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# SATS ASA (SATS.NO)

## Q3 2024 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 Q3 2024 presentation. I'm Sondre Gravir, the CEO of SATS, and I will present the Q3 results together with CFO, Cecilie Elde. We will run a Q&A session in Teams at 10:00 AM today, and you will find the link to this Q&A session in the invitation to this presentation both at NewsWeb and at satsgroup.com.

This is SATS at the glance. We can report revenues of just below NOK 5 billion for the past 12 months as well as EBITDA of NOK 700 million and EBIT of NOK 467 million. We have 728,000 members in our 273 clubs. We have more than 110,000 daily visits, we run 1,400 daily live group training classes, and have, in total, 10,000 dedicated and energized employees.

We are today reporting yet another solid financial result, following up on the development we have now consistently been showing the last quarters. Revenues of NOK 1.2 billion is the highest-ever third quarter reported revenues. It's up 8% since last year, 5% in constant currency, driven by primarily increased revenue per member. EBITDA in the quarter of NOK 117 million, 10% growth versus Q3 2023, and EBIT of NOK 127 million, which is up 29%.

The liquidity position is still strong, and the leverage ratio is comfortably within our target range of 1.5 to 2 times EBITDA to net debt before IFRS 16. And we will continue to invest in our product offering to improve our value proposition towards members, strengthening our competitive advantage, and increasing member capacity within the existing club portfolio.

The foundation for the investments we are making in the club portfolio and the group training product is our approach to long-term growth as shown on this slide. Our vision is to make people healthier and happier, and having the best product offering in the market is a key part on making this vision come to life. With great clubs, great staff, and strong group training concepts, our members will succeed with their training and increase their activity levels, and active members are happy members continuing their memberships and hence driving our financial performance, which, again, enable us to further invest in our products and capacity, attracting even more new members. And this is a strong positive circle, and we are now really seeing the benefits of this coming to life.

The total number of workouts continues to grow. It's only 1% growth this quarter but from a very high level in Q3 last year. And this growth is driven by the group training workouts as we are shifting some of the workouts from gym floor to the group training rooms. And this really makes strategically sense as we see higher member satisfaction, loyalty, and duration among members also participating in our very wide offering of group training classes. And we see that group training visits increased with 8% in the quarter.

And the positive trend in group training demand is stimulated by two main initiatives from our side. Number one, we have added more classes to the group training schedule, around 10,000 more classes during this third quarter compared to the last year, this is up 9%, and we are convinced that this is key to stimulate demand also in the medium term.

And number two, we are following closely trends in the fitness market and changing member preferences. And we are able to really bring niche fitness trends we observed in Europe or in the US to the Nordic mass market. And this quarter, we have launched a wellness bundle supporting a holistic health approach and making people healthier and happier. And we now offer, among many other concepts, aroma relax, deep rest, meditation, and the yin yoga, both in regular group training rooms and in hot rooms, helping our members to calm down and find mental peace.

Going forward, we will launch more and new exciting group training concepts, and our latest launch was the reopening of a new SATS NK club in the heart of the city center of Stockholm, now, this Saturday, launching our biggest [ph] heat zone (00:10:11) in the Nordics so far.

And these group training initiatives are also linked to the club upgrades that we are working on currently. We continue to invest in our clubs through four main categories of upgrades. When we invest CapEx in the club, often combined with the landlord contribution, we do it either because we want to upgrade and improve the product offering in the club, adding more group training concepts like the [ph] heat (00:10:46) concepts I mentioned, or yoga/Pilates concepts are example of this.

Number two, we want to upgrade our equipment and quality mix. This is about functionality and experience, both for strength and cardio equipment.

Or number three, we want to improve the capacity of a club within the existing number of square meters. Rent is making up one-third of our cost base. So, to really utilize the square meters in the best possible way is very important for us. Reducing inactive floor area and replace equipment based on actual usage are examples of these upgrades.

And number four, we know that the look and feel of our clubs really matter. This is why we are maintaining the SATS branding standard in selected clubs by doing leasehold maintenance like new paint, flooring, improvements of the locker rooms, etcetera. And then also at selected clubs, we are doing what we call major upgrades, which is a combination of all these four areas, really making a step change of the club quality and capacity.

Altogether, 76 of our clubs, more than a fourth of our total club portfolio, have and will be upgraded during 2024. This is a significant improvement in the club quality, product offering, and our total capacity within the existing club portfolio. We have a solid experience and a systemized approach on how to work with these club upgrades in a data-driven, member-focused, and financially efficient way, and we are working active with asset management and operational improvements. So, we are doing all these upgrades without increasing our maintenance CapEx guidance of 5% of total revenue, as Cecilie will come back to in the financial section.

And talking about financials, Cecilie, and I will leave the word to you.

### Cecilie Haugen Elde
*Chief Financial Officer, SATS ASA*

Thank you, Sondre, and good morning, everyone. We are concluding another financially strong quarter. The price-driven revenue growth translates into an even stronger growth in EBIT, resulting in underlying healthy cash flow and leverage comfortably within the target range. So, let's dig deeper into the drivers of the third quarter result.

We closed the quarter with a member base of 728,000 members, which is on par with last year, despite two fewer clubs in the portfolio and several price increases since last year. And the third quarter typically begins slowly as half of it falls within the vacation period. However, member numbers picked up strongly in the later half as members returned after summer. And after adjusting for club openings and closures in the quarter, the comparable member base grew with 12,000 members during the third quarter.

And as mentioned, rent represents roughly one-third of the cost base. So, we also track efficiency through the member base per square meter, which has risen by 2% compared to the third quarter last year. And this improvement reflects efforts to optimize the club portfolio by closing underperforming clubs and downsizing and relocating clubs with excess capacity to enhance space and asset utilization.

But we continue to see the impact of price-volume tradeoff with yield growth outpacing member base growth. And as previously mentioned, quarterly revenue growth is largely driven by increases in average revenue per member, reflecting the successful gradual price adjustments. And both ARPM and total revenues rose by 8% as reported, and by 5% in constant currency. And the primary driver of this increase is the membership revenue, which accounts for 80% of our total revenues.

For other revenues, last year's numbers are affected by late COVID compensation impacts. So, revenue from personal training and retail has remained relatively stable. While personal training volume was slightly lower, this is offset by price adjustments; and in retail, margins have helped balance the slight decline in sales per visit.

Our cost base remains well-managed, with a 4% increase in constant currency compared to last year. The increase is primarily due to inflation, but also the investments in the product offering that Sondre discussed with more group training classes on the schedule. Overhead cost has risen with 6% in constant currency, [ph] though it (00:15:46) remained flat as a percentage of total revenues. And as a risk management measure, we have hedged approximately half of our projected electricity consumption from the fourth quarter throughout 2026.

In line with our strategy to enhance member engagement, we will continue to invest in group training by adding classes of clubs with untapped potential. Member engagement drives loyalty. So, while these additions will slightly increase costs, they are expected to grow the member base and yield over time. And while this investment adds short-term cost alongside the general inflation, our long-term plan is to balance the inflationary pressures with disciplined cost control and selective price adjustments.

In the third quarter, we are reporting an EBITDA before IFRS 16 of NOK 170 million, which is up 10% compared to last year, and at a 14% margin. And as I will get back to in more detail on the next page, the estimated lifespan of fitness equipment has been extended by two years, leading to lower depreciation expenses in this quarter and also for the future. Consequently, the improvement in EBIT is slightly higher than normal, increasing by 29% to NOK 127 million, resulting in an 11% margin for the quarter. And this demonstrates the positive impact of operating leverage on profitability in our business, where an 8% growth in revenues translates into a 29% growth in EBIT.

The level of upgrade and maintenance CapEx has been moderate over the past year, but we are gradually returning to normal CapEx levels, and we have invested heavily this fall in upgrades and improved product offering to support further growth. Maintenance CapEx so far this year totals NOK 109 million, representing 2.9% of total revenues, which is below our long-term target of 5%. But we are now in a phase with several major upgrades ongoing, which will be finalized soon and as we are lifting the quality of many of our clubs. We, therefore, expect maintenance CapEx for the full year to reach close to 5%.

And as Sondre mentioned, in addition to our own investments, we actively collaborate with landlords on club upgrades. Some major upgrades have been delayed to allow for negotiations with landlords to secure investment contributions. And this delay in ramping up in the investments is intentional. We aim to secure these contributions before we start renovations, and we have also intensified our initiatives related to the asset base, including an extensive mapping and a more structured maintenance process. And as mentioned, the result of this work is a longer lifespan for our fitness equipment and a better utilization of our maintenance CapEx. Thus, the depreciation period for fitness equipment has been prolonged with 2 years from 5 to 9 years to 7 to 12 years, resulting in lower depreciation expenses going forward.

And in terms of club expansion, we opened two clubs this quarter, both in Sweden; and we closed three clubs, two in Sweden and one in Finland. And going forward, we have a pipeline of three new clubs to be opened in 2025, and we are working on expanding this pipeline further.

The cash flow in the third quarter was negatively impacted by timing of quarterly rent, as we communicated in the second quarter presentation. And excluding this timing effect, the underlying operational cash flow was NOK 107 million achieving a 63% cash conversion rate and the free cash flow totaled NOK 79 million. And over the last 12 months, we generated NOK 390 million in cash, highlighting our strong cash generation ability with the capacity to continue reducing debt and distributing excess cash to shareholders.

And finally, at the end of the quarter, net debt stood at NOK 1.2 billion, resulting in a leverage ratio of 1.8 times net debt to EBITDA. The mentioned negative working capital effect from the rent payments from last quarter and the negative cash effect from the weakened NOK drive net debt and leverage up a notch compared to the last quarter, but leverage is still comfortably within the communicated target range of 1.5 to 2 times net debt to EBITDA. And we do expect further deleveraging going forward as we have proven during the past few quarters aiming to move into the lower end of the target range.

And with that, I'll leave the word back to Sondre for some comments on outlook.

### Sondre Gravir
*Chief Executive Officer, SATS ASA*

Thank you, Cecilie. The outlook remains very much in line with what we have communicated in the past few quarters, which in itself is a key point. There are no changes in the direction, trends, or outlook as we see it, and we continue on the journey we presented during the Capital Markets Day second half of 2022.

We will continue our investments in group training offering to improve the value proposition towards members and strengthen the competitive advantage. We still see an unleashed potential in the existing club portfolio driven by square meter and equipment optimization and increased operational efficiency. And this will be a key driver for improved financial performance, accelerated by operating leverage, and high drop-through through EBITDA. This continued positive financial delivery enable us to balance investment in current portfolio, new product launches, moderate club expansion, maintaining a solid balance sheet, and starting, as we announced last quarter, with dividend payments and share buyback program.

And with that, I thank you all for watching. I encourage you to take care of your physical and mental health, and highly recommend you to test one of our group training classes if you haven't done so in the past. I wish you all a healthy and happy Tuesday.