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Xponential Fitness, Inc. (XPOF) Q3 2025 Earnings Call Transcript

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Q3: 2025-11-06 Earnings Summary

Insights

EPS of \$0.34 **beats by \$0.22** | Revenue of \$78.82M (-2.07% Y/Y) **beats by \$3.57M**

Xponential Fitness, Inc. ([XPOF](#)) Q3 2025 Earnings Call November 6, 2025 4:30 PM EST

Company Participants

Michael Nuzzo - CEO & Director

John Meloun - Chief Financial Officer

Conference Call Participants

Patricia Nir - ADDO Investor Relations

Christopher O'Cull - Stifel, Nicolaus & Company, Incorporated, Research Division

Randal Konik - Jefferies LLC, Research Division

John Heinbockel - Guggenheim Securities, LLC, Research Division

Joseph Altobello - Raymond James & Associates, Inc., Research Division

Jonathan Komp - Robert W. Baird & Co. Incorporated, Research Division

Ryan Meyers - Lake Street Capital Markets, LLC, Research Division

Richard Magnusen - B. Riley Securities, Inc., Research Division

Owen Rickert - Northland Capital Markets, Research Division

Presentation

Operator

Greetings, and welcome to the Xponential Fitness, Inc. Third Quarter 2025 Earnings Call. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Patricia Nir. Thank you. You may begin.

Patricia Nir

ADDO Investor Relations

Thank you, operator. Good afternoon, and thank you all for joining our conference call to discuss Xponential Fitness' Third Quarter 2025 Financial results. I am joined by Mike Nuzzo, Chief Executive Officer; and John Meloun, 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 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 annual report on Form 10-K for the year ended December 31, 2024, filed with the SEC 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 their 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. 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 present all KPIs on a 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 September 30, 2025, this includes BFT, Club Pilates, Pure Barre, StretchLab, and Yoga6.

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

Michael Nuzzo

CEO & Director

Thanks, Patricia, and good afternoon, everyone. First, I'd like to thank the entire Xponential family for welcoming me on board. As I said when I started, Xponential is uniquely positioned to thrive as a successful consumer business. Having completed my first 90 days, I've had the opportunity to deep dive into our business, connect with many of you and gain a clear understanding of both our strengths and the areas where we can improve.

This period has reinforced my belief in the power of our brands and the dedication of our franchisees. I want to again highlight 3 foundational elements: First, Xponential is in a great space. Boutique fitness has substantial momentum and long-term growth potential as consumers continue to invest more in their health and wellness routines.

Second, Xponential has strong studio brands, which are loved by members and led by passionate and committed franchisees. Third, Xponential has made progress in building a team and a supporting foundation to start driving stronger growth and financial returns. Importantly, given the 3 recent divestitures, we have a more optimized brand portfolio. With this, I am convinced we can provide better franchisee support with a more appropriate level of infrastructure consistent with our smaller brand portfolio. I'll discuss recent actions we have been taking to address this.

Let me walk through these elements in more detail. First, the industry. It is estimated that a record 247 million Americans engage in an exercise routine in 2024, up by over 25 million from just 2019 and representing the 11th consecutive year of growth. Within the space, the global boutique fitness market is expected to reach \$60 billion by 2030, fueled by a growing demand among all age groups for specialized community-focused experiences. The sector's emphasis on holistic health and strong engagement will likely continue to fuel growth that outpaces the overall fitness industry. These trends bode well for Xponential.

Secondly, we have strong brands and an excellent network of franchisees. I have spent time with many of our franchisees over these past few months and their commitment to driving their local businesses, ultimately fueling our success is clear. Each of our brands has unique attributes that contribute to their performance.

Club Pilates with over 1,200 locations across North America and over 150 locations internationally is our flagship brand and the scaled leader in the category. Club Pilates studios generate the strongest new unit economics I have ever seen. For example, our recent 2 vintages of Club Pilates openings, the 2023 and 2024 cohorts have shown record year 1 revenue ramps, exceeding the previous 3 vintages at month 12 by an average of 27%. This demonstrates the brand's continued popularity and significant growth opportunity ahead.

Yoga6 and Pure Barre are complementary studio concepts that have a healthy owner-operator franchisee structure and continue to generate impressive sustained organic growth. They both also exhibit strong retention driven by an almost obsessive member base, which we love, of course.

StretchLab and BFT have all the attributes to return to and exceed their historical levels of performance. BFT, born in Australia, has a compelling offering in the high-intensity interval training space. Currently, we have a cross-functional team focused on refining our go-to-market approach in the U.S. to drive better individual studio economics, member awareness and market density.

StretchLab's assisted stretch model is a great complementary addition to a weekly workout routine. I've experienced the benefit firsthand. After exhibiting solid AUVs a few years ago, recent StretchLab revenue trends have been pressured as Medicare Advantage plans, a strong source of member flow, have scaled back on stretch as a covered benefit. Based on what I've learned, there are meaningful opportunities to improve every element that impacts member acquisition and retention. I expect us to make steady progress across both brands as we position for 2026.

Importantly, following the recent divestitures of CycleBar, Rumble and Lindora, we now have a more streamlined brand portfolio, which brings me to my third key area of focus and probably the most significant opportunity for the company. While Xponential has a foundation in place to support franchisees and members, there is substantial opportunity to improve without adding additional cost.

The 5 major areas of focus are: marketing, operations support, unit growth and licensing, innovation and efficiencies and cost savings. I have been dedicating significant time to strengthening each of these core functions within a more streamlined portfolio. This is not about adding additional cost. Rather, it's reallocating and refining how we operate to drive greater focus and efficiency.

Let me walk you through each aspect of our tactical approach. First, in the area of marketing. Our new leadership team in marketing is enhancing our corporate capabilities in digital media, CRM, search and social to augment franchisee local marketing efforts. We have launched a pricing study focused first on Club Pilates, which will serve as a framework for our other concepts. All our corporate brand websites are being refreshed to improve our member journey from initial contact to conversion and retention.

We are also addressing lead management system and process deficiencies to help strengthen our top-of-funnel KPIs across our portfolio. In the fourth quarter, we are making additional marketing fund investments to launch a national brand campaign for Club Pilates, expanding our reach through new performance channels like podcasts, YouTube TV and CTV. Overall, we are improving our corporate marketing engine with a clear focus to drive organic growth. These improvements are designed to help support our brands optimize performance and strengthen our connection with both prospective and existing members.

Second, operations support. We launched our initial field support teams with a laser-focused mission to provide best practices to studios and franchisees on all the ways to enhance local studio financial performance. We are working closely with franchisees to gather feedback, improve processes, refine our approach and ensure these teams are effectively supporting our studios.

On the retail front, the transition to the outsourced model is well underway. We expect the implementation to be largely complete by year-end, and we are looking forward to delivering a much more efficient retail experience for both our corporate teams and franchisees. In the area of unit growth and licensing, we've made swift progress in ramping up our improved real estate and license sales support capabilities. We are working closely with a leading outsourced partner in franchise real estate to implement best-in-class site selection practices, including leveraging the latest AI-powered market assessment tools.

These improvements are designed to ensure we're making smart, data-driven decisions that support long-term success. In addition, we are taking steps to attract more established operators, along with private equity into the existing franchisee base, particularly for Club Pilates.

I'm also excited to share that during Q3, we successfully completed the franchise disclosure documents registration process across brands and states. In international markets, we continue to add locations focused on Club Pilates and BFT, and I look forward to working with the team on ways to accelerate our growth within key strategic geographies in both Europe and Asia.

On the innovation front, we are focused on generating new class content and member engagement within our current portfolio and see substantial upside within each of the brands. For example, in Club Pilates, we recently launched our first new class in several years, Circuit, which incorporates more intense athletic movements while still being accessible to even beginners.

In Yoga6, we are refining our class offering menu for 2026. Both Circuit and new planned classes in Yoga6 will have appeal across age groups and feature strong social media attributes. This month, we also defined a new Club Pilates studio design, a big request from our franchisees.

At a corporate level, we are making sure that our innovation and marketing teams are closely aligned, such that new content continuously fuels the marketing engine, driving engagement and retention. I believe we are just scratching the surface with our abilities to bring innovative leadership to the space.

Finally, efficiencies and cost savings. One of my key learnings these past 90 days was that we needed to move quickly to rightsize our corporate organization, both as a result of the divestitures and in an effort to more broadly streamline the organization. As a result, in October, we executed a reduction in force across most of our corporate departments, which was a difficult but necessary task.

This is expected to result in annualized SG&A savings of about \$6 million. We will continue to identify ways to optimize our operations while upholding our commitment to providing the best service to our franchisees and members. I want to be clear that the initiatives here are clearly multifaceted. While we are acting with the requisite immediacy, the full impacts will unfold over the ensuing quarters. We intend to measure progress and adjust as needed, ensuring that the changes we implement are both effective and sustainable.

With that, I'll turn the call over to John. John?

John Meloun
Chief Financial Officer

Thank you, Mike. Good afternoon, everyone. We ended the quarter with 3,066 global open studios. This quarter, we opened 78 gross new studios, 57 in North America and 21 internationally. There were 32 global studio closures in the third quarter or about 1%, representing an annualized closure rate of 4%.

In the third quarter, the company sold 49 licenses, of which 16 were in North America and 33 were international. Our base of licenses sold and contractually obligated to open is over 1,000 studios in North America, and we also have over 700 international master franchise obligations. Approximately 40% of our global licenses are over 12 months behind their applicable development schedules.

Third quarter North America system-wide sales were \$432.2 million, up 10% year-over-year. This was driven primarily by growth from net new studio openings. Notably, about 90% of system-wide sales growth came from a higher mix of actively paying members with the remainder driven by higher pricing and mix shifts. Same-store sales were down 0.8% for the quarter and up 5.4% on a 2-year stack basis. Same-store sales trends in Q3 were driven by a confluence of factors, and we are in the process of examining them in detail.

At a high level, we've identified lead flow and member conversion issues across the portfolio that we are working to address, some of which were likely accentuated by our implementation of additional member privacy safeguards earlier this year. At a more granular level, StretchLab continues to be impacted in part by brand positioning challenges and the Medicare Advantage coverage reductions. Meanwhile, at Club Pilates, as you all know, we are benefiting from a stronger sales ramp in newer cohorts. While this is great for studio economics, it means that recent cohorts are already near capacity when they enter the same-store sales calculation, translating to lower same-store sales contributions.

As Mike alluded to, we are reviewing all elements of corporate and studio-level operations to compete better and more profitably. Our North America run rate average unit volumes climbed to 668,000 in the third quarter, up 2% from \$654,000 in the prior year period. The increase in AUVs was largely driven by a higher number of actively paying members and higher pricing for new members.

Given the consistent level of demand for our brands and Club Pilates in particular, we believe there is an incremental opportunity to increase revenues through enhanced pricing methodologies, including new price tiers, disciplined cancellation policies and new package offerings.

On a consolidated basis, revenue for the quarter was \$78.8 million, down 2% or \$1.7 million from \$80.5 million in the prior year period. 73% of revenue for the quarter was recurring, which we define as including all revenue streams, except for franchise territory revenues and equipment revenues, given these materially occur upfront before the studio opens.

Franchise revenue for the quarter rose 17% year-over-year or \$7.4 million to \$51.9 million, driven primarily by the catching up of franchise territory license terminations and by royalty revenues given a higher effective royalty rate driven by new studio openings. The company will continue to terminate licenses at elevated levels in the fourth quarter, noting terminations can take time given requirements around notification time lines.

Equipment revenue was \$7.5 million, down 49% year-over-year or \$7.2 million, reflecting a 41% decline in global installation volume compared to the prior year period. Merchandise revenue of \$4.8 million was down 27% year-over-year or \$1.8 million, reflecting lower sales volumes. As a reminder, in Q4, we will begin the implementation of our outsourced retail strategy with FitCo, which is expected to contribute improved margin expansion in 2026 and further optimize non-core operations and reduce working capital commitments.

Franchise marketing fund revenue was \$8.8 million, an increase of 3% year-over-year or \$0.3 million, primarily due to continued growth in system-wide sales in North America and increased average unit volumes from our installed base of studios. Lastly, other service revenue, which includes sales generated from rebates from processing studio system-wide sales, brand access partnerships, company-owned studios, XPASS and XPLUS amongst other items, was \$5.9 million, down 6% or \$0.4 million. The decrease was primarily due to lower brand access fees.

Turning to our operating expenses for the quarter. Cost of product revenue were \$10.2 million, down 41% or \$7 million year-over-year. The decrease was primarily driven by the lower volume of equipment installations and merchandise sales during the period. Cost of franchise and service revenue were \$7 million, up 45% or \$2.2 million year-over-year. The increase was largely driven by the increased recognition of associated commission expenses from the catching up of franchise territory license terminations.

Selling, general and administrative expenses were \$24.7 million, down 47% or \$21.5 million year-over-year. The decrease in SG&A was primarily lower due to a decrease in legal expenses driven by non-recurring insurance reimbursement and lower restructuring charges from lease liability settlements.

During the quarter, we received \$10 million in cash reimbursement from our professional insurance policies related to the SEC investigation that was concluded without action in July as well as other defense costs from other active inquiries. There was an additional \$10 million insurance receivable recorded for SEC investigation and franchise matters as of the end of the quarter, noting that the receipt of these recovery payments in future periods will have no impact to GAAP earnings or EBITDA.

At present, through the third quarter, we have entered into and paid lease settlement agreements of approximately \$32.7 million. As of September 30, 2025, we have approximately \$8.8 million of lease liabilities yet to be settled. We expect most of the remaining liabilities will be settled during the remainder of 2025.

Depreciation and amortization expenses were \$3.7 million, down 13% or \$0.5 million compared to the prior year period. Marketing fund expenses were \$9 million, up 40% or \$2.6 million year-over-year, afforded by higher system-wide sales and associated marketing fund revenue contributions.

Acquisition and transaction expenses were \$3.1 million, down 16% or \$0.6 million from the prior year period. This includes the contingent consideration activity, which is related to the Rumble acquisition earn-out and is driven by the share price at quarter end. We mark-to-market the earnout each quarter and adjust our accruals accordingly. Note that this earn-out will persist despite the recent divestiture of the brand.

We recorded net loss of \$6.7 million in the third quarter or a loss of \$0.18 per basic share compared to a net loss of \$18.1 million or a net loss of \$0.29 per basic share in the prior year period. 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 and loss to adjusted net income and loss is provided in our earnings press release.

Adjusted net income for the third quarter was \$19.3 million or adjusted net income of \$0.36 per basic share on a share count of 35.1 million shares of Class A common stock. Adjusted EBITDA was \$33.5 million in the third quarter, up 9% or \$2.7 million compared to \$30.8 million in the prior year period, primarily driven by increased margin from license terminations and increased royalties in our franchise revenues. Adjusted EBITDA margin was 42% in the quarter, up from 38% in the prior year period.

Turning to the balance sheet. As of September 30, 2025, cash, cash equivalents and restricted cash were \$41.5 million, up from \$32.7 million as of December 31, 2024. For the 9 months ended September 30, 2025, net cash provided by operating activities was \$17.6 million, which includes \$2.8 million in lease settlements. Net cash used in investing activities was \$2.3 million with \$4.3 million used to purchase property and equipment and intangible assets, offset by \$2 million in proceeds from disposition of brands.

Net cash used in financing activities was \$6.6 million, which primarily includes \$5.9 million in net borrowings on long-term debt, \$5.7 million in payments on preferred stock dividends, \$3.4 million payments on promissory note liability and \$2.3 million in payments for taxes related to net share settlement of restricted stock units.

Total long-term debt was \$376.4 million as of September 30, 2025, compared to \$352.4 million as of December 31, 2024. The net increase in total long-term debt is largely due to the company drawing additional debt in the first quarter of 2025 for general working capital purposes and associated fees, offset by quarterly principal payments. As previously communicated, the company is actively exploring multiple work streams to refinance our term loan in advance of its coming current in May of 2026.

Let's now turn to our outlook for 2025. We are reiterating guidance for net new studio openings, revenue and adjusted EBITDA. We are taking a more conservative approach to North American system-wide sales given current business conditions and to account for the divestiture of Lindora. Note that guidance and year-over-year comparisons for system-wide sales and net new studio openings exclude CycleBar, Lindora and Rumble in both periods for comparability.

We now project North America system-wide sales to range from \$1.73 billion to \$1.75 billion, representing a 12% increase at the midpoint. We continue to expect 2025 global net new studio openings, which is net of closures, to be in the range of 170 to 190, representing a 37% decrease at the midpoint from the prior year. We expect the number of closures to be approximately 5% of the global system this year as a percentage of total open studios.

Total 2025 revenue is expected to be between \$300 million and \$310 million, unchanged from previous guidance and representing a 5% year-over-year decrease at the midpoint of our guided range. Adjusted EBITDA is expected to range from \$106 million to \$111 million, unchanged from the previous guidance and representing a 7% year-over-year decrease at the midpoint of our guided range. This range translates into a 35.6% adjusted EBITDA margin at the midpoint.

We continue to expect total SG&A to range from \$130 million to \$140 million. When further excluding the one-time lease restructuring charges, brand divestitures and regulatory legal defense expenses, we are expecting SG&A of \$110 million to \$115 million and a range of \$95 million to \$100 million when further excluding stock-based costs. As a reminder, in the fourth quarter, the company hosts its annual franchise conference, which has a net \$3.7 million expense in the period.

Regarding marketing fund, in the fourth quarter, we expect to see marketing fund spend exceed marketing fund revenue by approximately \$5 million, largely driven by the nationwide branding campaign for Club Pilates. In terms of capital expenditure, we now anticipate approximately \$6 million to \$8 million for the year or approximately 2% of revenue at the midpoint. This compares to previous guidance of \$10 million to \$12 million or approximately 4% of revenue at the midpoint.

For the full year, we continue to expect our tax rate to be mid- to high single digits, share count for purposes of earnings per share calculation to be 34.8 million and \$1.9 million in quarterly cash dividends related to our convertible preferred stock. 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.

We continue to anticipate our unlevered free cash flow conversion to be approximately 90% of adjusted EBITDA as we require minimal capital expenditure to grow the business. We continue to expect that our anticipated interest expense in 2025 will be approximately \$49 million, tax expenses to now be approximately \$5 million, including the cash usage for tax receivable agreement and tax distributions to pre-IPO LLC members and approximately \$8 million in cash dividend related to our convertible preferred stock, resulting in levered adjusted EBITDA cash flow conversion of approximately 35%.

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

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Chris O'Cull with Stifel.

Christopher O'Cull

Stifel, Nicolaus & Company, Incorporated, Research Division

John, I know Club Pilates comps had moderated last quarter, I think, to the mid-single-digit range. Can you provide an update on how that played out in the third quarter and then maybe current trends you're seeing in Club Pilates specifically?

John Meloun

Chief Financial Officer

Thanks, Chris. Yes. In Q2 of 2025, it moderated closer to the mid-single digit, which we said was around 5%. In Q3, we did see it come into the low single digit or about 1% in the third quarter. As we explained on the call, what we're really seeing is your installed base of studios now getting to what we believe is a full maturity given the current operating structure and number of members and pricing that they have, which is around about \$1 million AUV.

As we add new units, what we're seeing is these new units are coming on pretty efficiently and getting up to that kind of, let's call it, \$900,000 to \$1 million AUV very early in the first 12 months of operation, which means as they move into the 13-plus month, they're not really comping like they used to because now the whole system is almost at that \$1 million AUV. That's one of the phenomenons that we're talking about is just the efficiencies of the ramp in Club Pilates. Because they're at full capacity, they're not really comping beyond the \$1 million.

Michael Nuzzo

CEO & Director

Yes, Chris, and I'll add a couple of points as well. Yes, it's a great brand. Obviously, strong AUVs and a great ramp, high productivity. We should still expect to grow organically. Obviously, we're happy with where we were in the first half of the year. I would say that in an increasingly competitive space, we have to do better at helping our franchisees compete better. In the script, we talked about a lot of the areas that we're focused on.

John and I also called out some of the deficiencies in our lead generation and member conversion capabilities, and we're focused on addressing those. Beyond that, we've got to up our game in marketing and studio ops support. I think the team is galvanized around that, and we're excited to support what is a really great brand.

Christopher O'Cull

Stifel, Nicolaus & Company, Incorporated, Research Division

That leads to my follow-up question though is given that Club Pilates is at record high utilization, I guess, and that you're looking into this enhanced, I think you call it enhanced pricing strategies to drive revenue. I guess my question is 2 parts.

First, how do you balance the push for higher prices with the risk of alienating members in a more unpredictable, let's say, macro environment? Then secondly, instead of focusing on pricing, how much opportunity is there to drive growth to fill the significant off-peak capacity hours that exist, I guess, outside of the morning and evening rush?

John Meloun

Chief Financial Officer

Yes. I think you're hitting on a couple of really important topics. I think the quick answer is the best way to do it is to bring in an expert who has done pricing analyses and work and support for brands across the country. That's exactly what we kicked off in the quarter. I've worked with this group in the past. I think what they do a really good job of is really digging into the data in a way where we're getting into deep analysis around the members and the usage and the packages and the pricing structure. It's a very multifaceted approach. It's just not saying, take our tiers and increase them by a specific fixed amount.

We're really getting into the science of this. We're also getting some great feedback from our franchisees, and taking their observations and their learnings at the local studio level. I expect we'll come out with a really thoughtful approach to pricing and packages and intro promotions to maximizing the use of our studios. I'm excited about this work, and I think it's definitely something that will help us in 2026.

Operator

Our next question comes from the line of Randy Konik with Jefferies.

Randal Konik

Jefferies LLC, Research Division

Mike, can you expand upon -- I think you said some sort of comment about private equity entering more into the franchisee base. Can you just give us some perspective on what that would entail, what brands, what geographies? What are you trying to -- what do you kind of envision for that?

Then I know this -- you talked a little bit about in response to another question around this pricing kind of looking into it. What work is being done around density and thinking through what is the appropriate distance to have Club Pilates from another Club Pilates, specific to Club Pilates, I should say, because it just seems like there's just a lot more ground that can be covered with more units per se, maybe not just or instead of kind of tweaking some of the pricing because it sounds like, obviously, these boxes are very productive. Maybe they are reaching maturity, but that would just argue for more units to be put in closer proximity to other units. Just give us your thoughts on how you're thinking about those 2 areas, the private equity and the density question.

Michael Nuzzo

CEO & Director

Yes. Thanks, Randy. You're hitting on the 2 topics that occupy the unit growth part of our strategy and the team. As far as PE, I would say that specifically in Club Pilates, we've had some really great experiences with larger scale operators and I think in general, we are looking to grow with the operators we have and potentially look at opportunities to bring in larger scale operators to other geographies in the U.S.

Private equity has done very well in this space, and so we're having really good productive conversations with them. I'm happy with what the team is doing on that front. There may still also be opportunities with the other brands around larger scale operators, and we certainly are looking into that as well.

On the real estate side, this is what I was specifically referencing when it comes to partnering with an experienced third-party real estate partner and the use of pretty sophisticated location selection technologies so that we can feel good about being able to place studios in proximity to other studios, but still not having the negative impact of meaningful cannibalization. You're probably familiar, there are a lot of great systems out there. We feel like we've got one that will work really well for us and be able to allow us to maximize our network of studios within specific geographies.

Randal Konik

Jefferies LLC, Research Division

Then last question, just give us your philosophy on portfolio construction. I think, look, investors that I speak to generally welcome the paring back of the portfolio, skinning down the number of concepts and modalities that the company has. Do you feel like this is the right set of concepts? Do you think about potential more pardowns in the future? Just kind of what -- give us your kind of sense on where we are with the portfolio and any changes that need to be made or not made.

John Meloun

Chief Financial Officer

Yes. I won't speak to any future considerations. I'm obviously still learning about each of the brands. I do agree that having a smaller portfolio like we have today and the divestitures that we've done have helped us and will help us. It will allow us to be more focused as we ramp up a lot of the business capabilities that I was talking about.

I also see a lot of complementary aspects to the portfolio that we have. I see a lot of opportunities around leveraging best-in-class things that are happening in one brand and applying them to another brand. I think pricing is a good example of that. I'm happy with the portfolio we have. I think we've done some really good work around the divestiture side, and I'm excited to dive in with each of the brands to drive growth into 2026.

Operator

Our next question comes from the line of John Heinbockel with Guggenheim Partners.

John Heinbockel

Guggenheim Securities, LLC, Research Division

Mike, when you guys talk with franchisees about the Club Pilates economic model, is the assumption still sort of the old ramp as opposed to this ramp quickly to \$1 million AUV? Because obviously, if that's true, in theory, I guess, you could go into -- you could pay more rent, you could absorb more cost, but there'd be no guarantee that you stay at \$1 million AUV. How has the sort of the model changed or it's not, if this ramp holds, it's upside to ROI?

Michael Nuzzo

CEO & Director

Well, I think that the ramping that we've seen is a function of the brand and the strength of the brand. It's a function of having really, really strong franchisee presale activity that we have developed and refined and improved over years, right? As a scaled business, we're just -- we're getting a lot of things right on the execution around new studio build. I think that's great. I think that it's all relative, right, based upon the studio where you open it. I feel like we can show improvement with each new class of studio openings.

From a modeling standpoint, the work that the real estate team is doing, especially around the new systems that we're putting in place, are adjusting accordingly and making changes to the ramp that help us make more intelligent decisions on site locations. We'll continue to refine it, and we'll continue to just get better-and-better. I still think there's opportunity around how we do our launch marketing, for example. I think -- but it's a good problem to have, right, when you have to modify your model for obviously a better start-up.

John Heinbockel

Guggenheim Securities, LLC, Research Division

Maybe as a follow-up on the retail ops field consultants. Where are you with that ramp? Then now that you've whittled down to 5 brands, obviously, they can concentrate on fewer brands, fewer issues, but where do you see -- and I guess it wouldn't be Club Pilates, but where do you see the biggest opportunity to fix execution gaps probably across brands?

John Meloun

Chief Financial Officer

Yes. The field team right now is about 20, and we'll be doing a few more over the next couple of months. They are going to be working directly with our franchisees and our studios around a system called ProfitKeeper. The focus of that is how to improve studio level economics. I know when you start out with something, it always morphs into something that's a little different and a little better and a little evolved. I anticipate this doing the same thing.

I also think there's an opportunity, and I've seen this in other retail settings and studio settings, and you've probably seen it, too, where you can identify opportunity, in this case, opportunity studios and you can focus their attention, of course, supporting all of the brands and all of the units, but around a very defined group of studios that you know has the potential to perform better and create some analysis, some feedback, even some friendly competition that makes a system like that work pretty well.

Operator

Our next question comes from the line of Joe Altobello with Raymond James.

Joseph Altobello

Raymond James & Associates, Inc., Research Division

I guess first question on Club Pilates. What's the purpose of the national ad campaign? I ask that because normally, you're looking to build brand awareness, right? You've already got pretty high brand awareness, I would think, and you already have record high utilization. Do you guys see more upside to that utilization rate?

Michael Nuzzo

CEO & Director

This was talked about when I first started, and I dug in with the team, and we've modified the approach a little bit. Most of what will be hitting on the brand campaign will take place over Q4. The way I would think about it is it is us putting incremental dollars to certainly a creative part of it, but around new channels that we typically do not use in performance marketing.

We identified some of those channels. Some of them are traditional media, some of them are new media, CTV, YouTube, podcasts, so what I really like about it, and I think this is going to help us as we get into 2026, is we'll be able to understand the efficacy of each of these investments in these new channels, and then what it provides for us is new ways as we get into the year, if we want to put more dollars behind a particular brand, we know the channels that have the best chance to perform. I think that's what we're really getting as a huge benefit from this work.

Joseph Altobello

Raymond James & Associates, Inc., Research Division

Just to clarify, so there are benefits to other brands. This is testing around marketing concepts behind Club Pilates, but it could have benefits for StretchLab, etc.?

Michael Nuzzo

CEO & Director

Well, this particular campaign is solely for Club Pilates. I think what I was trying to communicate was it will be testing out channels and the efficiency and the effectiveness of new channels that we currently haven't done much work in. That learning will help us if we want to apply this investment or apply these channels to other brands as we get into 2026.

Joseph Altobello

Raymond James & Associates, Inc., Research Division

Just to follow-up on that. John, earlier, you mentioned 40% or so of your backlog is still 12 months behind on a development schedule. How does the accounting work for that in the fourth quarter? Because if I look at your EBITDA guide, obviously, you're calling for a pretty sharp decline year-over-year in the fourth quarter. How should we think about that accounting impact?

John Meloun

Chief Financial Officer

Yes. When you do a termination -- well, first, when you sell a license, the full balance of the license sale, the price goes on to the balance sheet as deferred revenue. If you pay any commissions, the commissions get deferred as a cost as well. When you terminate the license, what that does is it immediately accelerates the full amount of the license that has been deferred from a revenue perspective and commission to the P&L.

In the third quarter, there was a large margin impact or margin benefit, I should say, related to the accelerated termination of licenses. As you move into the fourth quarter, the steep decline based off of the guide is really being contributed by a couple of factors. One is, there will not be a repeat level of terminations in the fourth quarter that there was in the third quarter, and that will be -- that's around about a \$4 million, I guess, you can call it headwind into the fourth quarter.

In addition to that, as a reminder, we have about a \$4 million expense impact in the fourth quarter related to our franchise conference as spend that we do to hold that event. Then as Mike mentioned, the marketing fund dollars, which is about \$5 million for the Club Pilates brand awareness, that is also a headwind into the fourth quarter. The convention in the marketing fund, you can probably consider one-time within the sequential quarters. That's about an \$8 million number.

As you kind of think of a \$33 million adjusted EBITDA number in the third quarter, and you can kind of get to where the guide is by adding an additional \$8 million of convention costs and marketing fund spend in the fourth quarter. There will be heightened elevations again -- or terminations again in the fourth quarter, but not to the magnitude that we saw in Q3.

Operator

Our next question comes from the line of Jonathan Komp with Baird.

Jonathan Komp

Robert W. Baird & Co. Incorporated, Research Division

John, if I could just follow-up on the last point. I think I heard it, was it \$4 million of benefit from terminations in Q3? Then if 40% are still non-current, that seems like a pretty high number, maybe like \$900 million or so. Could you share any insight on sort of the outlook for those? Can you get any of those back to current? Any view of why the 40% hasn't come down? I think that's been a consistent number as you have been terminating some.

John Meloun

Chief Financial Officer

Yes. Thanks, Jon, for that. Yes. I mean when you look at the delinquency of the backlog, one of the things that occurred during COVID was pretty much everything went delinquent, right? Because there was any licenses that was sold prior to COVID, there was about a 2-year period where franchisees were kind of waiting on the sidelines with signing new leases and such because of the fact that there was a shutdown of studios. There was a natural kind of delinquency in our backlog.

Earlier this year, we stopped terminating licenses while our new COO came in and did a full assessment of franchisees by brand, where they stand. The terminations we have done are an output of that work where we have gone through with franchisees and identified which ones are not moving forward and made those terminations.

When you compare the sold but not open backlog from Q2 to the ending Q3, we have significantly reduced the number of licenses that were delinquent, but the percentage that is still delinquent within the brands we still own is still around 40%. When you think about the brands where -- or the composition of the delinquent, let's call it -- the total remaining backlog is about 1,800. About 44% of that backlog is Club Pilates. We feel very strongly that those franchisees are going to move forward.

The other 20% is in StretchLab. Yoga6 is about 12%, Pure Barre is about 5 and then your BFT is about 20%. We have seen a lot of growth in Club Pilates. We do believe those units will be online. They're just delinquent from the development schedule when they originally bought the license. The StretchLab is a function of AUV performance as well. As we can continue to get the AUV up in StretchLab, we should start seeing those franchisees move forward.

One thing you have to remember, too, John, is we did pro forma the licenses. It is comparable with the brands that we own to the prior year, but -- or the prior period. I do believe that the backlog in addition, when we look at it at Q4, that the backlog, you'll see that there will be some more licenses terminated and that percentage over time will start to come down through terminations, but also with franchisees moving forward.

Long answer, but by kind of just organic default around COVID, the backlog naturally just kind of got put into a delinquent state, but it doesn't mean that the licenses won't get open at some point. It's just that they're moving forward on a delinquent schedule.

Jonathan Komp

Robert W. Baird & Co. Incorporated, Research Division

Then maybe to follow-up, John, for the fourth quarter, any help you can give in terms of just bridging comps, system sales and revenue that you're expecting? There's still a fairly wide range on those?

Then just, Mike, bigger picture, could you maybe talk about some of the key metrics that you're targeting to watch the progress initially here? Any further detail on when you would expect to start to see some progress around the key initiatives you're watching?

John Meloun

Chief Financial Officer

Yes. As far as system-wide sales is concerned, I mean, we still guided to the \$1.73 billion to \$1.75 billion for system-wide sales. You can assume that the system-wide sales sequentially will be up from Q3. One of the benefits with system-wide sales in the fourth quarter is we do run promotional Black Friday marketing programs to drive package sales to drive new memberships in the fourth quarter. You will sequentially see system-wide sales up.

As far as comp is concerned, with Q3 being a negative 1% comp, we are expecting to see 0 to low single digit from a comp perspective. It all depends on the successfulness of the marketing programs in the fourth quarter and how they play themselves out.

As far as revenue is concerned from Q3 to Q4, there's a couple of things at play. One is, you will sequentially see overall revenue down from Q3 to Q4. The reason why, again, is the fact that you won't have the benefit of the heightened terminations in the third quarter or fourth quarter that you had in the third quarter. That's going to be the main driving force for overall revenue being down. We do expect to see royalty production up in the fourth quarter, but it's just the one-time terminations that are going to drive down revenue in Q4, but year-over-year, we do expect revenue to be up. We did about \$44.5 million -- excuse me, \$80 million in Q3 of '24. We're relatively in line with that for Q4 of this year.

Michael Nuzzo*CEO & Director*

Yes. On the KPI question, the good news about a business like this is it's got some pretty straightforward KPIs. Weekly, we're looking at leads, new members, classes, retail sales, cancellations, average studio sales on a year-over-year basis each week, and we look at it compared to the previous 4 weeks and 8 weeks. We're getting a sense for momentum and where we stand. We're in a pretty good rhythm when it comes to measuring the business and addressing it.

John Meloun*Chief Financial Officer*

John, let me correct what I just said too. The revenue in Q3 of 2024 is around \$80 million. Adjusted for the terminations, you're probably going to be down sequentially from Q3 of '24 to Q4 of '25.

Operator

Our next question comes from the line of Ryan Mayers with Lake Street Capital.

Ryan Meyers

Lake Street Capital Markets, LLC, Research Division

First one for me, just kind of on the topic of innovation that you guys are looking to drive at some of the concepts. Is this a concept-wide nationwide thing? Is it more so just specific franchisees at certain locations maybe need help driving member growth? Just kind of walk us through some of the innovation there and how we should be thinking about that?

Michael Nuzzo

CEO & Director

Yes, Ryan, good question. When it comes to class content, we approach it from a nationwide rollout standpoint. Again, we'll test and we'll perfect and we'll get it to the point where we're ready to launch it, but we will launch it on a nationwide basis, understanding that some franchisees may not be able to implement it right at the time that we launch it.

The other thing that we'll increasingly do is have that innovation work feed our marketing and driving awareness around new class content is a great way to do it. This is something that I think all the brands will benefit from, and we'll put together a schedule for each of them to dive into it next year.

Ryan Meyers

Lake Street Capital Markets, LLC, Research Division

Then just on the topic of pricing, I mean, how should we think about what the membership churn currently is and maybe more specifically at Club Pilates, where you guys are looking to drive price and then maybe just kind of the concept as a whole, just so we can think about sort of the membership base that potentially is turning out there? Is it elevated? Or what's kind of that historical level there?

John Meloun

Chief Financial Officer

Ryan, I'll take that one. As far as Club Pilates is concerned, we haven't seen a shift in cancellations or churn within the brand. It's a trend that's remained fairly stable. I think what you're starting to see is just the actual total member per studio. It is up when you look at it compared to prior -- the same quarter prior year, but it's just kind of getting to that capacity where we're not adding at the same rate that we did historically. Churn overall has remained stable.

Even when you look at memberships where they've been temporarily frozen, haven't seen any real shift in that either. It's more of a top of the funnel kind of just, I guess, signal that is the rate of growth has kind of slowed down a little bit. Overall members per studio has remained fairly constant.

Operator

Our next question comes from the line of Richard Magnusen with B. Riley Securities.

Richard Magnusen

B. Riley Securities, Inc., Research Division

This is regarding StretchLab. Could you provide maybe more details on your efforts to replace the loss of Medicare visitors, the money that they brought in? What has worked so far to replace that lost revenue? Then you earlier call -- earlier in the year, you mentioned looking at ways to reduce the ratio of stretch instructors to visitors because it tends to be very heavy in that particular metric. I wonder what you've done there and what success you've had?

Then finally, have you looked at maybe other ways of including that modality with other modalities to maybe reduce overhead or get more people interested in it?

Michael Nuzzo

CEO & Director

Yes, Richard, good question. Yes, you're right. We touched on the Medicare Advantage issue. I would just say that we have to drive an expanded membership mix. As we looked at the current membership base, I think there's a lot of opportunity to drive younger member across more athletic pursuits, new partnerships. All these are areas where the offering as it stands today should really resonate.

Also, there's a chance to -- or there's an opportunity to drive business from folks who just want to purchase individual stretches but not a full membership. I think there's an opportunity there. Then also from just overall supporting the brand better, we're looking at pricing intro packages, performance marketing, the online journey, which I think needs some work and local activation. There are a lot of things we're doing around membership expansion in that concept.

From an operation standpoint, we're also testing a few operational adjustments that will lighten the demand on the labor side within the box. Not in a position to give any specific results of that work, but we are diving in for sure.

Operator

Our next question comes from the line of Owen Rickert with Northland Capital Markets.

Owen Rickert

Northland Capital Markets, Research Division

Quickly, what are you hearing from franchisees about potential pressures in areas like labor, occupancy or instructor availability? If you are hearing anything from them, how are you helping them mitigate these challenges?

Michael Nuzzo

CEO & Director

I don't think we're hearing a lot more necessarily. I think that it's a constant challenge just to doing business. Most of our franchisees, I think, do a really great job of addressing it and balancing it. The availability of instructors is something that I think we've heard on an ongoing basis. One of the things that I think we do really well, especially within the Club Pilates system is we've got a pretty extensive instructor training program that helps to obviously feed our studios, which is great. We're looking for ways to potentially expand that in the future, which is really good.

I also think that having the field people engage with the studios around this ProfitKeeper system, I think, can help, especially on the cost side and the profitability side. I mean, I think we'll be helping them to address it, but nothing of note that's been raised more so recently.

Operator

We have reached the end of the question-and-answer session. I would like to turn the floor back over to Mike Nuzzo for closing remarks.

Michael Nuzzo*CEO & Director*

Well, thanks, everybody, for joining today's call. We look forward to connecting with many of our franchisees. We have our annual convention in Las Vegas in the next couple of weeks, and we look for more opportunities to give you insight on the business. Thanks a lot.

Operator

This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.

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