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Soho House & Co Inc.

Second Quarter 2024 Results

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CORPORATE SPEAKERS:

Thomas Allen

Soho House & Co Inc.; Chief Financial Officer

Andrew Carnie

Soho House & Co Inc.; Chief Executive Officer

PARTICIPANTS:

Steven Zaccone

Citi; Analyst

Sharon Zackfia

William Blair; Analyst

Shaun Kelley

Bank of America; Analyst

George Kelly

Roth Capital; Analyst

PRESENTATION:

Operator

Hello everyone and welcome to the Soho House & Co Inc. second quarter 2024 Results Conference Call.

Please note that this call is being recorded.

I would now like to hand over to Thomas Allen, Soho House & Co Inc. Chief Financial Officer.

You may now begin.

Thomas Allen

Soho House & Co Inc.; Chief Financial Officer

Thank you for joining us today to discuss Soho House & Co's second quarter financial results.

My name is Thomas Allen and I'm the Chief Financial Officer. I'm here with Andrew Carnie, our CEO.

Today's discussion contains forward-looking statements that represent our beliefs or expectations about future events. All forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Some of the factors that may cause such

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differences are described in our SEC filings. Any forward-looking statements represent our views only as of today. We assume no obligation to update any forward-looking statements if our views change.

By now, you should have access to our Q2 earnings release, which can be found at sohohouseco.com in the News and Events section.

Additionally, we have posted our Q2 presentation, which can also be found in the News and Events section on our site.

During the call we also refer to certain non-GAAP financial measures. These non-GAAP measures should be considered in addition to, and not as a substitute for, or in isolation from, our GAAP results. Reconciliations for the most comparable GAAP measures are available in today's earnings press release.

Now let me hand it over to Andrew.

Andrew Carnie

Soho House & Co; Chief Executive Officer

Thanks Thomas and hello, everyone.

I'm going to update you on the quarter's highlights and provide an update on the progress we've made against our strategic priorities.

I'll then hand over to Thomas to talk through the financial performance, give an update on our balance sheet and our guidance, before moving on to Q&A.

Q2 has been another strong quarter, with year-on-year and quarter-on-quarter growth in membership, revenues and EBITDA as we continue to deliver against our strategic priorities of growing and enhancing membership, and operational excellence to drive greater profitability.

Membership demand continues to be very strong. Membership revenues increased 16% versus the same period last year and 3% versus last quarter, our global waitlist continues to grow, finishing the quarter at 111,000 and we welcomed 6,000 Soho House members, growing to 204,000 members globally.

Soho House member growth was driven by the strong opening of Soho House Sao Paulo, our first House in South America, and other new openings such as Mexico City and Portland.

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We now have 26 Houses that have opened since 2018 and are still in their ramp-up phase. We saw strong growth in Houses such as Austin, Nashville, Downtown LA, Dumbo, White City, Hong Kong and Rome this quarter.

As we think about the future, we also announced our plans to open new Soho Houses in Madrid, Milan, Barcelona and Tokyo over the coming years, helping to further strengthen membership demand.

Q2 Adjusted EBITDA grew \$2m year-over-year to \$33m.

It's worth noting that excluding our planned investments in growth with the initial losses at new Houses, which this year includes Portland, Sao Paolo, and Bodrum that had a \$4m greater impact in the quarter, EBITDA would have grown closer to 20%.

Total revenues grew 6% year-on-year to \$305m. We saw a sequential improvement in In-House trends, driven by better footfall and spend per visit, with In-House revenues up 2% year-on-year and improving throughout the quarter.

We are really pleased with the membership demand we are seeing in our new markets and ramp-up Houses which gives us the confidence to raise our financial guidance today on total membership and membership revenue, while reiterating guidance on total revenue and adjusted EBITDA.

Our goal is to provide our members with a great experience and service in our Houses, which we have seen reflected in improved member satisfaction scores again this quarter.

We introduced more dining choices across all our Houses, including new menus, new pop-ups and one-night-only experiences.

We continued our focus on service, rolling out further training, increasing the speed of service and enhanced member recognition when members check in and eat with us.

We increased the quality and variety of member events which, combined with personalized event recommendations on the App, resulted in almost 20% more members attending events year-on-year and an increase of spend per member at events attended.

Finally, we continue to provide members with unique experiences they can't find anywhere else. We delivered our first backstage Soho House pop-up at Glastonbury Festival and a sell-out House Festival in London.

We continue to focus on operational excellence which leads to greater profits and cash flow.

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Through our new global beverages deals we have improved the quality and choice of drinks for our members, and have grown margins at the same time.

We continue to transform our back of house systems to help us achieve greater efficiencies, improving member service, and lowering our costs. And we have further streamlined our corporate office to reflect the current operating environment and our plans for fewer new openings over the next couple of years.

These strategic initiatives contributed to House-level contribution increasing 12% year-on-year, with House-level margins up approximately 100 basis points, despite more new Houses having a short-term impact on our growth and margins.

Now, let me pass over to Thomas to give you more detail on the numbers and our guidance.

Thomas Allen

Soho House & Co Inc.; Chief Financial Officer

Thanks Andrew.

Total revenues for the first quarter grew 6% year-on-year to \$305m.

Membership revenue rose 16% year-on-year to \$104m, while In-House revenues was up 2% and Other revenues were down 1%.

House-level contribution was up \$6m or 12% year-on-year, with House-level margins up almost 100 basis points to 27% despite the short-term impact of new House openings.

Other contribution was down \$3m or 16% year-on-year due to the initial impact from Scorpios Bodrum, the timing of design & development fees, and lower standalone restaurant & townhouse sales.

Giving more details on revenue.

Year-on-year revenues were up more than \$16m, driven by the increase in recurring membership revenues.

Membership growth and pricing drove a \$14m increase in membership revenues.

In-House revenues were up \$3m year-on-year, while Other revenues were \$1m lower.

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Like-for-like In-House revenues for the quarter were approximately flat year-on-year, an improvement from the mid-single digit year-on-year decline we saw in Q1. And trends were relatively consistent across our major geographic regions, the Americas, UK, and Europe / Rest of World.

Our second quarter adjusted EBITDA was \$33.3m, up \$2m year-over-year.

Higher Membership Revenues was offset by opening Soho House Portland at the end of the first quarter and Soho House Sao Paulo and Scorpios Bodrum in the second quarter, compared to last year when we only opened Soho House Bangkok in the first half of the year.

As you know from our maturation curves, we are confident all will drive long-term profitability, but in the quarter, these new openings had a year-over-year impact on our EBITDA growth of approximately \$4m.

Now discussing our balance sheet.

We ended the quarter with \$154 million of cash and cash equivalents, \$10 million higher than the end of the first quarter, and \$665 million of net debt.

We had positive cash flow from operating activities again in the quarter, our fifth quarter in a row, and up approximately 80% from last year.

While we incurred sequentially higher capex in the quarter related to all our openings, our cash flow from operating and investing activities was still net positive. We continue to expect to spend \$90-100m of capex in the year, in line with our prior guidance.

We ended the quarter at 5x net debt / adjusted EBITDA, down from 6x at the end of the second quarter 2023.

We announced, in February, that the Board had approved a new \$50m share repurchase authorization. Following the dissolution of the Special Committee in late May, we began repurchasing stock and bought back \$5 million of shares in the quarter.

Finally, after a quarter of strong delivery across the business, and particularly good membership metrics, we are raising our year-end membership guidance to over 212,000 and increasing our membership revenue range to \$410 to \$420m from \$405 to \$415m.

We are reiterating guidance for our other key financial metrics; Total revenue and adjusted EBITDA.

With that, let me hand back to Andrew.

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Andrew Carnie

Soho House & Co; Chief Executive Officer

In closing, it's been a solid quarter for the business as we deliver against the goals we've set ourselves this year.

I would like to thank our teams globally for their hard work and passion, and our members for their continued support and loyalty.

I also want to mention that we plan on holding an Investor Day in New York on December 5th. We look forward to sharing with you our plans around long-term growth and profitability, and bringing to life our excitement about the significant opportunities ahead.

With that, we will now open up to questions.

Operator – we can take the first question please.

As a reminder you can either ask your questions over the phone or submit them over the webcast.

Operator

Our first question comes from Steven Zaccone from Citi.

Steven Zaccone

Citi; Analyst

I wanted to focus on the House revenue improvement. Could you talk about any call outs by region where things are progressing a little bit better than the overall trend?

And then, the broader restaurant backdrop has seen some weakness. So how do you feel about your competitive positioning, just given some of the macro data points?

Andrew Carnie

Soho House & Co; Chief Executive Officer

First and foremost, as you know, we're a membership club, so we're really pleased to see the strength of demand in our membership and it shows that our members are consistently using our Houses.

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It was nice to see that our footfall trends improved sequentially in the quarter. But more importantly, I think as I mentioned, we saw spend per member improve in the last quarter. And I said in my prepared remarks that we have a lot of initiatives to improve these which are really delivering results.

Regarding any regional variance, the trends have been relatively similar across all of our major geographies; across America, UK and Europe / Rest of World and including Latin America. So, we're not seeing any real difference, we're seeing an improvement across the board from when we reported in Q1.

Steven Zaccone

Citi; Analyst

OK, great.

My follow up question is, with the increase in the membership count guidance, Thomas, how should we think about preliminary planning for 2025? Is this a good run-rate for us to think about, on a go-forward basis, in terms of membership count growth?

Thomas Allen

Soho House & Co Inc.; Chief Financial Officer

I think it's early to give guidance for 2025. As we said, we'll host an Investor Day in December and we're going to talk a lot then about our long-term plans so if you don't mind waiting until then.

Operator

Next question comes from Sharon Zackfia from William Blair.

Sharon Zackfia

William Blair; Analyst

In terms of new House openings, are there any more planned for this year? You cited a handful that you've announced, are any of those coming in 25? Just trying to figure out what we should think about for new House openings.

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Andrew Carnie

Soho House & Co; Chief Executive Officer

We said at the beginning of the year, we anticipate to open 2-4. So, we've already opened two great Houses, big Houses in Portland and Sao Paulo.

Next up is Soho Mews House, in London, which is our first Mews concept and it's a beautiful unique house. It's going to be very much aimed at our longer tenured members. So, we're very excited about that for this year.

We have Manchester opening early next year and then we recently announced upcoming openings with Barcelona for next year and then following that we have, in the future, Madrid, Milan & Tokyo.

So, regarding the end of this year, we're very focused on opening Mews House.

Sharon Zackfia

William Blair; Analyst

And then here in the third quarter, I think we're lapping now that kind of Hollywood strikes last year which I think impacted your business in several areas. Can you talk about kind of how we should think about In-House revenues as we go into the back half of the year as we are lapping that impact?

Andrew Carnie

Soho House & Co; Chief Executive Officer

I wouldn't say the impact has totally gone right now.

There's a lot of folks still in the entertainment industry that aren't back at work and there's a lot of transition going on in Hollywood as well. So, I wouldn't say that it's completely over.

But what I would say and I'd reiterate that across pretty much all our Houses, in the quarter, we saw an improvement in member spend and we're confident on that continuing through Q3.

Operator

Your next question comes from Shaun Kelley at Bank of America.

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Shaun Kelley

Bank of America; Analyst

Just wanted to ask about what you're seeing related to cross-border travel. You know, obviously it's been a big theme. A lot of US domestic hotel companies are talking a bit about outbound travel weighing on some of their domestic demand. So, just kind of curious on if you have a unique lens into that? What are you seeing pattern wise and any way you can tracker, or give a little insight there?

Andrew Carnie

Soho House & Co; Chief Executive Officer

We have had a good season in Europe and that's the region that we see most cross-border travel.

As you saw, on occupancy and ADR, we're broadly in line with last year, occupancy slightly up actually.

We have had a good season. We've had a fantastic last three weeks in Paris, because of the Olympics.

So, for the most part, we've continued to see really good cross-border travelling with our members across the world into the Houses that we have bedrooms.

Shaun Kelley

Bank of America; Analyst

Great, thanks for that.

And then, Andrew, I noticed in the beginning, in the prepared remarks, you mentioned some Houses that I think we would expect are doing well; Austin, Nashville. But you also mentioned Downtown LA and Hong Kong and those have been names that in the past, I think have not been top of the kind of funnel or ramp.

So, are you starting to see a broadening out? I mean some of those, may be a little idiosyncratic with the kind of timing of openings, but curious on both those two markets in particular, given you have several Houses in LA and obviously Hong Kong is a bit of a unique gateway in Asia.

Andrew Carnie

Soho House & Co; Chief Executive Officer

We couldn't be more pleased with Hong Kong. We've got a fantastic new team in there from the beginning of the year. They've done a terrific job in Hong Kong and we've seen terrific growth there throughout the year. It's one of the things we're most pleased with.

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Complete turnaround in Hong Kong. It's all down to delivering what the member really wanted in that city, obviously a big comeback in footfall as well, the city's bounced back.

And then with Downtown LA, we've got really good programming and we've done a real good ramp up in our members. We feel really good about the service and the food that we're delivering now in Downtown LA. So, that's another House that we're really proud of this year.

Shaun Kelley

Bank of America; Analyst

Great. Last question from me.

Thomas, you mentioned I think a \$4 million drag from the new openings, at least relative to last year.

Can you just remind us, was that all isolated to this quarter and or to the first half and how should we think about any incremental drag from those Houses?

Obviously, it's undoubtedly contemplated in the guidance but just trying to think about the out years and modelling there going forward?

Thomas Allen

Soho House & Co Inc.; Chief Financial Officer

If you think about what we opened last year versus this year, so last year we opened Bangkok in the first half of the year and Mexico City in the second half of the year.

And then this year, we've opened the three sites that we highlighted; Portland, Sao Paulo and Bodrum in the first half of the year. And then as Andrew said, we're likely only going to open up Soho Mews House in the second half of the year.

So, this year we've seen that almost \$4 million that we talked about on the call was really the second quarter impact. First quarter we saw a bit of a drag too. And then second half of the year it will actually flip to a bit of a tailwind given the impact of openings last year.

Operator

Our next question comes from George Kelly of Roth Capital.

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George Kelly

Roth Capital; Analyst

First on Scorprios, and apologies I missed a part of your prepared remarks, but can you talk about how the new Bodrum location is performing and your plans for opening in Tulum at some point, if that's still later this year?

And then, how do you expect Bodrum, given that you've seen it for a little while since it's been open, how do you expect it to perform compared to the location in Mykonos?

Andrew Carnie

Soho House & Co; Chief Executive Officer

Firstly, Scorprios Mykonos has gotten off to another strong season. I think it's going to be one of our best. So, that shows the strength of the Scorprios brand.

Bodrum opened in June, I was there recently. It's a beautiful property. We've got our first private bungalows, which is the first accommodation Scorprios has delivered.

And, we're confident it will be another success story. Next year, it will build just like Scorprios Mykonos has done and we're confident in future it will get to the same levels as Mykonos.

With Tulum, it's still under construction. As reported, there was a hurricane in that region. So, the developers had to pause construction and, in that property, we'll also have an accommodation component and we're excited to see the performance when it opens.

George Kelly

Roth Capital; Analyst

Ok. And that location will probably open next year?

Andrew Carnie

Soho House & Co; Chief Executive Officer

Most likely.

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George Kelly

Roth Capital; Analyst

Ok. Second topic I wanted to cover, you speak about members surveys and satisfaction. I know you're regularly checking on those things. So, two questions. The first one is, what are you hearing that members are still maybe complaining about or wanting more of?

And then secondly, have you seen any changes to attrition this year or in recent quarters?

Andrew Carnie

Soho House & Co; Chief Executive Officer

We obviously do our surveys where we ask our members questions. Then we have our weekly survey, which measures our success on service, food, atmosphere and experiences.

What our members continue to want more of is unique experiences and be in Houses that are fantastic experiences for them and we've seen our scores improve on that.

What members want us to continue to focus on is great service, friendly service and member recognition when they're in the Houses. I think I quoted those things on my pre-recorded remarks, that's what we're very, very focused on.

What was the second part of the question?

George Kelly

Roth Capital; Analyst

Whether or not you've seen any changes to member retention?

Andrew Carnie

Soho House & Co; Chief Executive Officer

No, it's consistent. So, we're not seeing any changes.

Operator

We have reached the end of our Q&A session. Thank you everyone for joining today's call and we hope you have a wonderful day. Stay safe and you may now disconnect.