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SATS ASA (SATS.NO)

Q3 2022 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Sondre Gravir

Chief Executive Officer, SATS ASA

Good morning, everybody, and welcome to our Presentation of the Third Quarter of 2022. My name is Sondre Gravir and I'm the CEO of SATS, and I'm here today with Cecilie Elde, our CFO.

We will now present our Q3 figures, but please note that this will be a condensed quarterly presentation, solely focusing on the quarter that has passed without any outlook. We will host SATS Capital Markets Day in an hour at 9 o'clock where we will dedicate more time to see how the future of SATS will be, both in the short and long-term and our strategic focus areas. The Q3 Q&A will just be merged with the CMD Q&A and is scheduled as the last part of the CMD presentation at around 11:10 today.

We had the third quarter with significant member growth, despite a challenging macroeconomic backdrop. The growth is driven both by very strong sales of new membership and low return compared to pre-pandemic third quarter. And we see no signs of weaker consumer sentiment, neither going into October. The growth is fueled by a higher marketing [indiscernible] (00:01:33) to secure a solid run rate out of 2022, and the cost base in the quarter is affected by high inflation and soaring energy prices. And lastly, visits continues to exceed pre-pandemic levels driven by member habits, new product launches and several upgrades of our clubs that we have done during 2022. The member base reached 708,000 members out of Q3. SATS has never reported such a high member base and we are so proud to have been able to grow the member base by 36,000 members during the quarter. In 2019, the third quarter was pretty flat as a normal third quarter in SATS ASA and last year we had a very strong growth that was fueled by the reopening after the pandemic. Hence proving so strong net growth in the normal third quarter with a challenging macroeconomic environment, we take as a clear proof of our unique and strong member value proposition and the focus in the Nordic population to prioritize an active and healthy lifestyle. We have also seen the positive sales of new membership development into October.

The strong sales is the result of a strong focus in the whole organization, supported by a successful marketing campaign. We have both done campaigning to strengthen our brand, focusing on such unique product offering as a one-stop shop for training and we have done selected tactical campaigns, which is an important lever to trigger sales. We have in Q3 had more tactical campaign days than normal, which affects profitability in the short-term; and Cecilia will comment more on this, but we are not discounting our membership price in the campaign long-term, but we are, for example, giving away one free month in the beginning of the membership. And it feels encouraging to see that three out of the best six selling days in SATS' 20 years history have been reported during the third quarter of 2022.

And as of today, the challenging macroeconomic environment is not affecting the demand side in our business. We follow this closely and I will not be too certain about the future, but so far, it's very clear that staying active and living a healthy lifestyle is really something consumers prioritize, even with a somewhat smaller wallet. We follow several parameters; and in the third quarter, we have seen record high sales. We have seen lower churn rates than in Q3 2019. We have not seen any signs of members trading down to cheaper memberships neither through low cost club offerings as we see with our fresh fitness brand, nor to a lower priced SATS membership; and we have also seen the average retail basket size increasing compared to Q3 2019. And all of these trends has as I said, also continued into October.

We are also very pleased to see that our members are more happy and more healthy than ever, proven by NPS score and visit per member data. Member satisfaction is at record high levels and visits per member is 5% higher than in 2019 and we know that active members are happy members and they stay with us much longer than our passive members. This was a short summary. We are happy with the development in the quarter. I hope to see you all at our CMD presentation starting in a little bit less than one hour either physically here at SATS colosseum or in the live stream. And I will now leave the word to Cecilie Elde, our CFO, who will take us through the Q3 financials. Please, Cecilia.

Cecilie Haugen Elde

Chief Financial Officer, SATS ASA

Thank you, Sondre, and good morning, everyone. As we've talked about before, we have accelerated our club rollout over the last couple of years and have, since the beginning of 2020, opened a net of 36 new clubs. Further, we have signed additional 13 clubs opening over the next year, which gives us a sufficiently strong pipeline for growth in the medium-term, limiting the need for adding new capacity. Over the last year, the growth in the member base of 8% comes from both acquired and maturing clubs, but most importantly, a strong recovery in the like-for-like clubs. And compared to last quarter, the deviation in members per club have reduced from 200 members to now being only 80. And actually, the member base of 708,000 members is an all-time high after positive development in both sales and churn in recent months. But strong sales numbers come at a cost and we have invested more than usual in marketing and number of promotional days, which temporarily affects reported yield negatively.

Adjusting for campaign effects and somewhat inflated freeze remaining after COVID, the yield shows an increase of 7%, which corresponds to the increase in the contractual price members are signing up for. So knowing that the market is not entirely back as the share of Nordic people is not yet fully back to an as active lifestyle as before COVID, our priority has been to sacrifice short term profitability to ensure that we gain market share in terms of members and to secure a solid run rate out of 2022. Total revenues continue to grow up 4% versus 2019, but member revenue has had an even stronger development increasing by 7% since 2019 after periods of solid membership sales from existing and maturing clubs, but also driven by an improvement in yield. And the member revenue bridge on the right illustrates where we stand in terms of run rate compared to 2019, and the yield improvement contribute to a NOK 50 million increase in revenues. Member base is now surpassing the 2019 level and improves revenues further by NOK 25 million in the quarter. With slightly elevated freeze levels and campaign impact from current and previous quarters continue to impact revenues negatively. But most importantly, the annual run rate improvement in revenues from growing 36,000 members in the last quarter is around NOK 200 million.

Total operating expenses have increased by 4.9% annually since 2019, partly pure inflation driven, but mainly due to adding a net 27 clubs to the portfolio. In addition, the ramp up of [indiscernible] (00:09:30) and energy costs result in further cost increase, where energy costs alone amounts to NOK 60 million in the quarter, up to 88% from 2019. And for like-for-like clubs, the average annual increase is lower at 3%. Again, mainly inflation driven adjustment on rent-related cost, but significantly increased energy prices which is partly offset by successful cost saving efforts to compensate for the overall cost increase.

And looking ahead, we expect to see continued inflationary pressure as we see increased prices on most of our input factors, especially energy prices; although the outlook for the next year seems to have come somewhat down compared to the third quarter average. Over time, we are aiming to counteract inflation with cost discipline and price increases. Adjusted EBITDA of NOK 20 million in the quarter is improved compared to last year when you exclude the governmental compensation we received last year originally related to previous periods. But compared to 2019, and despite solid revenue improvement, profits are highly affected by increased cost not only due to a higher share of immature clubs with lower profitability, but also higher than usual energy costs. And on top of that, we have, as said, invested significantly more in special offerings to drive membership sales. And this hits EBITDA in the short-term but have significant improved annual revenue run rate. And going forward, increasing number of members per club is the strongest lever to improve profitability and will be the most important focus.

Maintenance CapEx is higher than usual in the quarter due to general equipment upgrades and major upgrades in the Stockholm area. And for the year, we are still averaging somewhat below historical maintenance level CapEx of around 5% of revenues, but we anticipate that we will return to more normal level of maintenance CapEx in 2023 at around 5% of revenues. Expansion CapEx in the quarter is partly driven by the acquisition of seven clubs in the south of Norway. And going forward, expansion CapEx will reflect the current expansion pipeline of signed greenfields as further additions will be highly selective.

Moving on to liquidity, we are in a well-controlled and satisfactory position as we closed the third quarter with a cash balance of NOK 125 million and NOK 712 million in total liquidity. Free cash flow for the third quarter is negative by NOK 106 million after investing in both existing club portfolio and adding a total of eight new clubs. Overall liquidity, including undrawn amount on the revolving credit facility, is sufficient to handle current operations even in a more challenging macro environment that we're currently experiencing.

And now, ending this section with an update on net debt. COVID-19 period has resulted in significant losses which we have resulted in increased debt. In the short-term, investments in the club expansions will be limited. We will prioritize to reduce debt to responsible levels. An addendum to the roll in credit facility was signed earlier this year extending the facility by one year until September 2025; and included also adjusted temporary covenants which will apply until the end of 2023. The adjusted covenant set out quarterly minimum levels for liquidity and adjusted EBIDTA, which will come into force from the first quarter of 2023. And note that 2022 results will not constitute any part of the measured adjusted EBITDA covenant.

And with that, I will leave the word back to Sondre for closing.

Sondre Gravir

Chief Executive Officer, SATS ASA

Thank you, Cecilie. As I said, I hope to see many of you present on the Capital Markets Day presentation starting at 9:00 o'clock here at SATS colosseum. And with that, we wish you all a great day. Thank you.