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Press Release

EPS of -\$0.03 **misses by \$0.26** | Revenue of \$76.52M (-1.06% Y/Y) **misses by \$7.12M**

Xponential Fitness, Inc. (NYSE:[XPOF](#)) Q2 2024 Earnings Conference Call August 1, 2024 4:30 PM ET

Company Participants

Avery Wannemacher - Senior Associate, ADDO IR

Brenda Morris - Lead Director

Mark King - Chief Executive Officer

Sarah Luna - President

John Meloun - Chief Financial Officer

Conference Call Participants

Randal Konik - Jefferies

John Heinbockel - Guggenheim Partners

Ryan Meyers - Lake Street Capital Markets

Korinne Wolfmeyer - Piper Sandler

Chris O'Cull - Stifel Financial Corp.

Jonathan Komp - Robert W. Baird & Co.

Warren Cheng - Evercore ISI

Joseph Altobello - Raymond James

Jeff Van Sinderen - B. Riley Financial

George Kelly - ROTH Capital Partners

Operator

Greetings and welcome to the Xponential Fitness, Inc. Second Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Avery Wannemacher, Investor Relations. Thank you. You may begin.

Avery Wannemacher

Thank you, operator. Good afternoon and thank you all for joining our conference call to discuss Xponential Fitness second quarter 2024 financial results. I am joined by Brenda Morris, Lead Director; Mark King, Chief Executive Officer; and John Meloun, Chief Financial Officer. Sarah Luna, President, will join Mark and John for the question-and-answer portion of the call.

A recording of this call will be posted on the Investors section of our website at investor.xponential.com. We remind you that during this conference call, we will make certain forward-looking statements, including discussions of our business outlook and financial projections. These forward-looking statements are based on management's current expectations and involve risks and uncertainties that could cause our actual results to differ materially from such expectations. For a more detailed description of these risks and uncertainties, please refer to our recent and subsequent filings with the SEC.

We assume no obligations to update the information provided on today's call. In addition, we will be discussing certain non-GAAP financial measures in this conference call. We use non-GAAP measures because we believe they provide useful information about our operating performance that should be considered by investors in conjunction with the GAAP measures that we provide. A reconciliation of these non-GAAP measures to comparable GAAP measures is included in the earnings release that was issued earlier today prior to this call.

Please note that all numbers reported in today's prepared remarks refer to global figures, unless otherwise noted. As a reminder, in order to ensure period-over-period comparability and consistent with our reporting methods since IPO, we present all KPIs on a fully pro forma basis, meaning for the full KPI history presented, we only include brands that are under our ownership as of the current reporting period. For the period ended June 30, 2024, this includes AKT, BFT, Club Pilates, CycleBar, Lindora, Pure Barre, Rumble, StretchLab, and YogaSix.

I will now turn the call over to Brenda Morris, Lead Director of Xponential Fitness.

Brenda Morris

Thanks, Avery, and thank you all for joining us this afternoon on Xponential's second quarter 2024 earnings conference call. During my brief tenure as Interim CEO, I enjoyed the opportunity to speak with many of you. On behalf of the entire board, we thank you for your engagement and patience during our leadership transition.

Prior to announcing Mark King as the new CEO, we had been in active discussions for some time about adding him to our Board of Directors. During that process, we got to know him well, and we are thrilled that he agreed to assume the CEO role in addition to joining the Board. Mark has succeeded wherever he has been, rising from a territory sales representative to CEO in his 34 years at TaylorMade, growing sales and market share at Adidas, and most recently, adding 1,400 new locations and increasing international growth during his tenure at Taco Bell.

The Board is equally impressed with Mark's career long focus on workplace culture on franchisees and on exceeding end-user expectations. We have full confidence in his ability to lead the company moving forward and to further Xponential's mission of making health and wellness accessible to all.

I'll now turn it over to Mark to share some high-level reflections from his first 6 weeks at the company.

Mark King

I appreciate the warm introduction, Brenda, and thank you for all your help since my arrival. I look forward to continue to work with you and our Board of Directors. And a good afternoon to all of you. I am thrilled to be CEO of Xponential Fitness, and my excitement has only grown since I got here.

So, first things first, why am I here? When you think about what, for example, Adidas and Taco Bell were like when I joined, you get an idea of what I look for, strong, growing brands, passionate stakeholders, scalable teams, and models that are poised to generate significant cash with a little bit of fine tuning. I saw all of the same things in Xponential prior to me joining the company, and now that I'm here, I'm confident I am in the right place.

Over the past 6 weeks, I have spoken to so many people, franchisees, employees, vendors, to get a better understanding of our business. Throughout the process, I have been impressed by the passion, the hard work, expertise of Xponential's franchisees and employees. While I obviously haven't yet had sufficient time to develop a detailed strategy, I thought it would make sense to share some early observations.

To start with, Xponential has a strong stable of core brands that have significant growth and profit potential. For the foreseeable future, we will be focusing on growing our existing portfolio of brands rather than pursuing additional acquisitions. This will ensure that 100% of our management team's focus is on supporting the growth of our existing brands and franchisees.

The single greatest determinant of our future success is the underlying health and profitability of our franchisees. We will put franchisees at the front and center of our operational processes and support efforts. Helping to ensure franchisees thrive will not just be a single initiative, but rather our core focus across all operations every day. I referenced a minute ago that I haven't yet had the time necessary to develop a detailed strategy to share with you today.

What I can tell you, though, is that high growth companies like Xponential need to constantly innovate and adapt their cultural mindset to the pace at which marketplaces evolve in today's economy to not just grow, but scale profitably. So, the strategic initiatives I will be developing and sharing with you in the coming quarters will be focused on that, architecting long-term predictable profitability.

Lastly, I think it's important to also be matter of fact that refining how high-growth companies scale and mature doesn't take place in a vacuum. Together with John, the rest of the team, and our key stakeholders, we are also going to be navigating around the change in leadership away from a founder led business amid some regulatory issues that the company has previously disclosed.

As John will discuss in greater detail, they've had an understandable impact on the business in the near-term, and our outlook needs to reflect that. From my vantage point today, though, I share John's confidence that those issues aren't going to meaningfully impact our multiyear goals, nor will some of the consumer spending issues we saw in the retail segment of the business.

I will now turn it over to John to discuss our second quarter results and 2024 guidance.

John Meloun

Thanks, Mark. It's great to have you onboard, and thank you to everyone for joining the call. While we had hoped this wouldn't be the case, we are confronted with a reality where the business is facing some short-term disruptions from our change in leadership and continued regulatory uncertainty. In addition to some distractions at our senior leadership level that followed the resignation of our former CEO, we are also level setting how we operate more broadly under new leadership.

We are excited about the long-term opportunity all this represents, but we will have to work through some shorter term challenges as we transition away from a founder led organization. Both the weaker second quarter results and the reduced guidance for the year should be considered in that context.

Importantly, with regards to the second quarter, while some specific headwinds pressured our top and bottom lines in Q2, which I will detail shortly, the core studio operating KPIs that we use to measure the strength of the franchise system remain strong, including total member growth, total visits, as well as run rate AUVs, which have all achieved new historical levels.

North America run rate average unit volumes of \$638,000 in the second quarter increased 10% from \$581,000 in the prior-year period. AUV growth continues to be driven by a higher number of actively paying members and the continued favorable trend of proportionate studio openings coming from our scale brands that generate high levels of sales.

The improvement from mix can be attributed to the growth in our higher AUV brands like Club Pilates and StretchLab and further attributed to the recent optimization of the brands in our portfolio. Over the past 8 months, we have acquired Lindora, and we have divested Row House and Stride as we aim to own brands that best fit Xponential Fitness' long-term growth goals.

Today, we are also announcing the winding down of our AKT brand. We expect this to be completed in the third quarter of this year. At the end of the second quarter, AKT had eight open studios and was not a significant contributor to revenue and EBITDA. Therefore, this winding down will not have a material impact on our financials.

Further, we will not be pursuing the KINRGY rebranding partnership for AKT, as we instead will focus our resources on our remaining brands. We ended the quarter with 3,102 global open studios, opening 108 gross new studios during Q2, with 89 in North America and 19 internationally. There were 85 studio closures in the period. And as a reminder, we previously shifted our strategy regarding studio closures and are no longer taking on any company-owned studios.

Rather, we are concentrating resources on helping franchisees identify and resolve issues as early as possible to improve operations and their success within our system. As a reminder, we are estimating normal annual closures in the range of 3% to 5% of the global system, but we expect closures to come in toward the higher end of the range this year.

We sold 87 licenses globally in the second quarter, which trended lower due to approval delays in our annual franchise disclosure renewal cycle, in addition to elevated concerns in the franchise sales process around ongoing regulatory scrutiny. Despite these hurdles, which we believe will normalize over time, we still have over 1,800 licenses sold and contractually obligated to open in North America, plus an additional over 1,000 master franchise obligations internationally.

This backlog of already sold licenses at our current rate represents over 5 years of future studio openings globally. On the international front, the company executed a new master franchise agreement for our BFT brand in Scandinavia. The growth expectations for Scandinavia will be 30 studios over the next 10 years.

Second quarter North America system-wide sales of \$421.5 million were up 24% year-over-year, with growth driven primarily by the 7% same-store sales increase within our existing base of open studios, coupled with growth from new studio openings. Roughly 95% of the system-wide sales growth came from volume or new members, which has remained consistent with historical performance, and approximately 5% came from price.

On a consolidated basis, revenue for the quarter was \$76.5 million, down 1% year-over-year. This was primarily driven by equipment, merchandise revenues, and other service revenues, which I will discuss shortly. 73% of the revenue for the quarter was recurring, which we defined as including all revenue streams, except for franchise territory revenues and equipment revenues, given these materially occur upfront before a studio opens.

Franchise revenue was \$43 million, up 22% year-over-year. The growth was primarily driven by higher royalties generated by the increase in system-wide sales on a larger base of operating studios and healthy same-store sales growth. In the quarter, we also recognized favorable franchise territory revenues driven primarily by the terminated licenses from the Row House brand. Equipment revenue was \$12.9 million, down 10% year-over-year. With installation volumes materially the same year-over-year, the decrease in revenue was driven by a higher proportion of installations in the period occurring in brands that are less equipment-intensive.

Merchandise revenue of \$5.9 million was down 30% year-over-year and came in below our expectations. In the period, we did see a slowing in retail purchases by members at the studio level, which resulted in lower merchandise purchases from our franchisees to replenish inventory. The company instituted early in Q2 a one-time promotion and most recently in July offered a semiannual sale intended to stimulate franchisee merchandise buying.

While we believe the lower sales are being driven by a general softness in consumer spending, that has been impacting retailers across different sectors. This softness and merchandise revenue did not carry over to membership growth trends in the period. We are excited by Mark's depth of experience in optimizing wholesale and merchandising as we evaluate additional ways to drive our merchandise sales for our franchisees and Xponential. Importantly, Q2 year-over-year growth in membership and visits have increased 17% and 20%, respectively.

This demonstrates that traffic remains strong in our studios and our members continue to view Xponential health and wellness offerings as an essential part of their routine. Franchise marketing fund revenue of \$8.4 million was up 27% year-over-year, primarily due to continued growth in system-wide sales from a higher number of operating studios in North America.

Lastly, other service revenue, which includes sales generated from company-owned transition studios, rebates from processing studio system-wide sales, B2B partnerships, XPASS and XPLUS, among other items, was \$6.3 million, down 51% from the prior-year period. The decline in the period was primarily due to our strategic move away from company-owned transition studios over the last year, resulting in lower package and membership revenues.

Turning to our operating expenses. Cost of product revenue were \$12.9 million, down 10% year-over-year. The decrease was primarily driven by a lower volume of installations in equipment intensive brands and lower volumes of merchandise sales during the period.

Given the softness in the merchandise sales in the period, the company recorded a \$0.5 million write-down of slow moving merchandise inventory, which did contribute to higher costs. Cost of franchise and service revenue were \$5.8 million, up 57% year-over-year. The increase in franchise sales commissions was driven primarily by terminated licenses from the Row House brands.

Selling, general, and administrative expenses of \$37 million were down 1% year-over-year. The decrease in SG&A was primarily associated with a net lower cost from operating company-owned transition studios where we have ceased operations, offset by restructuring costs from settling the leases from the company-owned transition studios, and increased legal fees to address regulatory issues.

Our strategy to shift away from taking on company-owned transition studios has decreased run rate SG&A expenses and improved EBITDA margins. We continue to make progress on the remaining leases and expect to have entered settlement agreements with landlords for substantially all remaining lease liabilities by the end of the year.

We have entered into settlement agreements on approximately \$17 million of the original estimated \$25 million in lease termination payments. The company has paid approximately \$13 million through the second quarter.

Impairment of goodwill and other assets was \$12.1 million, up 67% year-over-year, primarily due to a decrease in CycleBar's actual and forecasted cash flows, resulting in the value of goodwill exceeding its fair value. Depreciation and amortization expense was \$4.5 million, an increase of 5% from the prior-year period.

Marketing fund expenses were \$7.8 million, up 44% year-over-year, driven by increased spending afforded by higher franchise marketing fund revenue. As a reminder, as the number of studios and system-wide sales grow, our marketing fund increases. Since we are obligated to spend marketing funds, an increase in marketing fund revenue will always translate into an increase in marketing fund expenses over time.

Acquisition and transaction expenses were a credit of \$1.2 million, compared to a credit of \$31.3 million in the second quarter of 2023. As I have noted on prior earnings calls, this includes the contingent consideration activity, which is related to the Rumble acquisition earnout and is driven by the share price at quarter end. We mark to market the earnout each quarter and accrue for the earnout.

We recorded a net loss of \$13.7 million in the second quarter, or a loss of \$0.29 per basic share, compared to a net income of \$27.5 million, or earnings per basic share of \$1.44 in the prior-year period. The net loss was the result of \$4.9 million of lower overall profitability; a \$30 million decrease in acquisition and transaction income, which includes noncash contingent consideration primarily related to the Rumble acquisition; a \$2.3 million increase in restructuring and related charges from our company-owned transition studios; a \$4.9 million increase in impairment of goodwill and other assets primarily associated with CycleBar; and \$0.9 million increase in loss on brand divestiture, partially offset by a \$1.9 million decrease in noncash equity-based compensation expense.

We continue to believe that adjusted net income is a more useful way to measure the performance of our business. A reconciliation of net income to adjusted net income is provided in our earnings press release.

Adjusted net income for the second quarter was \$0.7 million, which excludes \$1.2 million in acquisition and transaction income; \$0.3 million expense related to the remeasurement of a company's tax receivable agreement; \$12.1 million related to the impairment of goodwill and other assets; \$0.9 million loss on brand divestiture; and \$2.3 million restructuring and related charges. This results in an adjusted net loss of \$0.03 per basic share on a share count of 31.8 million shares of Class A common stock, after accounting for income attributable to non-controlling interest and dividends on preferred shares.

Adjusted EBITDA was \$25.4 million in the quarter, up slightly compared to \$25.3 million in the prior-year period. Adjusted EBITDA margin was approximately 33% in the second quarter and flat with the prior-year period. The results were below our expectations primarily due to the lower equipment revenues on a higher mix of less equipment intensive installs, as well as unforeseen headwinds related to the previously mentioned softness in merchandise revenues. Due to this softness, we also wrote down slow moving retail inventory.

During Q2, our unlevered free cash flow conversion exceeded 90% of adjusted EBITDA as we require minimal capital expenditures to grow the business. As a reminder, the company has approximately \$160 million in federal and state net tax loss carryforwards that will result in a minimal cash tax burden for the coming years.

We continue to expect that our anticipated interest expense in 2024 will be approximately \$45 million, assuming no additional debt paid down, and we anticipate negligible working capital impact on cash flow. For the full year, we would expect levered adjusted EBITDA and cash flow conversion of over 50%, excluding any effects for preferred dividends and one-time restructuring costs, and this will convert to over 70% in the coming years.

Turning to the balance sheet. As of June 30, 2024, cash, cash equivalents, and restricted cash were \$26 million, down from \$40.2 million as of June 30, 2023. Material cash uses in the period included the \$5 million related to the settlement of company-owned transition studio leases and \$11.5 million for debt principal and interest payments.

Total long-term debt was \$330.1 million as of June 30th, 2024, compared to \$265.9 million as of June 30, 2023. The increase in total long-term debt is primarily due to the repurchase and immediate retirement of approximately 2.6 million shares of Class A common stock under our accelerated share repurchase program in Q3 and Q4 2023. We continue to evaluate different financing options with potential lenders in efforts to our interest expense.

Let's now discuss our outlook for 2024. Based on current business conditions, the second quarter shortfalls, operational impacts stemming from regulatory issues, our CEO leadership transition, and our expectations as of the date of this call, we are adjusting guidance for the current year as follows. We expect 2024 global new studio openings to be in the range of 500 to 520, down from 540 to 560, and representing an 8% decrease at the midpoint from the prior year. We project North America system-wide sales to range from \$1.705 billion to \$1.715 billion, unchanged from the previous \$1.705 billion to \$1.715 billion, and representing a 22% increase at the midpoint from the prior year.

Total 2024 revenue is expected to be between \$310 million to \$320 million, down from the previous \$340 million to \$350 million, and representing a 1% year-over-year decrease at the midpoint of our guided range.

Adjusted EBITDA is expected to range from \$120 million to \$124 million, down from \$136 million to \$140 million, and representing a 16% year-over-year increase at the midpoint of our guided range. This range translates into roughly 39% adjusted EBITDA margin at the midpoint.

We expect total SG&A to range from \$135 million to \$140 million, or \$110 million to \$115 million, when excluding one-time lease restructuring charges, and under \$100 million when further excluding stock-based comps.

In terms of capital expenditure, we anticipate approximately \$8 million to \$10 million for the year, or approximately 3% of revenue at the midpoint. Going forward, capital expenditure will be primarily focused on the integration of Lindora and maintenance on other technology investments to support our digital offerings.

For the full year, our tax rate is expected to be mid- to high-single digits, share count for purposes of earnings per share calculation to be 31.8 million, and \$1.9 million in quarterly cash dividends related to our convertible preferred stock, or \$2.2 million if paid in kind.

A full explanation of our share count calculation and associated pro forma EPS and adjusted EPS calculations can be found in the tables at the end of our earnings press release, as well as our corporate structure and capitalization FAQ on our Investor website.

This concludes today's prepared remarks. Thank you all for your time today. We will now open the call for any questions. Operator?

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Randy Konik with Jefferies. Please proceed with your question.

Randal Konik

Hey, good afternoon, everybody, and, Mark, welcome. I guess, Mark, I want to focus on you and kind of maybe what would be very helpful to the audience is you brought up the word fine tuning and you have these other great experiences in your history leading these other companies and very different types of companies at that. So, I guess what would be really helpful is you give us some perspective on maybe some of the problems you saw maybe at Adidas [ph] or at Taco Bell at the time and some of the fine tunings you implemented there and maybe some of the issues you see here or the items you see here as an opportunity for you to fine-tune here at Xponential to start. Thanks.

Mark King

Thanks, Randy. First of all, I think when I went to the Adidas business, it was very broken. So, it really was a turnaround, which this is nothing like a turnaround. The Taco Bell business was very robust. I think the challenge at Taco Bell was how do you grow same-store sales and how do you continue to grow a store base that's already at over 7,000. So, those were the challenges there. As I come here, and I look at, after just this is my sixth week on the job, I came here because there was so much good about this business. The brands are great. The momentum is very positive, and if you really look at the numbers of Q2, most of the big indicators are very positive.

I think what I see is the growth has been very, very rapid, and internally, our processes, our ability to manage the complexity of the multi-brand strategy, those are things to me that need fine tuning. I think you'll pick up G&A. And as we become more efficient and more effective, I think as we really focus on franchisee development, I would say, the first week here, I was able to spend four hours with seven of the eight brands and some of the franchisees and was really able to hear some of the challenges that they have, which allows us then to come back inside and say, how do we really organize around these challenges, which is around communication, training, coaching, getting some of the franchisees to understand how to make money in their studios. Those are things we've always done, but maybe to have it at a higher priority.

Randal Konik

Super helpful. And then how do you think about just international? Obviously, a lot of experience there. Give us some of your thoughts on what you see as opportunities as you assess international going forward. Thanks.

Mark King

Okay, Randy. A big opportunity in international. I heard that coming in, but now I really see it. The first thing I know from managing multi-brands over my life is that if a brand is very popular here in the United States, like Club Pilates, it transfers to other nations really nicely, and I think we are seeing that. And then you have an opportunity with BFT, which started in Australia, to really grow that internationally. And really the key internationally is to find really great master franchises. That's really the key is a great partner because you don't have as much oversight when you leave the country. And I think I was able to do that at my last job, and really looking forward to finding those opportunities here

Randal Konik

Super helpful, and again welcome. Thanks, Mark.

Operator

Our next question comes from John Heinbockel, Guggenheim Partners. Please proceed with your question.

John Heinbockel

Yes, I wanted to start two quick things. You talked about disruption and distraction. So, the manifestation of that, where has that shown up? And how long does that take to correct? And then, for Mark, maybe when you think about what you're hearing from the franchisees, what specifically -- I know you talked about communication and training, but beyond that, is there anything specifically they think they're not getting from the platform that they could be?

Mark King

John, thanks for the question. I'll take the second part first. The feedback from the franchisees was very consistent and that is better communication. Not really sure what that means in all cases, but it is one that we can fix rather simply by having more consistent monthly calls. I think they're looking to have a voice to be more engaged in what we are thinking about and the directions that we take, and I have a lot of experience around that, to almost to the point where before we make big decisions, we have hopefully some alignment around the direction and how we are going to do it. And I think what they're really asking for is a voice.

They understand there's a difference between franchisor and franchisee. We have some responsibility, and they have executing out in the field. And I think by providing the support that they're asking for which we have done a good job in the past, but I think reemphasizing that will go a long way to calm some of the noise.

John Meloun

Yes. And John, to kind of answer your question around the disruption, the best way to frame it up is, there's probably about a 90-day or about one-quarter push out of where we thought we would be. So, in essence, the expectations for Q2 is the way we are looking at Q3 now. So, we did have some consumer impacts related to retail. Those flow through the P&L. There was some opening disruption in the quarter. The openings didn't go away. They just shifted to the right into the future. So, the getting back on track question is we'll return quickly back to where we should have been in Q2 and Q3 is how we kind of see the trajectory moving forward.

John Heinbockel

And then as a follow-up, right, maybe John, if you can talk through, you took revenue down \$30 million, you took EBITDA down \$16 million. Obviously, those two relate to each other, but maybe the bulk of the revenue was that merchandise Q2, and then you're assuming the same thing in the back half, was that the biggest piece? And then what else is in the \$16 million? Whether there's SG&A or some other impact. If you could flush that out, that'd be helpful.

John Meloun

Yes. To give you an idea of the way we are looking at it, in Q2, the significant portion of the miss was in retail. Not only did we see below volumes of sales in the quarter, we also ran a promotion to stimulate buying from franchisees. And we did it at the cost of margin. One of the other things that we did, given the slow-moving inventories, we did take a reserve against the slow-moving inventory. So, we are not put in a position where later we'll have to take that. We figured we'd just do it now while we saw the volumes down.

The openings did come in a little bit less than we expected in the second quarter, again, shifting out into the future periods. So, that did have an impact. And then royalties were not -- for the most part, the business is performing very high from a KPI. The royalties were just a little bit more optimism in our forecast than we were looking for. As you look out into the future in the second half, given a little bit of the uncertainty around the consumer and what we saw in retail, we did take a pretty conservative approach in the second half and brought down retail sales.

So, I would say the biggest chunk of the shift in the guidance is coming from the Q2 miss, but then retail in the later half of the year, as well as the pull down of the number of openings. So, for the equipment revenue, installs is having an impact there. That's really where it's focused.

SG&A in the second quarter was well within our control. I think it's for the first time in a while, given that we don't have the transition studios creating volatility in the numbers has made it really easy to predict. So, it really was just a Q2 top line issue and then taking a pretty conservative approach on retail and equipment into the future.

That also being said, we wanted to make sure that we had enough conservatism in the model for Mark to make any necessary fine tuning adjustments as he relays out his strategy. So, as we put more arms around what that looks like in the coming weeks and months, we'll have a better idea of the full year picture, but we want to make sure we took a conservative approach in the second half to give Mark the ability to make whatever adjustments he sees to drive the business forward.

John Heinbockel

Makes sense. Thank you.

Operator

Our next question comes from Ryan Meyers with Lake Street Capital. Please proceed with your question.

Ryan Meyers

Hey, guys. Thanks for taking my questions. First one for me, John, you just kind of talked in the last question that a lot of the studio openings got pushed into Q3, but overall for the full year, the new studio openings were taken down a little bit. So, maybe just unpack that. Is there a less of a willingness for franchisees to open up more studios or how should we understand that?

John Meloun

Hey, Ryan. It's just more of a timing thing. Again, when you think about, I don't want to say the quarter was taken off, but the distraction with all of the change, a lot of people kind of put themselves on hold, whether they were signing leases or moving forward with development. So, everything just shifted 90 days. So, the way we look at it is, given the push out of Q2, we do see the back end coming back with roughly about 300 openings in the second half. That's how we are looking at it. So, it's not that they're going away. It's just that everything shifted to the right.

The momentum of where we are going with the distractions around Q2, people kind of paused for a little bit of time. So, getting that engine removing, talking to franchisees, making sure they're comfortable that everything is fine, there's no issues with the business, and that they can move forward. It just took us a little bit of time to get that rolling again. But we do expect in the second half the cadence of openings to grow quarter-on-quarter. And again, seeing roughly about the 300-ish openings in the second half from where we are in the first half.

Ryan Meyers

Got it. That's helpful. And then is there any change in the same-store sales expectation for the second half of the year?

John Meloun

No, as we've always said that we expect same-store sales to normalize in the mid to high-single digits. We are there 7.5% in the second quarter. I think you'll still see mid to high single digits, probably more in the middle of that range as we normalize through the end of the year. So, expectations are fine. Business is normalizing as we should.

As I said on previous earnings calls, I think, we are finally in a year where you're getting normal normalization of same-store sales without COVID having prior-year impact. So, the business is doing well. Club Pilates continues to be an above average performer when it comes to same-store sales. So, that necessarily does pull up the average in relation to the mid to high single digits. But you should continue to keep thinking about it very similar to Q2 and a little bit normalization in Q3 and Q4.

Ryan Meyers

Got it. Thank you for taking my questions.

Operator

Our next question comes from Korinne Wolfmeyer with Piper Sandler. Please proceed with your question.

Korinne Wolfmeyer

Hey, good afternoon, guys. Thanks for taking the question. I'd like to touch on the lower merch revenue that you cited and some consumer weakness but you're not really seeing it in the membership trend. And I guess the question is what gives you confidence that it's not going to eventually translate into membership and what gives you confidence that your consumer is still going to be coming in, even if they do have to cut costs and you're already seeing them have to cut costs? Thanks.

John Meloun

Yes, I think, Korinne, the way that -- we are looking at this many different ways, it was definitely a retail impact in the quarter. One of the things that is giving me confidence is when we continue to look at our new studio openings and the cohorts, the Q1 cohort has performed very well, actually better than the prior cohorts in 2023. The Q2 one, albeit they've only at most have been open three months, is showing very similar and strong trends. So, as we continue to open up more locations, we are seeing really good ramps in relation to new members joining. So, first and foremost, the new growth is showing strength still.

When you look at the existing installed base of studios, our same-store sales in studios that were open 36-plus months was 8%. So, the older studios are still outperforming studios that are less than three years old. So, from that perspective, you see good aging, even in more mature units. Overall membership has grown. It didn't decline. We are still seeing net more members at the end of every month and quarter. So, conservatively, I think we could sit here and say, listen, we have yet to hear about the consumer weakening to the point where they're going to start trading in their gym memberships. We haven't seen that in the data.

So, from the way we stay here we do typically get around 5% price and the majority of the system-wide sales growth is on volume. That hasn't shown any change in trends or shifted. We talk about consumers, and this is part of their lifestyle and what they do as part of their well-being and wellness. So, we haven't seen any willingness of members to want to trade that off due to cost.

Korinne Wolfmeyer

Got it. Very helpful. Thank you. And then on the investigation that you've been undergoing, I think when we last spoke, you were communicating that a lot of it was on KPIs of the business. Could you just provide an update on how you're addressing those, and I guess how far along in the process are you in cleaning that up? Thanks.

Mark King

Yes, Korinne, this is Mark. I mean, we just -- we can't comment on that, on an investigation right now.

Korinne Wolfmeyer

Got it. Thank you.

Operator

Our next question comes from Chris O'Cull with Stifel. Please proceed with your question.

Chris O'Cull

Thanks. Good afternoon, guys. John, the 3% to 5% closure rate is pretty high when you consider Club Pilates and StretchLab are probably not closing many stores and the remaining brands are not that large of systems. So, can you discuss about or talk about what is driving those closures and then what you're doing to reduce that rate of closures in those brands?

John Meloun

Yes. In the quarter, we had around 85 closures. I think what you're really seeing here, Chris, is that we shifted strategies in the second half of last year to start winding down the company taking over transition studios. In addition, we've started lowering the amount of studio support that we provide to franchisees that need it and really starting to focus our efforts on providing better support, better processes to help franchisees understand like why they're having troubles or what their issues are.

The, I would call, speed bump that you're seeing in Q2, I think, is really just a lagging catch up related to studios that are now kind of coming into that point where they probably should have ramped down or closed over time. The majority of the closures are in the CycleBar brand.

A lot of these franchisees are ones that preexisted the acquisition of CycleBar, probably in rent space and other areas that have higher operating costs. From that point, their breakeven is a little bit more challenged and the modality of cycling hasn't fully recovered pre-COVID to post-COVID.

So, you're seeing the fallout primarily in that brand. So, the way -- what we are doing now is, Mark, as you mentioned, our focus going forward is to really put more energy into what do we need to do to fix these processes and make franchisees more successful. That's where we are putting the resources. Right now, I think it's just a little bit of a tennis ball in the snake.

In regards to the 3% to 5%, as I said on the call, this year we'll probably be leaning more toward the high end of that range. I do feel that Q2, based on the data that we have, and what we are looking at, was the high point of closures in the year, then it should start to ramp down in the second half.

Chris O'Cull

Okay. And then, Mark, you mentioned the company had no plans for acquisitions, but would the company consider making additional divestitures?

Mark King

So, Chris, let me say this. I think short-term for me coming in, I really like the brands that we have right now. Some are performing at a high-level, others are developing. I think short-term, I'd just like to see us maximize the return, not only on the ones that are developing, but also find ways to grow, for example, Club Pilates. We are not really talking about any more divestiture right now, and we are also not talking about acquisition, but I think that will change as time goes on.

But for right now, I would say, I'd like to build these brands. We need our infrastructure here at headquarters to be able to catch up to this rapid growth that Xpo has had over the last 4 or 5 years. So, those are short-term to me and I think that will provide plenty of short-term growth and then we can look at acquisitions as we go forward.

Chris O'Cull

Okay, great. Thanks, guys.

Operator

Our next question comes from Jonathan Komp with Baird. Please proceed with your question.

Jonathan Komp

Yes. Hi, good afternoon, and Mark, welcome. I want to follow-up some of your introductory remarks. I know you talked about some of the short-term issues really not impacting the multiyear goals. Could you maybe just shed a little more light on your thinking there? I know it's early, but maybe if you have any perspective on what sort of a high growth or appropriate growth level for a concept like Xponential may be. And in part, my question relates to prior Analyst Day targets for the company where the plan was to sustain high-teen system-wide sales growth. If that's realistic or do you think there might be more of a pause in the short-term before returning to that type of growth?

Mark King

Jonathan, nice to meet you. First of all, I think it's a little early for me to have that kind of an outlook, but I guess what I meant in my opening comments is if you look at the big indicators, AUV growth year-on-year is up 10%, system-wide sales up over 20%, visits, memberships continuing to grow, and we have a pipeline of licenses to open 1,800 more in the United States and 1,000 outside the United States.

So, I think there's plenty of opportunity to deliver the growth expectations that we've been talking about. Then I think, once we stabilize that and really get back to getting past some of these short-term headwinds, then I think we can look at what the growth rate should be. One of the things I really want to do, though, is to come back with a predictable growth rate so we can have some stability around expectations. And I'm not really sure where that is yet, Jonathan, but I think that's my goal here in the next few quarters.

Jonathan Komp

Great. That's really helpful to understand your process. Thank you. And then, John, one follow-up, just thinking about the guidance change for the year. Could you comment on whether or by how much, if it has, your outlook for the franchise revenue has changed, if at all? And as we think about the total revenue implied for the second half, it's implied lower year-over-year. So, could you maybe just give some more detail on how to think about modeling some of the different revenue lines given the implied revenue decline on a total basis? Thank you.

John Meloun

Yes. So, the full year revenue guide we did the \$300 million to \$310 million. I think the way to think about the cadence is you will see Q3 and Q4 get back to where the Street was expecting Q2 to be. So, from that perspective, the revenue does, it will continue to grow. The cadence is going to really be driven by two things: one is the continued growth with studio openings because then we get the benefit of the install. So, equipment revenues will be a driver in Q3 and greater in Q4. We typically open the most amount of studios in the fourth quarter, like we did last year. The royalties will continue to comp in that mid to high-single-digit. So, you'll get that benefit.

Equipment or merchandise revenue is going to be similar to Q2 is how we are looking at it. We are not going to get aggressive on the assumptions around a revenue on the merchandise until we can just get a better handle on what's going on with the consumer and franchisee buying of retail. So, outside of that, I think you're really seeing Q3 and Q4 look much like how the Street was looking at Q2 and Q3. Again, just everything's just shifting out around 90 days, but you will see overall revenue growth much higher in the second half than the first half of this year.

Jonathan Komp

Okay. Thank you.

Operator

Our next question comes from Warren Cheng with Evercore ISI. Please proceed with your question.

Warren Cheng

Hey, good morning and welcome aboard, Mark. I was wondering if you can talk a little bit about what's embedded in the updated guidance in terms of pricing. Are there behaviors in terms of either elasticity or the mix of pack sizes that you're seeing that you're embedding in the second half?

John Meloun

Hey, Warren, I'll take that. I mean, embedded in the guidance around pricing, you remember our members when they first joined, their rate is initially locked in. So, from that perspective, there's no intention at this point to go back and raise rates or raise prices on existing members. Most of the price increase that we get is coming from new members. In essence, they're coming in at a higher price, as we open up these studios. So, the assumption around price is going to be consistent with what we've historically generated, which is about 5% of the growth in system-wide sales.

Warren Cheng

Got it. Thanks. And then my follow-up was just on the franchisee process changes or opportunities around changing the processes. It sounds like the biggest opportunity there is around communication, giving the franchisees more of a voice. Are there opportunities also around steps you can do to help with unit economics for the franchisees or the onboarding processes as they join the platform?

Mark King

I'll take that, Warren. Yes, I think it's all of that. First of all, I do think Xponential's done a really great job of communicating with the franchisees. I think when they begin to struggle, then they look to us for solutions. And I think we have to be really attentive to what they're asking for and not just money support but understanding the P&L and how do they drive profitability and looking at their P&Ls with them to find savings on labor or build out costs or things that they might be spending money on. So, that really is what came through loud and clear meeting with all the different groups. And I think we have the talent to do it. And it's just about how do you prioritize your support. And I think that's going to be one of the big priorities going forward.

Warren Cheng

Thanks, Mark. Thanks, John. Good luck.

Mark King

Thank you.

Operator

Our next question comes from Joe Altobello with Raymond James. Please proceed with your question.

Joseph Altobello

Thanks. Hey, guys, good afternoon. I'm trying to understand maybe the cadence of how the quarter trended for you since you raised the guidance in May and you were on the conference circuit in early June. So, it seems like some of the weakness you saw sounded like it happened late in the quarter, maybe June. One, is that true? And then two, did things actually normalize in July the way that you expected?

John Meloun

Hey, Joe, I'll take that. Yes, so when we were looking at early April, there was a promotion that was put in place around retails. We did see a -- notice a little bit of a weakening as far as consumer spending at the point of sale inside the studio. So, that promotion was put in place to stimulate retail orders at the wholesale corporate level. As we continue to progress through the quarter, we did see further and further declines around retail.

We did start to see as, let's just call it, as the Q2 progressed, a little bit more of the, let's call it, the disturbances or distractions related to some of the headline stuff that was going on, the transition of the CEO. So, when you looked at like equipment installs and you looked at retail, they progressed, and I wouldn't say snowballed, as we got later into the quarter. As you get to June and as we sit here in July, we are being more proactive on the retail front and more conservative, as well as the way we are looking at the business.

I do feel like we've got the retail now into the outlook more at the base level that we are seeing. So, we've been conservative there. In regards to openings and the cadence around that, yes, I think we've got the motion going or getting the momentum back with franchisees moving forward and getting studios open. So, its -- again, Q2 was a little bit more of a, I would say, a stall in the sense that everything just pushed to the right.

I do think we've stabilized retail in the outlook that we've just provided. And then we've recasted the openings in the second half, respective of what we see now with franchisees. I think a lot of the noise that we heard in the second quarter around just concerns around some of the headline stuff is gone. We are not hearing that much from franchisees and they're back and reengaged again with moving the business forward. So, again, going back to the cadence, you'll see higher revenue, higher EBITDA in the second half.

When you look at the margins in the second half, we talked about getting to 40% margins. This year, the margins in the second half are actually exceeding that when you recast the outlook and you see that revenues do come back and EBITDA and profit do come back and have better margins because we have a good handle now on SG&A.

Joseph Altobello

Got it. Very helpful. And maybe a second question on the studio openings, the three inches that you're expecting in the second half. How much visibility do you have into those openings at this point?

John Meloun

Yes, like we've always had really good visibility. The key to this, Joe, is lease signings, right? So, we do understand which franchisees sign leases and which brands. We are seeing, to our benefit from both an opening and a royalty performance perspective, Club Pilates continues to be one of the key drivers to our growth. So, there was an over shift to Pilates openings in Q2 and we are seeing that for the rest of the year. So, we do have good visibility into the openings in the second half.

We did take down the total openings for the year given the shift and the distraction from Q2, but we did it in a way that we felt was conservative in the sense that we want to make sure that we are making decisions in the best interest of the franchisees when they get open and make sure they're ready to get open. So, we did take a conservative approach on the total openings for the full year. So, the 500 to the 520 we feel is a very achievable number. And it does take into account some of the recent distractions and regaining momentum with the system.

Joseph Altobello

Okay. Got it. Thank you.

Operator

Our next question comes from Jeff Van Sinderen with B. Riley Securities. Please proceed with your question.

Jeff Van Sinderen

Hi, everyone, and welcome, Mark. I realize it's early, but can you give us maybe a little more color on what you think is missing in terms of infrastructure at the headquarters, at the corporate level, and do you need to increase SG&A to invest in some of those areas that are lacking?

Mark King

Hey, Jeff. How are you?

Jeff Van Sinderen

All right.

Mark King

A couple of things strike me right off the bat. One is that the complexity of having eight brands in one building, it's challenging. You have the Xpo culture, you have a culture of every one of those brands, and then you also have the administration of every one of those brands. So, that's an area that I think we have to look at to simplify the operation and look for efficiencies and effectiveness. And no, I don't think it's about more G&A, I think it's about better use of the G&A. So, that's the first thing I would say.

Second thing is what hurt us in Q2, merchandise sales, is again, we are a victim of the fast growth over the past 4 or 5 years, and we don't really have the right infrastructure to service 3,100 studios from the way we are structured and set up from what's the range, how do we source, how do we find the right margins? So, I think there's some really low hanging fruit there. We've got a lot of great people killing themselves every day to do a good job, and I think it's around a little bit better structure, looking for efficiency and effectiveness. And I think if we find that, those are really the two big areas that I think short-term, we can really address here in the next quarter and make some real improvements.

Jeff Van Sinderen

Okay. Thanks for that. And then just, I guess, I'm wondering if there's any more you can give us on maybe the incoming trend in member focused KPIs versus the upcoming trend in the quarter, and then also what you're seeing so far in Q3. In other words, are they steady or are they slowing overall with comps or just any other color you guys can give us there?

Sarah Luna

Hey, Jeff, it's Sarah. We are seeing that all of the studio level KPIs are strong and continue to be the strongest that they've been. So, average membership is up per studio, total membership count is up, total revenue is up. So, we are starting and continuing to see that those KPIs are incredibly strong, and we are really proud of all the work that we continue to put into the brands and the strength of the brands from that level.

Jeff Van Sinderen

Okay. Thanks for taking my questions.

Operator

The next question comes from George Kelly with ROTH Capital Partners. Please proceed with your question.

George Kelly

Hi, everybody. Thanks for taking my questions. First one for you, curious if you could give us an update just on the status of a potential refi. And just wondering, is it kind of on hold until the investigation's clear or you're still actively exploring it?

John Meloun

Yes, we dual-pathed it. Our optimal goal is to get our securitization done. That's where we've been focused for quite some time. That was kind of disrupted with some of the regulatory inquiries that the business encountered. But we've been dual-pathing what is the best option for the company. I can tell you there are options on the table, multiple options. We are just trying to determine what's in the best interest of the company long-term.

Could we continue on a similar path that we are on today, which is a direct lending, or can we get a securitization done in the near-term? That's really what we are balancing is do we lock in something now or do we continue to lean into the current issues and get those resolved so then we can go ahead and get a securitization done. So, we are working on it. It is front of mind.

We've been -- I've been -- I brought Mark up to speed when he first got here. We've engaged with the Board. We've had a lot of discussions. We understand the path for which we need to move forward. I do believe that you'll see some refinancing in play when it's appropriate, but we are taking our time to make sure we are making the right long-term decision for the company to get cheaper capital.

George Kelly

Okay. Understood. And then second question, John, in the prior calls, you've walked us through the ramp in EBITDA margin for this fiscal year. I was curious if you could do that for the third and fourth quarters, just what high-level is baked into your guidance. And then the bigger question is, are you still comfortable with 40%-plus EBITDA margin in fiscal year '25?

John Meloun

I think it was in 2025 was 45% is what we are marching toward. But to talk about 2024 second half, we talked about reaching 40% adjusted EBITDA margins in the year. As I previously mentioned, in the second half, we will get there. So, this Q2 shortfall does not have an impact on our ability to meet that guidance or instruction as far as the cadence is concerned. The second half of 2024, we do see above 40% adjusted EBITDA margins in our models. And I have a pretty high degree of confidence that we'll continue to keep marching after 2024 and '25 closer to 45% margin.

Now that is pre all the fine tuning that Mark will relay with us in the leadership team. But based on the model that we are looking at today, you will continue to see the cadence of adjusted EBITDA incline over time. Again, the key driver here is the growth in system-wide sales. The model at this point is very simple. We have a pretty fixed SG&A, you have 500-plus openings a year, you're seeing good same-store sales comp, good system-wide sales growth, and you're going to see royalties as a percent of your total mix continue to increase, and they're virtually 100% accretive and leverage through the model.

So, as we continue to open more stores, continue to make improvements in the sales at our franchisee level, and generate higher sales and royalties, this thing just continues to leverage. So, second half greater than 40% adjusted EBITDA margin is what we are expecting for the second half. And I do believe in 2025 you'll continue to see the adjusted EBITDA margin ramp up closer to 45% in that year.

George Kelly

Okay. That's helpful. Thank you.

Operator

We've now reached the end of our question-and-answer session. I would now like to turn the floor back over to Mark King, CEO, for closing comments.

Mark King

Hey, thank you to everyone for joining today's earnings call and for your continued support of Xponential Fitness. I really look forward to meeting many of you at the upcoming investor events in September and speaking with you again on our third quarter earnings call in November. Thanks.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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