Seeking Alpha

Transcripts Consumer

Xponential Fitness, Inc. (XPOF) Q2 2026 Earnings Call Transcript

Aug 07, 2026, 4:04 AM ET | **Xponential Fitness, Inc. (XPOF) Stock**

SA Transcripts
161.66K Followers

Q2: 2026-08-06 Earnings Summary

Insights

EPS of $0.02 misses by $0.11 | Revenue of $65.97M (-13.44% Y/Y) beats by $1.52M

Xponential Fitness, Inc. (XPOF) Q2 2026 Earnings Call August 6, 2026 4:30 PM EDT

Company Participants

Michael Nuzzo - CEO & Director
Robert Julian - Interim Chief Financial Officer

Conference Call Participants

Patricia Nir - ADDO Investor Relations
John Heinbockel - Guggenheim Securities, LLC, Research Division
Arpine Kocharyan - UBS Investment Bank, Research Division
Noah Zatzkin - KeyBanc Capital Markets Inc., Research Division

Presentation

Operator

Good afternoon. Welcome to Xponential Fitness' Second Quarter 2026 Earnings Call.

[Operator Instructions]

Please note that this event is being recorded.

I will now hand over to Patricia Nir of ADDO Investor Relations. Please go ahead.

Patricia Nir
ADDO Investor Relations

Thank you, operator. Good afternoon, and thank you all for joining our conference call to discuss Xponential Fitness' second quarter 2026 financial results. I am joined by Mike Nuzzo, Chief Executive Officer; and Robert Julian, Interim Chief Financial Officer.

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'll 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 most recent annual report on Form 10-K for the year ended December 31, 2025, filed with the SEC and subsequent filings with the SEC.

We assume no obligations to update the information provided on today's call, except as required by applicable law. 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 and in the investor presentation available on our website. We are not able to provide a quantitative reconciliation of forward-looking non-GAAP measures without unreasonable efforts to the most directly comparable GAAP financial measures due to the high variability, complexity, and low visibility with respect to certain items.

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 method since IPO, we report 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, 2026, this includes BFT, Club Pilates, Pure Barre, StretchLab, and Yoga Six.

I will now turn the call over to Mike Nuzzo, CEO of Xponential Fitness.

Michael Nuzzo

CEO & Director

Thanks, Patricia. Good afternoon, and thank you all for joining us today. Over the past decade, Xponential built the largest global boutique fitness platform through an exceptional franchise model with strong brand appeal. That growth was achieved largely through unit expansion and brand development. As we reach greater scale and the consumer environment shifts, our priorities have naturally evolved. Today, our focus is on optimizing the business, driving stronger organic growth, improving franchisee economics, and creating a more consistent member experience across our brands. To support this phase, we've assembled a leadership team with deep operating experience. As I introduced Robert, Eric, and Steph on our last call, I want to officially welcome Danielle Parra as President. Danielle brings extensive experience across all major franchise disciplines, including marketing, operations, and brand strategy, with previous leadership roles at GoTo Foods, Icon Automotive, and Caesars Entertainment.

She has hit the ground running, and her early work is helping advance several important initiatives. She's leading efforts to strengthen franchisee relationships, accelerate studio expansion, improve brand positioning, and drive collaboration across our field operations team to deliver more coordinated support. Overall, the team that we've assembled over the past year asks the hard questions, challenges assumptions, and is relentlessly focused on collaboration, franchise support, and execution. Ultimately, our objective is straightforward. Build a healthier, more productive franchise system that delivers sustainable membership growth and long-term value creation. While we are focused on improving system-level execution, we continue to see strong evidence of the brand affinity and community engagement that underpin our long-term opportunity. The senior team and I witnessed this firsthand in June at the Pure Barre 25th anniversary event in Manhattan, where we hosted 211 franchise owners, members, teachers, media influencers, and partners.

The event featured curated Pure Barre workouts, brand activations, and live stream experiences. Social media from the event drew over 1.8 million views. Moments like this reinforce the strength of our brands, the loyalty of our communities, and the meaningful impact they have on health and wellness routines. We are also finding new ways to expand our reach. In July, Club Pilates collaborated on the launch of Starbucks protein coffee drinks, giving us access to approximately 120,000 Starbucks and Pepsi employees through an exclusive introductory Club Pilates offer. Starbucks will also bring influencers into Club Pilates studios to experience the workout and highlight the lifestyle connection between Pilates, wellness, and Starbucks protein coffee. We view this as a strong example of the kind of consumer brand collaboration that can introduce more people to our brands.

At the same time, we recognize there is more work ahead to enhance our execution and drive growth. We are focused on the areas that can most directly improve our business, strengthening top-of-funnel, enhancing the digital journey, improving our franchise support across key operating functions, and evaluating each brand's growth and positioning for long-term health. This is an important time at the company as we set the course to maximize value for our shareholders, franchisees, and employees. I'll now turn to a more detailed discussion of the quarter. Domestically, we delivered net unit growth of 16, and internationally, net unit growth of 12. Year-to-date, we have grown net units by 39 domestically and 29 internationally and have a total of 3,165 open studios globally.

We are also excited to announce a partnership with our largest Club Pilates franchisee, Spartan Fitness Holdings, through which we expect to open 117 total studios across Texas, Florida, Massachusetts, Connecticut, Missouri, Illinois, Indiana, Ohio, New Jersey, and Pennsylvania over the next six years. Partnerships like this, driven by the continued demand of Pilates, are a key element of our long-term growth and emphasize the strength of the Club Pilates brand. We continue to show momentum internationally as well. We now have over 500 international studios open, with Club Pilates opening its 200th studio in June, and we see great white space opportunity in both current and new markets across the globe. We again saw year-over-year increases in leads from paid media through the continued progress with our national marketing agency that helped partially offset year-over-year declines in organic leads.

As in Q1, Q2 total company member retention improved, increasing 28 basis points year-over-year, continuing to reflect our strong member loyalty and affinity for our brands. Our Q2 same-store studio sales were down 6.8% overall and down 5% for Club Pilates, remaining below our expectations and modestly weaker than Q1 trends, with the primary impact coming from top-of-funnel pressure. The quarter also reflected a more challenging environment, consistent with the broader fitness and consumer discretionary sectors, where companies have pointed to more selective spending, higher promotional activity, and pressure on new customer acquisition heading into the summer months. Against this backdrop, we remained focused on our initiatives within our control. This includes several initiatives intended to support franchisee performance.

On the digital front, we implemented our new StretchLab digital experience in July and completed our Club Pilates website redesign, which is now being programmed by our tech team for a Q3 launch. These exciting changes are expected to have a positive impact on same-store sales by improving member navigation, reducing friction in the member journey, and supporting higher lead submission. We also expanded our remodel program in Club Pilates, which we believe will elevate existing studios and have a positive impact on our member experience. All new Club Pilates studio openings will also feature our new design experience. Finally, we continue to expand our engagement with studio operators and our field support teams with a specific focus on improving lead-to-membership conversion.

As an example, the Pure Barre and Yoga Six teams are using data tools to coach studios on adding more class types that drive the highest new member conversion. Overall, our focus remains on driving strong, durable, long-term unit growth while improving studio-level performance. We continue to see healthy development activity supported by a strong pipeline of new Club Pilates studios in various stages of development. Our teams are supporting franchisees in site identification, lease negotiation, and build-out planning. Importantly, our new studio growth runway is charted for the next five-plus years with a great mix of both smaller and larger scale franchise partners. Organic lead trends remain a key top-of-funnel opportunity. We are actively responding with dedicated AI SEO resources, technology tools designed to optimize organic lead flow, and updated website experiences across our brands.

On a weekly basis, we are now producing compelling, unique content for each of our brands, targeting the most popular fitness AI search subjects. While these initiatives are still early, we believe improving the digital experience for customers will be an important way to support franchisees, since virtually all new members start their journey on our web and mobile digital properties. New member conversion from lead to subscription is another meaningful top-of-funnel opportunity to utilize technology and RDO field support in partnership with our franchisees. As I mentioned, our field teams are using new reporting and dashboards to coach franchisees on ways to optimize membership conversion. We are also supporting partnering franchisees who are piloting AI-enabled tools that interface with studio member management systems and provide more automated advanced CRM capabilities for both new member and retention efforts.

We intend to provide technical leadership, guidance, and recommended solution options while allowing our franchisees to use the tool that matches their local needs best. Merchandise is a smaller part of our business, it remains a contributor to profitability and to the franchisee experience. That said, the recent transition to our outsourced logistics partner has created initial challenges in vendor operations, sourcing, and execution that have negatively impacted our results. Our supply chain team is working closely with this vendor on process fixes while also evaluating additional ways to improve reliability and performance over time. All these initiatives are progressing, they will take time to translate into financial results.

As Robert will discuss in more detail, we are lowering our full year guidance primarily due to our second quarter performance, as well as our current expectations around same-store sales and merchandise revenue in the second half of the year. We will also continue with a level of elevated paid media and digital spend that will help bridge us to the expected improvement in organic lead performance later in the year. We also remain focused on identifying additional savings and efficiency opportunities, including ways to better leverage technology to support our efforts. We have effective leadership in place to drive action, we are committed to strengthening the business and creating long-term value. Before I hand the call over to Robert, I want to comment on our strategic alternatives review.

As we shared in April, our board initiated this review to explore alternatives to maximize shareholder value, led by our independent directors and supported by Jefferies as financial advisor. The board remains actively engaged in a review of strategic alternatives designed to maximize long-term shareholder value, including strategic, financial, and operational alternatives. The process may include a sale of the company, a merger, or another strategic or financial transaction. The process is ongoing, we do not intend to comment further until it has concluded. We ask that you keep your questions during Q&A focused on the quarter.

With that, I will turn the call over to Robert.

Robert Julian
Interim Chief Financial Officer

Thank you, Mike, and good afternoon, everyone. Let's begin with an overview of our second quarter performance and then discuss our 2026 guidance. I'd also like to mention that unless otherwise stated, all financial remarks refer to the second quarter of 2026, and all comparisons will be year-over-year comparisons versus the second quarter of 2025.

With that, let's turn to the results. We ended the quarter with 3,165 global open studios. We opened 67 gross new studios during Q2, 47 in North America and 20 internationally. There were 39 global studio closures in the second quarter, in line with historic trends and concentrated primarily within StretchLab, Pure Barre, and BFT. We sold 53 licenses globally during Q2, including 43 internationally and 10 in North America. As of June 30, 2026, we had more than 690 licenses contractually obligated to open in North America and 730 international master franchise obligations.

We generated slightly higher termination revenue and net income this quarter as we pursued terminations of inactive licenses and expect to continue to do so over the next couple of quarters. Second quarter North America system-wide sales of $437 million were flat year-over-year, and same-store sales were negative 6.8%, both on a pro forma basis, adjusting for divestitures. Growth in system-wide sales from net new studio openings was offset by the same-store sales decline. As Mike mentioned earlier, we have several initiatives underway to improve our same-store sales performance moving forward. On a consolidated basis, revenue for the quarter was $66.0 million, down $10.2 million or 13% compared to Q2 2025. Approximately $2.5 million of the year-over-year decline was related to equipment revenue, which correlates to new studio openings and is largely related to the timing of studio openings and installation schedules rather than changes in long-term development demand.

Merchandise revenue declined $5.1 million compared to prior year. $3.9 million of the year-over-year decline is related to how revenue is recorded in our new outsourced merchandise model. You will recall that we no longer record the full sales value of merchandise sold as revenue, but rather only record the commission we earn on those merchandise sales now. We also continue to work through challenges related to our transition to this new business model. We are actively implementing initiatives to improve execution and enhance performance, although the pace of the improvement has been slower than originally anticipated. Franchise revenue was down $1.4 million versus the prior year, primarily due to the decrease in same-store sales, coupled with the brand divestitures in 2025. The remaining $1.4 million revenue shortfall was split evenly between marketing fund revenue and other services revenue.

Adjusted EBITDA was $21.9 million in the second quarter, down $6.2 million, or 22%, compared to Q2 2025. Adjusted EBITDA margin was 33%, down from 37% in the prior year. Relative to our internal forecast, Q2 adjusted EBITDA came in below expectations, primarily due to lower merchandise contribution and higher marketing investment. Turning to the balance sheet. As of June 30, 2026, cash equivalents, and restricted cash were $25.0 million, down from $38.7 million as of June 30, 2025. As we've discussed over the past several quarters, we've made significant progress in resolving the vast majority of our regulatory matters. Importantly, this allows us to return our full focus and resources toward executing our strategic priorities and supporting long-term growth.

During the second quarter, we made payments of $6.8 million related to our agreed settlements in the franchisee lawsuit, the FTC case, and the New York Attorney General case. For the remainder of the year, we anticipate approximately $11.4 million of additional payments related to the settlement of both the franchisee and FTC cases. Also, our franchise disclosure documents have now been substantially refreshed, reflecting the work we've done to strengthen our operations and providing prospective franchisees with a clearer, more current representation of our system. Total long-term debt was $522.4 million as of June 30, 2026, compared to $377.8 million as of June 30, 2025. The increase in total long-term debt is primarily due to retiring the convertible preferred security during the fourth quarter of 2025.

Before discussing our outlook in greater detail, I want to address the primary drivers of our revised guidance. First, second quarter performance was below our internal expectations. Second, we anticipate continued pressure on merchandise revenue going forward. Finally, we have made more cautious assumptions for same-store sales growth in the second half of the year, reflecting Q2 trends and what we have seen so far in Q3. Although this lowers our full-year outlook, we believe it is appropriate to remain disciplined in our assumptions until we see sustained trend improvement. Our current guidance is as follows. We expect full-year global net new studio openings to be approximately 150. We expect North America system-wide sales to range from $1.70 billion to $1.75 billion.

We expect total 2026 revenue to range from $250 million to $260 million. Full-year 2026 adjusted EBITDA is now expected to range from $91 million to $97 million. This translates to 36.9% adjusted EBITDA margin at the midpoint. In closing, we are taking decisive actions to improve same-store sales, strengthen merchandise execution, support our franchisees, maintain cost discipline, and allocate capital prudently. While there is still work ahead, we believe these actions can strengthen profitability and position the business to create long-term value.

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 John Heinbockel of Guggenheim Partners. Please go ahead.

John Heinbockel

Guggenheim Securities, LLC, Research Division

Mike, couple of things. When you think about reversing the comp trend at Club Pilates, how do you address that? I know you've said in the past that that's less important when you think about the AUV, it's less important to franchisees than kind of maintaining that AUV number. Is that still fair? I guess, what does it take or what comp number would exert less pressure, much less pressure on your P&L? I don't know where that has to be. I guess it could be negative.

Michael Nuzzo

CEO & Director

John, thanks for your question. Let me start with what I'm pleased with relative to the Club Pilates brand in particular. First, we continue to open studios, have a really good process for it, and the new studio openings have been very strong and continue to be strong. I attribute a lot of that to the presale process. The team here does a great job of building a membership base at opening that drives some really strong AUVs. As far as the comp trend goes, I'm pleased with the continued member retention trend and, from a lead standpoint, I think we're starting to hit our groove with paid media leads. We are laser-focused on improving organic leads and the experience on our website.

In particular, the work that we've done over the last couple of months on the Club Pilates website that is going into production, I think will have a very meaningful impact on our top of funnel. All that said, to your point, this is a brand that continues to generate great AUVs, and incredible economics for our franchisee base. As we continue to grow this brand, this idea of having perhaps double the number of studios we have today in the U.S., North America, and having those even be at a slightly lower AUV still represents an amazing business. From a comp standpoint, I think you're also right in your thinking. This is a business that has historically done double-digit comps. Going forward, we don't need double-digit comps. Anything from a modest positive to even flat would be really good.

Again, that's with the inherent pressure that we'll have on AUVs as we continue to open new studios in fill-in markets. That's really the focus for us. How do we get that comp to get obviously closer to flat, modestly positive, but also continue to open strong studios and build a great brand.

Robert Julian

Interim Chief Financial Officer

Yes. I'll add to that, Mike, if that's okay. As Mike said, with the strategy to grow studios and to fill in studios, the AUV and the comp becomes less of a factor. It's not unimportant, but I would say that what is putting pressure on our P&L right now is actually more on the equipment sales and the merchandise revenue. That's transitory. We will continue to open studios, the equipment installations will increase, and we will fix the merchandise issue. I think there's sometimes a misconception and maybe a little too much focus on same-store sales comp, for example because it doesn't fully account for the total studio expansion and the total increase in system-wide sales that could still exist even with pressure on AUV and same-store sales going forward.

John Heinbockel
Guggenheim Securities, LLC, Research Division

My follow-up, maybe, Robert, can you talk about the path to normalization in SG&A as legal costs moderate? I think the number with including SBC is probably, I don't know, 110 or so. The path there and then also the path to cash flow generation. When you - maybe you get out to '27, you've also got the lease. You're still negotiating lease settlements. What is that path and when do we get there? It's sort of been pushed out a little bit.

Robert Julian
Interim Chief Financial Officer

Yes. I'll address that and the folks internally here know that I look at the P&L a little bit different, I bifurcated our SG&A expenses into two categories, the recurring SG&A, the impacts adjusted EBITDA, and the non-recurring or adjusted SG&A, which has been elevated. I bifurcate the two, if you look at our recurring SG&A, we're actually making good progress and continue to make progress. Even in the second half of the year this year versus first half, we're really doing a good job of managing recurring SG&A. We've had elevated non-recurring and adjusted SG&A legal expenses and so on. I actually think it's a little bit hidden in the total SG&A number.

If you can look at it on a basis of what is normal, ongoing, recurring SG&A, we're doing pretty well and we're still working on that and becoming more efficient, but it's actually in better shape than what the total SG&A looks like when you don't exclude the unusual and adjust it out SG&A. On the second part of your question relative to cash flow. This year was under a tremendous amount of pressure. Cash flow is under a lot of pressure this year for both legal expenses and legal settlements to the tune of $40 million-ish. It's been that much in previous years as well. I mean, over the course of several years, the legal expenses and settlements approaches $100 million. It's put tremendous pressure on free cash flow. Our view is that, again, that is mostly behind us.

We have a schedule for those expenses going forward. I project cash flow to be positive in the future. In 2027, that number will be positive and continue to improve. Frankly, I'm not concerned about the balance sheet or cash flow or liquidity. I just think that those. We had some unusual non-recurring items in the last couple of years that's really put a lot of pressure on cash.

Operator

The next question comes from Arpine Kocharyan of UBS. Please go ahead.

Arpine Kocharyan
UBS Investment Bank, Research Division

On same-store growth, can you maybe give a little bit more detail on the declines you're assuming for Q3 versus Q4, and specifically, what kind of declines you're looking at for the back half for Club Pilates and what's implied for that brand for H2?

Robert Julian
Interim Chief Financial Officer

Sure. I'll start, and I'll let Mike fill in. We've seen fairly consistent same-store sales comp in the Q1, Q2, first half of the year has been roughly minus 6.5%, give or take 100 basis points or so. In our projections for the second half in our guidance, we are assuming more or less the same trend, not really much of a difference between Q3 and Q4. That may just be, I'm not going to say it's conservative because we're trying to be prudent in the financial assumptions that we're making in the inputs to our forecast and the guidance that we're giving. To answer your question, what's built into the forecast and the guidance is more or less the same trend through the end of the year, pretty consistent with what we've seen in the first half.

Michael Nuzzo
CEO & Director

Yes. That's right. I think we're holding ourselves to the discipline of, we've got a number of good initiatives going right now. We feel like they're targeted on bending the curve around same-store sales. Until you see it, we aren't going to build the financial structure around it. I appreciate Robert's thoughtfulness around the guidance there.

Robert Julian
Interim Chief Financial Officer

Yes, I have to admit, it's a bit of a philosophical forecasting philosophy that I've had throughout my career, it's more or less, I don't like to forecast a change in trend until I've seen a change in trend. We are doing everything we can and a lot of actions to see a change in trend, the forecast reflects what we've seen up until this point in the first half of the year.

Arpine Kocharyan
UBS Investment Bank, Research Division

Okay. That's helpful. Another question, maybe a two-part question. One is in terms of net unit growth, which has obviously changed today, adjusted down a little bit. Is there a change in your assumption for deletions versus sort of growth additions that you are looking at? Maybe can you remind us how different this year will be in terms of deletions as a percentage of footprint? I just wanted to go back to the idea of system growth existing even with declining same-store sales. Over a short period of time, that can very much be true, but how do you attract franchisee investment if the mature store is declining? How do you attract new money?

Michael Nuzzo
CEO & Director

Yes. Let me answer the real estate question first. In terms of, I think you were referring to closures. Our closure trend in the first half of 2026 actually mirrors the closure trend in the first half of 2025. Before we had a larger number of closures in Q4 of 2025, and again, around some brand work we were doing and divestitures and a lot of that. I think we're on a pretty decent run rate around closures. That is what we would have expected. The real focus is on the new studio openings. We feel really good about the pipeline. The real estate environment, and I'm in these meetings every week, and so is Robert. It feels like everybody is looking for strip centers in the 2,000 square foot range. Naturally, landlord negotiations and lease work, I think is a little tougher than it was just a few years ago.

On the flip side of that, we're providing more support to the franchisees in the process I feel good that we're going to maximize the opportunities we have for 2026. We did dial in that number, as best as we could. I think we have a good chance to get out of the gate faster in 2027. I feel good about that. To your question about the messaging to the franchisees, I think there, it kind of gets back to the question we were talking about, or the issue we were talking about around AUV and studio-level economics. I think that as a franchisee, you're always looking for this as a long-term proposition. You're even more hyper-focused on what is a reliable revenue forecast for the studio itself.

What are the expense structure items that I can count on, and what kind of four-wall profitability can I produce? From that perspective, the Club Pilates model has shown incredible durability and strength, and I feel good about continuing to have those discussions with our franchisee base. Having said all of that, one of the big advantages I think we have is that, especially in Club Pilates, we have an existing franchise base that can open most of our new studios as we go forward. Much of our territories are spoken for at this point, again, that gives us a very reliable growth engine into the future.

Operator

The next question comes from Owen Rickert of Northland Capital Markets. Please go ahead.

Unknown Analyst

This is [Keyan] on for Owen Rickert. Just one from us here. I think this is announcement with Spartan is kind of the second or third big, large deal you've done for Club Pilates partnerships. I guess, is there any benefit to them signing these larger partnerships, any deals they're getting on the equipment front? Then how do you think about the balance of the pipeline with these larger partners in? Is it leaning towards these larger partners or more independent franchisees?

Michael Nuzzo

CEO & Director

Good question. I think just to be specific, the nature of these deals is more around, the focus is more around the planning for the future expansion expectations that both we as the franchisor and the franchisee partner can hold us to. It's really great work, and it's not something that takes a couple of weeks. It usually takes quite a bit of time to put into place because our real estate team gets involved. We map out the geographies. We get very specific. That's why the number is very specific because it is linked to very laser-focused geographies. There aren't really elements of the deal that are vastly different than our core franchise arrangement. These are really advantageous to us. These are really great partners. They operate really good businesses. They often bring incremental resources to their management of studios.

They serve as a really good group to test and pilot new initiatives that we develop here at corporate. Some of it comes from our ideas, some of it comes from their ideas. That tends to be really helpful. And we'll see. There are some geographies where some additional larger arrangements could work pretty well, but we'll have to kind of see how that plays out over time.

Operator

[Operator Instructions] Our next question comes from Noah Zatzkin of KeyBanc Capital Markets. Please go ahead.

Noah Zatzkin

KeyBanc Capital Markets Inc., Research Division

I guess first, just on merchandise revenue, how are you thinking about the kind of timeframe for that to ramp back up after the changeover? On the marketing fund expense increase in the second quarter versus last year, any kind of results to point to or expectations for, I guess, when those investments could gain traction? Thanks.

Michael Nuzzo
CEO & Director

I'll take the second part first. The marketing investment in Q2 really helped produce higher paid leads, which was definitely a benefit to us because it helped offset the pressure that we were experiencing around organic leads. That did make that worthwhile. Our return on investment is actually pretty similar on the paid side. We're happy with where that sits. We just have to make up more ground on the organic side. As far as the merchandise arrangement goes, I can't get into much detail, but as we alluded to in the script, we're clearly having some challenges with our outsource partner, and we're working through it. We're exploring a host of improvement options. You called it out. This is not large, but it is a contributor to profitability for both us and our franchisees. And our goal is to get that back to a normal run rate in the second half of the year.

Robert Julian
Interim Chief Financial Officer

Yes. Noah, I guess I would add similar philosophy that I described around the same-store sales comp. We are being either conservative, realistic, however you look at it, in terms of what we're projecting in the second half of the year, which is similar to what we experienced in the first half of the year. Frankly, the largest elements to our change in guidance are a continuation of the same-store sales trend and a continuation of the merchandise through the end of the year.

But we hope to, just like same-store sales comp, we're working very hard to fix that. We hope to do better than a continuation of those trends. That is effectively what's built into the forecast. Those two items, plus the shortfall in Q2 versus our internal expectations, entirely make up the change in our guidance.

Operator

Ladies and gentlemen, with no further questions in the queue, we have reached the end of the Q&A. I will now hand back for closing remarks.

Michael Nuzzo
CEO & Director

Judith, thanks. Thank you all for your questions and your participation. We appreciate your time and look forward to updating you on our progress next quarter. Have a good day.

Operator

Thank you. Ladies and gentlemen, that concludes this event. Thank you for attending. You may now disconnect your lines.

Read more current XPOF analysis and news

View all earnings call transcripts