

Conference Call Transcript
Smart Fit
4Q24 Results
São Paulo, March 14, 2025
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Matheus Nascimento | Investor Relations Manager

Good morning, everyone. Welcome to the conference call of Smart Fit to announce the results of 4Q24. For those who do not know me, I am Matheus Nascimento, Investor Relations Manager.

Before we begin, a message for those who want to listen to the presentation in English.

Good morning, everyone, and welcome to Smart Fit's conference call to discuss the fourth-quarter 2024 results. This call will be translated into English. To access the English mode, click the interpretation button through the icon at the bottom of the screen and choose your preferred language.

There is also an option to mute the original audio in Portuguese by clicking on "Mute Original Audio." Today, we have with us Mr. Edgard Corona, CEO; André Pezeta, CFO; Diogo Corona, COO; José Luís Rizzardo, IRO, MNA, and Treasurer; Alexandre Gregianin, CTO; and Juana Melo, Legal Director.

Participants will be in listen-only mode during the Company's presentation. Then we will start the Q&A session, and further instructions will be provided.

As a reminder, the presentation that will serve as the basis for this conference call is available on Smart Fit's investor relations website, at CVM, and on the webinar platform.

Before continuing, we would like to say that statements made during this conference call regarding the Company's business prospects, financial and operational projections, goals, and information on the potential target market, reflect the beliefs and assumptions of the Company's management and are based on information currently available. Forward-looking statements are not a guarantee of performance, as they involve risks, uncertainties, and assumptions.

Now, I would like to give the floor to our CFO, André Pezeta, who will start the presentation. Please, Mr. André, you may begin.

André Pezeta | CFO

Good morning, and thank you very much for attending our conference call for the 4Q24. Today, Edgard and Diogo are attending an international fitness trade show in another country. I will start the presentation and then hand it over to them.

I would like to begin by sharing with you an important message of the solid results we achieved during the period, which are the result of hard work and delivery of the whole team.

First, the record of 305 new units added in 2024, representing a 21% growth compared to the previous year, and an acceleration of 42% considering the expansion pace of 2023.

We closed the quarter with the amazing mark of 4.8 million members in our units, a growth of 17% compared to 2023. In the year, we added 699,000 new members, reflecting the expansion of our unit network and our efforts to attract and retain customers.

Net revenue exceeded R\$1.5 billion in the quarter, a strong growth of 36% year-over-year, and 8% compared to the previous quarter. The gross margin was 50.1%, combined with a record expansion of our unit network, thus providing increased profitability.

We also reached a record EBITDA of R\$487 million in the quarter, a growth of 47% compared to the same quarter last year, with an operational cash generation of R\$462 million. Recurring net income reached R\$119.7 million for the period, with a net margin of 12.8%.

Now, I would like to give the floor to our founder and CEO, Edgard Corona, who will continue the presentation.

Edgard Corona | CEO

Thank you, André. Good morning, everyone. Thank you so much for attending our conference call to announce the results of 4Q24. I would like to start by sharing important messages about the solid results that we have achieved in recent years, which are the result of very hard work and the dedication of the whole team, in addition to a few other important messages.

2024 was once again a year that clearly shows the solid execution of the Company across many different front lines. There were many accomplishments and reasons for us to celebrate, while we remained focused and worked with a lot of energy in our day-to-day lives.

It's important to emphasize that, three years after the IPO and 28 years of operations, we have delivered record expansion by focusing on the quality of our opening pipeline, combining with the maintaining solid results for mature units. This reflects the Company's capacity to optimize revenue and efficiently manage costs.

This work consolidates more and more our leadership position in Latin America, with our presence in 15 countries and more than 1,700 clubs under the Smart Fit brand. The strong expansion pace reinforces our execution capacity, with a process strongly based on data and unique expertise in analyzing all the main indicators for decision-making. This is a fundamental aspect that helps us consolidate our leadership position in the fitness industry in Latin America.

Now, regarding net revenue, in the year we added 699,000 members to our units, reflecting the expansion of our network and the assertive efforts to attract and retain clients.

The growth in net revenue is especially the result of our network of clubs, reflecting our competitiveness and a unique experience with high-standard, affordable prices to meet the increasing demand for fitness services in the regions, while also increasing convenience for our customers.

In addition, our revenue management agenda has evolved consistently over the past few years, with our pricing strategy consolidating itself as a fundamental pillar to ensure and drive local competitiveness. This strengthens our value proposition in each target microregion, improving operational efficiency and creating opportunities to gain margin and deliver sustainable results in other markets.

All these factors, combined with the new units of the group, have contributed to our holding reaching net revenue of R\$5.6 billion in 2024, a 31% growth compared to 2023. The 31% growth in net revenue was driven by the combination of expanding membership in our own units and a solid increase in the average ticket during the period.

This growth came along with the maintenance of a solid level of profitability for mature units, stable at 52%, in addition to the excellent performance of vintages 22 and 23, whose results you have already seen. It's also worth mentioning that the units we opened in 2024 are also promising and so far are presenting a solid maturation curve.

Once again, it's worth emphasizing the accomplishments in our high-end and studio segment. In the Bio Ritmo brand, we have reached excellent levels of profitability, and as you know, we opened our first unit of this brand outside Brazil, in Panama, in 2024.

We are going to open new Bio Ritmo units, especially in Brazil, but also in other countries such as Chile and Peru. For studios, we have expanded our investments in the business unit with the acquisition of the Group Velocity, and we opened new studios, closing the year with four times more studios than in 2023.

The unparalleled network of units of our Company, combining strategic locations, strong brands, the network effect, and our unique know-how in operational execution, is further strengthening our leadership position in the region and within the Company's ecosystem.

Now, about the EBITDA, it's important to remember that of the 1,243 owned units, more than 35% of them are not yet mature. Once they are mature, the investments already made in these units will provide a solid return through the generation of additional operational cash.

Even so, we have delivered a record EBITDA of R\$1.8 billion, with the highest annual margin in the Company's history. The EBITDA growth between 2019 and 2024 was 3.2 times, clearly showing both operational leverage and the potential to dilute expenses.

We keep our high EBITDA conversion rate to be converted into operational cash flow. Last year, 89% of EBITDA was converted into operational cash generation, demonstrating the high cash generation of our business despite the accelerated expansion.

In this context, we should also emphasize the constant initiatives of liability management with the aim of having a debt profile that is longer-term and at lower costs. As a result, the Company's credit rating has gone up to AA+, and we have a funding cost that is highly competitive and much lower than that of our competitors, thanks to all the hard work and solid results we have delivered over the past few years.

We are sure that this is just the beginning. We continue to work more and more, and we are very enthusiastic about the future. We would like to thank once again all our customers, suppliers, employees, and investors. I will be waiting for you in our questions and answers session at the end of the presentation. Now, I give the floor back to Diogo Corona, our COO, to continue the presentation.

Diogo Corona | COO

Good morning, everyone. Thank you so much, Edgard. This has truly been a year of many accomplishments, and certainly, our expansion is one of the main highlights. With 305 additional clubs, this is our record growth across all our target markets, exceeding 2023's growth by 42%.

We have accelerated growth in practically all the countries where we are present in 2024. In Brazil, we have added 117 new units, 77 in Mexico, and 111 in the rest of the Latin American region.

These numbers show a clear strategy of geographical diversification, with a less proportional concentration in Brazil, thereby strengthening our presence throughout Latin America and reinforcing our confidence in the expansion potential across all our target regions.

We exceeded our guidance for the opening of units, with an opening forecast of 282 to 300 new units. This is the result of our solid track record and expertise in expansion, allowing for accelerated and sustainable growth without compromising quality. That means keeping our unit economics both appealing and sustainable.

Our strategy is highly detailed, based on data, with solid governance and discipline in the process of capital allocation. We aim to have unique locations with investments in strategic properties and long-term partnerships, ensuring our presence in very important commercial points.

To execute this expansion in 2024, we maintained our capex per unit at R\$5.9 million, the same amount invested in 2023, demonstrating our strong financial discipline. We are top of mind in all our markets, and Smart Fit remains the consolidator of fitness references in Latin America.

This is the result of consistent execution and implementation of each new project conducted by a highly qualified team with proven expertise in the expansion and management of fitness clubs. Our unique capillarity creates a powerful effect, offering convenience and scale—this competitive differential makes our members' experience very positive and strengthens our leadership position in the industry.

It is early to analyze the performance of the clubs from vintage 2024. But we are very happy to know that we already have 2,500 members per unit at the end of February 2025, reinforcing our confidence in the potential of our vintage.

On the next slide, I would like to talk about our network of units.

We closed the quarter with 1,743 units, which represents a 10% growth in our base compared to the previous quarter and 21% compared to the year before. The expansion in the last 12 months was well distributed between our target markets, with 38% of new units in Brazil, 25% in Mexico, and 36% in the rest of Latin America.

This demonstrates once again the diversification of our network and less concentration of units in Brazil. At the end of 2024, approximately 47% of our units are in Brazil, with 823 units. Mexico accounts for 23% of our network with 395 units, while the rest of Latin America has 525 units, representing 30% of our operations.

We closed the period with 57% mature units, slightly below what we had in the last two years, considering our fast pace of openings. This number demonstrates the huge ramp-up potential

and maturation of the units we already have in our network.

On slide seven, you can see that the eighth consecutive quarter of mature units maintained their margin at 52%, with gross profit per unit annualized at R\$2.4 million, a 13% increase compared to 4Q23. This is a result of our revenue optimization initiatives, combined with intense efforts.

I would also like to highlight the quality and consistency of our 788 mature units, which have been inaugurated and operated throughout Smart Fit's 16-year trajectory.

The units we opened between 2009 and 2012 have a consistent margin of 52% in the last quarter. The units we opened between 2013 and 2016 have a margin of 51%. The more recent mature units, those that opened between 2017 and 2021, have a margin of 53%. We are very proud of this result because, over the years, we have expanded into regions and countries with very different cultural and economic features.

We have different kinds of properties and cities. We have different partnerships, and we learned a lot and adapted our operations. We were capable of delivering consistent results, keeping the desired levels of return.

The units that we opened in 2022 followed their maturation curve, with a gross margin of 54%, or R\$2.5 million per unit, translating to an increase in gross profit per unit versus the previous quarter. This level, which is above that of mature units, is the result of strong growth in revenue and occupancy costs that are structurally lower than those of mature units.

The units that we opened in 2023 followed a great pace of maturation and at the end of 4Q24, they reached an average of 2,800 members per unit, with an annualized average net revenue per unit of R\$3.9 million.

These units again presented solid expansion in the cash gross margin for the quarter, reaching 51% in 4Q24, and will continue their maturity curve throughout 2025. We monitor them on a daily basis, and we are confident that they will reach good results in 2026.

The solid performance of maturing units, combined with the fast ramp-up of new units, reinforces the confidence we have in our sustainable growth strategy.

This success is based on assertive choices of points of sale, rigorous cost management, intelligence in pricing and sales, in addition to a non-negotiable commitment to the quality of services provided.

Our NPS went from 67 in December 2023 to 70 points in 2024. With this result, we are very confident and excited for 2025, with new guidance for openings that I will mention on the next slide.

In 2025, we will have a new challenge: delivering the guidance of openings, with 340-360 units before the end of the year. This means almost one new unit per day this year. This expansion reflects the growth of approximately 15% in the number of net openings in 2024, and an annual advance of between 20% and 21% in our network compared to the total number of units in operation at the end of last year.

We are very confident about this expansion due to our solid track record of execution, with consistent performance of mature units, a solid ramp-up of the new vintage units, and based on

operational soundness, financial discipline, and other success factors that we have just mentioned.

To overcome this challenge, we already have a robust pipeline of real estate, assuring continuity of expansion in all units and ensuring the choice of the best points of sale. All these factors combined position us strategically for another year of sustainable growth, focusing on efficiency, innovation, and excellence in the services provided to our members.

Now, I give the floor to José Luis Rizzardo, who will talk about the financial results of 2024.

José Luís Rizzardo | IRO, M&A and Treasury Director

Thank you, Diogo. Continuing the presentation, I would like to go over operations and financial results, starting with the evolution of membership and the network.

You can see continuous growth in our membership and revenue per unit. In 4Q24, our membership reached 4.8 million members, an increase of 17% compared to the same period the year before and 0.3% compared to the previous quarter. Of these members, approximately 2.2 million are in Brazil, 1 million in Mexico, and 1.6 million in other regions of Latin America.

We believe that our robust membership is a direct reflection of our assertive expansion strategy, the maturation of units, and our continued efforts to attract and retain customers. The annualized average net revenue per owned unit reached R\$4.2 million, accounting for a 10% growth compared to 4Q23, driven especially by an increase in the average ticket due to assertive price adjustments across multiple regions and units.

In a period focused on optimizing revenue per unit in a sustainable way, there was a slight reduction of 2% in revenue per unit compared to 3Q24. However, this result is consistent with our strategy of maximizing value per unit without compromising market competitiveness and it is a temporary mathematical effect. These results demonstrate the strength and resilience of our business model.

Now, moving to slide number 10, net revenue in 4Q24 presented significant growth of 36% compared to 4Q23. This marks the 14th consecutive quarter of growth and an acceleration compared to the growth levels presented in the first nine months of the year.

For the first time, net revenue exceeded R\$1.5 billion in a single quarter, especially because of a 19% expansion in the average number of members in Smart Fit's owned units and a 13% increase in the average ticket across all target regions.

Compared to 3Q24, net revenue increased by 8%, driven by the same factors mentioned before. In 2024, net revenue reached a record level of R\$5.6 billion, a solid 31% growth compared to the previous year. It is worth mentioning that revenue from Mexico and other Latin American regions accounted for 56% of the Company's total revenue in the year, an increase of 3.2 percentage points compared to the previous year.

Now, about the performance by region, starting with Brazil: the net revenue of Smart Fit units in Brazil grew 23% compared to 4Q23, supported by a solid 17% increase in the average membership in our owned units and a 6% increase in the average ticket. Compared to 3Q24, net revenue grew 4%, reflecting a higher average ticket in addition to the expansion of the average number of members in our owned units.

In Mexico, net revenue grew 29% compared to the same quarter the year before, reflecting especially a 15% increase in the average ticket and a 12% increase in the average membership in our owned units. In 3Q24, net revenue was stable in the region, especially due to a lower number of members in the units, considering seasonality of mature units.

In other Latin American markets, revenue growth was once again a positive highlight, with a significant increase of 55% compared to 4Q23. This reflects a 29% growth in our average membership and a 20% expansion in the average ticket. Compared to 3Q24, revenue grew 12%, as a result of a 8% expansion in average membership in our owned units in the region and a 4% increase in the average ticket.

To end this slide, 57% growth compared to the same period in the line 'others', ending 4Q24 at R\$110.6 million. This was explained by the acquisition of Velocity and revenue growth in other units.

Now moving to slide 11, cash gross profit totaled R\$ 772 million in 4Q24, an increase of 37% compared to 4Q23. The cash gross margin was 50.1%, 0.2 percentage points above 4Q23. This reflects strong net revenue growth and efficient cost management, which led to the dilution of fixed costs despite a record expansion of our network.

In 2024, cash gross profit totaled approximately R\$ 2.8 billion, with a cash gross margin of 50%, maintaining the same level as the previous year. The cash gross margin before pre-operational costs—those related to the opening of new units—reached 51.5% in 4Q24. Looking at the full-year results for 2024, the cash gross margin before pre-operational costs was 51%.

Now let's show the Company's operational expenses in 4Q24, focusing on expansions with general sales, and administrative expenses. SG&A totaled R\$281 million in 4Q24, a 24% increase compared to 4Q23. This accounts for 18.3% of net revenue in the quarter, a dilution of 1.8 percentage points compared to the same quarter the year before.

This dilution is especially due to the dilution of general and administrative expenses, reflecting the operational leverage of the business, which more than offset the higher investments in the Company's infrastructure in all our target countries and also in the structuring of new businesses.

General administrative expenses totaled R\$155 million in 4Q24, an increase of 20% compared to 4Q23, which is below the revenue growth in the period. Meanwhile, sales expenses grew 31% on the same comparison basis, reflecting the strong expansion of our network and the investments made in marketing to strengthen our brand.

Compared to 3Q24, SG&A grew 9%, practically the same percentage as net revenue between quarters, despite a faster pace of openings that also impacted the increase in pre-operational expenses.

Now, moving to slide 13, you can see the strong evolution of our EBITDA, which in 4Q24 reached R\$487 million, the highest level ever for a quarter and a significant growth of 47% compared to 4Q23. The EBITDA margin for the quarter was 31.6%, an expansion of 2.3 percentage points compared to 4Q23, despite the acceleration in unit openings during the period.

It's worth mentioning that in 2024, we also reached a record EBITDA of R\$1.8 billion, with a solid margin of 31.6%, the highest annual EBITDA margin ever, with an expansion of 0.9 percentage points compared to 2023.

Lastly, considering the adjusted EBITDA before pre-operational costs, we reached a record level of R\$519.5 million in 4Q24, representing 46% growth compared to 4Q23. The adjusted EBITDA margin before pre-operational costs was 33.7%, an expansion of the same 2.3 percentage points compared to 4Q23, reaching a 33.1% margin for the year, once again the highest level ever.

Now I give the floor to Andre Pezeta to continue the presentation.

André Pezeta:

Thank you.

Now, moving to the next slide, number 14. In 2024, recurring net income was R\$578 million, representing an 8% growth compared to the year before and a net margin of 10.4%. The strong performance reflects especially the operational leverage of the business, driven by the consistent profitability of mature units and the solid ramp-up of the units opened in recent years.

This operational performance was partially offset by the increase in depreciation, amortization, and financial expenses in the period, a temporary reflection of the acceleration in investments in network expansion.

It is also worth mentioning that in 2024, the result was positively impacted by tax credits resulting from accumulated tax losses, explaining part of the increase in the effective income tax and social contribution rate in 2024.

In 4Q24, recurring net income, totaled R\$197 million, compared to R\$209 million in 4Q23. It's worth mentioning that after 2024, the income tax and social contribution rates increased due to the booking of tax losses accumulated and booked at the end of 2023.

Compared to 3Q24, recurring net income in the quarter grew 59%, reflecting a lower income tax and social contribution rate because of the payout of interest on equity amounting to R\$258 million in 4Q24.

To talk about the strong generation of operational cash and acceleration of investments, let's move to the next slide, number 15.

In 2024, operational cash generation reached R\$1.5 billion, 6% above the previous year, driven by the record EBITDA of the year, which saw strong growth of 35% compared to 2023.

The conversion of EBITDA into operational cash in the year reached a solid level of 89%. EBITDA growth was offset by higher working capital consumption in the period and higher tax payments due to accumulated tax losses in affiliates.

In addition, the variation in working capital in 2024 resulted in a cash burn of R\$170 million, explained by higher consumption in the "members" line due to growth in membership, an increase in the share of TotalPass, lower cash generation in the "suppliers" line, and tax retentions. There was also the international remittance of funds from international affiliates to Brazil, which will be used in future quarters. In contrast, in 2023, this line benefited significantly from a positive impact of R\$103 million due to the recovery of tax credits.

Talking about the investments of the period, we continue accelerating our expansion. This acceleration led to a total capex of R\$721 million, a growth of 34% due to the opening and

maturation of our own units and the record number of new units in a single quarter.

Expansion CAPEX totaled R\$1.5 billion, an increase of 40% compared to the previous year. Expansion CAPEX related to the units under the Smart Fit brand, excluding Bio Ritmo, studios and the acquisition of franchise units in Colombia, was R\$1.4 billion, 33% above 2023, due to the strong acceleration in the opening of our own units in 2024.

We opened 242 own units under the Smart Fit brand in the period, excluding closures of units and acquisitions from franchisees.

In this context, the Company was able to maintain CAPEX per Smart Fit unit at R\$5.9 million, thanks to constant discipline and efforts in capital allocation throughout the year.

The CAPEX for Smart Fit units accounts for 6.1% of the gross revenue from mature units, the same level as the previous year, in line with the strategy of offering high-standard experiences to our members.

Now, moving to slide number 16, we continue to intensify our expansion investment plan at good levels of leverage. Despite the strong operational cash generation in the period, the acceleration of investments in organic expansion, combined with the completion of the acquisition of Velocity, an important step for our studio vertical, and the conversion of franchises into own units in Colombia, drove up the Company's financial leverage to 1.76 times the LTM EBITDA, compared to 1.45 times.

We believe this is a healthy level, especially given the high predictability of the Company's performance and a long debt profile. Additionally, considering the annualized EBITDA of the last quarter as a proxy for the Company's cash generation capacity, this level would be 1.59 times.

It is important to mention that we continue our efforts in the liability management agenda, with a focus on improving the Company's debt costs. On average, the spread was 66 basis points in Brazil and 197 basis points in Colombia, compared to December 2023.

This better spread was combined with a longer debt profile, which, along with our robust cash position and healthy leverage, reinforces our confidence in finding great opportunities for capital allocation in new units.

As we have seen, the Company funded its expansion needs late last year. Brazil, Mexico, and other Latin American countries respectively accounted for 24%, 33%, and 43% of the Company's net debt.

This net debt, divided by different geographies, gives us flexibility to invest in the majority of the countries where we operate with our own units. Currently, we expect to continue the reduction of local interest rates.

Now, we end our financial aspects of our presentation and I'll pass the floor to Alexander Gregianin, our CTO, who will talk about the main contributions of technology to the Company.

Alexandre Gregianin | CTO

OK, now let's talk a little bit about digital products. The share of digital channels is growing significantly. In the sales channel mix, 72% of the sales in December were through digital

channels, while the front desk accounted for 28%. This is the best number so far and demonstrates the importance of digital as a strategic pillar in sales, as it reduces customer acquisition costs and also increases engagement.

An important highlight is the growth of sales through the app, which in Brazil have already surpassed counter sales. This is driven by both the reduction in customer acquisition costs and the engagement fostered from the moment of purchase through this channel. The goal for 2025 is to continue expanding this channel, ensuring that more members will start their experience with Smart Fit there.

In 2024, digital transactions accounted for more than 79% of our transactions. We are focusing on customer service in addition to major deliveries in 2024, such as the marketplace for personal trainers in our app, which makes it easier for users to find personal trainers at their units.

In 2025, we will launch something similar to a fitness social network, a new space in the app that allows for higher integration between our members within the Smart Fit ecosystem. We believe this will be an additional resource to engage our members even further.

Now, moving to slide number 18, let's talk about the app. We had 2.4 million users in 2024, a significant growth compared to 1.9 million in 2023. We also saw a significant increase in the number of workout programs being prescribed through the app.

We saw a significant increase in the number of workouts automatically prescribed using artificial intelligence, reaching 6.7 million in 2024.

In our annual fitness retrospective, similar to what major streaming music and video platforms do, we saw a 42% increase in shares year over year.

Moreover, we had two very important deliveries: the release of access for Black Card plan members guests and TotalPass, and a free area in the app where non-members can access our digital ecosystem with exclusive videos and workout programs. More than 210,000 people who are not our members have used the app, turning them into potential members.

Smart Fit Nutri ended the year with 188,000 subscribers in Brazil and more than 750,000 bioimpedance tests. We have doubled the number of bioimpedance scales installed in Brazil compared to December 2023, and now we have 48% of Brazilian territory covered with this service available.

Smart Fit Coach, our online appointment platform to define customized workout programs and objectives, had experienced significant growth, tripling its user base over the year. The platform reached almost 60,000 users at the end of 2024. The service is present in 10 countries, and in 2025 we expanded coverage to 100% of the countries where Smart Fit operates in Latin America.

Now, I'll pass the floor to Juana, our legal officer.

Juana Melo | General Legal Officer, Compliance, Data Protection and ESG

Thank you, Alexandre.

Now, moving to slide 20, I would like to highlight a few results of the continuing efforts of the Company on sustainability, with the environmental pillar being one of the main highlights.

One of the key initiatives was the automation of air conditioning, closing 2024, 331 units were covered, an increase of 48% compared to 2023. This initiative's main goal is to avoid the waste of electric power by programming the working hours of the air conditioning to avoid peak consumption times.

We also increased the use of renewable energy, totaling 220 units in 4Q24 using distributed generation from the free market, a 49% increase compared to 4Q23. By the end of last year, 40% of our network of own units in Brazil were operating with renewable energy, reducing the costs per kilowatt used.

We also started online monitoring of water consumption in our units in 4Q24, closing the year with 366 units using the system. This increased the speed and efficiency of identifying possible leakages and undue billing.

Now, moving to social aspects, we continue our partnership with UNICEF with positive results, and more than 4,700 new donors in 8 countries. Moreover, we promoted several volunteer campaigns, especially in Chile, Mexico, Paraguay and Peru.

We also have a mentorship program promoted with our IT department, and we partnered with the Professionalizing Educational Assistance Center, connecting young people with the IT market, providing opportunities for professional development.

In terms of governance, we held Safety Week, focusing on data protection and AI.

Last but not least, we announced our annual report for 2023, consolidating our main sustainability actions.

Now, we will start our Q&A session. Thank you, Juana.

Q&A Session:

Victor, Itaú BBA:

Good morning, everyone, all the Smart Fit team. Thank you so much for allowing me to ask the question.

My first question is about Mexico. After many years without any increase, I believe, in terms of members, do you think this increase might have been excessive, either in the Smart or Black Cards plan? And can you tell us if you have any actions in place to mitigate possible unexpected negative effects?

My second question is about the gross margin in Brazil. There was a positive impact from the reduction in maintenance costs and in Mexico due to consumption reduction. Are these gains sustainable going forward? Can you provide more details about the reduction in maintenance costs, especially since they were more concentrated in December?

José Luis Rizzardo:

So, Victor, this is Rizzardo answering your question. Thank you very much for being with us.

Let me start with the first question. Well, as you mentioned, we need to remember that we started

our operation in Mexico in 2011, and we had never implemented any price transfer until the end of 2023. This first price transfer had some impact early in 2024, considering the usual dynamics in terms of customer attraction.

Regarding the Black Card plan and the Smart plan, it's important to remember that we also implemented a different plan in the region. The Fit plan, for instance, had a price level very similar to what we were billing for the Smart plan. This allowed us to keep our competitiveness in the most basic plan at the local level.

In 2023, we wanted to recover the members we lost during the pandemic. Now, in 2024, we plan to be slightly more aggressive with our approach, working more on revenue management and plan pricing, with a focus on the Black Card plan. When comparing December 2024 to December 2023, membership remained stable despite the price increases that we had in the region. Regarding profitability, looking at the profile of mature units in the region, there is a higher profitability level in 2024 compared to 2023.

Looking ahead to 2025, the main strategy is to improve local pricing. We are not seeing any further price transfers in the Black Card plan, but our pricing is always alive and we are always talking and discussing it.

In terms of gaining membership in the region, we should also say that membership per unit is impacted by the accelerated expansion we have experienced in recent years. This is aligned with our strategy of densifying and clustering units and we have Total Pass in Mexico which is a major aggregator in the region.

André Pezeta:

Now, regarding your second question, our focus remains on maintaining the margin and profitability of our mature stores. We do not want to increase too much or reduce it. Our strategy revolves around managing costs, revenues, and the opening of new units.

Specifically, the reduction in maintenance OPEX is slightly lower, but this is also tied to higher maintenance CAPEX. We used the last quarter to invest in our units and we have the maintenance CAPEX, especially because we have slightly less utilization and this was a good time for us to renovate those units and make them ready for next year.

So, the maintenance of OPEX along 2025 is very similar to what we had along 2024, not any specific quarter for the whole year.

Vinícius Strano, UBS:

Good morning, everyone. Thank you for taking my question.

How do you view your price positioning today, considering Brazil and your main competitors, who are slightly more low-cost? And how do you see the evolution of your membership, considering a possible slowdown in consumption in Brazil?

Also, can you share more about the strategy of Total Pass in Smart Fit own units? How does the Total Pass ticket compare to Smart members in terms of ticket?

Diogo Corona:

Hello, Diogo here, answering your question. Regarding pricing, we have three plans: Black, Smart, and Fit. So, we have a global plan, which has seen some recent increases in certain geographies, and in Brazil, we had one at the beginning of January.

We always consider local competitiveness, and more and more, we've been evolving in revenue management to ensure that our model becomes increasingly more assertive in this agenda, suggesting price increases when possible and considering all competitive variables.

Despite the growing competition in the market, we still maintain our competitiveness locally.

Talking about Total ass share, we do not disclose specific estimates about this number. However, in our view, TotalPass is just one sales channel. We will have both B2B and B2C members, and the ticket is aimed to have the same kind of tickets as other channels.

Vinícius Strano:

Thank you, Diogo.

João Soares, Citibank:

Hello, good morning. Thank you for taking my question. So, first, what do you think about expansion in Brazil in 2025? I would like to understand how you see these players that have very different economics, but with a very low maintenance CAPEX.

How does this impact, maybe, your strategy, not for the capitals but focusing on the interior expansion, this issue is being discussed in the market.

Also, I would like to ask about depreciation. It's very different if we look at maintenance CAPEX even with the long-term maintenance CAPEX sustainable after units are mature. How has been evolving and how are you managing this gap?

Diogo Corona:

João, this is Diogo. Regarding the competitive environment, there are franchise models that we are assessing as low cost, so we call ourselves high-value low-price and they have the low-cost model, and this is a model based on a lower CAPEX.

We see that despite that model, we keep our gross margin. We showed all the vintages, presented the mature ones, even breaking down the mature ones, and divided them into three segments for analysis. We still believe that when we do things right with the right operation, the right exposure, we can keep the membership and the margins. We are focusing more on margin and even though it's higher in our guidance, we are very much focused on quality and sustainability. Opening new units alone is not enough. We need to do it right.

André Pezeta:

Now, João, about depreciation, basically, putting it simply, we have a period of 10 years of depreciation, whether it's because of depreciation of equipment whose life is 10 years, or because of the lease agreements in our contracts, they are 10 years on average, so this depreciation is

structurally like that because of these two effects.

These are the main points where the Company invests capital. Depreciation of equipment is related to their life. So, depreciation of equipment is very closely related to the life of the equipment.

However, as we see depreciation based on the refurbishment that we do on real estate, the average life is longer than 10 years. Also, there are some effects of maintenance that go to OPEX after the opening of the unit and they are no longer in CAPEX. So, a few things that we fix in our units.

This effect is only corrected by the real depreciation versus what happens in accounting. It's only in the long term, after 10 years, when the whole unit has been depreciated, and then you have only the maintenance CAPEX. And it takes very long for us to be able to effectively see this in our numbers.

We always want to give disclosures to the markets that the maintenance CAPEX should be between 7% and 8% of the net revenue of mature stores. We are still at a lower level because most of the mature stores have an average age that is short.

We have a 6% rate in CAPEX, but it should be at the level of 7% to 8%, with the stores being directed to the maintenance CAPEX. So, at the end of the day, depreciation should be lower than the number today.

About the financials, we have no intention of changing this in the short term. Obviously, we are studying the best way to see our results based on the life of these improvements, but using the average time of contracts. This is the rule that we have been using, and we have no intention of changing it. Thank you.

João Soares:

Thank you.

As for expansion in 2025, franchise. About the current capital cost, will there be a migration in terms of opening your own units as opposed to franchise units? Can you say anything about Smart Fit's expansion in 2025?

Diogo Corona:

We are not seeing much of a difference. We still have the same share that we used to have, 20% franchises and 80% owned units. Demand is still very strong. Capital cost is higher, but it's warmed up and we have a lot of demand, and this is what we are seeing in the franchise models.

Of course, this is a proxy; of course, CAPEX is smaller. There is more demand there with a higher CAPEX, so we are not seeing a structural change related to that.

João Soares:

Thank you so much.

Danniela Eiger, XP:

Good morning. Thank you, everyone, for taking my question.

Number one is about the expansion. We ran a study of the competition scenario and possible gaps, looking at Brazil and cities and states where the main opportunities would be. And it's very clear for us that you still have lots of space to grow with not so much competition, but at some point in time you need to go to smaller cities. But I think that you have started doing that in a more gradual way. What is your mindset for this shift in terms of going to smaller cities? And is it going to accelerate in the short term?

And then a question about profitability, it's a point of highlight in your performance. You've had an improvement, not just in consolidated margin with the expansion, but also in gross margin with the newer vintage units, the more mature ones in 2022. Which are the main levers for you to continue improving or to keep it considering some of the challenges that we are seeing in terms of adjustment of expenses?

This is it. Thank you.

Diogo Corona:

Thank you for your question. This is Diogo answering your question.

In our study, we think we can double the number of units that we have in our network because we have white space. Even though we have indicators that the market is favorable, using the results of the study that we conducted with our consultants, we can double the number of units. We can still do that.

We do not have any preference in terms of one region over another. The important thing is that we are always open to opportunities, and this is always proportional to the white space. We do not seek a specific region over another. We think of return ROIC, cash on cash. Each unit is a different project. We are not focusing on one region or another; it's the one with the highest return or the one with enough return considering our capital cost.

I think, of course, we are testing, and just as we test new geographies, new countries, such as Morocco, for example, we are always testing the white space in smaller towns. We run micro tests.

We do not use the assumption that more and more small towns will be able to have a Smart Fit unit, but we test this gradually and we update our model. But this is not something that we intend to change in terms of going to smaller towns, not yet.

José Luis Rizzardo:

Before moving on to your question about the margins of the new vintages, Danniela, just one additional point. In May last year, when we looked at the white space in Brazil, only 15% of the additional units that we would open potentially would be in new cities. 85% of the new units in white space are in cities where Smart Fit is already present. So we are not seeing a change in the city profile of the Company looking into the future, considering what we did last year.

And if we were to change, and looking at the performance of the units and the size of the cities,

performance is very similar when we look at the margin of each one of these units, with cities with populations between 100,000 and 300,000, 300,000 to 1 million, and cities with over 1 million inhabitants, because this is by design.

Smaller cities, of course, will be different than bigger ones in terms of membership. The numbers are very similar. Based on the average ticket, the ticket is higher in bigger cities, depending on the location, and also with a higher penetration of the Black Card plan, we offset this with a lower occupancy cost, and the occupancy cost leads into your question about the margin of new vintage units.

And then, to wrap up here, the occupancy cost is precisely a segue to your question about the margin of the new vintages. What makes these vintages different from the previous mature vintages of the company? When we look in terms of revenue, the ramp-ups and revenue levels are very similar. We look at the cost structure, and there are no significant changes except for the occupancy cost.

They have structurally costs lower compared to what we see in mature companies, and part of that arises from the fact that we see a lower competition considering real estate, considering that our retailers are going more to the online market and leaving the offline market, leaving good opportunities for expansion for the Company, which has been translated into lower occupancy costs.

Danniela Eiger:

Thank you so much. Congratulations on your bit.

Guilherme Vilela, JP Morgan:

Hello, everyone. Thank you very much for taking my question.

When we look at the tracking in terms of macroeconomic evidence from Mexico, we see an overall slowdown in the economy. I would like to check your anecdotal evidence in terms of mature units, which would be the best proxy. How do you see more activity going up or down in the pipeline of units?

My second question is about cost. There's significant work being done on your tickets. But you said that there is a cost in inflation and others in LATAM. Could you give us an update, comparing your year? And congratulations on your performance.

André Pezeta:

Hi, Guilherme, this is Pezeta answering your question.

I'm going to talk first about Mexico. So, in our internal thermometer, and remembering that we had a major price increase in 2023, we are very happy with the attraction of clients, especially in January, and it's better than historical seasonality.

And as a reminder, January 2023 and 2024 were very strong and well above historical seasonality. In 2025 it is below, but still above the historical seasonality. We are looking very carefully at Mexico because of this macro situation, but nothing has changed our growth strategy.

Now, in terms of cost, our number one focus is discipline. It's about making our operation more efficient. This is part of Smart Fit's business model. We want to work at the lowest possible cost. And we have many teams working on that. Two of the main costs are very difficult to change: lease and personnel. So we have a certain limitation. As José just said, the new vintage units have lower lease costs, which is a benefit for profitability.

We don't want to increase margins; we want to keep margins and open as many new units as possible. As for cost, if inflation is much above what we want to work with, we want to transfer that to prices, which we've been able to do in recent quarters.

We always worry about a scenario where there is inflation with retraction of the GDP because this may make it more difficult for us to do revenue management. But so far, we have been able to manage that in terms of holding costs or limiting costs, or transferring inflation or higher costs to our prices.

Guilherme Vilela:

Thank you so much.

Gustavo Fratini, Bank of America:

Hello, good morning, everyone. Thank you for the opportunity. I would like to address your growth in other Latin American countries, which was a very positive surprise this quarter, and as you had already announced, I think the most impressive thing was the increase in ticket prices.

I know there was an increase in prices in Colombia, but there's an exchange rate effect there. How much was the increase exchange rate neutral? Was there any effect in terms of a higher penetration of the Black Card plan, or something that could help us to know how it's going to be in the future?

André Pezeta:

Fratini, thank you very much for your question.

What we have recently seen here is that most of the increase does not come from exchange rates; it's an increase in our prices that we were able to implement in other Latin American countries.

There's also a point in our revenue management, where we can see exactly what the potential price increase is based on consumption, store by store. So, when we see the potential for increasing prices, there are many indicators giving us this information, but we do that in a very analytical way, using many indicators. In other Latin American countries, this has allowed us to do that. Most of the increase you see arises from real or actual price increases.

José Luis Rizzardo:

At the end of 2023, we implemented price adjustments in the Black Card plan in the main geographies: Colombia and Chile. In Peru we did this at the beginning of 3Q23.

So the Company's pricing dynamics had a lag before it impacted the financials. In 2024, we increased prices in Colombia again in December. So, the impact will start to show in 2025, along

with higher prices in Panama and Costa Rica of 7%.

Gustavo Fratini:

Super clear. Thank you so much.

Irma Sgarz, Goldman Sachs:

Hello, good afternoon. Most of my questions have already been answered. How should we think about the higher confidence in accelerating your growth plan in 2025?

Of course, we know there is a lot of white space in the region, but could you give us slightly more details about the internal processes? What makes it possible for you to create this bigger pipeline in terms of structuring teams and processes to explore and design this plan?

Also, this year, could you talk about the work you do with partners? And just to confirm, can you give an update on your CAPEX per store? Is it stable? Can you confirm that?

André Pezeta:

Hi, Irma. Good afternoon. Thank you for your question. First, I'm going to explain how we decide on the expansion. Then I'll hand it over to Diogo for more operational details about the opportunities.

Every year, we plan the CAPEX for the following year. We evaluate how much capital we can allocate to each country where we operate, and according to the Company's EBITDA, as it grows, we gain leverage capacity.

Even though we increased our leverage in terms of net debt over EBITDA last year, we ended the year at 1.76 times. We can already see EBITDA growing, and as I mentioned, if we annualize the EBITDA of the quarter, this rate would go down to 1.55 times.

So, financially speaking, we have the capacity to fund the Company. With this decision, we are looking into the opportunities that exist in the market for opening new units. Historically, we have found more opportunities to open units than we initially expected, and that's why we have this guidance of an even more intense expansion.

Now, Diogo will talk about the process we have for opening stores.

Diogo Corona:

Thank you, Pezeta. So, Irma, this is Diogo speaking. It's important to remember that the increase in our guidance for 2025 doesn't come out of nowhere. It's an evolution. As a company, we have been evolving and gaining confidence in capital allocation and expansion, and this is very accurate.

We had around 200 stores in 2023, last year 300, and now we are talking about 340 or 360. So, little by little, we gain confidence and structure the team. We have increasingly more accurate numbers to do it consistently. Our team has evolved considerably. We have a very well-structured team, with local teams in all countries and regions where we operate.

We also have weekly committees, so we are very careful in analyzing everything. We have an

average of 350 stores, but the number of stores we reject is much higher than the ones we approve. This is one of the reasons why we've been performing so well with the new units we open.

Irma Sgarz:

Thank you.

Vitor Fuziharo, Santander:

Congratulations on your performance, and thank you for taking my question.

My first question is about the guidance. What about the allocation per region? And, as you consistently expand 20% in your membership every year, should we expect it to evolve and accelerate in future years?

My last question is regarding the revenue management structures that you are implementing, mainly in Mexico and other Latin America Countries. Will it have an impact on your churn or membership, or will you remain at historical levels? Thank you.

Diogo Corona:

About the breakdown of countries and geographies will be similar to 2024. This is a consequence of the white space potential. As I said in the presentation, the white space we have for expansion is very similar, and our concentration in Brazil is diluted compared to other countries.

Brazil is evolving to about 1/3 of the expansion, a little bit more, but in the long term, new opportunities will emerge, as Marrocco, and this will become even more apparent.

José Luís Rizzardo:

Vitor, we have started implementing revenue management initiatives throughout the year. We started in Brazil, then exported that and improved it in different countries in recent years. Even the rollout of the Fit plan in 2023 to other countries is an example of that.

When we look at the Company's churn, currently and one year ago, the churn is relatively stable, ranging between 6.5% to 7% per month. The churn is very much correlated to a plan that has a mandatory minimum stay period. For Smart, the churn is higher than Black Card, and Fit is more similar to Black Card's churn. Looking at the Company as a whole, this is very similar to our historical levels, and there has been no increase in attrition.

Vitor Fuziharo:

This is very clear. Thank you so much.

Matheus Nascimento:

We are now ending our Q&A session. Thank you so much for your participation. The Investor Relations team is available to answer any questions you may have. Have a good afternoon and a great weekend. Thank you.