

## Life Time

## Key highlights from virtual fireside chat with CEO &amp; CFO

Maintain Rating: BUY | PO: 24.00 USD | Price: 17.02 USD

## Key highlights

We hosted a virtual fireside chat with Life Time (LTH) management including Founder, Chairman, & CEO Bahram Akradi and Executive Vice President & CFO Robert Houghton. Key takeaways include the following:

## LTH seeing greater number of asset-light opportunities

LTH is seeing a greater number of asset-light opportunities than originally anticipated, which could increase the number of club openings in 2024 and LTH continues to evaluate opportunities for all club types (i.e., mall-based, club takeovers, SLB). We believe LTH is seeing favorable cap rates despite movement on the 30-year rate and we do not expect LTH will assume additional debt to finance new builds as it looks to lower its leverage ratio. We do not believe new clubs are cannibalizing older clubs, as LTH sees higher network density (e.g., opening of Miami at The Falls club drove memberships at the Coral Gables club). LTH is also starting to see moderation in construction costs.

## LTH continues to focus on profitability

LTH remains focused on profitability and believes they can hit their EBITDA target at the low end of their revenue guidance range. We believe corporate “rewiring” initiatives that began in 4Q22 should help LTH leverage G&A/Marketing expense and reduce its center operations costs through 3Q. LTH’s focus has now shifted from margin expansion to driving in-center revenue. LTH is seeing early benefits to the personal training business with the addition of dynamic stretch (which is expected to officially roll out to all clubs in October) but is working on “dozens of different initiatives” at all times.

## LTH is not seeing signs of softness

LTH does not see signs of softness, as membership attrition rates have fallen below 2019 levels, and a slowdown in in-center revenue is not discernable. LTH is also seeing higher swipes per subscription vs. 2019 levels (11 vs. 9). We expect to see some increase in monthly dues this fall as LTH takes some legacy price increases and prevents overcrowding of clubs. However, LTH still expects a sequential decline in memberships in 3Q to reflect normal seasonality following pool season. We maintain our Buy rating and \$24 PO.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(2.17)	(0.22)	0.58	0.66	0.74
GAAP EPS	(3.73)	(0.01)	0.41	0.49	0.57
EPS Change (YoY)	3.1%	89.9%	NM	13.8%	12.1%
Consensus EPS (Bloomberg)			0.46	0.67	0.92
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	29.3x	25.8x	23.0x
GAAP P/E	NM	NM	41.5x	34.7x	29.9x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	94.2x	26.7x	14.5x	13.4x	12.3x
Free Cash Flow Yield*	-10.1%	-5.1%	-3.4%	1.5%	2.8%

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

05 September 2023

## Equity

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## Stock Data

Price	17.02 USD
Price Objective	24.00 USD
Date Established	25-Apr-2023
Investment Opinion	C-1-9
52-Week Range	8.75 USD - 22.41 USD
Mkt Val (mn) / Shares Out (mn)	3,336 USD / 196.0
Average Daily Value (mn)	15.17 USD
BofA Ticker / Exchange	LTH / NYS
Bloomberg / Reuters	LTH US / LTH.N
ROE (2023E)	5.2%
Net Dbt to Eqty (Dec-2022A)	84.5%
ESGMeter™	NLA

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SLB: sale-leaseback

G&amp;A: general and administrative

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Timestamp: 05 September 2023 06:54PM EDT

# 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%	2.8%	2.9%	3.1%
Return on Equity	-18.9%	-2.0%	5.2%	5.7%	6.0%
Operating Margin	-37.6%	6.1%	10.5%	10.7%	10.6%
Free Cash Flow	(338)	(169)	(114)	50	95

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	3.2x	3.0x	2.9x
Asset Replacement Ratio	1.4x	1.5x	2.0x	1.4x	1.2x
Tax Rate	19.5%	31.5%	22.9%	29.0%	29.0%
Net Debt-to-Equity Ratio	84.5%	84.5%	82.4%	74.5%	66.1%
Interest Cover	-2.2x	1.0x	1.8x	2.0x	2.2x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,318	1,823	2,235	2,509	2,757
% Change	39.0%	38.3%	22.6%	12.2%	9.9%
Gross Profit	474	754	989	1,107	1,223
% Change	64.4%	59.2%	31.1%	12.0%	10.4%
EBITDA	80	282	518	564	615
% Change	NM	252.1%	83.8%	8.9%	9.0%
Net Interest & Other Income	(224)	(113)	(130)	(132)	(131)
<b>Net Income (Adjusted)</b>	<b>(338)</b>	<b>(43)</b>	<b>114</b>	<b>132</b>	<b>149</b>
<b>% Change</b>	<b>-3.8%</b>	<b>87.3%</b>	<b>NM</b>	<b>15.8%</b>	<b>13.1%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(579)	(2)	80	98	115
Depreciation & Amortization	235	229	236	246	274
Change in Working Capital	(115)	(48)	(3)	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	455	(10)	51	48	48
Capital Expenditure	(334)	(339)	(479)	(342)	(342)
<b>Free Cash Flow</b>	<b>-338</b>	<b>-169</b>	<b>-114</b>	<b>50</b>	<b>95</b>
<b>% Change</b>	<b>-82.3%</b>	<b>49.9%</b>	<b>32.4%</b>	<b>NM</b>	<b>91.3%</b>

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	32	26	14	84	178
Trade Receivables	6	13	13	13	13
Other Current Assets	93	92	79	79	79
Property, Plant & Equipment	2,791	2,901	3,144	3,241	3,309
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>6,844</b>	<b>7,010</b>	<b>7,173</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	1,871	1,871
Other Non-Current Liabilities	2,030	2,290	2,340	2,360	2,360
<b>Total Liabilities</b>	<b>4,165</b>	<b>4,501</b>	<b>4,591</b>	<b>4,611</b>	<b>4,611</b>
<b>Total Equity</b>	<b>2,091</b>	<b>2,124</b>	<b>2,253</b>	<b>2,399</b>	<b>2,562</b>
<b>Total Equity &amp; Liabilities</b>	<b>6,257</b>	<b>6,625</b>	<b>6,844</b>	<b>7,010</b>	<b>7,173</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 891,397

## Quarterly Earnings Estimates

	2022	2023
Q1	-0.22A	0.12A
Q2	-0.07A	0.09A
Q3	-0.02A	0.17E
Q4	0.09A	0.12E

## Price objective basis & risk

### Life Time (LTH)

Our \$24 PO is based on an enterprise value of 11X our F24 adj. EBITDA estimate of \$564.0mn, 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, (5) Life Time has significant leverage with a forecasted Net Debt / Adj. EBITDA ratio of 23.8X for YE 2021, & (6) New Center construction/opening delays could push off timing of contribution from new Centers vs. current model expectations.

## Analyst Certification

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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	Robert F. Ohmes, CFA
	Life Time	LTH	LTH US	Robert F. Ohmes, CFA
	Planet Fitness, Inc.	PLNT	PLNT US	Alexander Perry
	Solo Brands	DTC	DTC US	Robert F. Ohmes, CFA
	Sysco Corporation	SY	SY US	Kendall Toscano
	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
	Xponential Fitness	XPOF	XPOF US	Alexander Perry
<b>NEUTRAL</b>				
	Dick's Sporting Goods	DKS	DKS US	Robert F. Ohmes, CFA
	Target Corp.	TGT	TGT US	Robert F. Ohmes, CFA
	YETI Holdings, Inc.	YETI	YETI US	Robert F. Ohmes, CFA
<b>UNDERPERFORM</b>				
	Canada Goose Holdings Inc	YGOOS	GOOS CN	Robert F. Ohmes, CFA
	Canada Goose Holdings Inc	GOOS	GOOS US	Robert F. Ohmes, CFA
	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



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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

**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

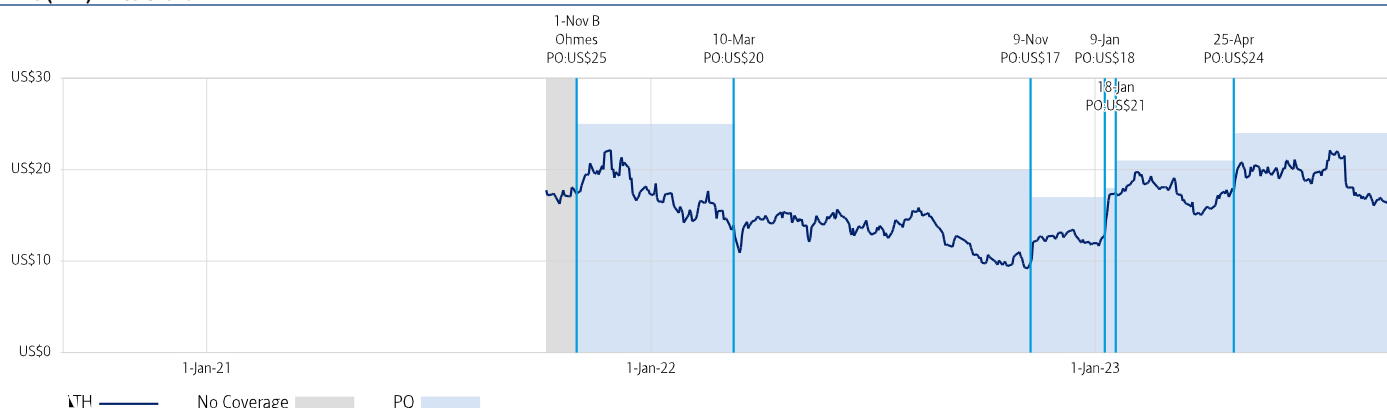
Basic EBIT + Depreciation + Amortization

EV / EBITDA

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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

**Equity Investment Rating Distribution: Leisure Group (as of 30 Jun 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	15	51.72%	Buy	9	60.00%
Hold	9	31.03%	Hold	5	55.56%
Sell	5	17.24%	Sell	3	60.00%

**Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

<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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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