**Conference Call Transcript**
**Smart Fit**
**2Q24 Results**
**Sao Paulo, August 9, 2024**
**10 a.m. (NY) | 11 a.m. (Brasilia)**

**Matheus Nascimento | Investor Relations Manager**

Good morning, everyone. Welcome to Smart Fit's conference call to discuss the results of 2Q24. Introducing myself to those who do not know me: I am Matheus Nascimento, Investor Relations Manager.

Today with us, we have Mr. Edgar Corona, CEO; André Pezeta, CFO; Diogo Corona, COO; José Luis Rizzardo, IRO; M&A Director and Treasury, Alexandre Gregianin, CTO; and Juana Melo, General Legal Officer, Compliance, Data Protection and ESG.

Participants will be connected to this in listen-only mode during the Company's presentation, then we are going to start a questions and answer session, when further instructions will be provided.

As a reminder, the presentation of results and the slide deck that will guide this presentation is available at Smart Fit Investor Relations' website, at CVM and at the webinar platform.

Before continuing: statements made during this conference call relative to the Company's business prospects, operation and financial projections and goals, and information about the potential of our target market, our beliefs and assumptions, the Company's management are based on information currently available to the Company.

Forward-looking statements are not guarantee of performance, because they involve risks, uncertainties, and assumptions.

Now, I would like to give the floor to our founder and CEO, Edgar Corona, to start the presentation.

**Edgard Corona | CEO**

Good morning, everyone, and thank you very much for being at our conference call for 2Q24.

I would like to start by saying a few important messages about what we did in the period, which is the result of a lot of work.

Among the highlights, we accelerated our expansion pace over the past 12 months, adding a record 270 gyms during this period. We remain confident in our guidance of opening 240 to 260 gyms in 2024.

We have expedited the base of our investments in the last 12 months, increasing by 21% as compared to 2Q23. We ended the period with 1,529 units in 15 countries of Latin America.

The strong pace of expansion reinforces our execution capacity with a process that is strongly database with unique expertise to analyze all the main indicators for decision making, which help us consolidate our leadership in Latin America.

We are still open and attentive to organic and inorganic opportunities for new units.

Despite the increase in investments, the Company has a healthy cash position, with high predictability of bottom line and strong generation of operating cash, which totaled R$1.5 billion in the last 12 months.

This is translated in a recent credit upgrade by Fitch. And the rating agency, the Company has increasingly longer debt will lower costs.

The membership in units continues to grow, reaching 4.6 million members in 2Q24, a growth of 17% year on year. We continue seeing a growing demand for fitness services. People are increasingly more aware of the benefits of exercise. This is not just seen in research, but it also affects our results, such as the significant increase of almost 500,000 members in the six months, and the growth of membership in our own units as compared to 2023.

And this is in line with historical seasonality, with a highlight for Brazil and others in Latin America, which grew above historical averages.

It is worth mentioning that approximately one in every 100 Latin Americans are enrolled in our health clubs and, because of that, we have delivered a significant growth of 30% of net revenue versus the same quarter in the previous year.

Third message: we have a solid cash gross margin of 50%, combining high profitability with record expansion. It is important to emphasize that the constant gross margin of 52% of mature units for the sixth quarter in a row.

Smart Fit units that open in 2023, vintage 2023, keep the trajectory of solid maturation the same historical levels and have reached 2,700 members in June 2024, with a gross cash margin of 45%.

So we have made attainments in the high-end segment, studios and Total Pass.

At the Bio Ritmo brand, we achieved excellent profitability levels, with record margins both during the period and over the past 12 months. In our studios, with the addition of Velocity, we will strengthen our leadership in the segment.

In Total Pass, we have a fast pace of growth in the first half of the year, closing the period with approximately 18,000 units in Brazil, a growth of 90% as compared to the same period in the year before and a presence in more than 1,200 cities.

In Mexico, we strengthened our market leadership position, with approximately five thousand registered gyms, a 40% increase compared to 2Q23.

The fourth highlight is the record quarterly EBITDA of R$ 437 million, a 29% increase compared to 2Q23, and recurring net income of R$ 143 million in the quarter, a 24% increase compared to 1Q24.

It is important to remember that of the 1,031 owned units, more than 30% are not yet mature. Once they reach maturity, the investment made in these units will start to return in a more solid way through the generation of additional cash.

We maintained our high EBITDA-to-operating cash flow conversion rate. Over the past 12 months, 99% of EBITDA was converted into operating cash flow, demonstrating the operational leverage of our business, even amidst an accelerated expansion pace, reinforcing our proven track record of success.

Going to slide four: this year we celebrate our 28th anniversary and three years since our IPO. Looking back to 2019, before the COVID-19 pandemic, we have achieved significant milestones, even in the current challenging environment.

We have consolidated our leadership position in Latin America and today we have 1,529 units in the region, almost twice as much as in 2019, and we are the market leader in our target geographies.

We ended 2Q24 with over 4.9 million total customers, with 4.6 million enrolled in our gyms.

Our net revenue more than doubled in recent years, reaching R$4.8 billion in the last 12 months, with a record EBITDA of R$1.5 billion, almost three times as much as compared to 2019, with a high conversion into operating cash.

In closing, I would like to thank, once again, all our customer suppliers, employees and investors. I will wait for you in our Q&A session at the end of the presentation. Now I give the floor to Juana Melo, to continue the presentation.

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

Thank you, Edgar. Last quarter, we have made significant advances in many different areas aligned with our ESG pillars.

As to the renewable energy initiatives, which reinforce the environmental pillar, we have 192 units with renewable energy operating in the free market to distributed generation, representing a growth of 30% as compared to 4Q23.

In Brazil, this means that, today, 38% of our own units use renewable energy as compared to the 30% that we had in 4Q23.

We have also evolved in the AC automation project, reaching 273 units in 2Q24, 22% growth as compared to 2Q23. It is worth mentioning that this project contemplates units in Brazil, Mexico and Colombia, reinforcing our position of regional leadership. These advances reflect our commitment to adopting eco efficient practices.

We also have novelty in water management. We have implemented the telemetric system for online monitoring of water consumption in 217 units in Brazil. The system aims to identify water consumption, monitor possible leakages, undue charges and units with high consumption. Our goal is to implement the system in 500 of our own units in Brazil by the end of 2024.

We have held the second edition of the program that we call “For a more sustainable world” to promote sustainability and raise awareness among our employees. This program addresses themes as climate change, eco efficiency projects, greenhouse gas management and workshops.

So we continue our social sustainability agenda in partnership with UNICEF where their representatives visit our units and collect donations for children and adolescents.

In Brazil, we have also had a strong collection campaign to support the victims of the floods in Southern Brazil.

In this campaign, we mobilized 50 collection points in our units all over the country, in our administrative office, and we could collect more than 13,000 items for the victims of the floods. In addition, through Total Pass, we offer psychological support remotely to our employees in Rio Grande do Sul.

In Chile, we supported the collection of donations for the victims of Valparaíso. Still in Chile, we supported the “Inclusion Best Buddies Program,” a foundation that developed social labor skills in people with disabilities.

As for people management, we have the “Power Skills Program,” which is our program for the development of leaders and employees in Brazil. We have another round of the climate survey to assess the environment and engagement in the work environment.

Our corporate university received three times more access in the previous six months, and there is still more to come in the next steps in the sustainability agenda.

We are going to publish our 2023 sustainability report in the second half of 2024 and continue advancing in our climate journey and mapping the greenhouse gas effects in Brazil. I now turn the floor over to Alexandre.

**Alexandre Gregianin | CTO**

Thank you, Juana. Good afternoon. I am going to show you the digital highlights. We continue to grow the representativity of the share of our digital channels. More than 78% of the transactions are digital. Two important highlights should be mentioned.

First, the work done in Latin America, especially in Colombia, which resulted in a significant increase in plan sales through digital channels, rising from 36% in January 2024 to 64% in June of this year.

So, the share of this digital channel already accounts for 6% of total sales in Brazil.

We also had relevant delivery partnerships. Now, our members can redeem coupons easily and rapidly from our partners and exclusive benefits and we are increasing our health and wellbeing ecosystem to make it increasingly more robust.

Another major highlight, soon to be launched, is the guest access feature for Black Card members and TotalPass access via the app. With a much smoother experience, this will significantly expedite the check-in process for these clients at our gyms, reducing queues at the front desk.

On the next slide, continuing with the App theme, the number of digitalized students remains high. Over 3.5 million workouts have been prescribed automatically with the help of artificial intelligence, and there are 2.1 million active monthly users on the app.

Among our students who train frequently, 75% use the app in their workout routines, and we continue to receive high ratings in app stores, with a 4.8 rating on Google Play and 4.9 on the App Store.

It is safe to say that Smart Fit App is an integral part of the daily lives of a large portion of Smart Fit customers. Whether it is for executing their workout routines, accessing additional services, managing their memberships, or utilizing features aimed at digital engagement and social media, the app is a strong ally for our customers.

We have launched a monthly fitness retrospective that consolidates the workout data of each member, that can be shared in social media.

It's worth noting that since the launch, there have been over 450,000 retrospectives accessed and 78,000 organic shares on social media, which reinforces the belief that this digital engagement is highly relevant to our business.

Lastly, we are ending the development of two new initiatives that are going to be the highlights in the future months. The marketplace for personal trainers and free access area for new members.

We will be offering a free version of our app for non-Smart Fit customers as well, in order to continue pursuing one of our main objectives as a company: making high-quality fitness accessible to the majority of our customers and, now, also to non-Smart Fit customers.

Changing the subject, I would like to talk about two services related to additional revenue: Smart Fit Nutri and Smart Fit Coach.

Smart Nutri are a service that includes consultations with nutritionists and nationwide bioimpedance measurements. Currently, we have over 175,000 subscribers to the product, and 48% of all units in Brazil are already equipped with bioimpedance scales.

Nearly two million bioimpedance measurements have been conducted during this period, with 382,000 of them occurring in the first half of 2024.

About the Smart Coach, is a pilot project we are conducting across Latin America, where we offer online consultations with specialized professionals from various fitness fields and the creation of personalized workout routines. This pilot is currently running in five countries: Brazil, Chile, Mexico, Colombia, and Peru.

Both initiatives are once again aligned with our goal of offering a health and wellness ecosystem with a variety of solutions to better meet the needs of our customers.

Moreover, with these products, we aim to create additional revenue streams and increase the average ticket of our members.

Now, I would like to give the floor to Diego Corona. Thank you.

**Diogo Corona | COO**

Now, I am going to talk about our network of units.

We concluded the quarter with the remarkable achievement of adding 270 new gyms over the past 12 months, representing a 21% growth in our base. This brings us to a total of 1,529 gyms, solidifying our leadership position in the region.

The expansion during this period was well-distributed across our areas of operation, with 36% of the new units in Brazil, our largest market, which now accounts for 48% of the network's gyms.

Mexico accounts for 23% of the expansion in our network of units. Whereas the Other Regions in Latin America are the ones that grew the most, 41% new units.

In the 2Q24, we added 60 units, 50 of those were our own units. With this performance, the first half had presented a solid increase of 91 units, while the half year with a mix of mature units of 66% of our base, which corresponds to 788 units.

Until the end of July, we opened 102 units, 99 in construction and 95 contracts were already signed.

With this, we remain very confident in our ability to deliver and capitalize on existing opportunities to achieve our 2024 guidance. Soon, we expect to see positive results from these newly selected units, which have been carefully chosen to enhance and expand the reach of our network.

As a result of this expansion, our student base grew by 17% over the past year, reaching 4.6 million students. Of these, approximately 2.1 million are in Brazil, 1 million in Mexico, and 1.5 million in other regions across Latin America.

In the first half of the year, we added 89,000 new members despite the naturally lower seasonality as compared to the first quarter, especially due to the weather and lower engagement of members during this period.

We are confident that our robust membership is a direct consequence of our assertive expansion strategy, maturation of the unit and the continued effort to attract and retain members with high quality products in a widely known brand.

Within this context, Smart Fit continues in a constant increase of revenue per unit, reaching R$4.3 million on an annual basis. This number represents an 8% growth in the last year and 4% in the last quarter.

It is worth mentioning that the growth of revenue per unit took place despite the strong expansion of units, which, as I said, grew 21% in the last 12 months.

On the next slide, you can see the performance of our clubs. In this quarter, mature units had a margin of 52% for the sixth quarter in a row, which is the result of revenue optimization initiatives combined with intense efforts in terms of operational efficiency.

The annualized gross profit per mature unit is R$2.4 million above the previous quarter. With successive improvements.

The units that we opened in 2022 had a margin of 53%, keeping the same level as the previous quarter with a gross profit of R$2.3 million per unit.

The solid performance of vintage 2022 we still in the process of maturation is the result of the combination of strong revenue growth and a structurally lower occupancy cost as compared to mature units, leading to a profitability that is higher than 52%.

The units that we opened 2023 follow the same historical pace of maturity and at the end of the quarter have reached the average of 2,700 members per unit, with a solid expansion of cash growth margin, 45%.

We monitor the performance of these units every day and we are confident that they will provide good results once they are mature.

The good level of margin of mature units and the excellent ramp up of margins in new units make us very confident that we are on the right track to consolidate consistent results with very good choices of the new points, a strong cost management, pricing and sales intelligence, in addition to the high quality of the this is provided.

Now, I give the floor to José Rizzardo, who is going to continue the presentation with the financials of the period.

**José Luís Rizzardo | IRO, Diretor de M&A e Tesouraria**

Thank you, Diogo. Good morning, everyone. Continuing the presentation, I would like to go into the financial results, starting with the evolution of revenue that had the 12 consecutive quarter of growth.

The net revenue in 2Q24 has had a significant growth of 30% as compared to the same period the year before and has reached R$1.358 million especially because of the 19% expansion in average members per own units and increase in the average ticket of 11% with increase in all our target geographies.

As compared to 1Q24, net revenue went up by 8%, especially due to the factors mentioned above. So a higher membership and higher ticket. In the last 12 months, net revenue is R$4.8 billion.

The increase in the average ticket, observed both sequentially and year-over-year, is a result of our revenue management strategy. This includes price adjustments in the ‘Smart Plan’, concentrated in the second half of 2023, price adjustments in the ‘Black Card’ across different regions, and the increased penetration of customers enrolled in the ‘Black Card’ when comparing 2Q24 to 2Q23. Additionally, the ramp-up of new units, which steadily increases the average ticket until maturity, also contributed to this growth.

Now, talking about regions and starting with Brazil, the net revenue of SmartFit units in the region presented a 19% growth as compared to 2Q23 because of the solid increase of 18% in the membership of our own units, an increase in the average ticket.

Mexico once again had the highest growth of revenue of the three regions a 44% increase as compared to 2Q23, which reflects especially the 23% growth in average ticket and a 17% expansion in average membership in our own units.

The Other Latin America region reported net revenue exceeding R$ 400 million in 2Q24, totaling approximately R$ 415 million, a solid growth of 37% compared to 2Q23. This was driven by a

21% expansion in the average student base in own gyms within the region and a 14% increase in the average ticket.

On the next slide, you can see that the cash gross profit totaled R$678 million in 2Q24, an increase of 30% when compared to 2Q23.

The cash gross margin was 50%, 0.3% points lower as compared to 2Q23 because of the increase in costs in ramping up units and higher expenses with the opening of new units.

In the last 12 months the cash growth profit totaled R$2.4 billion with a cash gross margin of 50.1%.

It is still worth mentioning that the cash gross margin before preoperational costs, meaning those related to the opening of new units, has reached 50.8% in 2Q24, stable as compared to 2Q23.

According to the same metrics and looking into the last 12 months, the cash growth margin before pre operational cost was 51% percent.

Now we are going to move to the next slide and present the Company's operational expenses in 2Q24, focusing on SG&A. SG&A totaled R$238 million in 2Q24, a 30% increase as compared to 2Q23.

This evolution, especially the result of increase in expenses with sales, up by 36% as compared to the same period the year before, which reflects the strong expansion in our network of units.

General admin expenses totaled R$131 million in 2Q24, 26% increase as compared to 2Q23 and below the growth of revenue in a period, thereby showing the operational leverage of the Company.

It is important to emphasize that these expenses account for 9.6% of the net revenue in a period which represents a 0.4% points dilution as compared to 2Q23.

When we compare to 1Q24 expenses with SG&A have grown 4%, which once again represent a 0.6% points dilution if we announce this line as a share or percentage of net revenue.

This gain in efficiency is a reflex of the 0.4% points deletion in general admin expenses in 2Q24.

This delusion, if we compare the sequence, is a demonstration of our capacity of growing efficiency, reinforcing the operational leverage of our business despite the fast expansion in our network of units.

Now I give the floor to André Pezeta, the CFO, to continue the presentation with financial highlights.

**André Pezeta | CFO**

Thank you, Rizzardo. Good morning everyone who is with us in our webcast. First, our EBITDA.

We report a strong evolution of EBITDA which, in 2Q24, was R$437 million, the highest ever. This performance represented a 29% growth vis a vis 2Q23 and 11% vis a vis 1Q24.

It is worth mentioning that the adjusted EBITDA excludes only the gain of R$176 million in the second quarter of 2023 with re-evaluation of our share in the operations in Panama and Costa Rica after we acquired the control of those operations in that quarter.

The EBITDA margin was 32.2% in the second quarter of 2024, which represents a gain of 0.8% points as compared to the previous quarter.

It is worth mentioning that in the last 12 months, we have totaled a EBITDA of R$1.5 billion, a solid margin of 30.8%.

Lastly, considering the adjusted EBITDA before preoperational expenses, we have reached 455 million in 2Q24, which represents a 30% growth as compared to 2Q23. The adjusted EBITDA margin before preoperational expenses, was 33.5%.

So the recurring net income was R$143 million in 2Q24, a solid growth of 19% as compared to 2Q23. Net margin was 10.5% reflecting especially the operational leverage of our business.

This gain in efficiency was partially offset by increasing the depreciation amortization and financial expenses which are a result of the acceleration of investments made by the Company, that Edgar and Diogo have already mentioned.

Compared to 1Q24 the recurring net income grew 24%. This growth is driven by increase in adjusted EBITDA in the quarter and by the lower income tax rate and social contribution rate, which had a positive impact by the JCP in 2Q24.

In the last 12 months, the recurring net income reached R$568 million with a recurring net margin of 11.7%.

Considering the positive results that the Company has been reporting we have intensified our investments with impact on short term results, especially in depreciation of amortization and financial expenses.

These investments are likely to sustain our high growth rates in the next quarters.

On the next slide, we talk about investments. In the 2Q24 total CAPEX was R$365 million, a 20% increase as compared to 1Q24. A reflection of the opening 50 own units in the quarter, as well as units that are being built and will be open in future quarters.

In the last 12 months the maintenance CAPEX for SmartFit units reached R$200 million, accounting for 6% of the gross revenue of mature units aligned with the strategy of offering high standards experience to our members.

Additionally, with increase in investment, it is worth mentioning that our net debt has reached R$2.1 billion at the end of the quarter, increasing the financial leverage to 1.4 times EBITDA in the last 12 months.

The company ended the quarter with a solid cash position of R$2.8 billion and then gross debt of R$4.9 billion, 86% of each with long term maturity.

To end, after the end of the quarter we complemented the 10th issuance of simple debentures that are not convertible into shares, amounting to R$450 million, reducing our financial cost for future years and thereby making our debt profile long.

I would like to end the presentation by thanking everyone who has contributed to our results and also all our partners and investors.

Now, I would like to give the floor to Matheus, who is going to coordinate our Q&A session.

**Q&A Session:**

**Victor Rogatis, Itaú BBA:**

Good morning, Edgard, Pezeta, Rizzardo, and Matheus, and the entire Smart Fit team. Thank you for taking my questions. I have two.

First question: When we look at the dynamics of the average ticket per member, we notice a slight sequential pressure in Brazil. We suspect this might be related to the number of own stores you opened in 2Q24, but we are not sure if that's accurate. Could you elaborate on whether this is indeed the case and what might have caused it?

Second question: Regarding Mexico, when we try to estimate the metric of members per mature gym, we usually see a sequential improvement quarter over quarter. However, it seems that this trend did not materialize in 2Q24. I would like to confirm whether this observation is correct and, if so, understand what happened. Thank you, everyone.

**José Luis Rizzardo:**

Thank you for the questions. This is Rizzardo speaking. I'll address your first question regarding the average ticket, and Pezeta will handle the next one related to Mexico.

When we look at the dynamics of the average ticket on a sequential basis, specifically in the Brazil region, what we observe is a practically stable ticket in mature stores on a sequential basis. However, there is a slight decrease in the consolidated average for the region due to the opening of new units.

It is important to remember that whenever new units are opened, during their ramp-up process, they tend to have a lower average ticket compared to the company's and the region's average. This is due to a mix of plans and, occasionally, more promotional activity during the pre-sale of those units, which led to a slight pressure on the sequential average ticket in Brazil when you calculate it externally.

Looking ahead to the coming quarters, considering the initiatives we have implemented in the Brazil region and the price adjustment we made to the Black Card at the end of last December, which was slightly above 7%, we expect the average ticket in mature stores to continue growing in the low single digits moving forward.

As a result, the region's overall dynamics should follow a trend very similar to that of the mature stores, except for any potential quarter-to-quarter variations that may arise depending on the timing and concentration of openings in a specific quarter.

**André Pezeta:**

Vitor, this is Pezeta. Regarding your second question about Mexico:

This year in Mexico, we experienced sales above historical levels during the first four months. May, historically, tends to have slightly lower promotions, but both June and July also performed above historical averages.

We believe that the slightly lower sales in May are related to the strong sales performance in the first four months, which may have pulled some sales forward. However, when we look at the full semester, we are above historical sales levels.

As you know, in Mexico, the first semester tends to be strong in terms of sales, while the second semester is more about maintaining or slightly losing the base. We are closely monitoring this trend, and we remain optimistic as the metrics are aligning with our expectations when we consider the year.

There is another factor to consider in Mexico, which is the opening of new stores. We opened several stores in Mexico during the second quarter, and when calculating the average number of members per store, it might appear that there is a reduction, but this is not the case for the mature stores.

**Victor Rogatis:**

That’s great, everyone. Thank you.

**Ruben Couto, Santander:**

Good morning, everyone. How are you? You presented some impressive metrics regarding the evolution of sales through digital channels. Could you elaborate a bit more on how the customer acquisition cost is evolving in Mexico and the "Others Latam" countries compared to more mature and competitive markets like Brazil?

This quarter, we noticed an increase in marketing expenses aimed at strengthening the brand due to the strong expansion you've been pursuing. I’d like to understand if, at some point, either this year or perhaps next, we might start to see some economies of scale from these marketing investments helping to improve the company's consolidated EBITDA margin.

A quick second question: Could you provide us with an update on international expansion beyond Latin America, please? I think this topic is relevant, as there have been quite a few news reports about it. An update would be appreciated. Thank you.

**Diogo Corona:**

Good morning. This is Diogo speaking. Thank you for the question.

Regarding the first part about marketing, our customer acquisition cost is expected to remain stable. We are not seeing any upward trend. There are some differences between geographies, largely due to the competitive environment and the cost structure in our sector, where we invest heavily in online channels.

We consistently track the cost of acquiring keywords, and we observe structural differences across countries, with Brazil having a structurally higher cost. This also relates to the fact that we allocate a larger percentage of our marketing budget to Brazil compared to other countries, but we're not seeing any significant evolution or differentiation in this area.

As for your other question regarding geographies, we are constantly studying new regions. We have a whitespace map that covers the entire world, identifying areas where we think it makes sense to expand or not. When an opportunity arises in a country where we believe our business model could work, we are open to exploring it.

This was the case recently with the news about Morocco. We believe it is a geography that could make sense, and we are going to test it. We are always open to opportunities that may come up.

**André Pezeta:**

Ruben, to complement what Diogo said, we always evaluate our investment opportunities against the Company's operational cash flow generation.

As you have seen, the Company's operational cash flow has been increasing each quarter, and our growth opportunities in Latin America (when considering the annual targets rather than just the whitespace) are aligned with the guidance we provided to the market of opening 240 to 260 units.

Looking ahead, we believe that the Company will generate more cash operationally, which would open opportunities for new investments in other regions.

The opportunity that Diogo mentioned regarding Morocco is connected to this point. It is not that we are not seeing opportunities in Latin America, but it is a matter of capacity to execute a certain number of quality stores per year.

Additionally, we want to approach these opportunities as we have in other countries where we have entered. We invest a bit of capital, test the market to see how it performs, and once we see good performance, we accelerate our investments in those countries.

**Ruben Couto:**

Great. That's clear. Thank you, Pezeta and Diogo.

**Gustavo Fratini, Bank of America:**

Hi, everyone. How are you? Thanks for taking our questions.

Our question also relates to the topic of expanding into new countries. I believe you have mentioned that this would be approached very cautiously, but do you already have any idea of what the formats might be? Would it likely be primarily through franchises?

And soon, do you think you might focus more on another country outside of Latin America, or will Latin America (both Mexico and other countries) likely remain the primary focus? Thank you.

**Edgar Corona:**

Gustavo, this is Edgard speaking. We have a whitespace strategy that we frequently discuss, which involves doubling our size and presence in Latin America within our current parameters, and this remains our primary focus.

However, since we have a winning model, we believe we know how to operate in geographies like those in Latin America with comparable income levels. So, we are conducting extensive studies to identify which countries might present opportunities.

The idea of expanding into Africa or considering another continent is not a major concern for us.

It was a big concern when we first entered Mexico in 2009, which involved an 11-hour flight and starting with just 15 to 18 Smart Fit units. Today, we have all the processes, systems, structures, and teams in place to handle this, which is why we have been able to enter a new country each year.

We have analyzed and explored Morocco, other geographies in Africa, and some in Asia. If we see an opportunity and believe it has the potential for a good return, we will enter with our own brand.

Currently, there is no compelling reason to pursue this. In a very distant geography, if we ever need a local operator with a small stake, we might consider it, but the idea is to always operate with our own brand.

**José Luiz Rizzardo:**

Gustavo, this is Rizzardo. Just to add to Edgard's response, if you look at the history of Smart Fit's expansion into 14 countries in addition to Brazil, we have employed different models, each tailored to the specific context of that time and geography.

In some countries, we entered through a joint venture (JV) or with a local partner—Peru, Mexico, and Colombia are examples.

In other countries, we initially entered with a franchisee, such as in Chile, and there are regions where we continue to operate with franchisees, like Ecuador and other Central American countries.

In new countries, like Paraguay, Argentina, and Uruguay, we entered without any local partner or joint venture.

In this successful expansion, we've adopted different models. There's no one-size-fits-all rule or formula. Each situation needs to be analyzed individually.

The feedback we receive from this expansion is very quick and real-time, thanks to the daily ramp-up curves of these units and the NPS metrics from those locations. This allows us to quickly evaluate whether any adjustments, corrections, or improvements are needed in that specific geography before making any decisions to accelerate or decelerate the expansion or make any course corrections in these countries.

**Gustavo Fratini:**

Perfect. Very clear, everyone. Thank you!

**Guilherme Vilela, JP Morgan:**

Good morning, everyone. Thank you for taking the questions from JP. My question is about G&A.

One point that caught my attention in 2Q24 was that G&A, unlike what we have seen in recent quarters, started to grow at a slower rate than revenue, which is quite positive and indicates some dilution for the company.

My question is, how should I think about this line over the coming quarters and into next year?

Which items within G&A contributed to this improved growth, or is there any specific line within G&A that you believe no longer requires investment and could contribute to further dilution going forward? Thank you very much, everyone.

**André Pezeta:**

Hi, Guilherme. Good morning. André Pezeta here to answer your question.

To start and provide some historical context on the G&A line, during the pandemic, we made significant reductions in our G&A to manage through that period. Over the past few quarters, we have been rebuilding our G&A to: 1) strengthen our capacity for expansion resumption, and 2) support the management of all the company's open units.

The increase in G&A over the past few quarters has been closely tied to our delivery of 270 units per year, which we have achieved over the last 12 months. To maintain this expansion pace, there are not significant additional increments associated with it.

Additionally, there are a few other projects we have started within the company that have also required some G&A structuring, such as our studios initiatives and our Total Pass initiative.

These are investments we did not have in the past but have been making in recent quarters. However, a small portion of this increase was related to sustaining the management of our open stores. As a result, looking ahead, we expect continued dilution of G&A as the company's revenue grows.

Historically, about 65% of G&A has moved with inflation, while 35% has tracked with revenue growth. This is the trend we should expect moving forward in terms of dilution.

Of course, at some point, this number will begin to converge and dilute less, but we still believe there is an opportunity.

We foresee a potential dilution in the G&A line of between 50 and 100 basis points per year over the next few years.

**Guilherme Vilela:**

Thank you!

**Danniela Eiger, XP:**

Hi, everyone. Thank you for taking my questions. I have two.

First, regarding Velocity, I would like to know if you have any updates on the closing timeline and also to understand their exclusivity contract with Wellhub. Does it make sense for this contract to be phased out and eventually be integrated with Total Pass?

Second, it's noteworthy that the margin for the 2022 mature units is slightly above the 52% you have for mature units overall. Do you think this is a trend, perhaps due to the initiatives you have implemented to increase profitability in mature units? Thank you.

**André Pezeta:**

Dani, I will start by addressing the Velocity question, and then I'll hand it over to Diogo.

Regarding the timing of the transaction closing, the Purchase and Sale Agreement included some precedent conditions that need to be met before closing. Our expectation is that both sides will fulfill these conditions within the next 60 days. We will keep you and the market updated as soon as we have any further information on this matter.

I'll now pass it over to Diogo to talk more about the acquisition and address your other questions related to Velocity.

**Diogo Corona:**

Regarding Velocity, Wellhub, and Total Pass, we pursued the M&A to strengthen the Group's portfolio of studios. The logic was to leverage this structure for upselling between our current studios, their franchisees, and vice versa, with the potential to expand into Latin America in the future.

However, when we initiated this process, Wellhub notified Velocity that they would need to exit the platform in the coming months. As a result, Velocity will become exclusive to Total Pass by decision of our competitor, and by October, they should be off the Wellhub platform.

They have already raised prices and significantly reduced traffic, and we have already integrated a large portion of them with Total Pass members.

This move, driven by Wellhub's decision, significantly strengthens the Total Pass platform, which now has a much stronger portfolio in the studio vertical compared to Wellhub. We have received considerable praise for this against our competitor.

**André Pezeta:**

Continuing, Dani, addressing your second question about the margin of the 2022 Vintage being higher than the margin of the mature units at this point:

The main difference with this Vintage, which explains why its margin percentage is already at a higher level even though it has not fully reached maturity (considering that these units are deemed mature after 24 months of operation), is that it has structurally lower occupancy costs compared to the average occupancy costs of the mature units.

This Vintage is not yet delivering the same profit per unit as the mature units. As we mentioned in the presentation, the mature units are generating around R$ 2.4 million in profit per unit, while this Vintage is currently delivering around R$ 2.3 million.

We expect that as these units complete their maturation curve—and undergo some cost catch-up in the medium to long term, particularly regarding maintenance costs, since this is a very new Vintage and doesn't yet incur the same OPEX maintenance costs as the mature units—these units should indeed maintain a structurally higher margin percentage, approximately one to three percentage points above that of the mature units. Furthermore, they are expected to reach the same level of gross profit per unit, in terms of absolute value, as we see in the mature units.

**Danniela Eiger, XP:**

Sure. If I may, I swear this is the last one. I have been away for a while, so I have a few questions, but I promise this is the last one.

In terms of cash generation, you are expected to generate a significant amount of cash in 2025, and in 2024, you made many deals with that cash generation. What is the company's approach or plan for using that cash in 2025?

**André Pezeta:**

Hi, Dani. Please feel free to ask your questions. We are happy to answer them. As we mentioned regarding Morocco, we are exploring new investment opportunities for this excess cash, but we will approach them with great caution. We will not invest just because we have extra cash; we will evaluate everything very carefully.

There are some M&A opportunities, like the Velocity deal, that we are considering, but we will only move forward if there is a very clear financial and strategic rationale for the company.

As we see it, distributing more cash would be the last resort. We aim to keep our cash distribution around the minimum of 25% and to find new avenues for investment and growth for the company.

If we cannot identify suitable opportunities, we would consider increasing our dividend distribution, but historically, we have always managed to find good opportunities for investment.

**Danniela Eiger, XP:**

Thank you. Congratulations on your performance.

**José Rizzardo:**

Thank you. Welcome back.

**Felipe Ribeiro, Citi:**

Good morning, Edgard, Pezeta, and the entire team. Congratulations on the results. From Citi, we have a few quick questions.

First, we would like to understand more about the dynamics in Brazil. We noticed a slight decrease in the number of members per gym on a year-over-year comparison, and we understand that you don't necessarily have a specific target for members per gym, but we are curious if these increased marketing investments in the country reflect a strategy to boost the intake of new customers, or are these unrelated factors?

Second, if you could quickly provide an update on how you’re seeing the competitive environment, not just in Brazil but also in other Latin American countries, I think that would be helpful. Thank you, everyone.

**José Luis Rizzardo:**

Thank you for the question, Felipe.

Regarding the dynamics of members per unit in Brazil, what you are seeing is an average that includes both mature and non-mature units. When we accelerate the pace of unit openings, it temporarily lowers the overall regional average of members per unit.

Remember that in the first half of last year, we had a lower number of unit openings in Brazil, with most of the gym openings concentrated in the second half of the year.

When we accelerate the rate of openings in Brazil, as we did this semester, we see this year-over-year decrease in members per unit in Brazil when comparing the end of 2Q24 to 2Q23.

However, this did not occur when looking at the number of members per mature unit in Brazil. The decrease is simply a result of the faster pace of unit openings during this period.

As for the competitive environment, I will hand it over to Diogo, who can provide more details.

**Diogo Corona:**

Brazil is the most competitive market we have. We face local micro-competitors across Latin America. It is worth noting that in Mexico, we compete with Planet Fitness, and in Panama, there's also Planet Fitness, which serves as a connection point between the United States and Latin America. They expanded in the U.S., and we expanded in Latin America, meeting in Mexico.

In Mexico, we have a much stronger expansion pace and a dominant presence. In Panama, even though we arrived later, we are significantly larger than they are.

Regarding Brazil, as I mentioned, it is the most competitive country, with various competitors and a range of high-value, low-cost models. What we are seeing is that when our gyms are well-positioned (thanks to significant work on retrofits and maintenance CAPEX to keep our locations up to date) they tend to perform very well, even in competitive environments.

We often emphasize gross margins for mature stores, as we believe this is the right focus given the dynamics of the aggregator market. There are other factors that influence performance beyond just member numbers.

We have managed to maintain stable gross margins for six consecutive quarters, which indicates that our stores are performing well despite the competitive landscape.

**Felipe Reboredo:**

Thanks.

**Irma Sgarz, Goldman Sachs:**

Most of my questions have already been asked, but I would like to ask just two more. I believe the reasoning behind entering the Velocity concept and expanding the offering of Studios is quite clear, but I would like to inquire a bit further to understand your perspective.

I think the risk we perceive is that, as you move towards more specific concepts, some of which stem from the high-value low-price strategy, there may be a potential for lower returns in the initial phase.

My question is whether you are, or if there is a point in the curve where you would be willing to trade off some returns for additional growth, given that these additional concepts could maintain or expand the offering for TotalPass and diversify the entire portfolio.

This question is to understand your mindset, not necessarily suggesting that Velocity, if pursued, will dilute returns, but rather addressing the concept in a broader sense.

The second question is more of a provocation. Going back to the initial points, I believe it was made clear that you still see significant whitespace in Latin America, and that it is more a matter of annual opening capacity rather than total openings.

My provocation regarding the annual openings is that, in theory, you could expand the team and widen the funnel to include more points to be developed, explored, and opened.

However, is it fair to think that there is also a moment of absorption (to see the effects of cannibalization, etc.) which might be a reason why you are not expanding the funnel further, or increasing the team to open more locations in Brazil within a given year?

Thank you. I hope my questions were clear.

**André Pezeta:**

Hi, Irma, this is Pezeta responding to the first part of your question regarding returns. Our strategy is not to exit the high-value low-price segment to enter other segments with lower returns for strategic reasons.

We always consider strategy alongside returns. When we talk about returns, we are consistently referring to the approximately 20% return on the investments we make, and this is what we see in the deals we have made or would like to make, whether in store openings or M&As.

In the specific case of Studios, it is a franchise segment where, once a base is established, the returns can even exceed the 20% return I mentioned due to the asset-light nature of the segment.

We are constantly looking globally at which segments are experiencing strong returns and growth, and those are the segments we want to invest in.

Our mindset is never 'How will we spend the money?' but rather 'How will we invest our money wisely to maintain the same returns we achieve in the high-value low-price segment?'

**Diogo Corona:**

Commenting a bit on expanding the team and increasing the pace of expansion, we see that the bottleneck is not actually the team. The bottleneck is the availability of real estate properties that meet our requirements. When we talk about our requirements, we mean the returns, cash-on-cash, and ROI we expect from our investments.

The properties we seek are not always available at the time we need them. What is important is to widen the scope and be ready to seize the properties when they become available.

The bottleneck is indeed not the team. What enables us to provide guidance for opening 240 to 260 Smart Fit locations per year is our presence in 15 countries, allowing us to capture real estate opportunities across an increasing number of geographies.

This is the bottleneck in further increasing our pace, which, as a reminder, has already set a record by growing year over year. We have opened 270 new locations in the last 12 months. The pace is quite strong.

**Julia Rizzo, Morgan Stanley:**

Hi, everyone. Good afternoon. Thank you for taking my question. Some of the issues I had have already been addressed, but I would like to hear your expectations regarding seasonality for Net Ads in the second half of the year. Not only for the company, but if you could also highlight what is expected in the main markets.

Additionally, could you provide an update on churn? After the price increase, I would like to know if there have been any changes and what your expectations are going forward. I also have a follow-up question regarding CAPEX and Investments.

**André Pezeta:**

Hi, Júlia. This is André Pezeta responding to your question about Net Ads.

Historically, here is how we operate: In the third quarter, we typically see customer additions in the Brazil region and in the Rest of Latin America region, with Mexico maintaining its customer base. In the final quarter, we generally experience a slight reduction in the number of customers due to the end-of-year seasonality across all the regions where we operate.

Our expectation for this year is similar. Therefore, we should see low single-digit base growth in Brazil and Rest of Latin America in the next quarter, with Mexico maintaining its customer base.

Regarding churn, we have not observed any significant changes due to the price increase we implemented. Churn levels are very similar to previous quarters and have even shown a slight decline, but overall, they remain quite consistent.

**Julia Rizzo, Morgan Stanley:**

In relation to your expectations for CAPEX and total investments, including M&As, for 2024 and for 2025, could we discuss 2025 assuming you maintain the same pace as this year?

I understand that you may not have formal guidance, but this is just to help forecast cash flow for the upcoming year and to understand what might be left for potential initiatives.

**José Rizzardo:**

Júlia, as you know, we mentioned that we do not have any guidance for the Company's CAPEX and investments, but I think a way to help you think along these lines is that, last year, our average CAPEX per Smart Fit gym was around R$ 5.9 million. This was the figure we provided in the Q4 2023 earnings release.

To simplify and round the numbers, you can assume R$ 6 million of investment per unit. If you take the midpoint of the guidance of 240 to 260 units, assuming 250, with 80% being company-owned and 20% franchised, you would have 200 company-owned units times R$ 6 million per unit, arriving at a CAPEX of R$ 1.2 billion.

Considering that there is always a mismatch between the opening and the CAPEX expenditure, and last year we opened fewer units, yet the expansion CAPEX was R$ 1.3 billion due to this mismatch, it makes sense to expect a slightly higher figure than last year, given the acceleration in the number of unit openings, even though the CAPEX per unit should not differ much from the level we saw last year.

When it comes to the other CAPEX lines of the Company, maintenance is one. You have already seen an acceleration in the maintenance level this quarter compared to the previous quarter, hovering around 6% of the revenue from mature units.

This level should continue throughout the second half, and may even increase slightly, as we still have some adjustments to be made in our gym network, particularly focusing on the availability of equipment. This includes a greater focus on strength equipment to better cater to the new trend and customer demand for more weight training and free weights.

There is a third CAPEX line related to corporate innovation, which last year amounted to R$ 50 million. I think this line will have a minor impact on your calculations.

Regarding M&As, this year we made the payment of the second and final installment for the acquisition of Panama and Costa Rica in January, which was already included in our net debt, but the cash outflow related to this acquisition occurred in January, amounting to approximately $33 million.

In Q2 2024, we had the acquisition of Peru. There was a cash outflow related to this acquisition in the second quarter of approximately R$ 90 million. The total acquisition cost was about $24 million, of which $17 million was paid this quarter, with the remaining amount to be paid next year in April.

Lastly, it’s worth mentioning Velocity. In the scenario where the acquisition is completed this quarter, R$ 183 million will be booked in the Company's net debt.

This figure is still subject to the usual variations in the Company's net debt, but assuming the amount disclosed in the Material Fact, we have this value, with R$ 163 million disbursed on the closing date, R$ 10 million disbursed once certain milestones are met (which won't occur before 12 months), and an additional R$ 10 million to be paid in the future as retention for potential contingencies.

In addition to all this, it’s important to remember our purchase option for the franchises in Colombia, which was a competitor we converted during the pandemic. These consist of 17 gyms.

This purchase option has a fixed value denominated in Colombian pesos, but at the current exchange rate, it is approximately $12 to $13 million.

We expect to make this acquisition in the second half of the year because the value of this purchase option will be adjusted for retroactive inflation if we let it pass the beginning of Q4 2024, and it will start being adjusted for inflation going forward.

This would be the purchase of 17 units for approximately $13 million, which in our calculations results in an EV/EBITDA multiple for these acquired units of around three times, already discounting the royalties we receive today. It is a highly accretive and important acquisition for us, and below the replacement cost.

Beyond this, as Pezeta mentioned in his previous responses, we remain attentive to various opportunities, always in a very disciplined and judicious manner, ensuring they make sense from a financial and strategic standpoint.

However, historically, our M&A strategy has been much more focused on acquiring small gym chains, two, three, or four units, mainly real estate-focused. I think you can expect something along these lines, which is a continuation of what we have always done.

**Júlia Rizzo:**

Thanks.

**Pedro Tineo, Safra Bank:**

Hi everyone, thank you for taking my question. Most of my inquiries have already been addressed, but I have a more specific one just to better understand the dynamics of your depreciation and amortization.

We saw a sequential increase of about 9% quarter-over-quarter. How should I think about projecting this line for the upcoming quarters? Should we expect to stay closer to this level from the second quarter, or is there another step-up in depreciation and amortization that we should anticipate? That is, it. Thank you.

**André Pezeta:**

Hi Pedro, this is André Pezeta responding to your question. Our average depreciation rate is ten years for the investments we make. It is closely linked, in fact, to the increase in our CAPEX.

So, the best way to look at this indicator is to add 10% per year to the current base in relation to the new investments we are making.

**Closing**

We have now concluded the Q&A session. We would like to thank everyone for their participation. The Investor Relations team is always available to address any further questions you may have. Thank you, and have a great Friday.