

## Life Time

## ICR Takeaways: Strong demand leading to waitlists &amp; enrollment fees

Reiterate Rating: BUY | PO: 20.00 USD | Price: 14.46 USD

## Strong demand leading to waitlists &amp; enrollment fees

We attended an analyst meeting with Bahram Akradi, Chairman and CEO at the ICR conference. Our key takeaway is that we believe membership demand continues to exceed available desired capacity at many clubs, leading to waitlists and the ability for LTH to charge enrollment fees. We believe strong demand could allow LTH to take further price beyond its current rack rate of \$220 per membership.

## See stronger contribution from in-center &amp; digital offering

LTH believes it should be able to accelerate its in-center business especially given the rollout of new programming such as dynamic stretch and the potential broader rollout of its MIOra performance and longevity solution. Additionally, LTH plans to revamp its food and beverage offering, and believes it should be eventually be able to double the revenue contribution to ~\$300mm vs. \$150mm currently.

## Sale leaseback environment still remains challenging

We believe the sale leaseback environment remains challenging given the rise in cap rates, and as LTH is hesitant to do deals in current rate environment. However, LTH continues grow units through asset light opportunities, including smaller box formats and club takeovers. We believe new club formats have similar contribution as larger box formats per square foot.

## 4Q in line with expectations post CFO transition

LTH pre-announced 4Q post its departure announcement of CFO Bob Houghton. LTH expects revenue in line with prior guidance (\$555-\$565mm) as well as adj. EBITDA (\$131-\$135mm). We believe the CFO transition was not related to company performance, as Mr. Houghton recently accepted a new CFO role at Pivot Bio, a sustainable agriculture company.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(2.17)	(0.22)	0.59	0.69	0.76
GAAP EPS	(3.73)	(0.01)	0.34	0.48	0.55
EPS Change (YoY)	3.1%	89.9%	NM	16.9%	10.1%
Consensus EPS (Bloomberg)			0.43	0.63	0.80
DPS	0	0	0	0	0
<b>Valuation (Dec)</b>					
P/E	NM	NM	24.5x	21.0x	19.0x
GAAP P/E	NM	NM	42.5x	30.1x	26.3x
EV / EBITDA*	87.5x	24.8x	13.1x	11.8x	11.1x
Free Cash Flow Yield*	-11.9%	-6.0%	-2.9%	2.1%	6.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

10 January 2024

## Equity

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## Stock Data

Price	14.46 USD
Price Objective	20.00 USD
Date Established	25-Oct-2023
Investment Opinion	C-1-9
52-Week Range	11.10 USD - 22.41 USD
Mrkt Val (mn) / Shares Out (mn)	2836 USD / 196.1
Free Float	26.2%
Average Daily Value (mn)	9.32 USD
BofA Ticker / Exchange	LTH / NYS
Bloomberg / Reuters	LTH US / LTH.N
ROE (2023E)	5.3%
Net Dbt to Eqty (Dec-2022A)	84.5%
ESGMeter™	NLA

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Timestamp: 10 January 2024 12:05PM EST

# iQprofile<sup>SM</sup> Life Time

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-6.8%	1.2%	2.6%	2.9%	3.1%
Return on Equity	-18.9%	-2.0%	5.3%	5.9%	6.1%
Operating Margin	-37.6%	6.1%	9.9%	10.6%	10.6%
Free Cash Flow	(338)	(169)	(81)	60	182

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	3.3x	3.2x	3.0x
Asset Replacement Ratio	1.4x	1.5x	1.9x	1.4x	1.0x
Tax Rate	19.5%	31.5%	25.2%	29.0%	29.0%
Net Debt-to-Equity Ratio	84.5%	84.5%	80.6%	72.7%	60.7%
Interest Cover	-2.2x	1.0x	1.7x	2.0x	2.2x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,318	1,823	2,213	2,512	2,759
% Change	39.0%	38.3%	21.4%	13.5%	9.8%
Gross Profit	474	754	1,005	1,140	1,250
% Change	64.4%	59.2%	33.2%	13.4%	9.6%
EBITDA	80	282	534	594	630
% Change	NM	252.1%	89.5%	11.3%	6.1%
Net Interest & Other Income	(224)	(113)	(130)	(132)	(134)
<b>Net Income (Adjusted)</b>	<b>(338)</b>	<b>(43)</b>	<b>116</b>	<b>137</b>	<b>154</b>
<b>% Change</b>	<b>-3.8%</b>	<b>87.3%</b>	<b>NM</b>	<b>18.1%</b>	<b>12.5%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(579)	(2)	67	95	112
Depreciation & Amortization	235	229	245	268	278
Change in Working Capital	(115)	(48)	(3)	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	455	(10)	73	70	70
Capital Expenditure	(334)	(339)	(462)	(373)	(278)
<b>Free Cash Flow</b>	<b>-338</b>	<b>-169</b>	<b>-81</b>	<b>60</b>	<b>182</b>
<b>% Change</b>	<b>-82.3%</b>	<b>49.9%</b>	<b>52.1%</b>	<b>NM</b>	<b>201.7%</b>
Share / Issue Repurchase	849	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(453)	282	100	10	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	32	26	48	118	300
Trade Receivables	6	13	13	13	13
Other Current Assets	93	92	79	79	79
Property, Plant & Equipment	2,791	2,901	3,119	3,223	3,223
Other Non-Current Assets	3,334	3,593	3,593	3,593	3,593
<b>Total Assets</b>	<b>6,257</b>	<b>6,625</b>	<b>6,852</b>	<b>7,027</b>	<b>7,208</b>
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	336	390	380	380	380
Long-Term Debt	1,799	1,821	1,871	1,881	1,881
Other Non-Current Liabilities	2,030	2,290	2,340	2,340	2,340
<b>Total Liabilities</b>	<b>4,165</b>	<b>4,501</b>	<b>4,591</b>	<b>4,601</b>	<b>4,601</b>
<b>Total Equity</b>	<b>2,091</b>	<b>2,124</b>	<b>2,261</b>	<b>2,425</b>	<b>2,607</b>
<b>Total Equity &amp; Liabilities</b>	<b>6,257</b>	<b>6,625</b>	<b>6,852</b>	<b>7,027</b>	<b>7,208</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Leisure

## Company Description

Life Time is a leading lifestyle brand offering premium health, fitness, & wellness experiences through its resort-like athletic centers that avg. 100K square ft.

## Investment Rationale

We rate LTH Buy as we believe it should benefit from significant whitespace & pricing opportunity as well as strong network benefits as center density increases.

## Stock Data

Average Daily Volume 644,627

## Quarterly Earnings Estimates

	2022	2023
Q1	-0.22A	0.12A
Q2	-0.07A	0.18A
Q3	-0.02A	0.16A
Q4	0.09A	0.14E

## Price objective basis & risk

### Life Time (LTH)

Our \$20 PO is based on an enterprise value of 9-10X our F24 adj. EBITDA estimate of \$594.0mn, a valuation more in line with other Best-in-Class Experience Membership Models.

Risks to the downside are: 1) Life Time operates in a highly competitive U.S. market with other luxury fitness providers including Equinox, high-end boutique fitness studios including F45 & Xponential Fitness, and other fitness/experience based membership models incl. country clubs, (2) rise in COVID-19 case counts could pressure Life Time recovery trends especially if case counts continue to pressure consumer sentiment, (3) strong momentum during the peak new member sign up period of mid-December/January is important for Centers to achieve strong results for the full new year, (4) Continued rise of at home fitness, including Peloton, could pressure demand for in-center fitness models, and (5) New Center construction/opening delays could push off timing of contribution from new Centers vs. current model expectations.

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### US - Food Retailers & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Academy Sports + Outdoors	ASO	ASO US	Robert F. Ohmes, CFA
	BJ's Wholesale Club Holdings	BJ	BJ US	Robert F. Ohmes, CFA
	Costco Wholesale Corporation	COST	COST US	Robert F. Ohmes, CFA
	Fox Factory Holding Corp	FOXF	FOXF US	Alexander Perry
	Grocery Outlet Holding Corp.	GO	GO US	Robert F. Ohmes, CFA
	Harley-Davidson	HOG	HOG US	Alexander Perry
	Life Time	LTH	LTH US	Alexander Perry
	Planet Fitness, Inc.	PLNT	PLNT US	Alexander Perry
	Sysco Corporation	SY	SY US	Kendall Toscano
	Target Corp.	TGT	TGT US	Robert F. Ohmes, CFA
	The Kroger Co.	KR	KR US	Robert F. Ohmes, CFA
	Topgolf Callaway Brands Corp	MODG	MODG US	Alexander Perry
	Walmart Inc	WMT	WMT US	Robert F. Ohmes, CFA
<b>NEUTRAL</b>				
	Dick's Sporting Goods	DKS	DKS US	Robert F. Ohmes, CFA
	Xponential Fitness	XPOF	XPOF US	Alexander Perry
	YETI Holdings, Inc.	YETI	YETI US	Robert F. Ohmes, CFA
<b>UNDERPERFORM</b>				
	Canada Goose Holdings Inc	YGOOS	GOOS CN	Alexander Perry
	Canada Goose Holdings Inc	GOOS	GOOS US	Alexander Perry
	Columbia Sportswear	COLM	COLM US	Alexander Perry
	Dollar General Corporation	DG	DG US	Robert F. Ohmes, CFA
	Dollar Tree, Inc.	DLTR	DLTR US	Robert F. Ohmes, CFA
	Hibbett Sports, Inc.	HIBB	HIBB US	Alexander Perry
	National Vision	EYE	EYE US	Robert F. Ohmes, CFA
	Sprouts Farmers Market, Inc.	SFM	SFM US	Robert F. Ohmes, CFA



## US - Food Retailers &amp; Leisure Coverage Cluster

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**IQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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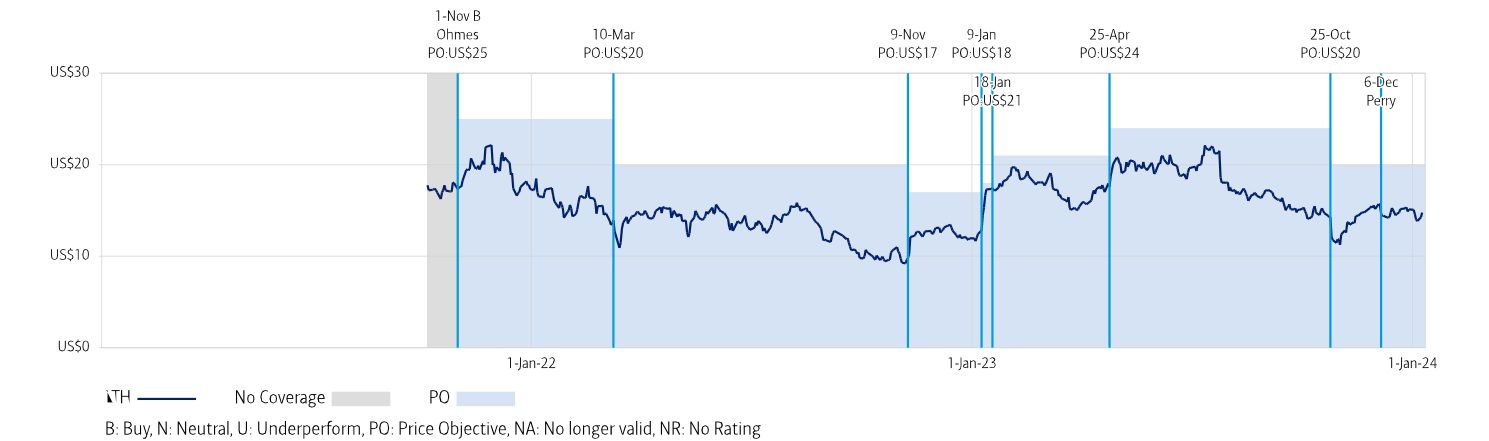
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Life Time (LTH) Price Chart



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Equity Investment Rating Distribution: Leisure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	16	55.17%	Buy	9	56.25%
Hold	7	24.14%	Hold	5	71.43%
Sell	6	20.69%	Sell	4	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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