

## Life Time

## Consumer Conference: LTH Fireside Chat Takeaways

Reiterate Rating: BUY | PO: 21.00 USD | Price: 14.46 USD

We hosted a Fireside Chat with LTH Founder & CEO Bahram Akradi, Interim CFO Erik Weaver, and VP of Corporate Finance Dani Matzke at our consumer conference in Miami, Florida. Our key takeaways were:

## LTH continues to expand Leisure offerings

LTH believes fitness only drives 10-20% of total membership usage, while its other leisure offerings such as pickleball, programming, pools, & spas drives the remainder. LTH is focused on creating a “second home” for people which should help drive customer stickiness. We believe LTH strategic initiatives for 2024 include a revamp of its in-center cafes, and the potential broader rollout of its MIORA longevity offering. We reiterate Buy and \$21 PO.

## LTH expects half of club portfolio will be on waitlists

LTH expects to see ~half of its clubs on waitlists by May/June of this year as membership demand continues to exceed desired club capacity. We believe LTH will look to implement enrollment fees to reduce member attrition and prevent overcrowding in clubs (e.g. a pool pass fee in April/May ahead of pool season). We believe enrollment fees should help reduce membership churn, which LTH expects to be the lowest in company history in 2024.

## LTH cost per membership visit only up modest

LTH recent strategic initiatives pickleball, dynamic personal training, small format group training, and ARORA has increased member engagement and visits which has led to a 25% increase in average annual visits per membership. While overall average monthly dues were up 13% y/y as of 4Q, cost per member visit has increased less than inflation and is only up 3% vs. 2019 given higher member usage.

## Expect 8-12 large format equivalent clubs per year

We believe LTH is planning to open 8-12 large format equivalent (LFE) clubs per year. We expect the clubs to be 100k square feet on average but may include a mix of ground up builds, as well as mall/residential based locations and asset-light takeovers.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.22)	0.63	0.78	0.86	0.80
GAAP EPS	(0.01)	0.37	0.64	0.72	0.67
EPS Change (YoY)	89.9%	NM	23.8%	10.3%	-7.0%
Consensus EPS (Bloomberg)			0.64	0.80	1.06
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	23.0x	18.5x	16.8x	18.1x
GAAP P/E	NM	39.1x	22.6x	20.1x	21.6x
EV / EBITDA*	25.3x	13.3x	11.9x	11.1x	10.5x
Free Cash Flow Yield*	-6.0%	-4.5%	2.2%	8.0%	8.6%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

14 March 2024

## Equity

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## Stock Data

Price	14.46 USD
Price Objective	21.00 USD
Date Established	28-Feb-2024
Investment Opinion	C-1-9
52-Week Range	11.10 USD - 22.41 USD
Mrkt Val (mn) / Shares Out (mn)	2,840 USD / 196.4
Free Float	35.2%
Average Daily Value (mn)	13.69 USD
BofA Ticker / Exchange	LTH / NYS
Bloomberg / Reuters	LTH US / LTH.N
ROE (2024E)	6.8%
Net Dbt to Eqty (Dec-2023A)	84.4%
ESGMeter <sup>TM</sup>	NLA

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

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	1.2%	2.8%	3.1%	3.3%	3.1%
Return on Equity	-2.0%	5.8%	6.8%	7.1%	6.2%
Operating Margin	6.1%	10.2%	11.7%	11.7%	10.2%
Free Cash Flow	(169)	(127)	62	227	245

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	3.0x	2.9x	2.8x	3.0x
Asset Replacement Ratio	1.5x	2.1x	1.5x	1.0x	0.9x
Tax Rate	31.5%	19.8%	29.0%	29.0%	29.0%
Net Debt-to-Equity Ratio	84.5%	84.4%	76.0%	62.1%	49.6%
Interest Cover	1.0x	1.7x	2.7x	2.9x	2.8x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,823	2,217	2,500	2,746	3,017
% Change	38.3%	21.6%	12.8%	9.8%	9.9%
Gross Profit	754	1,032	1,180	1,293	1,348
% Change	59.2%	36.8%	14.3%	9.6%	4.2%
EBITDA	282	537	600	640	680
% Change	252.1%	90.6%	11.8%	6.7%	6.2%
Net Interest & Other Income	(113)	(130)	(108)	(110)	(109)
<b>Net Income (Adjusted)</b>	<b>(43)</b>	<b>127</b>	<b>159</b>	<b>179</b>	<b>169</b>
<b>% Change</b>	<b>87.3%</b>	<b>NM</b>	<b>25.1%</b>	<b>12.4%</b>	<b>-5.6%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(2)	76	131	151	141
Depreciation & Amortization	229	244	267	277	305
Change in Working Capital	(48)	5	0	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(10)	62	67	67	67
Capital Expenditure	(339)	(515)	(403)	(268)	(268)
<b>Free Cash Flow</b>	<b>-169</b>	<b>-127</b>	<b>62</b>	<b>227</b>	<b>245</b>
<b>% Change</b>	<b>49.9%</b>	<b>25.0%</b>	<b>NM</b>	<b>264.8%</b>	<b>7.9%</b>
Share / Issue Repurchase	92	(13)	(13)	(13)	(13)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	282	243	10	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	26	30	89	302	534
Trade Receivables	13	24	24	24	24
Other Current Assets	92	121	121	121	121
Property, Plant & Equipment	2,901	3,172	3,308	3,299	3,262
Other Non-Current Assets	3,593	3,686	3,686	3,686	3,686
<b>Total Assets</b>	<b>6,625</b>	<b>7,032</b>	<b>7,227</b>	<b>7,432</b>	<b>7,626</b>
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	390	425	425	425	425
Long-Term Debt	1,821	1,933	1,943	1,943	1,943
Other Non-Current Liabilities	2,290	2,421	2,421	2,421	2,421
<b>Total Liabilities</b>	<b>4,501</b>	<b>4,778</b>	<b>4,788</b>	<b>4,788</b>	<b>4,788</b>
<b>Total Equity</b>	<b>2,124</b>	<b>2,254</b>	<b>2,439</b>	<b>2,644</b>	<b>2,838</b>
<b>Total Equity &amp; Liabilities</b>	<b>6,625</b>	<b>7,032</b>	<b>7,227</b>	<b>7,432</b>	<b>7,626</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## 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 981,252

## Quarterly Earnings Estimates

	2023	2024
Q1	0.12A	0.19E
Q2	0.17A	0.19E
Q3	0.15A	0.19E
Q4	0.19A	0.19E



## Price objective basis & risk

### Life Time (LTH)

Our \$21 PO is based on an enterprise value of 9-10X our F25 adj. EBITDA estimate of \$640mn, 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.

## Analyst Certification

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### US - Broadlines, Hardlines, 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
	Arhaus, Inc	ARHS	ARHS 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
	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
	Mattel	MAT	MAT US	Alexander Perry
	Mister Car Wash	MCW	MCW US	Robert F. Ohmes, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Robert F. Ohmes, CFA
	Planet Fitness, Inc.	PLNT	PLNT US	Alexander Perry
	Sprouts Farmers Market, Inc.	SFM	SFM US	Robert F. Ohmes, CFA
	Sysco Corporation	SYF	SYF 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
	Upbound Group Inc.	UPBD	UPBD US	Vicky Liu
	Walmart Inc	WMT	WMT US	Robert F. Ohmes, CFA
<b>NEUTRAL</b>				
	Dick's Sporting Goods	DKS	DKS US	Robert F. Ohmes, CFA
	Fox Factory Holding Corp	FOXF	FOXF US	Alexander Perry
	Hasbro	HAS	HAS US	Alexander Perry
	Williams-Sonoma	WSM	WSM 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>				
	Advance Auto Parts, Inc.	AAP	AAP US	Robert F. Ohmes, CFA
	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

**US - Broadlines, Hardlines, Food Retailers & 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
	Tractor Supply Company	TSCO	TSCO 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

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**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

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**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**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**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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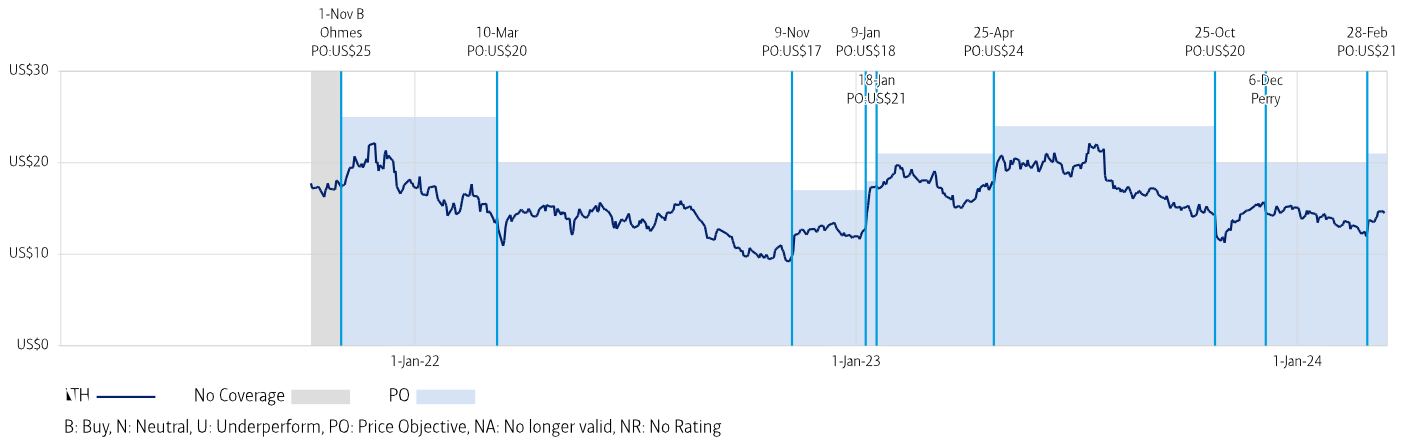
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### Life Time (LTH) Price Chart



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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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Neutral	≥ 0%	≤ 30%
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