for 2023 and Q1 2024, PureGym opened more retail park space than any other comparable retail or leisure centre operator in the UK. And given the pipeline of sites we have for next year, I would be surprised if we aren't market leader again next year.

But quantity is never as important as quality in new site openings, and we are confident we will be able to keep mature site ROCE well above 30% and continue to see improvements in margins, notably in our Danish and Swiss portfolios. Now, it is not all plain sailing as I look forward. The UK Chancellor handed us a negative impact of around £5 million per annum before any mitigating actions. This is due to the additional costs relating to national living wage increases and the increase to employer NI contributions and changes to thresholds, which mean many more of our employees are subject to these contributions.

Whilst these changes are presenting significant challenges to many businesses, we would like to remind you that PureGym operates a low labour operating model, and therefore we are comparatively much better protected from the impact of these changes than others with much higher staffing costs. We will be working hard to keep operating cost inflation across the group below 5% and to maintain the excellent discipline that we've been showing in overhead cost management.

In terms of capex, we expect new sites to cost on average £1.2 million each, and we anticipate spending a further £40 to £50 million through 2025 on maintenance and refurbishment investments.

Now, with respect to the Blink US acquisition. First, I would just echo Clive's headline commentary on the Blink business. I was out there for two to three days during the deal process, and I worked really closely with our property and development teams, who surveyed and reviewed all of the sites, and I personally visited at least 12 of them across the whole New York-New Jersey market.

Now, based on this on-the-ground experience, I'm really very confident that the deal that we have done here will prove to be operationally and financially very good for us, and for you too, as investors. As an operator who has opened over 200 gyms for PureGym and now runs a portfolio of nearly 600, I can tell you that we can absolutely make this portfolio work exceptionally well for us.

In terms of guidance, we are going to ask you, as bondholders, to give us a little bit more time so that we can zero in on the specifics of the portfolio before we consider giving you any specific guidance. This is not least because, as we have said, we have got intense negotiations going on with a large number of landlords, the outcome of which will determine how many sites we finally take, and the specific program for integration and transition. I don't think you should have the slightest concern about this and, as Humphrey and Clive have said, you should be reassured by the rigor of our process and by the fact that we have bought well-performing assets for what we believe is a very attractive price.

Moving on to the conclusions of this presentation on page 17, I won't repeat all of the key facts and figures, which I trust are very clear, but to underline a few of the key points that Clive, Alex and Humphrey have made. The business has continued to deliver a solid performance, with run rate adjusted EBITDA reaching £165 million and adjusted EBITDA for the quarter of £35 million. Whilst we are satisfied with our performance, there is no doubt that, in Q3, we were operating in a market in which general consumer spending was under a little pressure, and we expect that to continue to be the case to some degree in the future. In my view, consumers continue to mop up the cumulative impact of inflation in food and energy prices, and much higher mortgage and rental costs. And, of course, as we head into winter, there is a risk of cold snaps exacerbating some of these factors, like energy costs.

We opened a further 6 new high-quality corporate-owned sites in the quarter, having opened 20 in the first half of the year. Notwithstanding the consumer challenges I have referred to, the vast majority of these new site openings have performed really very well. And as I said, I remain confident in our team's ability to locate new sites, open great gyms and tap into pools of latent demand.

We continue to make great progress with our work in Denmark and Switzerland, where we are investing and making significant positive business model changes. I expect these country operating units to continue to make great progress over the coming year.

We have discussed at some length the acquisition of Blink and the issuance of new bonds to fund the deal, which I hope you agree is very positive for our business. We are working hard to onboard Clive who I think has demonstrated a real willingness to get stuck in, in a real typical PureGym style. While Humphrey is absolutely creating the room for Clive to function as a full CEO, I'm sure you are reassured that Humphrey is not disappearing and will be very supportive of the business in his new role as Chairman.

In summary then, I think we feel very positive about the foundations for 2025 and beyond, at all levels and in all geographies of the business. We remain very focused on executing our strategy as we move through quarter four and prepare for 2025. And with that, I will hand over to Humphrey for concluding remarks.

Humphrey Cobbold (Chairman):

Thank you very much for your time, attention and continued support. Big thank you to Clive, Rebecca and Alex, and actually to the rest of the business team as well. Our finance team put a lot of effort into preparing for these sorts of meetings. And more broadly, one of the great privileges of having been Chief Executive here and going on to Chair the business is I get to work with a phenomenally capable and hardworking group of colleagues across the U.K., Denmark, Switzerland and the US. And we've just acquired a lot more colleagues in the U.S. as well, who we're looking forward to welcoming in.

And the efforts that my colleagues put into the day-to-day running of this business from the front line through to all other functions is truly phenomenal. They've done a great job thus far this year and are continuing to do so. So, thank you very much to you for your attention today. We'll next be updating you towards the end of April with the full year results, and we look forward to you joining us then. Thank you very much.

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