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Xponential Fitness, Inc. (XPOF) Q4 2025 Earnings Call Transcript

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Q4: 2026-02-26 Earnings Summary

Insights

EPS of -\$0.91 **misses by \$0.85** | Revenue of \$82.96M (-0.31% Y/Y) **beats by \$9.54M**

Xponential Fitness, Inc. (XPOF) Q4 2025 Earnings Call February 26, 2026 4:30 PM EST

Company Participants

Michael Nuzzo - CEO & Director

John Meloun - Chief Financial Officer

Conference Call Participants

Patricia Nir - ADDO Investor Relations

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

Randal Konik - Jefferies LLC, Research Division

Arpine Kocharyan - UBS Investment Bank, Research Division

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

Jeff Van Sinderen - B. Riley Securities, Inc., Research Division

Owen Rickert - Northland Capital Markets, Research Division

Presentation

Operator

Greetings, and welcome to the Xponential Fitness Fourth Quarter and Full Year 2025 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce Patricia Nir, Investor Relations, to begin. Thank you.

Patricia Nir

ADDO Investor Relations

Thank you, operator. Good afternoon, and thank you all for joining our conference call to discuss Xponential Fitness' fourth quarter and full year 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, 2025, to be 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 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.

Please also 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 full KPI history presented, we only include brands that are under our ownership as of the current reporting period. For the period ended December 31, 2025, this includes BFT, Club Pilates, Pure Barre, StretchLab and YogaSix.

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

Michael Nuzzo*CEO & Director*

Thanks, Patricia, and good afternoon, everyone. The fourth quarter played an important role in my continued integration into the business, highlighted by our very productive and inspiring November franchise convention. The more time I spend with our teams, franchise partners and members, the more conviction I gain in both our strengths and opportunities to drive long-term consistent growth.

In 2025, we made important progress on several fronts. 201 net new studios opened, including our 1,414th Club Pilates Studio. The power of this brand, the compelling 4-wall economics driven by an outstanding first year sales ramp and ongoing unit growth prospects, both domestically and internationally, continue to set the standard in the industry, achieved \$1.75 billion in system-wide sales, driven by our growing franchise base and strong brands, graduated over 2,100 Pilates and over 3,000 barre instructors from our Xponential training programs, which represent a key asset for the business, completed the transition to an outsourced studio retail and merchandise partner, closed our debt refinancing, providing a solid financial framework going forward and accomplished key strategic brand divestitures and completed our important corporate reorganization.

Despite this progress, we recognize there is meaningful work and opportunity ahead. These efforts, along with our strategic outlook and financial plan for 2026 and beyond, continue to be shaped by my commentary on 3 core themes: the strength of the Boutique Fitness segment, our global franchising platform of strong premium brands and the opportunity to chart a clear path towards sustained long-term growth.

Roughly a decade ago, Xponential was founded with a mission to bring Boutique Fitness to consumers across the U.S. and the world. Since then, we've grown into the leading global franchisor of Boutique Fitness, rapidly expanding through new license sales, studio openings and brand acquisitions to achieve the dominant scale, reach and market position we have today. As a result, now we are an undisputed market leader by number of studios. We are 7x the size of the next largest Pilates competitor, over 3x the size of our next largest barre competitor and one of the top brands in yoga and stretch, while BFT's unique HIIT format has a major international presence.

Our rapid scaling and success helped to foster a more competitive landscape with regional and national concepts and even traditional gyms expanding into group fitness. We maintain a very favorable positioning in this more competitive environment. First, consumers have a strong affinity for our brands, and our scale enables broad convenient access to our studios across the country and around the world.

Second, our approach to barre, yoga, Pilates, HIIT and stretch is time-tested with broad appeal and real results and engagement for members as illustrated by our consistently strong member growth.

And third, our best-in-class brand-specific training and onboarding programs, driving differentiation in experience and securing key roles to support our new studio expansion. And our experienced franchisees and studio managers bring deep local market insight, while our scale as a franchisor delivers brand recognition, visibility and innovation advantages.

At the same time, we acknowledge that over the past few years, legal and regulatory hurdles, underperforming brand acquisitions and divestitures and organizational challenges limited our ability to consistently execute best-in-class support capabilities. So inevitably and not surprisingly, sales growth started to moderate beginning in late 2024 and into 2025.

In 2025, we also had marketing and lead management missteps that contributed to member top-of-funnel challenges that over time resulted in same-store sales pressure, most visible in Club Pilates. While the brand remains the category leader, operates successfully across virtually every market profile nationwide and has average studio AUVs far surpassing our original franchise profitability model, addressing ongoing growth for Club Pilates and across our entire brand portfolio remains a top priority.

As we start 2026, we are developing and implementing improvements focused on organic growth in partnership with our franchisees. They certainly understand the impact they have in driving this effort and are aligned around a renewed focus on member acquisition at the local studio level. So I want to make it clear that as we plan for 2026, we intend to prioritize investments that support new member acquisition and healthy top line growth for our franchisees.

First, our most critical growth engine will continue to be our new unit opening pipeline and process anchored by the Club Pilates brand, and we are already seeing the benefits of enhanced support and tools. We recently enhanced our new franchisee recruiting process across all brands and implemented an effort to address the global licenses that are lagging more than 12 months behind their development schedules. Our Club Pilates franchisee base is eager to open more units in both new and existing geographies, and we continue to see the potential to double our domestic network. Internationally, the Club Pilates brand is also in high demand, and we anticipate meaningful expansion opportunity, specifically in Asia and Europe. Driving overall revenue growth through continued new studio expansion is a key 2026 initiative.

Our second critical element of growth is driving organic studio revenue performance across all brands, measured by continued healthy average unit volumes and modest comp sales growth. We view this as a major improvement opportunity and a key investment focus in 2026. We know that today's fitness landscape is characterized by higher member acquisition costs and longer conversion time lines as consumers weigh more options before committing to a particular studio membership. While we have seen our top-of-funnel lead trends improve since August, we are not where we need to be and require further progress in the focus areas I'll discuss shortly.

We generate strong adjusted EBITDA with attractive and expanding margins, reflecting the scalability and capital-light nature of our franchisor business model. We implemented SG&A cost reductions and margin improvements in 2025 and see additional savings and efficiency opportunities in 2026. However, based on my experience across other consumer businesses, pulling back on member acquisition focused resources to meet an adjusted EBITDA growth target typically proves to be misguided and shortsighted. With a more efficient overhead structure, we believe that over time, growing our top line will generate meaningful adjusted EBITDA leverage.

John will walk through our guidance in more detail, but it reflects deliberate marketing, operations and franchisee support decisions we are making today intended to support durable long-term growth even if it means near-term adjusted EBITDA growth will be more modest than previously expected.

As I alluded to on our last call, we are focused on the following best-in-class studio performance support areas for 2026. First, marketing at both the national and local studio level. After some missed opportunities in 2025, we are making improvements to both, particularly in performance marketing. In Q1, we'll have a second-year version of our local franchise match program that last year was a successful XPO franchisee partnership to put more dollars to work at the local level. Our Club Pilates marketing program in Q4 provided us with valuable insights on additional performance channels we can activate during the year.

In 2026, we will amplify more brand content and awareness through social media and performance marketing, such as the 25th anniversary of Pure Barre, the Club Pilates Circuit class, our unique YogaSix Sculpt and Flow classes and BFT's Signature 8-week Challenge. For StretchLab, we are also using social media in a major way to build awareness around the benefits of assisted stretch, particularly for active older adults.

We also tested and saw solid results from some new member trial offers that we plan to drive through performance marketing channels. Finally, we will be testing and piloting new pricing and member package changes informed by our Q4 pricing study that over time are expected to contribute to organic growth.

Second, our digital and studio platforms across our brands can be enhanced to improve member conversion. In Q4, we started work on our Club Pilates and StretchLab websites, focusing both on updated imagery and improved navigation and member experience. We expect to leverage these enhancements across all our brands to maintain a consistent, high-quality member experience. In 2026, we also plan to conduct an upgrade to our studio member management systems to incorporate more automation, lead management tools and enhanced membership offerings and packages based on our learnings from our Q4 pricing analysis.

Third, our roughly 35-person field operations team is now in place, having spent valuable time extensively training to strengthen on-the-ground studio support. For 2026, they intend to focus their coaching and leadership on increasing studio lead to membership conversion performance. We have a high degree of confidence we can improve every brand's effectiveness by turning leads into trial appointments and first-time classes into memberships.

The team will also be a valuable resource to help new studios maximize presale efforts to drive first year membership growth. And with specifically designed management tools and studio visit protocols, we expect they will also support improved studio profitability. Our senior team and field leaders meet weekly to gather feedback, review KPIs and pivot accordingly.

Fourth, and above all, both acquiring new members and retaining existing members comes down to continuing to evolve and innovate with our brands, including the look and feel of studios, class content and member engagement. We are working through a broad studio refresh initiative at Club Pilates with a new format beginning to pilot in coming months. Our Circuit class in Club Pilates is off to a strong start, and we are planning additional class styles as part of our innovation road maps for each of our brands. You will see these innovations reflected in our marketing, as I mentioned previously.

Finally, with strong support from our operations team, we believe we will be positioned to execute new member engagement campaigns and initiatives at a local studio level. While we are still in the early innings and while I expect to make progress through 2026, it always takes time for new programs, initiatives and teams to maximize their operational effectiveness.

John will discuss our 2026 guidance, but as we gauge resources for driving improved organic growth and until we understand the timing and extent of our initiative results, we are being very thoughtful not to overreach on our full year guidance. I am confident in our priorities and our plan to evolve the business, and I look forward to providing updates over the coming quarters.

Now I'll turn the call over to John.

John Meloun

Chief Financial Officer

Thank you, Mike, and good afternoon, everyone. I'll begin with an overview of our fourth quarter and full year performance and then discuss our outlook for 2026.

We ended the quarter with 3,097 global open studios, opening 78 gross new studios during Q4 with 51 in North America and 27 internationally. For the full year, our gross new studio openings were 341 with 252 in North America and 89 internationally. There were 47 global studio closures in the fourth quarter and 140 during 2025, representing approximately 4.5% of our global open studios for the year.

Closure activity in the quarter included decommissioning of 16 nontraditional studios that were operating on Princess cruise ships. The remaining 31 traditional studio closures were in line with historical quarters and concentrated primarily within StretchLab, BFT and YogaSix. Moving forward, we expect closure rates to decline and be in the low to mid-single digits.

We sold 53 licenses globally during Q4 and 179 licenses in 2025. 112 of the 179 licenses sold in the year were international and 67 were for North America. The North America license sales were lower during portions of the year as we temporarily paused sales activity to complete a comprehensive review and update of each brand's franchise disclosure documents. We expect updated FTDs for the 2026 cycle to be filed in the coming weeks as part of our normal renewal process.

As of December 31, 2025, we had more than 830 licenses contractually obligated to open in North America and more than 760 international master franchise obligations. Of these, approximately 30% are currently more than 12 months behind their contractual development schedules and are considered inactive.

Fourth quarter North America system-wide sales of \$447 million were up approximately 5% year-over-year and same-store sales were negative 4.3%. The increase in system-wide sales was driven primarily by growth from net new studio openings. In 2025, system-wide sales increased approximately 13% to \$1.7 billion from \$1.6 billion in 2024 and full year same-store sales were 0.5%.

North America run rate average unit volumes of \$683,000 in the fourth quarter decreased 2% from \$695,000 in the prior year period. The decrease was largely driven by lower average pricing for paying members, partially offset by a higher number of actively paying members.

On a consolidated basis, revenue for the quarter was \$83 million, flat from the prior year period. 76% of the revenue for the quarter was reoccurring, which we define as including all revenue streams, except for franchise territory revenues and equipment revenues given these materially occur upfront before a studio opens. In 2025, Xponential generated \$314.9 million in revenue, a 2% decrease from the prior year.

Turning to the components that make up revenue. Franchise revenue for the quarter was \$51.5 million, up 14% year-over-year. This growth was primarily driven by higher franchise territory revenue, reflecting accelerated license revenue as we continue to resolve delinquent franchise licenses.

Equipment revenue was \$7 million, declining by 45% year-over-year. This decrease was primarily the result of a lower volume of installations in the period compared to the same period prior year.

Merchandise revenue of \$7.2 million was up 18% year-over-year. The increase year-over-year was due to favorable retail sales and the benefits of the outsourced retail operation that occurred in the fourth quarter.

Franchise marketing fund revenue of \$8.9 million was down 3% year-over-year, primarily due to lower system-wide sales stemming from divested brands.

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 \$8.3 million, down 16% from the prior year period. The decline in the period was primarily due to lower sponsorship revenues from our preferred suppliers, which offsets the cost of holding our annual franchise conference.

Turning to our operating expenses for the quarter. Cost of product revenue were \$9.7 million, down 29% year-over-year. The decrease was primarily driven by the lower volume of equipment installations. Cost of franchise and service revenue were \$7.2 million, up 19% year-over-year. The increase in franchise sales commission was driven primarily by the termination of franchise licenses, which results in the immediate acceleration in commission expense recognition.

Selling, general and administrative expenses were \$57.7 million for the quarter, up 1% year-over-year. In 2025, we have entered into and paid lease settlement agreements of approximately \$33.5 million. As of December 31, 2025, we have approximately \$9.1 million of lease liabilities yet to be settled. We expect most of the remaining liabilities will be settled during the remainder of this year.

Importantly, we have an update in connection with the pending FTC investigation. Earlier this week, FTC staff indicated they will recommend that the FTC commissioners approve a proposed stipulated consent order to fully resolve all of the FTC's alleged claims against the company. As part of that proposed consent order and without the admission of liability, the company has agreed to pay \$17 million over the next 12 months. The settlement remains subject to the approval of the FTC commissioners and the court. We believe resolution of this matter will resolve a meaningful amount of uncertainty for all our stakeholders.

Depreciation and amortization expense was \$2.4 million, down 47% compared to the prior year period. Marketing fund expenses were \$13.3 million, up 126% year-over-year. This increase was expected and primarily driven by a higher spend afforded by the increase in system-wide sales and as part of the increased planned spend for Club Pilates. As Mike mentioned, top-of-funnel lead generation is critically important for the company. The increased spend this quarter was purposely deployed to gain insights on the effectiveness of various marketing strategies.

Acquisition and transaction expenses were \$0.5 million, down from \$1.9 million in the prior year period. As I have noted on prior earnings calls, 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 accrue for the earn-out. Note that this earn-out will persist despite the recent divestiture of the brand.

We recorded a net loss of \$45.6 million in the fourth quarter or a loss of \$1.17 per basic share compared to a net loss of \$62.5 million or a loss of \$1.36 per basic share in the prior year period. For 2025, we recorded a net loss of \$53.7 million or a loss of \$1.47 per basic share compared to a net loss of \$98.7 million or a loss of \$2.27 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 loss for the fourth quarter was \$44.6 million or adjusted net loss of \$0.91 per basic share on a share count of 35.2 million shares of Class A common stock. For 2025, adjusted net loss was \$18.4 million or adjusted net loss of \$0.49 per basic share on a share count of 34.8 million shares of Class A common stock.

Adjusted EBITDA was \$22.9 million in the fourth quarter, down 26% compared to \$30.8 million in the prior year period. The adjusted EBITDA margin was 28% in the fourth quarter, down from 37% in the prior year period. The primary items in the period that contributed to the lower EBITDA margin include higher marketing fund expenses that exceeded marketing fund income and lower sponsorship revenues from our annual franchise conference. For 2025, our adjusted EBITDA was \$111.8 million, down 4% compared to \$116.2 million in 2024.

I'd now like to provide a comprehensive summary of our annual results that include more granular brand level metrics and the data for our 5 brands: Club Pilates, Pure Barre, StretchLab, YogaSix and BFT. As stated in previous years, this additional information is only provided on our fourth quarter conference call.

In 2025, the strongest license sales occurred at Club Pilates with 140 and BFT with 24. Club Pilates alone represented 78% of the 179 licenses sold this year. Most license sales, 63% occurred internationally with the remaining 37% sold in North America.

For gross openings, Club Pilates led with 220, followed by StretchLab with 48 and BFT with 36, together representing 89% of the 341 gross new studio openings this year. Gross new studio openings mostly occurred in North America at 74% with the balance of 26% occurring internationally. Over time, international operations are anticipated to become a greater percentage of the total gross new studio openings.

System-wide sales are driven directionally by the number of North American studios operating and the maturity of those studios. It is expected that the brands with a growing number of studios will continue to generate higher proportions of our system-wide sales as AUVs increase. Club Pilates with 1,241 studios operating at year-end in North America contributed 65% of our total system-wide sales for the year. Pure Barre with 624 and StretchLab with 503 studios operating, both contributed approximately 14%, respectively.

Overall run rate average unit volumes decreased 2% to \$683,000 at year-end. StretchLab AUV decreased 12% year-over-year to \$483,000 and Club Pilates AUV decreased 6% year-over-year to \$966,000. Meanwhile, Pure Barre AUV increased 3% year-over-year to \$400,000 and YogaSix AUV increased 12% year-over-year to \$525,000.

Same-store sales across the portfolio were up 0.5% for the full year, with Club Pilates at 3%, continuing to overinfluence performance due to its scale. Within the other brands, YogaSix and Pure Barre had same-store sales of 2% and 4%, respectively, for the full year, while StretchLab was negative 12%.

Turning to the balance sheet. As of December 31, 2025, cash, cash equivalents and restricted cash were \$45.9 million, up from \$32.7 million as of December 31, 2024. In 2025, the company's cash position increased by \$13.1 million. For the year, net cash provided by operating activities was \$28.3 million. Net cash provided by investing activities was \$1.5 million and net cash used in financing activities was \$16.7 million.

In December 2025, we took a significant step to strengthen our capital structure and support long-term shareholder value by entering into a new 5-year \$525 million term loan and putting in place a \$25 million revolving credit facility. A key aspect of this refinancing was the full repurchase of all outstanding convertible preferred stock, eliminating approximately 8.1 million potential common shares and simplifying our equity base.

By refinancing the existing debt and retiring the convertible preferred security, we have reduced refinancing risk, improved financial flexibility and removed a source of dilution for existing shareholders. This action reinforces our commitment to disciplined capital management and positions the company to better support strategic priorities going forward.

Total long-term debt was \$525 million as of December 31, 2025, compared to \$352.4 million as of December 31, 2024. The increase in total long-term debt is primarily due to retiring the convertible preferred security previously mentioned. As the company continues to generate cash, we expect for deleveraging to occur over the coming years.

Let's now discuss our outlook for 2026. Based on current business conditions and our expectations as of the date of this call, we are issuing the following guidance for global net new studio openings, system-wide sales, total revenue and adjusted EBITDA for the current year as follows.

We expect 2026 global net new studio openings, which is net of closures to be in the range of 150 to 170, representing a 20% decrease at the midpoint from the prior year pro forma for brand dispositions. We expect the number of closures to be 3% to 5% of the global system this year as a percentage of total open studios with a longer focus to reduce global closures to low single digits as a percentage of the total global system.

We project North America system-wide sales to range from \$1.72 billion to \$1.8 billion, representing a 1% increase at the midpoint from the prior year pro forma for brand dispositions.

Total 2026 revenue is expected to be between \$260 million to \$270 million, representing a 16% decrease year-over-year at the midpoint of our guided range. The year-over-year change is roughly driven by an approximately \$23.1 million revenue impact from 2025 divested brands and approximately \$18 million revenue impact from the shift to an outsourced merchandise sales model.

Adjusted EBITDA is expected to range from \$100 million to \$110 million, representing a 6% decrease year-over-year at the midpoint of our guided range. This range translates into an approximately 40% adjusted EBITDA margin at the midpoint.

The relatively flat year-over-year forecast is driven by an approximately \$5.6 million net benefit from divested brands, which is gross margin upside offset by cost savings and overall lower SG&A, primarily from our prior year cost reductions and the net benefit from our new outsourced retail arrangement, offset by lower studio same-store sales, which we expect to trend in the negative low single-digit range for 2026.

We expect total SG&A to range from \$108 million to \$113 million. When further excluding the onetime lease restructuring charges and regulatory legal defense expenses, we are expecting SG&A of \$97 million to \$102 million and a range of \$85 million to \$90 million when further excluding stock-based costs.

In terms of capital expenditure, we anticipate approximately \$6 million to \$10 million for the year or approximately 3% of revenue at the midpoint. Going forward, capital expenditure will primarily focus on our data transformation initiative, website and mobile applications, learning management system and general technology investments.

For the full year 2026, our tax rate is expected to be mid- to high single digit and share count for purposes of earnings per share calculation to be 37.3 million. A full explanation of our share count calculation and associated pro forma EPS and adjusted EPS calculation 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 anticipate our non-GAAP unlevered free cash flow conversion to be approximately 90% of adjusted EBITDA as we require minimal capital expenditure to grow the business. We expect that our anticipated interest expense in 2026 will be approximately \$55 million, tax expenses to be approximately \$4 million, including the cash usage for tax receivable agreement and tax distributions to pre-IPO LLC members, resulting in levered adjusted EBITDA cash flow conversion at the midpoint of approximately 35%.

As Mike mentioned at the beginning of the call, we are happy with the progress we have made on several fronts in the past year. We have invested and will continue to invest in all the necessary initiatives expected to drive sustainable financial performance and long-term growth of our brands.

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] And your first question comes from Joe Altobello with Raymond James.

Joseph Altobello

Raymond James & Associates, Inc., Research Division

I guess my first question is on the revenue and same-store sales in the quarter. I think, John, you mentioned lower average pricing as a part of that. Can you elaborate a little bit on that?

John Meloun

Chief Financial Officer

Yes. I mean as we've seen new studios come online and as far as the ramping is concerned, when you just simply do a calculation on the total system-wide sales divided by the number of members, you get a lower pricing.

One thing to be kind of attentive to in the fourth quarter, we run a lot of promotions in regards to like Black Friday sales, and those are usually quite successful as they're meant to bring in new members or eventually convert to new members as we sell more package type offerings. So you typically get a little bit of dilution around pricing in the fourth quarter, but it normalizes after -- in Q1 and Q2 as those members burn off their packages and have the ability to convert into more traditional memberships versus package type offerings.

Joseph Altobello

Raymond James & Associates, Inc., Research Division

Are you seeing any shift between pricing tiers?

John Meloun

Chief Financial Officer

No. I mean we've typically seen a lot of stability in regards to the distribution of what members are buying. I mean in brands like Club Pilates, you typically see a lot of unlimited membership as those studios come online and people initially kind of join. So there hasn't been material shifts from historical trends.

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

Okay. And my last question on -- in terms of the EBITDA guidance for the year, how much of an improvement are you assuming from exiting or shifting to an outsourced retail model?

John Meloun*Chief Financial Officer*

Yes. So quite a bit actually. And when you actually look at the gross profit improvement that you're seeing in the business, we typically have been in the low to mid-80% range, and now we're getting closer to a 90% gross profit. And that's really because of the fact that we're not running the retail sales into the business along with its -- the cost of goods sold. It's just going to be the rebate that we now get from the vendor.

So what was traditionally, I would say, a retail business that operated breakeven or slightly at a loss is now going to be virtually 100% margin. So the improvement in EBITDA on the retail business is going to be a high single-digit, low double-digit EBITDA enhancement.

Michael Nuzzo*CEO & Director*

Yes. Joe, I would just add that I thought the team did a really good job getting the conversion done by the end of the year, minimizing any issues in the transition -- and yes, I would just add that we've outsourced -- it's a noncore function for us. So it will be a big help. And also, we're starting to partner closely with our outsourced partner around new product introductions. And so that whole process seems to be getting going in a really good way.

John Meloun*Chief Financial Officer*

And Joe, for clarity, when I said high single digit, I mean millions of dollars, so it will be in that \$9 million to \$10 million EBITDA improvement in the year by moving to the retail.

Operator

Your next question comes from Randy Konik with Jefferies.

Randal Konik*Jefferies LLC, Research Division*

I guess some of the commentary you mentioned, I think, nearly 80% of the licenses during the year were Club Pilates. When you look at the numbers kind of put up at StretchLab and you made some portfolio changes already, what is your view on where the -- I guess for Mike, where the portfolio needs to go from here? Do we keep cutting things away? Do we just get to just Club Pilates? Like how should we be thinking about this over the next 12 to 18 months?

Michael Nuzzo*CEO & Director*

Randy, good question. I guess I would start by saying we've not been reluctant about parting ways with brands that we don't see having a good long-term growth match with us. And so -- so we've done that, and I give the team a ton of credit for making some key divestitures last year in particular.

Having said that, we're focused on improvement across all the brands. And so you take a brand like StretchLab, we've got a very urgent improvement focus, and we're partnering very closely with our franchisee base there. They've been a great partner to us around this effort.

I brought in a new leader who helped me to turn around the grooming business at Petco, and he's been diving in with the team, understanding the data and the trends, marketing strategy, brand positioning and other improvements that we're starting to get out into the market for StretchLab.

And as you know, this is a brand where we're the leader in the space, one of the leaders in the space. We have great overall satisfaction scores. We've got some very productive studios. And then we've got some cohorts who have been impacted by, among other things, the Medicare Advantage changes that happened.

So right now, the team is focused on all the right things, targeting performance marketing on what we consider our spot, so active older adults with spending power, building awareness, local activation and retargeting with these folks, using CRM and app to drive higher retention of members in the first 3 months, which we see as a key opportunity. As I referenced in the script, we're going to be launching a new website experience that will make it easier for folks to buy and schedule a stretch, trial the experience and then convert to membership.

And then we're also coaching and working with our franchise partners on how we can shift hours of operation to more weekends and week nights. And that's been a major thing that's come about from our look into the data and our survey work.

So we feel good about these being the things that will help us to drive momentum in a business like StretchLab. And regardless of what the long-term situation is, having that momentum is going to be really, really important.

Randal Konik

Jefferies LLC, Research Division

Got it. And then on Club Pilates, I think we've kind of talked about this in the past. The productivity is very strong, 4-wall very, very strong as well. When you look at the comp number or the AUV, do you look at that and say, all right, we have to kind of get out more of these units as quickly as possible to further densify that brand, at least in the United States? If so, what is the plan there? And how quickly can you kind of get this done? And are you looking to kind of -- really kind of double down on license sales in that concept?

Michael Nuzzo

CEO & Director

Yes. We gave you some initial unit growth numbers. And again, a large part of that is going to be Club Pilates focused. We feel really good about the opening process, the goals, the way the team is working, especially with our outsourced real estate partner and our licensed sales team.

And so when it comes to the Club Pilates business, we feel like there's a lot of potential for upside. And I would also say that with the other brands, we are also focused on generating some unlocks when it comes to unit growth as well, Pure Barre, YogaSix, BFT, which we've worked on a new go-to-market approach there that we really like.

The other piece of it is on the international front. We haven't talked a lot about international, and I certainly hope to talk more about it as we go because we feel like for Club Pilates, especially, there is a lot of opportunity. We are just getting started in a number of key international markets and feel like there's a lot of growth potential. We have a dedicated team. We are engaging with really good master franchise potentials and existing partners. And so I think that's a growth avenue as well.

Within the domestic part of the business for Club Pilates, we believe working with both smaller and larger franchisees, there's still a lot of white space. There's also fill-in space where we have very productive studios and an opportunity to set up another studio within a short distance. And so that will have different impacts on the ramp and the sales, but everybody is very enthusiastic about the 4-wall economics, and we continue to see really, really good results there.

Operator

Your next question comes from Arpine Kocharyan with UBS.

Arpine Kocharyan

UBS Investment Bank, Research Division

It seems like my first question is on unit growth. It seems like you were looking at something like mid-single-digit attrition of units and then around 10% or so of gross additions for 2026 about a quarter ago. Could you maybe help me bridge that outlook with the 20% decline in net units today? I'm sure some of the divestitures shaved off some units, but what else moved that outlook versus a quarter ago?

John Meloun

Chief Financial Officer

Yes. Arpine, nice to talk to you. When you look at the gross openings for 2025, we opened over 340 -- I think it was 341 new studios in the year. So we did on a gross basis, open up about 10% more locations. The majority of the, as you called it, attrition or closures in 2025, they were concentrated in a few brands. So they were concentrated in Pure Barre, StretchLab and YogaSix. So that was about another 140 locations that went away.

When looking at that kind of distribution, I think it's really important to understand that only 3.5% of -- or 92% of the closures happened domestically, which is a very low amount. The majority of the closures -- or 48 or a larger percentage, which is about 10% of the international locations closed. So when you think about guiding forward on a net basis, it's really hard to understand where the closures are going to come from because you don't usually typically know very much information outside of a couple of months of where some of the studios are struggling.

So we believe that putting in front of 2026 guidance pretty similar to how we performed in 2025 right now is kind of the right conservative approach. We may be taking probably too aggressive of a closure number, meaning probably too high, but we want to err on the side of being conservative.

So I think what you'll see from a performance standpoint is '26 will largely mimic or look a lot like '25. The distribution of closures will probably still be concentrated in those same 3 brands of StretchLab, Pure Barre and YogaSix. I think the distribution of closures between domestic and international will look very much the same, where I think you'll have a low single digit in the domestic and probably a little bit higher of a percent high single-digit percent internationally. But the growth algorithm remains the same. It should be about 10% new studio openings per year, offset by how many closures we have.

Arpine Kocharyan

UBS Investment Bank, Research Division

Got it. That's super helpful. And then just a quick follow-up on your same-store growth outlook. I was wondering if you could walk us through what same-store growth is embedded in your current guidance for this year. And I'm not sure if you mentioned this, I'm sorry if you didn't, I missed it. For Club Pilates, did you give out same-store growth for Q4 and where you expect that to end up for 2026?

Michael Nuzzo

CEO & Director

Yes. Let me comment on that and then give some more context that I think might be helpful, at least from my perspective. So the guide reflects more of the way we ended 2025 in terms of organic growth. And I'd be the first one to say that I have very little patience for negative sales trends. And at least in Q4, we definitely should have performed better in this environment with the assets we have. But to me, that's all about competing in a healthy environment.

Stepping back from it, I'd say that we've got the brands and we've got the modalities that are very strong. We still have meaningful first-mover advantage. Our retention remains strong. So after years of growth after growth, we have a top of funnel issue to fix. And so we had some marketing missteps that we talked about, but we're also nascent when it comes to our field support at this point. We've got some clunky apps and website to address. We're not getting the pricing upside that we think we have the potential to get, and we're still pushing for improved performance marketing.

So the good news is all of these things are addressable. And this is what really lays the foundation for the plan for 2026. But again, to John's point about guidance, we wanted to really not overstep. And so if that's helpful perspective.

John Meloun

Chief Financial Officer

Yes. And to answer your question specifically on the performance, for the full year, Club Pilates had a positive 3% same-store sales. The fourth quarter was down 3%. But again, we're competing against our performance year-over-year when it comes to running these promotions.

I think the one thing to kind of just kind of repoint out is when you look at Club Pilates and how fast these units ramp and get to full capacity, when you have an installed base that virtually has ramped to this roughly \$1 million-ish AUV, it's much harder to always constantly be comping positive without always just taking price because there is only so many available reformers in the units and they're largely -- these classes are spoken for and taken up.

So for us, we do believe Club Pilates, it's a volume game here where we want to consistently continue to open up more units and create more supply because we do see the ramp is very healthy. But it should not be expected that you're going to return back to the days where you're seeing 20% to 10% -- or 10% to 20% same-store sales like what happened when we came out of COVID because there's just not that much supply left without opening more units.

Operator

And your next question comes from Ryan Meyers with Lake Street Capital.

Ryan Meyers

Lake Street Capital Markets, LLC, Research Division

John, I just wanted to follow up kind of on the answer you gave to the last question and make sure I understand it correctly. So that 3% same-store sales decline in Club Pilates, you're just kind of attributing that to the tougher year-over-year comparisons. And there's nothing within that concept itself that you guys are seeing kind of demand soften at all. It's more so just that tougher year-over-year comp.

John Meloun

Chief Financial Officer

Yes. I think the way to think about it is like we keep pushing Club Pilates to like record levels as far as like AUV. And it's like can you constantly break world records every quarter, and it becomes harder and harder to repeat that. So I think you may come up a second or so short if you put it in Olympic terms in racing, like it's not easy to always repeat what you did last year. And we continue to add more units. And I think that's the important part of this equation here is the growth and profitability for the franchisor is about more units. And if we can consistently keep AUVs at these elevated levels, they'll generate really strong royalties.

So when you see a negative 3% in Q4, that's not a terrible thing when you consider for the full year, it was a positive 3% comp. So the business is performing well. The franchisees are doing really well from the 4-wall, and the business is producing really strong royalties, which is showing up as strong margin flow-through in the business.

Michael Nuzzo

CEO & Director

Yes. And I would also add to what John is saying and maybe emphasize what John is saying, too, and it gets to the point about future unit growth. If you just break it into you'll have unit growth that is more white space, then your expectation there could be for a higher first year AUV, but perhaps not as much growth in comp.

There's also the scenario where we're adding into existing markets where there, you might have a slightly lower AUV, still far better than what you would have put into any model. And then you've got more opportunity for comp. And so I could see as we continue to go along the path of doubling the network, which we feel really good about and our franchisees feel really good about, I think we're going to have that dynamic as we go. And so that will impact overall comp. It's just a fact of life.

And we're working hard to make sure that we do all the right things that organically grow the business. But we're not going to be terribly disappointed with the AUVs we're producing under either scenario.

Ryan Meyers

Lake Street Capital Markets, LLC, Research Division

Okay. Fair enough. That makes sense. And then a couple of times in the call, you guys mentioned the pricing survey that you put out there. I'm just kind of wondering if you can talk about what you guys learned from that and how you think you potentially can apply that.

Michael Nuzzo*CEO & Director*

Yes. First of all, I was really happy with the work that the team did. We used an outside consultant, as I think I mentioned before. They produced some real foundational work. They looked into our data in a way that we had not viewed it in the past. And so that was really good. And then we took that work and we pressure tested it directly with a group of key franchisees. And so it was a very collaborative effort. And the result of that are several initiatives that we will be testing starting around Q2. And as we see results from those tests, we'll look to expand it to the rest of the network.

Some of the initiatives are, I would say, relatively straightforward, for instance, like pricing adjustments for inflation, enhanced trial offers, some updated cancellation fees, looking at where we're pricing regionally and helping to coach the franchisees on making that more consistent where applicable. And then some are a little more strategic, like potentially a new unlimited offering, which we're excited about.

So I would say that this work is going to have a lot of applicability not just for Club Pilates, but across our other brands. And some of the brands like YogaSix have already started along the path of a similar approach on pricing. So it's been really good to see.

We'll give you a sense of the impact probably over the next couple of calls. Sometimes it takes a while for pricing to really work its way through the membership base, but it's a really good start.

Operator

Your next question comes from Jeffrey Van Sinderen with B. Riley Securities.

Jeff Van Sinderen*B. Riley Securities, Inc., Research Division*

Just to clarify, did you spend more on marketing in Q4?

John Meloun*Chief Financial Officer*

Yes. There was about a \$4 million investment that we made, and we talked about this to really look at a number of marketing strategies and see which ones were the most effective, so we could use that as we rolled into 2026. So there was about a \$4 million higher marketing fund spend in Q4 than the income we received.

Jeff Van Sinderen*B. Riley Securities, Inc., Research Division*

Okay. But if we sort of look at it organic -- is there a way to look at it organically and parse it out and say, okay, you didn't really spend -- you did this, what I would call maybe a special project with that \$4 million, if you want to call it that? But the core marketing didn't go up, correct?

John Meloun*Chief Financial Officer*

Well, all the marketing that we spend on a quarterly basis is related to marketing funds. So in the fourth quarter, we brought in about \$8.9 million in marketing fund revenue, and we spent around \$13.3 million. So the excess -- or I guess you can call roughly that \$4 million excess, that was marketing fund surplus dollars that -- the majority of it came from Club Pilates when post-COVID, the business ramped faster than we could actually deploy the dollars. So there was a surplus balance in the marketing fund for Club Pilates that we now have the benefit of investing into the brand to start driving more leads. And we expect to do that again in the first half of 2026 as we burn off more of that surplus to really drive more brand awareness, but also more lead generation into that brand.

Jeff Van Sinderen*B. Riley Securities, Inc., Research Division*

Okay. Good to hear. And then I know Club Pilates was down slightly on comp in Q4 and obviously, a tough comparison there. But how are you thinking about the Club Pilates comp progression as you think about this year? When do the comparisons get easier? When do you anticipate turning positive?

Michael Nuzzo*CEO & Director*

I won't give you specifics, and we don't forecast quarterly. I'll just give you a couple of data points. I think that last year, around the middle of the year is when we started to see more weakness around top of funnel. And then the other piece I would tell you is that, obviously, the things we've been talking about take a little time to start getting traction. So again, as we go through the year, I think you'll see more progress.

Operator

Your next question comes from Owen Rickert with Northland Capital Markets.

Owen Rickert*Northland Capital Markets, Research Division*

You did mention in the prepared remarks, I think you said you have 35 field team members now. That's kind of been an initiative we've been talking about the last couple of quarters. I guess, can you just dive a bit deeper into how that initiative is performing? And maybe what tactics have been working and where are some areas of improvement that these team members are assisting franchisees with?

Michael Nuzzo*CEO & Director*

Yes. Really good question. Yes, we have 35, and that feels like the right number at this point as we look at the network and what they will be responsible for helping with. They have really just been deployed and trained, and we're starting to have them engaging with franchisees on a regular basis.

What we're directing them to do and help with is driving sales. So helping with our franchise partners around information around how to help drive sales, how to help drive conversion, how to help drive initial appointments, how to follow up on leads.

When it comes to new studios, they will be involved in helping with the presale process, which is really, really important for getting our initial membership base established. And then they also have a designated group of target studios. And so these are studios that either the franchisee has reached out to us or we've seen in data where there's a potential for a studio to perform better. And they are making visits and doing a sort of a comprehensive assessment of how they can help coach the studio team, the studio manager to help drive better results.

And so that's the focus. They've really just gotten started. But I'm excited. We've gotten some really good feedback from the franchisees about these visits and their engagement. And I think as we get through the year, the other advantage that they will give us is, as we have initiatives, like pricing, for example, they can help with ensuring that it's implemented really, really well.

Operator

And there are no further questions at this time. So I hand the floor back to Mike Nuzzo for closing remarks.

Michael Nuzzo*CEO & Director*

I'd like to thank you all for joining us today. And for a number of you, we look forward to seeing you at the Raymond James Conference. Thank you.

Operator

And with that, we conclude today's call. All parties may disconnect. Have a good day.

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