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SATS ASA (SATS.NO)

Q4 2023 Earnings Call

### CORPORATE PARTICIPANTS

**Sondre Gravir** 

Chief Executive Officer, SATS ASA

Cecilie Haugen Elde

Chief Financial Officer, SATS ASA

### MANAGEMENT DISCUSSION SECTION

#### Sondre Gravir

Chief Executive Officer, SATS ASA

Good morning, and welcome to the SATS Q4 2023 Presentation. My name is Sondre Gravir and I'm the CEO of SATS, and together with me here today, we have Cecilie Elde, our CFO.

We will run a Q&A session in Teams at 9:30 today, let me repeat, 9:30, so we have some more time to look into the report and numbers. This will be a pure Q&A session without any further presentation. You will find the link to this Q&A session in the stock market announcement we published this morning both at NewsWeb and at satsgroup.com.

Then moving into Q4, Cecilie will cover the financials later in her section, but summarized, number one, we have consistently improved our financial delivery throughout the year. In Q4 2023, revenues came in at record high NOK 1,227 million, which is 13% higher than last year, resulting in an EBITDA of NOK 122 million (sic) [NOK 128 million] (00:01:16), which is 10 times higher than Q4 2022. Total revenue full-year 2023 came in at NOK 4,734 million, 16% up compared to full-year 2022; and full-year EBITDA, 2023, of NOK 614 million which is 322% above 2022.

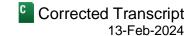
Number two, in our Q3 presentation, we said that we expect the slight decline in member base in Q4; however, the membership development has been somewhat better than expected with a stable member base at 731,000 members at the end of Q4 2023. We also delivered yield increase driven by product improvements and price adjustments.

Number three, SATS financial position has been considerably improved throughout the year. We have seen improved earnings and cash generation with the free cash flow of NOK 137 million in Q4 2023. Furthermore, we have done a high-paced deleveraging throughout the year and our net debt-to-EBITDA has declined significantly from a ratio of 11.2 at year-end 2022 to 2.3 at year-end 2023, fully in line with what we communicated during our Capital Markets Day in October 2022.

And lastly, number four, one of our most important KPIs is the activity level at our clubs as active members are happy members and continued members. Thus, we are pleased to see that the number of visits at our clubs increased by 8% in Q4 2023 compared to the same period in 2022. These were the highlights.

Overall, we have not seen any significant signs of weakened consumer sentiments within gym membership despite the challenging macroeconomic situation. Consumers still prioritize to invest in their personal health. Member revenue makes up 80% of our total revenues and our new memberships were sold at a 9% higher

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average yield in Q4 2023 compared to Q4 2022. This is a result of both increased prices and lower share of sales in campaigns, and the average yield in the full member base is also up 9%.

The sales of new memberships are somewhat down from Q4 2022; however, this was a COVID recovery quarter with sales of new memberships way higher than normal. Thus, we are pleased to see that the sales of new memberships are 5% higher than the last normalized Q4 back in 2019. However, as we also mentioned during the Q3 presentation, we are not growing additional sales from PT and retail, indicating a small slowdown in demand for these products, and we believe this is due to the current macro situation affecting consumer spending.

Although there has been a slight decrease in PT and retail revenues, I want to highlight that we have improved our retail margins significantly. We have lower campaign sales in the quarter, leading to a significant upswing in retail gross margin on 9 percentage points. At last, it is also worth mentioning that we don't have large inventories that need to be clear out like many other retailers have these days.

In SATS, we are strongly dedicated to deliver on our mission of making people healthier and happier. This is what we do every hour, every day, every week, and every month of the year, we are improving people's and the public health. Hence, the activity level of our members is one of our most important KPIs. Our active members, as I said earlier, our active members are happy members, they are scoring high on our NPS score, and they are continuing the memberships.

And we continue to see an increased activity levels in our clubs. Total visits increased by 8% in Q4 2023 compared to Q4 2022, while our classes where we have a strong competitive advantage also continues to show great progression with a 10% increase. And we are pleased to see that our members are even more active than before and that they are joining more classes. We believe this is a result of hard work with product development and launches, improved scheduling and recruitment, as well as education of great instructors.

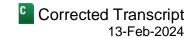
We have a very strong class schedule in our clubs and no other competitor is even close to deliver that many different classes as we do in, for example, cycling, running, strength, flexibility, and yoga. The positive visit trend has also continued this January with 4.7 million visits in total in our clubs. This is 4% higher than in January 2023, which was also a record month. And just to put this into perspective, this is 20% more visits than we had in January 2020, the last visit record before COVID. We also see a continued positive development on participation in our classes as a result of new product launches and even stronger class schedules, and class visits have increased with 7% compared to January last year.

All these workouts have a great impact on the lives and health of our members, and with healthier members comes healthier society. SATS members have the past 12 months contributed to around 16,000 quality-adjusted life years. That is 16,000 extra years of living with good quality for the Nordic population.

It's estimated that 87% of the total disease burden in Norway stems from lifestyle diseases, so making people more active has a significant financial value for society, reducing the burden of people out of work because of illness. And the total number of workouts in SATS clubs during the last 12 months is estimated to have a socioeconomic welfare gain of NOK 23 billion, and this is something we are very proud of and a great contribution to a sustainable society.

Moving on to our club portfolio, the club growth pipeline has been unchanged since the Q3 presentation. We have opened one new club in Finland during the fourth quarter and we have three remaining new clubs to be opened in Sweden this year and one in Denmark. We are also closing one club in Norway and one club in Denmark during

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Q1. This slowdown of club expansion is in line with what we communicated on our Capital Markets Day in October 2022, with the focus being on optimizing our current portfolio and deleveraging.

At the end of this operational update section, I want to highlight that we have recently been updating our strategy for the years to come in SATS. The outcome of this strategy process is fully in line with the messaging for our Capital Markets Day in Q4 2022. Our short-term and long-term actions from CMD are shown on the left-hand side of this slide and we have spent the last year climbing up this ladder; we have grown the member base per club, we have increased the average revenue per member, and we have improved the operational leverage, hence we are getting closer to the long-term actions of executing a profitable expansion.

But as for now, in the short term, our strategy remains the same, we are still focusing on the short-term building blocks you see on the side. We will continue to invest in our existing club portfolio, making our clubs and product offering even more attractive for existing and new members, and also increasing the capacity in our current clubs. And this is the most profitable growth we can do and we still see great potential in our existing clubs and are eager to get going with 2024 to capitalize on our potential.

And I'm now giving the word to Cecilie for the financial section.

#### Cecilie Haugen Elde

Chief Financial Officer, SATS ASA

Thank you, Sondre, and good morning, everyone. The member base has proven to be resilient through several price increases even in a challenging macro environment, and we are closing the quarter and the year with a base of 731,000 members, which is up 10,000 compared to last year. And we have potential for further growth, first, coming back to 2019 levels in terms of members per club and then continuing to grow from there. And although we are still somewhat behind pre-pandemic levels in terms of members per club, we are utilizing the total rented space better, with 2% more members per square meter than we had in 2019.

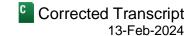
And this is a result of opening slightly smaller clubs than the average in the base due to smarter club configuration and equipment mix, resulting in higher space utilization as well as downsizing clubs with spare capacity, and there is still significant unleashed potential in improving members per club and square meter.

Our pricing strategy have, over time, yielded significant results for the membership prices, and over the past year alone, we have a currency-adjusted improvement of 9% from membership yield compared to last year. And in addition to growing the member base in a tough market, we have been able to do so at higher prices, both for new and existing members. Total revenues in the quarter of NOK 1.2 billion is an improvement of 13% or 8% currency-adjusted compared to last year, and full-year revenues at NOK 4.7 billion is 16% up from 2022.

And the combination of volume growth and pricing increases resulted in a significant lift in member revenues in the quarter with a currency-adjusted increase of 11% and 15% for the full year. And this is an important proof point of our ability to build member base and charge a fair price for membership despite challenging macroeconomic environment with higher interest rates, inflation, and our members continue to invest in their health.

Other revenues, on the other hand as Sondre was talking about, is more moderate both in terms of yield and revenues. The personal training business is somewhat slower due to fewer personal trainers, but we do, however, see an improvement in margin after both lifting prices and running fewer campaigns than what we have done historically.

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Retail sale is also a bit slower than last year, but we have improved margins, lifted margins substantially the past year through tight inventory control, price management and reduced number of campaigns. And that said, we are pleased to see that our core business, our member base and corresponding membership revenues, and 80% of our total revenues, is performing very well and even after several price increases in a challenging macro environment.

The profitability improvement program initiated last year continues to yield results, and operating expenses are significantly down after a successful reductions for costs related to salaries, which is mainly overhead; rent-related costs; and marketing spend. And total operating cost is down 2% after adjusting for currency, which is also partly driven by the reduction in direct costs and energy costs compared to 2022.

The direct costs are lower than last year following slower additional PT and retail sales, and energy costs is also significantly lower than last year with reduced spot prices in the areas where we operate. And for the full year, the corresponding cost base is up by 2.8%, which is still significantly lower than inflation and reflect the impact of the cost reducing initiatives. Overhead cost continues to come down in terms of cost as percentage of revenues ending the year at 11.6%. And to reduce risk, we have hedged the electricity spot price for 50% of the estimated consumption for the fourth guarter of 2023 and first quarter in 2024.

And looking ahead, we still expect continued inflationary pressure as we see increased prices on our input factors, especially wages and rent-related costs which continue to be high. However, over time, we are aiming to continue counteracting inflation with cost discipline and price increases.

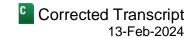
Moving to EBITDA, as always, on this slide, we are showing both reported EBITDA and EBITDA before IFRS 16, and I will comment on the last one as this metric makes most sense in our business which includes the important lease cost element constituting a third of our cost base. And we are reporting an EBITDA before IFRS 16 of NOK 128 million and 10% margin for the fourth quarter, and this is 10 times higher than EBITDA in the fourth quarter of 2022, while the full-year results grew from NOK 145 million in 2022 to NOK 614 million for the full-year 2023.

And the combination of strong member development over time, increase in average revenue per member and cost discipline are the drivers for the positive development and the foundation for our long-term value creation. And the subscription-based model gives us visibility for revenues development, which also gives us time to adapt if necessary, and 2023 has set a new standard for SATS with record-high revenues, an improved financial position, and high activity levels among our members.

The level of upgrades and maintenance CapEx has been moderate throughout the year, both due to a precautionary spending approach but also due to delay in some projects that were planned for the fourth quarter which now is expected to be implemented in the coming months. And with the recent financial development, we will return to normal levels of maintenance CapEx at on average 5% of revenues. On top of that, we expect to continue to receive landlord CapEx contributions for major club upgrades.

And we have a structured approach to club portfolio assessment in order to optimize and prioritize the investments based on club quality, competitive situation and cluster strategy, and going forward, we will increase our investment in existing clubs, growing the club capacity and improving our product offering for our members. And when it comes to expansion, we opened one new club in the quarter and have a pipeline of four new clubs opening in 2024, and further expansion will be limited as we continue to focus on existing portfolio improvements and deleveraging.

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Following a strong financial quarter, the free cash flow ended at NOK 137 million, further improved by a positive working capital effects in the quarter. And the working capital effects are normal for a fourth quarter and follows the seasonality and the growing business with prepayment of memberships. Operating cash flow has over the last 12 months been NOK 473 million, and the cash conversion of 77% shows that our cash-generating ability is recovered and back to pre-COVID levels.

And free cash flow development the last 12 months at close to NOK 300 million shows that the business generates a healthy cash flow to more than cover all operating costs, maintenance and growth CapEx and financial costs, leaving room to reduce debt and deleverage.

Our liquidity position is well controlled and satisfactory as we closed the fourth quarter with NOK 282 million in cash at hand and NOK 656 million in undrawn revolving credit facility. A repayment of NOK 288 million on the credit – rolling credit facility was performed during the quarter, which confirms our stated intention of reducing debt in absolute terms as well.

With free cash flow of NOK 137 million and the negative currency effects, mainly from currency translations in the cash pool and on the rolling credit facility, the liquidity position is improved by NOK 116 million. In our view, we are sufficiently funded to handle current operations, plans for communicated deleveraging, and growth strategy.

The COVID-19 period resulted in substantial losses and the significant increase in debt. Over the last quarters, net debt has been fairly stable but leverage has come significantly down with increased earnings. But as reported last quarter, we now also see a step-down in absolute net debt which, in combination with the strong momentum in earnings, results in significant deleveraging from 11.2 last year to 2.3 times net EBITDA to – net debt-to-EBITDA this quarter.

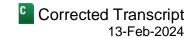
With the addition of cash-generating capabilities improving, we expect to see continued rapid deleveraging throughout 2024 as well. The covenant waiver was canceled with effect from November 2023, returning to the original leverage covenant of maximum 4 times net debt-to-adjusted EBITDA before IFRS 16, resulting in a lower margin and interest expenses as of November.

In line with the capital allocation principle targets set out at the Capital Markets Day in October 2022, we will continue to prioritize to reduce debt, with short-term target of reducing leverage to below 2 times net debt-to-EBITDA before impact of IFRS 16. And as said, with our cash generation capabilities recovered, we expect that the ratio will continue to fall which will give us future flexibility in our capital allocation. In the longer term, we intend to maintain a stable leverage ratio within the range of 1.5 to 2 by returning excess capital to shareholders via dividends or share buybacks.

So to conclude this financial section, a brief summary of the full-year 2023. We have been very consistent in our messaging the past year and delivered strong financial results four quarters in a row, which corresponds with the indications we gave at the Capital Markets Day in October 2022. We have stronger results now than in 2019 and we have proved our ability to grow, increase prices, control costs, and reduce CapEx and leverage. 2023 has set a new standard for SATS with record-high revenues, an improved financial position, and high activity levels among our members. But these are not extraordinary or exceptional results. This is the new normal and illustrates the run rate of this business.

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

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#### **Sondre Gravir**

Chief Executive Officer, SATS ASA

Thank you, Cecilie. So before we conclude this presentation, let's take a minute to look into the period to come. We are expecting further revenue growth driven by improved product offering and continued price adjustments, and 2024 has kicked off according to our plans. We still see an unleashed potential in the existing club portfolio and we'll continue to invest in product improvement, increasing our members per club and the ARPM.

And in terms of financial position, as Cecilie just mentioned, we are prioritizing to reach a leverage ratio below 2 and we are targeting a long-term range from between 1.5 to 2. When we have reached the leverage target and further strengthen our balance sheet, we will be ready to execute on our ambitions of a balanced expansion.

So with this, I thank you all for following this presentation and wish you all a healthy and happy Tuesday.

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