



Smart Fit
Conference Call - 3Q22 Results
November, 10th, 2022

José Rizzardo:

Good morning, everyone. Welcome to the Smart Fit's conference call to discuss the results of 3Q22. Before beginning, I am going to give instructions for those who want to hear in English.

“Good morning, everyone, and welcome to Smart Fit's conference call to discuss the 3Q22 results. This call will be translated into English. To access the English mode, you should click on the interpretation button through the globe icon at the bottom of the screen and choose your preferred language. There is an option to mute the original audio in Portuguese by clicking on “mute original audio”.

Today with us we have Mr. Edgard Corona, CEO; Thiago Borges, CFO; Diogo Corona, CEO; André Pezeta, LatAm and new business officer; Alexandre Gregianin, CTO.

Participants will be connected in “listen only” mode during the Company's presentation. Then we are going to start the question and answer session, when further instructions will be provided.

As a reminder, the presentation is available at the Investor Relations website at CVM and also on the webinar platform.

Before I continue, I would like to clarify that statements made during this conference call relative to the Company's business prospects, operational financial projections and goals are beliefs and assumptions of the Company's management and are based on information currently available to the Company.

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

Now, I would like to turn the conference over to our founder and CEO, Edgard Corona, who is going to start the presentation. Mr. Corona, please, you may start.

Edgard Corona:

Good morning, everyone. Thank you very much for being here in our conference call of 3Q22. I would like to mention three important things.

The first one is a favorable trend that has been reinforced. Historically, our sector presents growth. So, the rising awareness of exercise has increased the number of members all over the world.

However, COVID interrupted this growth trajectory and had a negative impact in almost all companies in the industry. The pandemic has provided a different experience. It increased and reinforced the concern with health and accelerated the consolidation trend. The very careful



location and historical capital of the Company places that at a unique position.

The second message is that we are confident in the recovery of economic activity levels to pre-pandemic levels. And our recovery of revenue aligned with a strong cost recovery.

Our units are gradually going back to pre-pandemic profit and cash generation levels. In that regard, we are confident in the recovery of unit economics and this is just a matter of time and not whether it is going to recover or not. This has already happened in other LatAm markets where we operate.

In other relevant markets where we do not operate, like Europe, the number of members per unit has already gone back to historical levels.

The last quarter's results were still negatively impacted by the pandemic. But in the short term, we believe that we are going to reach the same potential per unit that we used to have before the pandemic.

The third message is that, during the pandemic, we reinforced our DNA of focus on efficiency, combined with better customer experience than last year.

Most of our digital initiatives were focused on improving the operations efficiency. This work, combined with other efforts of the Company, have contributed to a cost increase that is well below inflation as we have accumulated in the last two and a half years. Efficiencies always worked in combination with a pursuit for improvement in customer experience.

It is important to remind you that we are a Latin American Company with more than 50% of our operations in geographies other than Brazil.

These were my initial remarks and I will be waiting for you in the questions and answer session at the end of the presentation.

Now I give the floor to Thiago Borges, our CFO, to continue the presentation.

Thiago Borges:

Thank you, Edgard. Good morning, everyone. First of all, I would like to thank you very much for attending our conference call for the earnings release. It is a huge pleasure to share with you the growth in the 3Q22.

The first highlight is the six percentage points growth in units opened before 2019, and this was the main quarter of recovery in the last 12 months.

This evolution in the membership was influenced by the good performance in Brazil with a gain of 6.7 percentage points and the other LatAm region that gained 7.3 percentage points in the quarter.

The units opened until 2019 have reached the level of 90% of our membership base. I would like to highlight the evolution of net revenue, with a growth of 11% over 2Q22, reaching R\$766 million.



A major highlight of the quarter was the recovery of revenue of units opened before 2019 that have already exceeded the baseline with 13% with consecutive growth quarters. This growth in revenue has been combined with continued cost discipline.

The further units that were opened before 2019, the cost along these two and a half years had an increase of only 8% as compared to the baseline significantly lower than the inflation in the same period.

The fourth highlight is the growth in the gross margin in all regions, reaching a level of 42.8% in the quarter, an increase of 3.2 percentage points, vis a vis 2Q22.

Smart Fits opened until 2019 have reached a gross margin of 46%, thereby highlighting a recovery in the members and revenue combined to strong cost control in this quarter.

This favorable scenario of better operational performance was combined with discipline in G&A expenses and higher sales efforts, leading to the fifth consecutive quarter of profit growth, with an EBITDA of R\$174 million and an expansion of 5.1 percentage points in the margin.

The last highlight is that we have reached net income of R\$30 million and this is the first positive quarter after the COVID pandemic started as a result of the strong operational result and the structure of cash management and financial results.

Now, I would like to give the floor to Alexandre Gregianin, our CTO, to continue the presentation.

Alexandre Gregianin:

Thank you, Thiago. Good morning, everyone. I will talk about the digital journey. Since the beginning of 2019 and 2009, we introduced the sale of plans through the internet built through credit cards.

The constant pursuit for innovation in all units over the years, we have created new channels to facilitate the lives of our customers, such as Self-Service Totems, Smart Fit App in 2017 and its first version, and the Customer's Space in 2019.

Since 2020, the main focus has been on the app, with several functionalities that have been launched to deliver best training experiences to assure that the right training is available to the right member.

With the app, we have increased our number of members to more than 1 million people reaching our digital channels. This made it possible such as pix payments collected R\$4.8 million per month in 2022, and Instagram spaces led to another 50 thousand posts every month, which is very good for the brand.

We are going to launch the functionality of plans native in the app, so that members can enroll Smart Fit, sign a contract, record biometric data and start activity even before they go to our units.



In 2023, new totem functionalities are going to be launched to reinforce the service of self-service culture and to improve the operational performance of units.

In addition to integration that is already existing by independent scales in some units, we have some KPIs and we are going to implement new functionalities to monitor the evolution of the student such as, for example, the way to use equipment to make it clearer for them the results they obtain once they are practicing with us.

Thiago Borges:

Thank you, Alê. Continuing the presentation, I would like to highlight the continuing recovery of the membership during 3Q22.

In September we reached 3.4 million members in units, 10% quarterly growth reaching the mark of 120% of pre-pandemic levels. In Brazil, 1.7 million students, exceeding the level of March 2020.

We would like to emphasize, on this slide, that this quarter had the strongest recovery in the membership in pre-pandemic clubs. We recovered six percentage points in the quarter and we have reached 90% of the customer base as of March 2020. And one year ago, it was just 71%. In October, we still are seeing growth at another one percentage point in preexisting clubs.

Moving to the next slide, I would like to say that the revenue from pre-pandemic units has increased nine percentage points in the quarter, the best performance in the last two quarters and has exceeded by 3% the level of the baseline pre-pandemic revenue.

This performance reaffirms the trend for increase in revenue because of the combination in membership recovery associated with better tickets reflecting price adjustments that were done in 2021, especially with effect along 2022.

Along the unit, the revenue from those units has increased 23 percentage points, an average growth of approximately two percentage points per month.

The dynamics of recovery is regional and these levels of evolution of revenues are possible because of the joint performance in the geographies where we operate. And Brazil has had the highest growth in the period, with a gain of 27 percentage points, followed by Mexico with a variation of 21%, and other LatAm with an increase of 14 percentage points.

The other LatAm region was the first to recover its members and revenue still along 2021. And within this scenario of membership recovery, the dynamics of revenue growth takes place every month and, in this manner, we can see that in September the revenue was higher than the average for 3Q22, with an increase of 5% versus pre-pandemic levels.

And in combination with the evolution of the membership base in October, we can see a trend of continuing the growth trajectory of revenues in these units in the short term.

Now, I would like to give the floor to Diogo to talk about Brazil.



Diogo Corona:

Thank you very much. In Brazil, we have had eight percentage points higher revenues in pre-pandemic units.

It is important to say that, in October, we have recovered 2% in members in the same stores, indicating that we can get to 97% revenue for this group of stores.

Now, talking a little bit about the strategy that led us to that. In 2Q22, we focused very much on tickets. In 3Q22, we focused on sales and recovery of the membership. This strategy led us to recover 6 to 7 percentage points in those units that were existing before the pandemic, reaching 83%.

We have also had a recovery of two percentage points in October, with a best recovery in this quarter too.

Talking about sales performance, we have had a CAC in line with history, so it grew a lot this quarter, with the marketing expenses that we had a reduction in 3Q22, 2.3 percentage points, thereby reaching 8% of our net revenues. All of this is related to a very healthy performance in historical levels.

Now I would like to give it over to André Pezeta to continue the presentation.

André Pezeta:

Thank you, Diogo. Good morning, everyone. I would like first to talk about the evolution of revenue in the regions where Smart Fit operates.

In Mexico, in September, our revenues for Smart Fit units opened before 2019 went back to 100% versus the baseline of January and February 2020. In 3Q22, it reached 99%, an evolution of ten percentage points over the previous quarter.

In the other LatAm region, we closed the quarter with a revenue with 122% versus pre-pandemic levels, an evolution of nine percentage points as compared to the previous quarter.

The quarterly evolution was similar in all regions where we operate, ranging from 8 to 10 percentage points. However, in the other LatAm region, we start from a larger membership because its recovery curve is more advanced than other regions.

In Mexico, there is a seasonality that is the opposite of other areas we operate. In the last quarter of the year, we are going to start the winter, whereas in Brazil and other LatAm, we are going to go into the summer.

Continuing the presentation, I would like to mention that the Company's effort is to recover in its margins and profitability. The gross margin of mature units has had a significant growth in the quarter, gaining four percentage points between the 2Q22 and the 3Q22, going from 42% to 46%.



This has been the biggest growth in the year, and could be explained by two main movements. One is the stabilization of costs in corporate for the quarter and the main movement in cost recovery until the second quarter in the year.

Cost control and management is still a very important pillar in the Company and costs are only 9% higher than pre-pandemic level, well below the inflation for the period.

Second, the revenue growth is supported by a combination of continuous growth in membership and discipline in ticket increases. As a result, the difference between revenue and cost in Smart Fits that opened before 2019 follows a downward trend, reaching the level of six percentage points in the last quarter.

On the next slide, you can see the expansion of our network of units. As you can see, we have added 36 new units in this quarter, higher than last quarter, when we had 31 new units.

As the Latin America region is fully recovered from the impact of the pandemic and along with Mexico, they are the regions with the steepest ramp up curves where we add 15 new units in each one of those regions. In Brazil, we opened 12 units.

However, new units were impacted by six closed downs following our strategy of reallocation to better points with better commercial conditions. In the last 12 months, we have added 148 units. We have reached 1.157 clubs.

Now I would like to give it back to Thiago, who is going to continue the presentation.

Thiago Borges:

Thank you, André. Now continuing our presentation, I would like to talk about our financial results, starting by the evolution of the net revenue.

We should highlight that this has been the fifth consecutive quarter of strong recovery of the Company's revenue. The revenue in the quarter has reached R\$766 million, a growth of 11% as compared to 2Q22, an increase of 4% in membership, the expansion in a network of units by 3% and increasing average ticket.

In Brazil, Smart Fit units have had an evolution of 12% in growth in revenue per unit in the period, considering the 5% increase in the average number of members per club, associated with a higher average ticket.

In Mexico, revenue has grown 16% as compared to the 2Q22, because the expansion of the network of 6% combined with a 3% increase in the membership and higher average ticket.

In other LatAm, the revenue has grown 12% versus 2Q22 because of the expansion of the network of 6%, and 6% increase in membership.

Now, going to the next slide, you can see how the fast growth in revenue has provided a significant operational leverage. If we compare to 2Q22, the cash gross profit has grown 20%



with the expansion of 13.2 percentage points in margin, because of the continued recovery of the revenue combined with higher operational efficiency, which has provided a dilution of fixed costs.

Since the reopening of the clubs in 2021, the gross margin has grown for the fifth consecutive quarter, reaching 42.8 this quarter.

We should highlight that other LatAm regions, our second main target region, have a margin that is higher than historical levels, which we reached last quarter. So it is 53.4%.

As the last message on this slide, I would like to emphasize once again that management is still focused on cost management to reduce the impact of inflation.

3Q22, the cash cost of the clubs that opened before 2019 grew only 9% as compared to the baseline of two and a half years before, significantly lower than the inflation of this year, demonstrating a result of a major effort of the team to recover margins.

Moving to the next slide, we will talk about the evolution of expenses. Expansion of SG&A has had a reduction of 5% as compared to the previous quarter, with a strong dilution of 3.3 percentage points in the period, also driven by the increase in revenue.

This quarter, sales expenses have gone down 14% as compared to 2Q22, accounting for 8% of the net revenue in the period and a significant reduction of 2.3 percentage points, especially due to more assertive investments in attracting new members and increase of revenue per unit.

Now moving to the next slide, we would like to share with you the evolution of the Company's EBITDA. This quarter's EBITDA totaled 174 million, a growth of 43% versus 2Q22, within positive impact of the higher revenue and reduction of costs and expenses.

This quarter, the EBITDA margin had a significant expansion of 5.1 percentage points, reaching 22.7%. We continue confident that we are on the right track to recover the Company's margins with a continuing trajectory of revenue recovery, strong discipline in the management of our costs and expenses.

We understand that our Company is going back to levels that we used to see before the beginning of the pandemic. As an example, we already have the second target region, other LatAm, with a profitability at levels that were before those that we had in 2018 and 2019.

Now going to the last slide of the presentation, you can see the evolution of our financial liquidity and CapEx.

In 3Q22, we invested 179 million in opening 29 new clubs and units that are still in construction. Despite the acceleration, the investments after the 3Q21 we still have a robust cash position in low financial leverage.

We ended 3Q22 of 2.7 billion in cash, with a net debt of 495 million and a debt profile that is quite long and with financial leverage that is stable as compared to the previous quarter.

These were our comments about this quarter's performance. Now, I would like to give it back



over to José Luís Rizzardo to start our question and answer session.

Victor, Santander:

Hello. Good morning, everyone. I have two questions to ask. The first one is about your membership base. Now that you have reached 90%, when do you think, you are going to get to 100% of your membership?

And the second is SG&A gains in 3Q22. I would like to understand how you are seeing these gains of productivity going to the future and whether this is sustainable?

Thiago Borges:

Thank you for your question. This is Thiago. I am going to answer the first question about the membership recovery and Diogo will answer in terms of sales expenses that had a strong dilution in 3Q22.

We are more and more seeing that the focus is not necessarily on one specific line, but rather on the margin of units. In our understanding, the volume is important for our business, this is extremely important, but we also see there is still work to be done in tickets and revenue.

When we show the Delta between the recovery of the revenue and recovery of costs, in the same units that we had, that were open before 2019, this quarter was very strong. The Delta that was 14% has gone down to 6%, now whereas the revenue is coming back.

If you analyze it more carefully, volume is 90% at closing of the quarter, so the Delta is ten. But if we had 10% in volume, we would go beyond cost, which indicates that we do not need the volume to go back to 100% level to reach the same margin that we used to have before.

Obviously, this is going to depend on how much and how fast volume recovers, but we have demonstrated that the revenue of those units, that is 3% above the average of the quarter in September, is 5%. So we have contracted another 2% in the revenue. Plus, in the month of October, there is another 1% in volume. So we possibly have another 3% revenue contracted for the 4Q22.

We can see that this Delta between revenue and cost has been going down, it is at six percentage points, and we believe that along the first quarter, this Delta is going to become zero. So, the focus is on that line, and volume is one component for this calculation so that the total result is zero.

Now I am going to turn it over to Diogo to talk about sales expenses.

Diogo Corona:

To talk about 3Q22, we need to go back a few quarters. In 1Q22, we had an investment in media and the results were not as we expected, because of macroeconomic reasons.

So, in 2Q22, we decided to slow down that strategy and then we slowed down in just everything



that is not media so that we could focus on media, which is what converts customers, in the end. So, the proportion or the ratio of money going to the media as compared to the rest has gone up.

This is not just for 3Q22, but from 3Q22 onwards. So, there is more marketing money for media and the focus is very much on efficiency data.

Our thesis is that, in 3Q22, the scenario would be more predictable and we will be ready for our investments to go back and to accelerate sales and this is what happened.

We had a test on our last conference call. We started looking at the positive scenario, we mentioned this here. We said that it was positive and, once it was positive, we continued in July, August, September and October, too. So the scenario is much more predictable than we are prepared for it, to sell in a very efficient way.

We are very mindful of our expenses, and we want to be very efficient.

Victor:

Thank you very much.

Gabriela Moraes, Itaú:

Good morning, everyone. Thank you for taking our question. We have two questions to ask. First, is the competition. So, the relationship between competition and pricing structure, how are you seeing this today, and how are you reacting to this increase in pricing that you successfully implemented in the quarter?

Number two is a follow up on the first question about the membership per matured units, specifically in the Brazilian operation. We saw that there has been a significant improvement this quarter. How do you see this going to the future specifically in Brazil? That is it. Thank you very much.

Diogo Corona:

Talking about the ticket revenue recovery, we have two main plans and we have black and local. So we reviewed our local prices, where we could increase, we always look at the competition. It is a very local strategy. It is not a global increase that some people will not be able to afford the offer. This is very local store by store. This was translated into results for us.

And then we saw that in the 3Q22 we had a combination in the third quarter and our objective was this. So as your ticket goes up without stopping to sell, there is no solution unless you look at it locally. That is how we could get to this solution.



Edgard Corona:

What Diogo is mentioning, depending on the neighborhood and the kinds of regions and so for example, depending on the income of the neighborhood, that is how we define prices. So if we have a unit in a low income region or middle income region, our prices will be lower than the prices that we have in a high income region.

We try to democratize and adapt it to the region where we are working. This is something that we do in Brazil and in all over Latin America.

Diogo Corona:

Now talking about membership recovery for these units, this is something that we always look at. We look at NPS, the quality. And now our objective is to deliver competitive prices. So the whole cost structure is internal work that we do so that we can offer the most competitive final price.

And we have been recovering that a lot and in the last few months this has happened and nothing indicates that this is going to change. We are always working on that.

Gabriela Moraes:

That is very clear. Thank you very much.

José Luís Rizzardo:

We have three questions that I am going to read and then I am going to give to the rest of the team.

The first question is: we have seen that the cash gross margin of 2019 is very close to pre-pandemic levels. What about new seasons, 21, 22 in terms of speed of maturity? Gross margin about 48% for the new season, is it still true?

We are going to answer this question and then I will ask the other ones.

Thiago Borges:

The ramp up curve of new units in Mexico and other LatAm are in line with historical levels. So everything is evolving for margins to get to the levels that mature units already have or will get in those countries.

In Brazil, the ramp up curve is very similar to the recovery of membership of mature units, about 80% as compared to pre-pandemic levels, but also evolving in the last few months. And we hope that, in the long term, new units will reach the same level of mature margins as we had in previous seasons.

We are seeing this movement, and even rental contracts for the new seasons are cheaper in absolute value than older seasons. In the market of rental of new locations, we can have more attractive or more appealing rental prices, and in other places we are negotiating reductions or



discounts.

But it is difficult once you are already leasing a certain location. So we have more stability in rentals that will help us to get to the gross margin kind of easy.

José Luís Rizzardo:

Thank you, Thiago. Our next question: does it make any sense to think of adjustment next year in regions that are already recovered from COVID 19 and that are growing strongly, such as Mexico and other LatAm?

Thiago Borges:

Price adjustments are a function of how we see inflation in our costs. The team has been working on many different levers that we are already reaping the results, and we are not yet getting 100% of the results.

This price increase is the last lever that we use in terms of the equation to get to our target margin. It is the last one when we analyze future cost inflation, but we need to do it way before, so that it can be reflected at the right time.

Along 2022, you have been seeing tickets going up as we did in 2021. When we look at the inflation again, it is a major unanswered question. And once we assume median forecasts of banks, considering all the increases in prices that we have already implemented and our work on costs, we are not seeing any price increases except if it is a very specific location in 2023.

However, this will depend on the inflation and how much we can control our cost and how much those rates will affect our business. But we are not seeing anything other than the minor, very specific issues for our 2023 prices in the different geographies where we operate.

José Luís Rizzardo:

The next question is about the gross margin in the other Latin America Regions that was above historical levels. Do you expect the margins to be structural from now on or was it a one off event?

André Pezeta:

Now it is André Pezeta answering. We think that the margin is better because of the good performance that we have in the other LatAm region. Yes, it is structural. We want to keep the margins at the same level as we had in the last quarter.

José Luís Rizzardo:

The Company would like to thank everyone for your participation. We reinforce that our Investor Relations team is available to you to answer any questions you may have.

We are now ending Smart Fit's conference call. You may disconnect. Have a good day.