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SATS ASA (SATS.NO)

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MANAGEMENT DISCUSSION SECTION

Sondre Gravir

Chief Executive Officer, SATS ASA

Good morning, everybody, and welcome to our presentation of the first quarter of 2021. My name is Sondre Gravir, the CEO of SATS. And together with me here today, I have Cecilie Elde, our CFO. And we also have Christian Øvregaard, our Head of Home Training, who will introduce you to a very interesting product launch later in the presentation.

The past year has been challenging for SATS as it has been for everyone. Nevertheless, our approach throughout the pandemic has to be open with our investor and we will continue that today. We hope the presentation and the deep dive into selected topics will be helpful to you understanding SATS, how we are navigating in this pandemic environment, and how we plan for a revival.

We will not have the Q&A live directly following the presentation. So, please, follow up with any questions you might have with our IR contact, Stine Klund, either on mobile or e-mail. She will respond quickly back to you, as always. We will also have a Q&A session with the analysts following SATS later today in line with the past few quarters.

Today's presentation is summarized by the heading on this slide, short-term setback, long-term opportunities. Currently, we are operating with 143 open clubs and 110 closed clubs, and with strict infection control measures in all the markets. This naturally bring short-term uncertainty. But we will continue to do what we are in control of, operating our clubs as safe as possible and also helping the authorities in gaining insight into our industry and understand the importance of fitness clubs for the public health. However, we do see the light in the tunnel as reopening plans are being announced. Additionally, we have good empiric results from previous reopening of clubs, making us confident that the positive member momentum will be replicated also at the coming club reopenings.

On the financial side, the freeze of all membership at closed clubs, of course, lead to a temporary revenue loss. But with the subscription model, it brings confidence to know that the revenues will come back immediately when the clubs reopen and reactivate the memberships. The megatrend around health and fitness has been strengthened during the pandemic and several surveys indicate increasing willingness to invest in fitness and personal health. Hence, we expect increased demand both in the physical and digital space. And we have spent the last year to position ourself for this growth.

Since March last year when the pandemic broke out, it has been important for us to keep a dual focus in our management; on the one hand, managing the short-term consequences in our operations and financial delivery

driven by the pandemic; and on the other hand, positioning SATS for future growth. On the operational side, we have focused on a good and transparent member dialogue, both to members at open and closed clubs. And in the open clubs, strict infection control measures have been a key priority.

Turning to financials. We have taken strong actions on the costs side to reduce our cash burn while clubs are closed and proactively manage and plan our liquidity. And Cecilie will come more back to that. In parallel with these short-term focus areas, we have made sure to use the opportunity to lay the foundation for future growth. The strict infection control measures have helped us in improving our operations. And we have spent the year further standardizing our operating model across all clubs. Further on, we are making a significant step-up in our club expansion, both when it comes to, as I said, the club footprint but also a significant step-up in our digital offering.

Let's take a few minutes also to go through the current status. We concluded the first quarter with 253 clubs and 599,000 members. And Cecilie, as I said, will come back to the financials later in the presentation. In terms of the governmental regulation, the quarter has continued in line with how 2020 ended. In Norway, there have been significant regional differences. Outside Oslo, we have had many closings and reopenings of clubs. In Oslo where we have the majority of our Norwegian clubs, we have been forced to keep all our clubs closed in the third quarter, starting early November 2020.

Today, we have 29 open and 80 closed clubs in Norway. The closed clubs are mainly in Oslo and the Stavanger region. These clubs are open for PT one-to-one training and [ph] we have (00:06:10) training. And Wednesday this week, we started with the soft launch of outdoor group training in Oslo, which was very positively received by our members. And today, the national authorities opened for outdoor training in [ph] Viken (00:06:26). The local authorities in Oslo have confirmed that fitness clubs are a part of the second phase of the reopening plan, and details on timing will be communicated towards the end of next week.

The Swedish clubs, on the other hand, have remained open but with strong capacity restriction, as all of the retail businesses in Sweden. The capacity has just been significantly reduced resulting in visit levels lower than the underlying demand. The Danish club portfolio has been closed for the third quarter, but we expect to be able to reopen in May. There is still some uncertainty around the actual opening days – dates. The Danish government has communicated either May 6 or 21 as key dates. And based on the current information we have, we plan to open all our Danish clubs at May 6. It will be with capacity restrictions and access for members with a valid [ph] corona passbook (00:07:36).

Lastly, the clubs in Finland were open during Q1. But the restrictions were significantly tightened throughout the quarter, ending in the limitation or maximum 10 visitors per club in Southern Finland. On March 31, regional authorities in Helsinki and Turku decided to impose a lockdown of fitness clubs from April 1. The clubs in Turku reopened on April 18 and we opened all our clubs in Helsinki yesterday.

So as we understand, there is still some short-term uncertainty related to governmental restrictions. But the opening road map is getting clearer and we see strong proof points for a positive member momentum when we open our clubs, both based on own experiences from regional openings and also supported by international experience from other operators opening their clubs during the past weeks.

We have very good experiences when reopening clubs after COVID closures. As the first two examples show on this slide, members were eager to get back both after the first and the second round of club closures. The same high demand is seen at the clubs that have been open throughout the second wave, but capacity limitations

enforced through gatekeepers at each SATS clubs have kept visit at a lower level than comparable weeks last year. This is exemplified through the Swedish clubs in the graph to the right.

We believe that the members' eagerness to get back is highly dependent on the reality that it's safe to visit SATS clubs. We have used the pandemic year to improve our operational routines further, and our standardized operating model makes it easier for us to make sure that we follow the same strict measures at every club every day. And the results and effects of these routines are clear.

We used Norway as an example here since the Norwegian authorities have been enforcing comprehensive infection tracking routines. We have had 6.1 million club visits in our open Norwegian clubs since the opening last summer. 311 of these visiting members have tested positively for corona after the visit. And in only two of these cases there have been a suspicion, not confirmed, but a suspicion of infection at SATS, but not resulting in any infection outbreaks in the clubs. This goes both for member using our fitness floor and for members attending group training classes.

We have also had several cases where all members from group training classes have been tested if there was a member that attended the class who later tested positive with the British COVID-19 mutant. And in all these cases, all the members who attended the same class tested negatively. Hence, the facts are strong and clear, our infection control routines are working and it's safe to visit SATS clubs. And these results are also further backed up by acknowledged studies in several larger European countries showing extremely low risk of infection at fitness clubs.

Having this remarkably low infection risk in mind, it's depressing to see what we as a society sacrificed by keeping fitness clubs closed. SATS' entire product portfolio is focusing around improving the public health. We are offering a wide spectrum of training products to cater for all the different needs in the population. Further on, we are offering physiotherapy treatment and nutritional advice and products.

We take a holistic responsibility for our members' physical and mental health. And the pandemic has increased inactivity level in the population and every day of inactivity [ph] versus (00:12:18) people's health and must be paid for at a later stage. We would therefore again like to take the opportunity to urge the government to prioritize public health in the reopening plans. And we will ensure safe training and limit geographical mobility when required in local municipalities.

In SATS, we have a strong focus on sustainability in our operations and our positive contribution to the society. And we are focusing on goal number 3 and number 12 in the United Nations Sustainable Development Goals. Goal number 3, good health and well-being. That's what our business is all about. 40 million annual visits in our clubs, in addition to all digital training sessions, truly makes a difference, and a strong positive contribution to public health.

You can read more about this and also all our other sustainability efforts in the recently published ESG report available at satsgroup.com.

I'll turn over to Cecilie to give us some more insights into the financials.

Cecilie Elde

Chief Financial Officer, SATS ASA

Thank you, Sondre, and good morning, everyone. So, as we've seen SATS is highly exposed to governmental restrictions, recommendations from authorities, as well as member behavior during these uncertain times. And we

are leaving behind this quarter with continued club closures in Norway and Denmark, resulting in 40% of the club capacity closed. And this materially affects both public health and the short-term financial performance.

But in Q3 of last year, we proved our ability to quickly recover both in terms of member development and profit. And as we have presented previously, this is the clear benefit of having a subscription-based business model where revenues literally can be turned back on when we are allowed to return to close to normal operations. And we saw in the third quarter last year that members were eager to get back into the clubs. And we saw similar trend in Bergen when the clubs reopened in December.

And we have the financial flexibility to weather the storm and, hopefully, we can at least see that we get into a somewhat more normal situation in the second half of this year with most of the clubs being open. And we are preparing for replicating the comeback from Q3 as soon as external conditions allows for it.

So, to start off with looking at the member development. Across the group, we closed the quarter with 599,000 members in total, which is 12% down from the same period last year if you adjust for the nine divested clubs in Denmark. And the first quarter is normally a year with – normally a period with significant growth. But with continued restrictions, the member decline in this quarter was down with 5%.

But this decline is not due to increased drop-offs. It's purely due to lost sales when the clubs are closed. And increasing restrictions in all Nordic governments and local authorities are putting a damper on both visits and new sales. So, given that the 40% club capacity has been closed, the member base has actually held up pretty well compared to our peers, indicating loyalty in the member base.

And during the quarter, in-line with escalating contagion levels, we saw continued increase in freeze as tighter restrictions affect member behavior. But that said, we are happy to see that members choose to put their memberships on hold rather than resigning, which also is a strong signal that they have an intention to restart their training habits as soon as the society starts to open up again under more normal conditions.

And as said several times, the first quarter financials are heavily affected by the COVID-19 situation. And the majority of our clubs in Norway and all of the clubs in Denmark have been partly closed throughout the quarter. And as all of the memberships at closed clubs are put on freeze, revenues are also limited.

So, total revenue sums up to NOK 605 million in the quarter, which is down 39% from last year, including the governmental support packages of NOK 108 million. So, revenues are impacted by an increase in members on freeze due to tighter restrictions and communications, encouraging people to reduce mobility in the society. And this affects new member revenues and, to some extent also, other revenues.

But that said, membership revenue per active member continues to improve in the first quarter. So, after adjusting for closure-related freeze, we increased yield with 2% year-on-year. So, the average contractual price in the base is not significantly affected by the club closures and continue to show a strong underlying positive development.

In addition, for our open clubs, we see a strong increase in other revenues, both retail and revenues for personal training. Retail increased with 15% per visit, and personal training where completed hours per personal trainer increased with 5%. So, this is a strong positive indication that we will have a pickup in these revenues as well as soon as activity level and as soon as we get back to the fully operational club portfolio.

And other revenues also include fixed cost support packages of NOK 108 million from the Norwegian and Danish governments. This covers partly salaries and unavoidable fixed costs. But from Norway specifically, the

compensation for March is not included in the numbers but will be part of a joint application for March and April in the second quarter of this year. But we estimate that the support for March will be around NOK 25 million. So, still, the COVID-19 revenue impact is severe for all markets.

As Sondre talked about in the beginning, immediately after the first closure of clubs in March of last year, we started to work on reducing costs to a minimum, terminating or postponing ongoing projects to reduce costs. And we have continued with the same cost reduction scheme in the second wave of club closures. But some administrative costs have persisted. We still have operated parts of the club portfolio, but we have managed to reduce costs at the clubs that are closed. An example is personal expenses, which is reduced significantly. Even though clubs have been closed and open several times, which has made it difficult to plan, we still have been able to reduce the staffing costs.

Janitorial and repair costs have naturally been minimized in the period. And marketing spend is also somewhat put on hold, but this is more of a delay in spend. We expect to increase marketing spend again when we are able to reopen. And as the last example, cost of goods sold is also significantly reduced, which contributes to decreased all cost base.

So, looking at the cost base for this quarter compared to the comparable quarter last year, we have seen a reduction of 25%. But this is not an apple-to-apple comparison because even though the full portfolio was closed in the second half of March of last year, the ratio of closed clubs has been higher this year. Additionally, we have had some significant changes in the club portfolio with the sale of some Danish clubs and opening of new clubs. So, the club costs and direct costs for like-for-like clubs in January and February leaves us with a better indication on how much the cost base at the closed clubs is reduced.

So, this excludes the effect of changes in the club portfolio and the closure of last year. And we see that when we look at January and February alone, 25% of the cost base is [ph] shaded (00:21:00) and that does not include governmental support packages, and rent is a third of that cost base.

And turning to the clubs that have remained open, we see a relatively stable cost development. Using Sweden as an example, the cost has been reduced by 5%. So, even though we have had to add some costs due to the strict infection control measures, these costs have been compensated for through other cost reductions.

This takes us to adjusted EBITDA, which is negative by NOK 165 million in the quarter. NOK 205 million behind last year, which also was a quarter that was heavily affected by COVID-19. And last year, we estimated the COVID-19 effect to be around NOK 85 million, meaning that the implied impact on adjusted EBITDA this quarter is close to NOK 300 million.

And the result per segment is fairly similar relative to size. But despite that we get some governmental compensation, the Norwegian segment again takes the hardest hit in profits. And please note again that this result does not include around NOK 25 million [ph] we expect (00:22:14) to receive in governmental support in Norway. So, the decline in profit is fully a result of the massive loss in revenues from club closures and higher number of members on freeze. But we still believe that the long-term fundamental drivers for the business and the stay healthy trend are very much intact and that we will be even more in focus post-COVID, which help us drive the longer-term growth.

Capital expenditure in the quarter was NOK 37 million, which is significantly lower than last year, partly in an effort to preserve liquidity, keeping maintenance at the responsible level during the club closures. But in comparison to last year, CapEx spend last year was higher than normal, due to frontloading of spend mostly related to some

major upgrade projects in Sweden. And despite the pandemic, we have continued to invest for the long-term, both in our technology team, systems and infrastructure, but also in club expansion. So, further on, we will be open for acquisition opportunities when they arise. And already signed greenfields and planned acquisitions will be continued as planned.

Operating cash flow for the first quarter is negative at NOK 124 million, mainly as a result of the negative profits for the period, partly offset by working capital effects. The improvement in working capital is mainly related to postponed payments and taxes. And the expected negative impacts on working capital that we were to see from deferrals of prepaid memberships from freeze from the last quarter, this will now be pushed into the second quarter when we are able to reopen the clubs.

So, currently, we have a weekly cash burn of NOK 15 million after cost reductions and the governmental cost support packages. And this is a level that will continue as long as you have the same club closure that we have today. But we do have sufficient financial flexibility to handle a continued unsecure regulatory environment going forward. We have a liquidity position of NOK 778 million, including cash and undrawn revolving credit facility.

We did a precautionary drawdown of the rolling credit facility of NOK 200 million in January to strengthen our confidence in having sufficient liquidity and financial strength into the foreseeable future. And this provides us the cash [ph] preferred (00:25:00) in the event that the local or national lockdowns will be prolonged or that we have restrictions that lasts longer than expected. But at the same time, we think that we will be able to facilitate the return to growth, developing and opening new clubs when the right opportunities arise.

And then finally, looking at the group's net debt position. As a result of the COVID closure, net debt temporarily increased to NOK 1.6 billion. And as the closures have continued to be prolonged, we have, as part of the continuous financial planning, signed an addendum to the RCF agreement with the banks temporarily waiving the original covenants. So the new financial covenants applicable from Q1 and until 30th of September 2022 are subject to voluntary cancellation at any time.

But the new financial covenants that's set out our quarterly minimum levels of liquidity and adjusted EBITDA. And the adjusted EBITDA will come into force from Q4 2021. And during this period, we cannot distribute any dividends to shareholders and we will be compliant with the new covenants when the amendment period expires.

Operating under normal conditions, we have historically shown a strong deleveraging profile both through cash generation and growth in EBITDA. And in the immediate term, we have the mentioned deferral effect to clear over the coming months, but as well as the continued restrictions that we now see in the second quarter. But we should expect to see that net debt will increase slightly in the period to come.

But we are confident that once we are through the COVID closure impact, we will return to the same approach to responsible deleverage again when we have – likely done in the past. And with that, I will leave the word back over to Sondre for insights into the growth.

Sondre Gravir

Chief Executive Officer, SATS ASA

Thank you, Cecilie. As was said in the beginning of this presentation, the pandemic has further strengthened the global megatrend around health and wellness. People want to become more active and are willing to invest more in their personal health. Hence, we expect increased demand for our product offering coming out of the pandemic. It has been important for us to position ourselves for the expected growth ahead of us, both by expanding our physical club footprint and widening our digital product offering. So, let's start with the club expansion.

Looking at the Nordic market, even before the pandemic, we saw several areas where the demographics in combination with our SATS club locations indicated interesting growth opportunities, both in our existing clusters and also in potential new areas. The Nordic market is still fragmented, especially in Finland, and we expect some consolidation in the wake of the pandemic. With our value-creating acquisition track record, we continue to see good opportunities in the market, both for acquisitions and greenfield establishment.

And as we have indicated for a while now, our club expansion is really picking up. In 2020 and 2021, we are opening 30 new clubs spread across the Nordic countries but with a focus on the already very strong capital clusters in Oslo and Stockholm. And we will continue to have a higher club expansion rate than previously indicated also going forward.

But our growth going forward will not only be focused around the physical clubs. We are today announcing a brand-new digital home training offering which Christian will tell us more about in a few minutes. We have over the last years have a strong focus on developing our technology and data platform and our digital product offering. We have built up a strong internal technology team, strengthening our digital capabilities both within operations, marketing, sales, and product. This has resulted in strong growth in the usage of SATS digital products, both delivered through our member app and Web.

During the pandemic, the growth accelerated and we have experienced a 400% increase in digital workouts on the SATS platform in 2020 compared to 2019. And we will continue the development going forward, launching new digital products on the SATS platform and further improve our digital capabilities in operations and sales. And we are now taking a natural, as we see it, next step in our digital journey addressing the home training market with a combination of hardware and digital content.

We see a strong strategic rationale for SATS to take this position. This new service will improve the value proposition to our existing members as a strong complementary product offering, enabling them to work out both in our physical clubs and also to experience the joy of a SATS workout in their homes. At the same time, we know that a big share of the population is not a member of SATS or other gyms and there are several reasons for why people feel the barrier of entering a gym and, hence, are more comfortable working out from home. And we can reach also this part of the market with this new digital offering.

And with this service, we are also able to reach out to the Nordic population outside our current physical club footprint and potentially also outside the Nordics. With our member base, our brand, and our strong competence around health and training, we believe we are uniquely positioned to deliver a lovable digital home fitness solution.

So, Christian, tell us more what you and the team has been working on and are excited to launch in the market over the summer.

Christian Øvregård

Head-Mentra/Head-SATS Home Training, SATS ASA

[indiscernible] (00:32:06) good morning. I'm very excited to introduce you all to Mentra by SATS. This is a brand-new training experience that we have been working on. And I would like to show you a glimpse of it now.

[Video Presentation] (00:32:20-00:33:02)

We believe that working out should be empowering, accessible and inclusive to anyone everywhere. But let's be honest, that's not always the case. Life can be quite hectic. We want to make time for family, enjoy a rich social life and perform at work all at the same time. Finding the time, energy and inspiration is often easier said than done. It's an impossible equation to solve, but that's about to change. Say hi to Mentra, a new fitness experience that will be – support and guide you through your health and well-being.

Being active will become more inspiring, more efficient and more accessible than ever before. We want it to be fun and engaging for everyone. Mentra is a service that adapts to your needs. You'll have the freedom to go for a live class with your friends guided by dedicated coaches or choose from a variety of unique sessions. That mindful self-care session on a calm Sunday morning with that high-intensity break to reboot during your workday.

With Mentra, you can make time and you can make room for activity, conquer everyday life, and reach your goals. You'll get a freedom to find a better balance between body and soul, pain and sweat, the individual and community. You'll simply get the freedom to move on your own terms at a time and a place that suits you.

Mentra, freedom to move. Your freedom to move will not be contained to a single piece of hardware. We strive to allow everyone to find [ph] their favorite (00:34:51) way to move in our ecosystem. Let it be strength, yoga, cardio, cycling, or even running, we got you covered.

Now this was just a small sneak peek into the Mentra universe and I'm super excited to work on this. And I can't wait for everyone to get the experience of Mentra.

Sondre?

Sondre Gravir

Chief Executive Officer, SATS ASA

Thank you, Christian. This was exciting. I think we need to do a digital workout in the office later today. And I'm really looking forward to the product launch over the summer.

So, let's round off this presentation with an outlook. There still remains some short-term uncertainty related to regulations and reopening clubs. But whenever that will be, hopefully very soon, we expect to repeat the same successful reopening as we managed after the first club closure, with a strong positive member comeback both from existing and new members of the SATS community.

We do believe the megatrend around health and wellness will result in increased demand for our products and services. Hence, we are accelerating our club expansion and digital development. We can't wait to welcome all members and employees back to our closed clubs. And we will continue to focus on safe training in all our clubs. We are ready to help the Nordic population back on [ph] the (00:36:38) activity track because we are here to make people healthier and happier both in our clubs and in their own living rooms.

Thank you.

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