

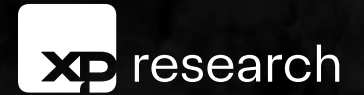
# SmartFit | Buy; TP R\$28.0/sh.

August 17, 2023

Retail / Brazil

## Not a Fake Natty; Initiating at Buy

Playing fitness consolidation in LatAm



We are initiating coverage of SmartFit (SMFT3) with a Buy and YE24 TP of R\$28.0/sh (32% upside) as (i) we see a lot of room for LatAm's fitness penetration to increase (being less than half of developed countries), with consumers' mindset towards exercising structurally changing after the pandemic; (ii) Smartfit is well positioned to be the consolidator of the fitness market as we see the High Value, Low Price model as the long term winner; (iii) we see growth optionalities for the company through their recently launched Studios and TotalPass; and (iv) valuation is appealing, at ~8x EV/EBITDA 2024e, vs. global peers average at 10x.

The key takes of our report are:

- We are structurally constructive with the fitness/sports space in LatAm given (i) consumers' mindset change towards their health after Covid; and (ii) LatAm's low gym members penetration (at 2-5%) vs. developed countries (12-20%).
- SmartFit's business model (the High Value, Low Price) is the long-term winner in the space, with all global market leaders focusing in the model given its appealing cost/benefit, with low prices but a sound value proposition.
- There is a lot of white space yet to be filled by SMFT, with our proprietary analysis (pgs. 12-13) estimating a potential of over 1.2k gyms only in Brazil, which is already the country with the strongest capillarity, while other LatAm countries have lower gym penetration and SMFT's footprint in these countries are less than half Brazil's.
- HVLP is a profitable model and there are levers to sustain it, with our analysis indicating that SMFT's mature gym's EBITDA 4-wall mg is 52% with ROIC at high teens, while the company has levers to sustain/improve this profitability through cost / Capex optimization, higher black membership (premium subscription) penetration, store layout adjustments and higher store productivity.
- Studios and TotalPass are growth optionalities, with our proprietary analysis indicating room for at least ~250 Studios in Brazil.
- SMFT is trading at an appealing valuation, of ~8x EV/EBITDA 2024e, a 20% discount to its global peers despite its higher net income 2023-25 CAGR (+34%). Looking at P/E, it may seem expensive, but we believe it to be explained by SMFT's strong expansion plan, with a PEG ratio at 0.5x.

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Smart Fit (SMFT3)	BUY
Target Price (R\$/sh.)	28,0
Current Price (R\$/sh.)	21,2
Upside (%)	32,3%
Market Cap (R\$ million)	12.411
# of shares (million)	586
Free Float (%)	31,4%
ADTV (R\$ million)	45

# Our view in 6 charts

Why we like SmartFit – Initiating at a Buy and YE24 TP of R\$28.0/sh.

## Favorable growth dynamics

Chart 1: Room to at least double LatAm's gym members

Gym members as a % of total population

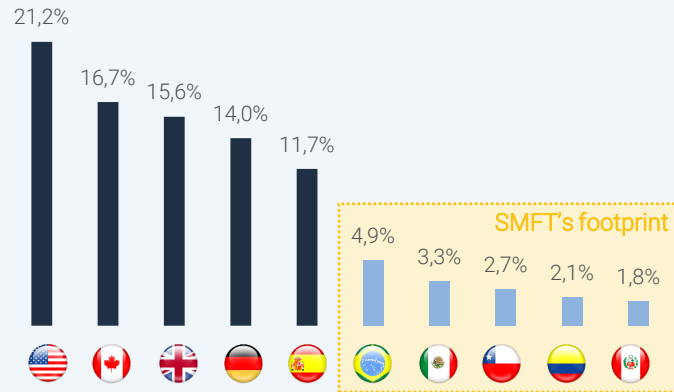
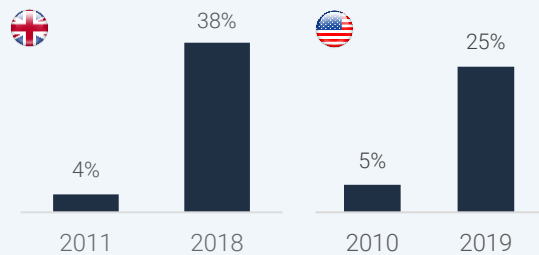


Chart 2: And HVLP proving to be the winning model

HVLP market share evolution in developed markets



## Well positioned in the space

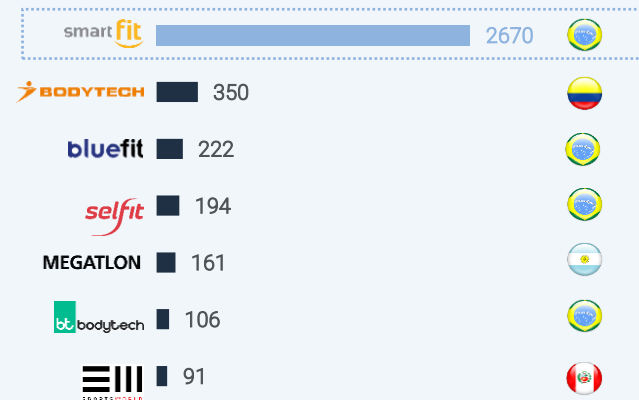
Table 1: A lot of white space to filled...

SMFT's long-term potential in Brazil (# of stores)

Population ('000)	GDP Per Capita (R\$ '000)				
	5	10	14	20	30
60	1.496	1.466	1.408	1.272	947
70	1.425	1.403	1.362	1.237	924
80	1.355	1.333	1.305	1.189	890
93	1.298	1.281	1.258	1.152	864
100	1.269	1.253	1.232	1.131	850
110	1.236	1.222	1.203	1.111	838

Chart 3: ...with limited competition

Largest LatAm gym companies (# of members)



## Attractive valuation

Chart 4: A 10% EV/EBITDA discount to global peers...

EV/EBITDA SMFT vs. Global Gym Peers

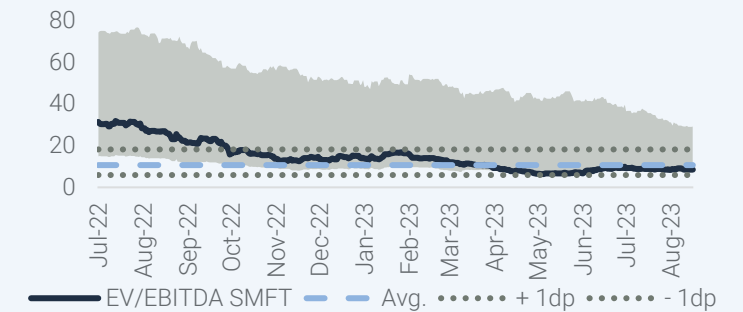
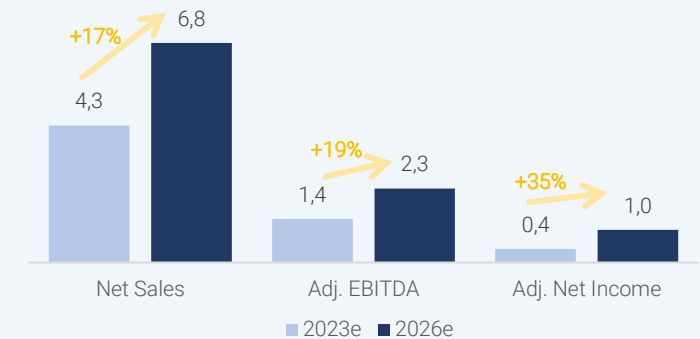


Chart 5: ...with strong growth prospects

Consolidated figures (R\$bn) and 2023e-26e CAGR (%)



# SmartFit (SMFT3): Not a Fake Natty

August 17, 2023  
Brazil Retail

## XP Estimates – Consolidated Financials

Consolidated Financials (R\$m)	2018	2019	2020	2021	2022	2023e	2024e	2025e
Net Sales	1.452	1.984	1.256	1.707	2.931	4.251	5.048	5.860
Gross Profit	683	951	428	516	1.223	2.121	2.506	2.899
Gross mg	47,1%	47,9%	34,1%	30,3%	41,7%	49,9%	49,6%	49,5%
EBIT	216	245	(302)	(386)	95	873	870	1.056
EBIT margin	14,9%	12,3%	-24,0%	-22,6%	3,3%	20,5%	17,2%	18,0%
Adj. EBITDA	412	551	54	47	591	1.352	1.624	1.908
EBITDA mg	28,4%	27,8%	4,3%	2,8%	20,2%	31,8%	32,2%	32,6%
Net Financial Results	(121)	(215)	(221)	(178)	(109)	(171)	(236)	(93)
Income Taxes	(27)	(41)	51	22	(4)	(117)	(153)	(231)
Adj. Net Income (ex-IFRS)	80	(13)	(487)	(558)	(11)	415	489	740
Net mg	5,5%	-0,6%	-38,8%	-32,7%	-0,4%	9,8%	9,7%	12,6%

### Balance Sheet (R\$m)

Total Gross Debt	1.809	2.207	2.616	3.590	3.420	3.274	3.274	3.274
Cash & Equivalents	667	1.351	1.020	3.720	2.923	2.399	2.353	2.747
Net (debt) / cash	1.142	855	1.596	(129)	497	875	921	528
Net (debt) / EBITDA	0,0x	1,6x	29,7x	(2,7x)	0,8x	0,6x	0,6x	0,3x

### Return / Yield Metrics

ROIC			n.m.	n.m.	2,2%	9,4%	8,1%	9,9%
ROE			n.m.	n.m.	n.m.	12,3%	9,2%	12,3%
FCF Yield						0,8%	1,0%	3,7%

### Valuation Metrics

EV/EBITDA						8,7x	8,2x	6,8x
P/E						29,9x	25,4x	16,8x
PEG ratio						1,7x	0,5x	0,5x

Chart 6: 2023e XP vs. Consensus

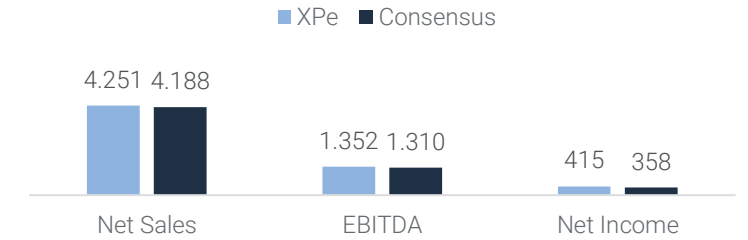


Chart 7: 2024e XP vs. Consensus

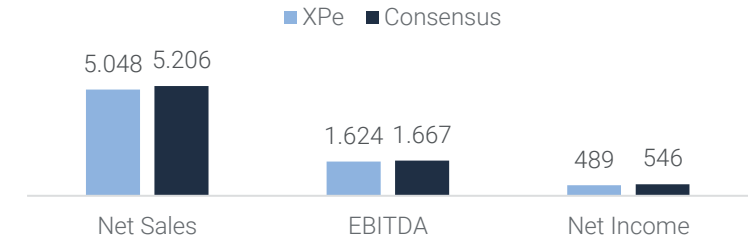
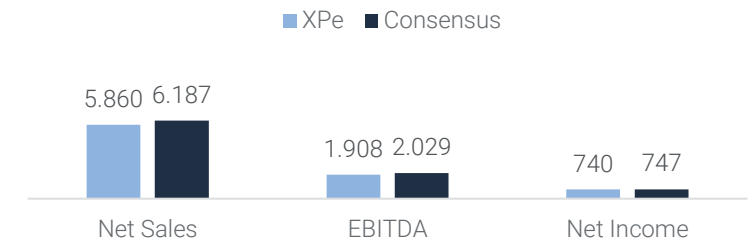


Chart 8: 2025e XP vs. Consensus



# Summary

## Market Overview

A lot of room to grow

## Initiating SmartFit at a Buy

Playing fitness consolidation in LatAm

## Valuation

XP Estimates

## Risks

Tax Reform, Execution, Macro and Capex dynamics

## ESG

The secret of getting ahead is getting started

## Market Overview

A lot of room to grow

# Health, wellness and fitness as structural trends

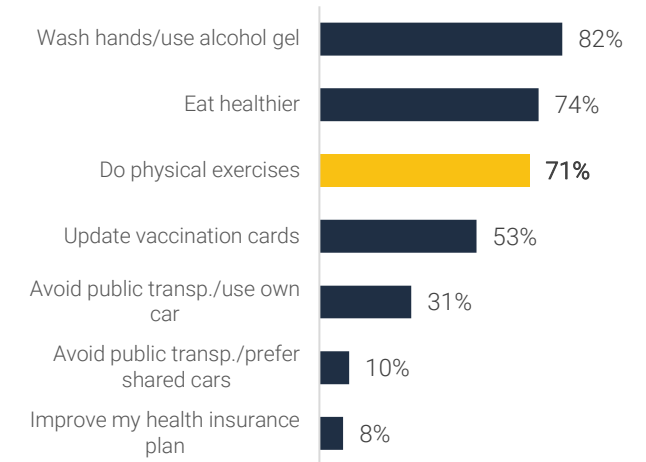
## Exercising as the way to go...

**Health, wellness and fitness gained importance in the post-Covid world...** We see favorable structural trends for the sports/fitness space, with the pandemic serving as an accelerator as (i) we believe it changed the way people take care of their health, moving from a palliative approach into a preventive one; (ii) physical activity emerged as a social activity, with outdoor sports gaining room; and (iii) consumers started to care more about mental wellness, with therapy and physical activity (e.g. yoga, meditation, going to the gym) emerging as ways to improve it, as shown on Chart 9.

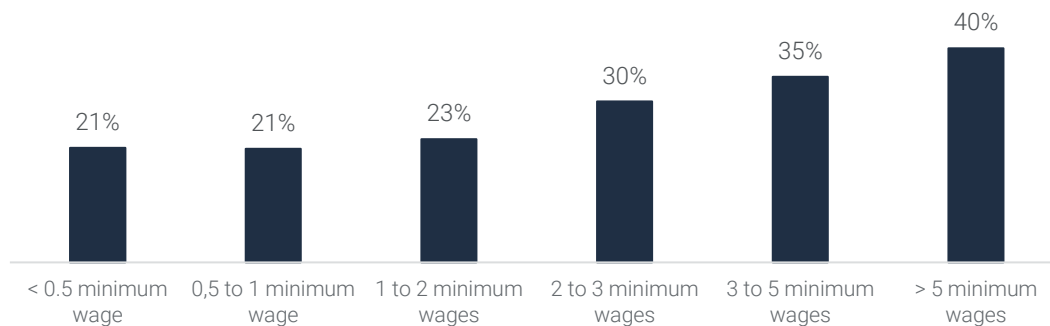
**... but still a lot of work ahead.** Although consumers are increasingly adding physical activities into their routines, there is still a long way to go as according to IBGE, roughly half (46%) of the Brazilian population self declares to be sedentary, well above developed (UK at 17%) and BRICs peers (India and Russia at 16% and 21%, respectively), while only 26% practice some sport. The still low levels of physical activeness are reflected on obesity levels, already at 20% of the population in Brazil and 29% in LatAm (vs. 37% in the US) while death rates from obesity are at 77 per 100k people in Brazil and 79 in LatAm.

**Macro is still a short-term headwind, but not necessarily a deadlock.** We believe one of the reasons behind Brazil's and LatAm's lower sports and physical activeness penetration is the lower GDP per capita (Chart 10). Although this could remain a challenge in the short-term, we believe an increased penetration could also be achieved through more affordable alternatives (e.g. running, expansion of low-priced gyms), a higher share of women and an increased number of public places that foster physical activity, such as parks, public squares and municipal sports centers.

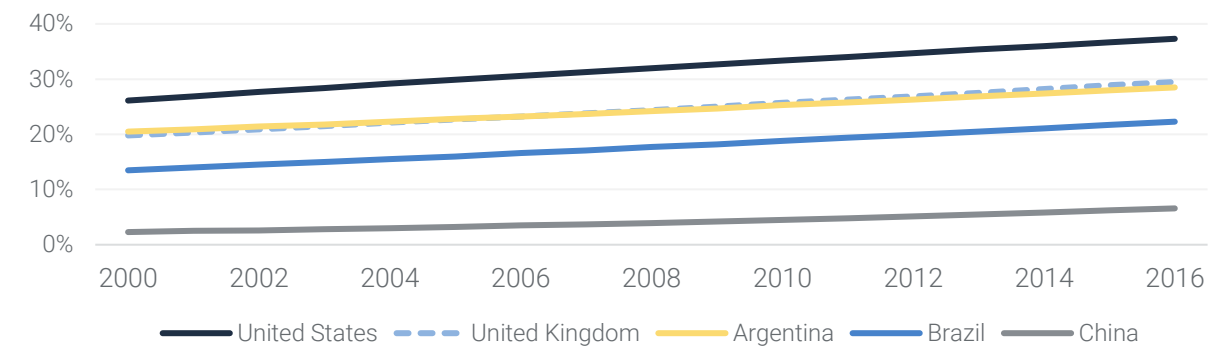
**Chart 9: Intent of new activities for health care post Covid-19 (% of respondents)**



**Chart 10: Practice of sports by class of monthly income per capita (%)**



**Chart 11: Prevalence of obesity among adults (%)**



# Health, wellness and fitness as structural trends

... but gender gap in the space is still major

**Practice of sports among women is still below men...** As we've highlighted, Brazil still has a long way to go when it comes to physical exercising. Digging deeper, we also noticed the practice of sports strongly differs among genders, with men being much more active (32%) than women (17%), according to a IBGE survey. Interestingly, on the other hand, the survey shows that the frequency of training tend to be higher for women, with 62% practicing 3x or more/week vs. 42% for men.

**...while preferred modalities and motivation also differ.** Modality-wise, difference on the predilection among genders are also worth noting. According to IBGE, men practice a wider range of modalities, with the most popular being soccer, cycling and martial arts, while women's preference is more towards the fitness/dance space. Looking at the motivation, the search for health and wellness is the primary reason for women to exercise, while improving physical performance and overall fitness are the key motivators for men.

**Increasing women's fitness participation as a long-term growth lever.** Given the still low level of physical activeness among women, we believe increasing their participation in fitness is a key long-term growth lever for the space. In this sense, as different needs and motivations demand different value propositions, we believe the launch of niche/more appealing exercising alternatives for women and more directed to wellness could be interesting avenues of growth.

Chart 12: Practice of sports in Brazil (% by gender, 2015)

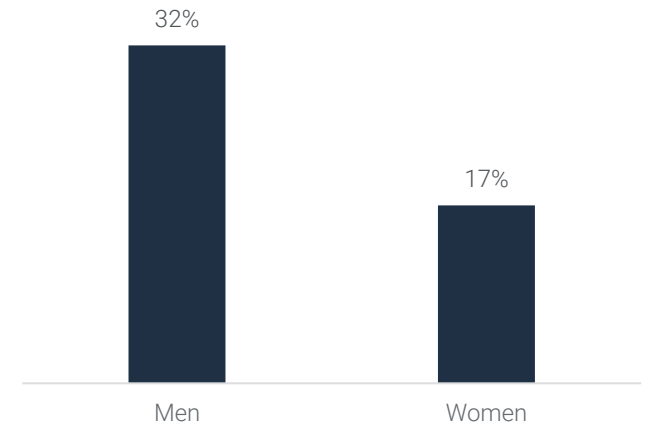


Chart 13: Breakdown of sports practice in Brazil (% by gender, 2015)

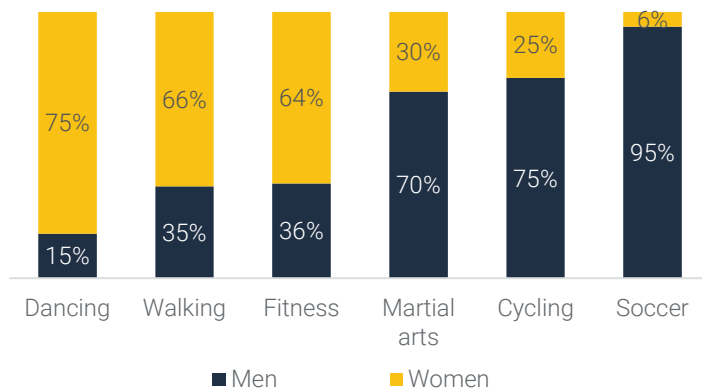


Chart 14: Reasons for physical exercising (% , 2015)

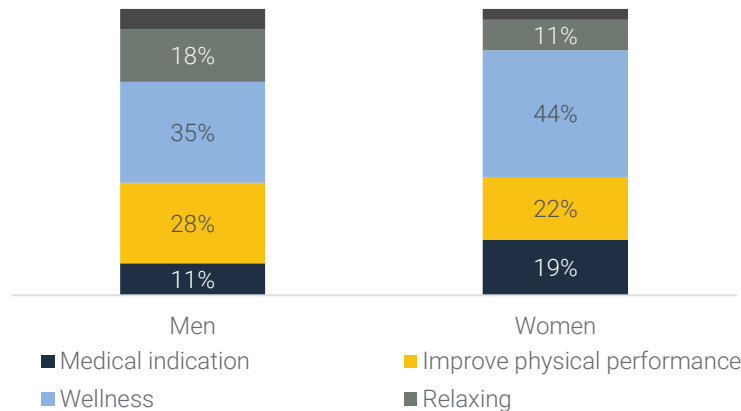
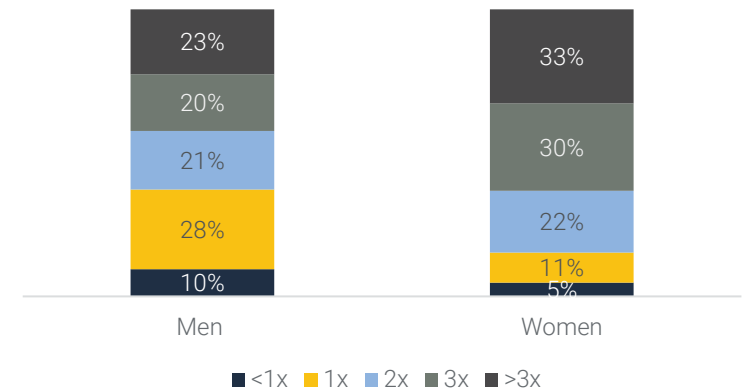


Chart 15: Frequency of sports practice by gender (#/week, 2015)



# LatAm still has an incipient fitness market

## Underpenetrated market and with limited competition

**Brazilian fitness market has a long growth road ahead.** Despite the increased interest for a healthier lifestyle and the strong expansion of the fitness space over the past 10 years in Brazil (members CAGR at +5%), going to the gym is still an underpenetrated activity, with only ~5% of the Brazilian population registered at a club vs. 21% in the US and 17% in Canada. In our view, two key drivers should foster the market's growth: (i) improved macro dynamics, namely disposable income, opening room on consumers' budget to include a gym subscription; and (ii) gyms' expansion and/or consolidation, as we believe companies have a key role in building-up of their own addressable market, once it is still an undeveloped segment in the country.

**HVLP as the winning model.** Planet Fitness disrupted the fitness space by introducing the HVLP (High Value Low Price) model in the 90s, which had a sound value proposition at an appealing price. As a result, the model opened room for a wider addressable market, encompassing the average consumer both in terms of sports preparation and income. As a result, global market leaders in the industry are HVLP players, with the model accounting for the bulk of the market in the US and UK, at 25% and 38%, respectively (vs. below 5% in 2010). In LatAm, HVLP is not only the leading model but also the industry's key growth lever, whose market CAGR between 2009-19 is of +7%.

**Meanwhile, market consolidation seems an imminent trend.** The segment is still very fragmented, with over 29k gyms operating in Brazil and ~61k in LatAm, while SmartFit, the market leader in the LatAm region, counts with only a 13% share in terms of members (~9x vs. #2) vs. +20% of global peers (US' Planet Fitness at 22% and Europe's Basic Fit at 20%). We, thus, expect SMFT to continue consolidating the market, with room to almost double its share. In fact, we believe SMFT could have a greater share than its global peers once we see a more favorable competitive landscape in LatAm given most of SMFT's competition is smaller/less-capitalized players, with SMFT having 8x more members than #2, while global peers are ~3x the size of their #2. To illustrate this argument, LatAm's Top 5 gyms have a 17% share in LatAm, with SMFT representing 76% of it, while in the US the number is 39%, with Planet Fitness representing 56% of it.

Chart 16: Penetration by country (% of households registered at a gym, 2019)

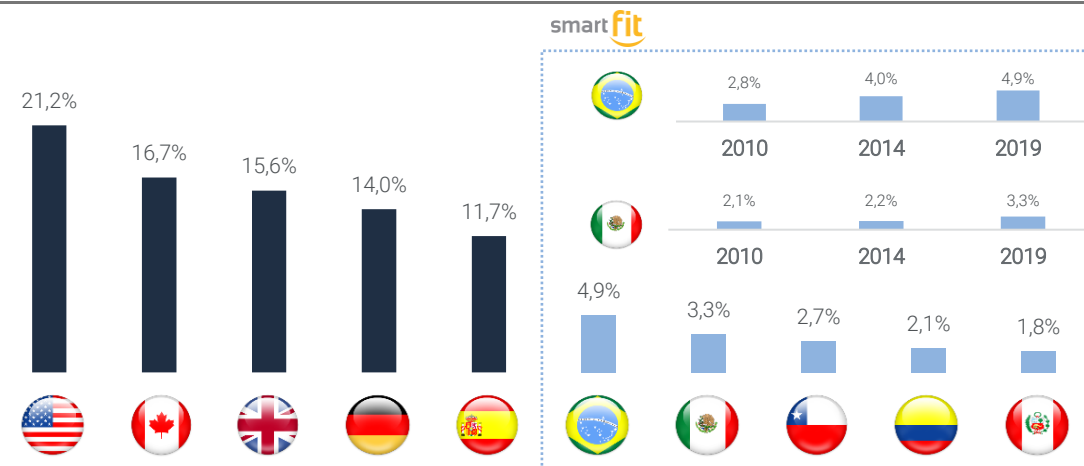


Chart 17: Ranking - Global ('000 members, 2019)

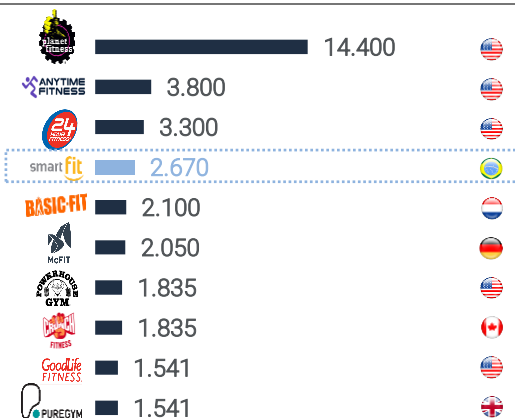
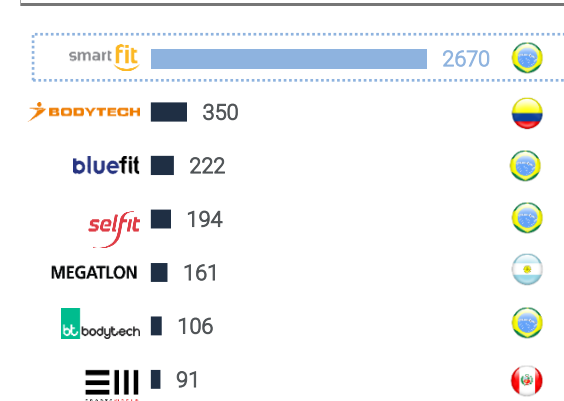


Chart 18: Ranking - LatAm ('000 members, 2019)



# A market constantly evolving

## New modalities to drive an even bigger addressable market

**Keep an eye on Boutique Fitness.** The fitness space has gone through significant changes over the past two decades, moving from limited alternatives, being practically dominated by big-box gym clubs focused on bodybuilders or boxing, into a wider variety of models, with HVLP taking the lead. Now, we see the emerging of a new trend focused on more social, personalized and niched alternatives, exploring other modalities, such as boxing, yoga, spinning and Pilates, with a stronger appeal towards women though not limited to them.

**Sports niches as a clear trend.** We see four structural changes that should support niched fitness growth: i) increased search for new sports modalities after Covid, with 39% of Brazilians practicing a new sport since then, according to a Google Survey; ii) increased demand for personalized and premium experiences, with high-income classes offering a more resilient targeted audience; iii) exercising is becoming more social while Boutique Fitness offers a community feel, once they focus on like-minded members; and iv) Women physical exercising levels are still below men's, with their preferences usually being more linked to these types of modalities.

**Xponential Fitness shows us the way; a high cash-on-cash return business model.** The US-based Xponential Fitness (XPOF) is the largest global franchisor in the fitness space, with over 2.7k studios open and 560k members, across 10 different brands, that offer modalities ranging from yoga and Pilates to boxing and barre training. The company's business model is mostly based on franchises (97% of store base), across the US, Canada and agreements for other 14 countries, while members have two subscription options that range from \$14 per a single class to \$199/month for multibrand unlimited access (vs. Planet Fitness' \$10). The average XPOF's studio size ranges from 140m<sup>2</sup> to 232m<sup>2</sup> allowing for high cash-on-cash returns of ~40% (vs. SMTF's 40% and Planet Fitness' 42%).

Chart 19: Gym's value proposition matrix

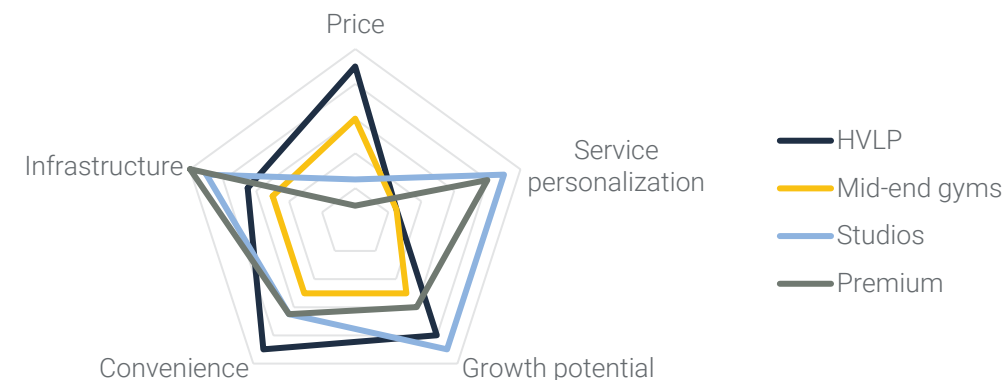


Table 2: Overview of Xponential Fitness' boutique brands












	 CLUB PILATES	 pure barre	 STRETCH LAB			 YOGASIX	 ROW HOUSE			 STRIDE FITNESS
Modality	Pilates	Barre	Stretching	Cycling	Functional	Yoga	Rowing	Boxing	Dance	Running
Open studios	853	645	330	286	242	180	97	54	35	19
Licenses sold	1313	761	883	562	602	589	330	371	119	93
Acquired in	2015	2018	2017	2017	2021	2018	2017	2021	2018	2018

Chart 20: Overview of Xponential Fitness' boutique brands

	2022A
Revenue (\$mn)	245
EBITDA mg	30,2%
Total Members (000s)	560
Total visits (mn)	39,2
SSS (%)	25%
Multibrand membership price (\$)	99

Initiating SmartFit at a Buy

Playing fitness  
consolidation in LatAm

# Positioned in the long-term winning model

## SmartFit as the key consolidator of the space in LatAm

**The long-term winning model.** We see the HVLP model as the structural leader in the space, once it directly addresses two of the main factors that retain consumers from going to the gym: (i) distance or lack of convenience/proximity; and (ii) pricing. A recent study from Dstillery showed that members of HVLP gyms that travelled ~6km or less to go the gym went on average five or more times to the gym per month, whereas those who travelled 6km or more went only once a month. Interestingly, the more premium the gym model was, the farther members were willing to travel to exercise. As a reference, SMFT members currently go on average 7x/month to the gym, with only 25% of its base not going to the gym in the last month.

**Mid-point players to lose ground.** We expect HVLP model to continue gaining share in the space, mainly from smaller / less-capitalized players and/or companies that offer a slightly broader value proposition but at a higher pricing, with the latter losing ground to HVLP or more premium offerings depending on the consumer's priority (pricing or value proposition) or budget. Looking abroad, we already see this happening, with US' 24h Fitness and Town Sports filing for bankrupt in 2021 and UK's Bannatyne's vocally repositioning towards the premium space.

Chart 21: HVLP market share by country (% of members)



Chart 22: LatAm fitness market (mn of members)

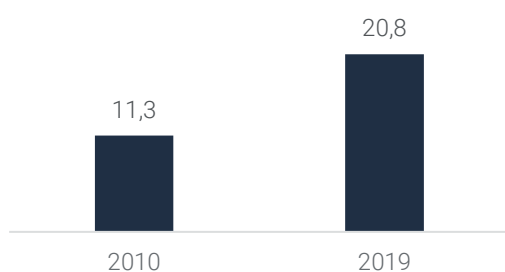


Figure 1: Example of SMFT's store cluster (SP)

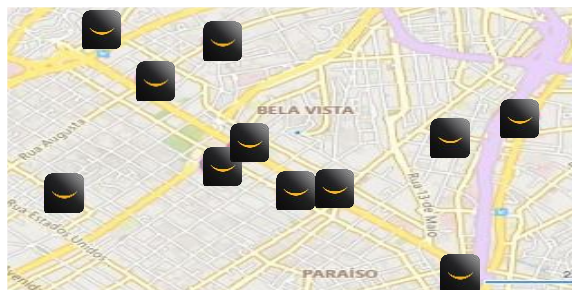


Chart 23: Gym's value proposition positioning in Brazil



# Learnings from Covid

## Structural changes may open room for higher profitability

**Leaving Covid-19 behind.** As a nonessential and highly social activity, gym clubs were among the segments most hit by curfews and social distancing measures. However, once restrictions started being lifted, the company accelerated marketing investments, recovering its pre-pandemic number of members across all regions as of 3Q22, while at units that existed before the pandemic, the number of members reached 96% vs. Mar/20 as of 1Q23.

**Structural cost control as the main learning from past years...** On top of the challenging environment for the sector throughout the pandemic, SMFT put in place a solid cost optimization strategy aiming to reduce (i) personnel through higher digitalization of the members' experience (i.e enrollment process and management of training schedule); and (ii) utilities through air conditioning automation and better energy price alternatives, while also improving rent negotiations for future expansion. We expect the company to continue to seek for cost reduction levers, mainly on mature gyms, while management is also being vocal on Capex optimization through initiatives such as store layout's adjustment (reducing cardio area) and partnership with a local equipment supplier to develop new lines with lower prices.

**... while foot traffic patterns have also changed.** According to mobility data from SP Trans (Chart 25), not only is the overall foot traffic still 23% below 2019 levels, but its pattern has also changed, with Mondays and Fridays now clearly having less movement vs. other weekdays, likely as a result of working from home and more flexible routines. We believe that could potentially provide SmartFit with two tailwinds: i) Further promote the upgrade/adoption of the Black membership; and ii) allow for a higher number of members per mature stores, once peak hours are likely more equally distributed across the day.

Chart 26: Daily evolution of operational restrictions due to Covid-19

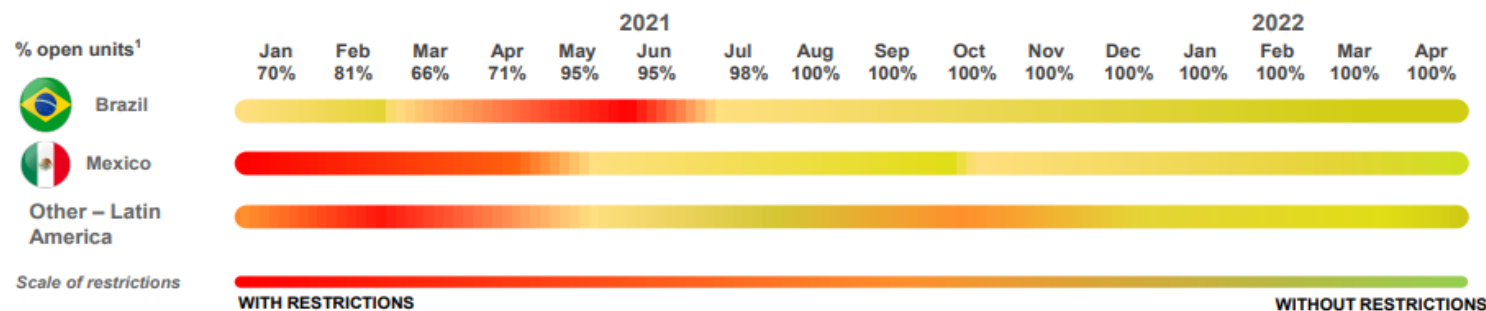


Chart 24: Recovery on SMFT's members (same gyms / organic) that left during the pandemic (% vs. Mar/20)

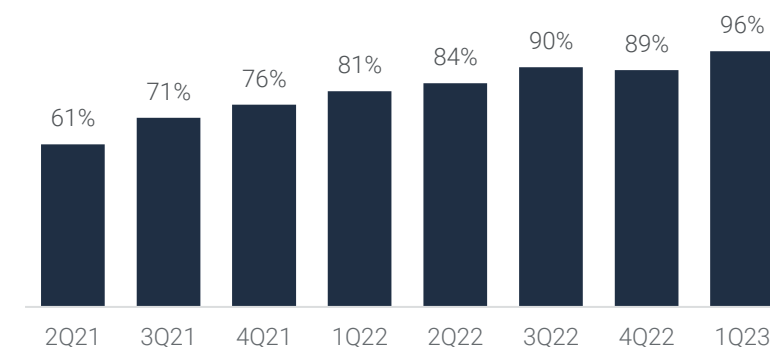
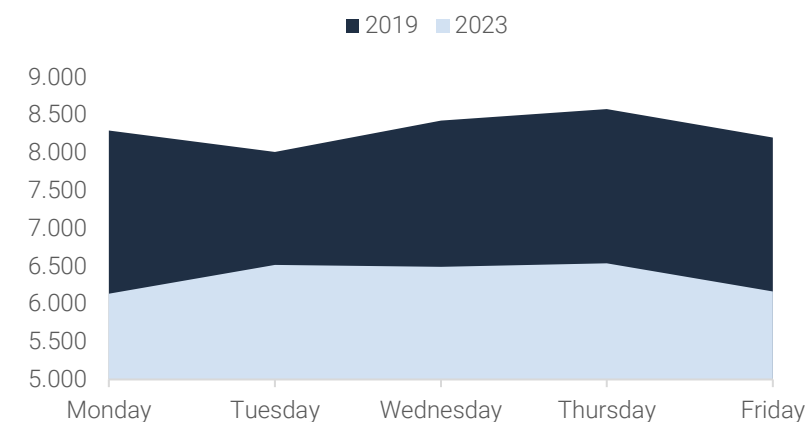


Chart 25: Number of passengers at São Paulo's bus system (000)



# A lot of white space to be filled

## SMFT could more than double stores in Brazil

**Just keep growing.** SMFT's key investment thesis pillar is organic expansion since the LatAm fitness market is still very fragmented and with limited competition. Although the company is focused in the LatAm region, with 60% of the expansion coming from countries outside Brazil, we mapped the potential for expanding in Brazil as it is the country with the highest openings in coming years and where SMFT has the stronger footprint, thus serving as a proxy to determine growth potential. We, thus, ran a sensitivity analysis to map the potential of new SMFT stores in Brazil, based on three key variables: i) GDP per capita; ii) Population; and iii) Capillarity ratio (number of gyms per inhabitant of each city).

**Doubling footprint seems feasible but not without exploring smaller towns.** Our conclusion is that SMFT could double its footprint in Brazil, assuming all cities with GDP/capita above R\$14k and population of at least 100k are targeted, which is in-line with SMFT's long term soft indication. In a more bearish scenario, if the business model in such small towns proves unprofitable, and assuming only cities with 300k people or more are sustainable, we reach a potential long-term footprint of ~860 clubs (+32% vs. today).

Chart 27: SmartFit's current gym club footprint

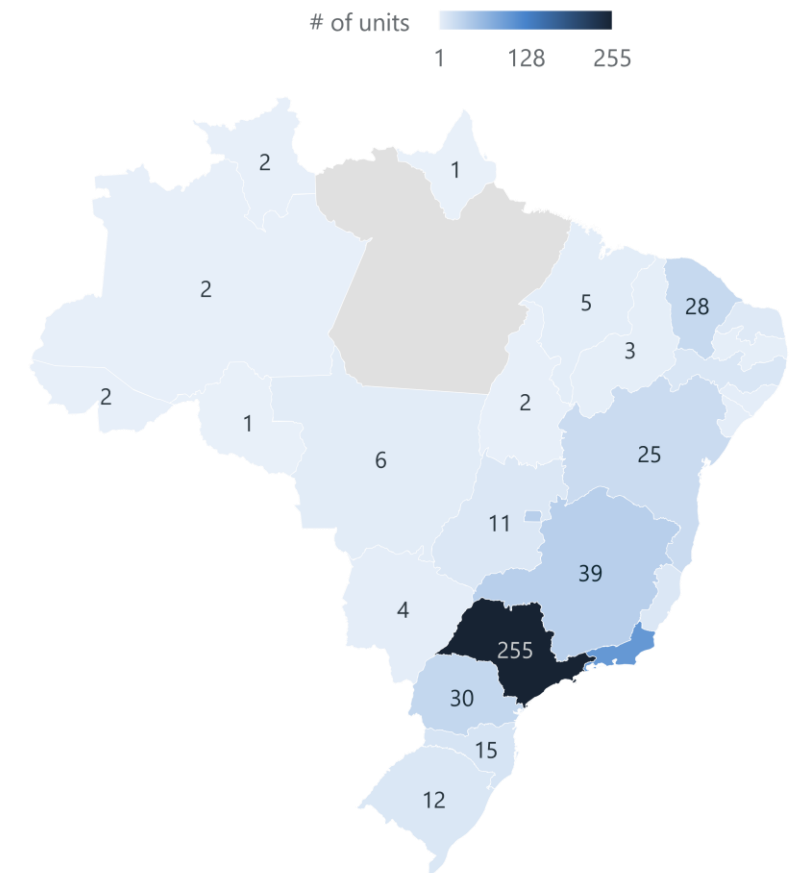


Table 3: Sensitivity on SMFT's potential expansion by GDP per capita and Population

		GDP Per Capita (R\$ '000)				
		5	10	14	20	30
Population ('000)	100	1.269	1.253	1.232	1.131	850
	200	1.036	1.031	1.023	970	738
	300	870	870	<b>862</b>	824	622
	400	754	754	754	744	570
	500	654	654	654	654	510
	600	624	624	624	624	486

Table 4: Sensitivity on SMFT's potential expansion by GDP per capita and Population

		GDP Per Capita (R\$ '000)				
		5	10	14	20	30
Population ('000)	60	1.496	1.466	1.408	1.272	947
	70	1.425	1.403	1.362	1.237	924
	80	1.355	1.333	1.305	1.189	890
	93	1.298	1.281	1.258	1.152	864
	100	1.269	1.253	<b>1.232</b>	1.131	850
	110	1.236	1.222	1.203	1.111	838

# A lot of white space to be filled

August 17, 2023

Brazil Retail

## SMFT could more than double stores in Brazil

**Where is the marginal expansion coming from?** Based on our analysis, we concluded that most of SmartFit's marginal expansion should still be concentrated in States where the company already has a strong footprint, such as São Paulo and Minas Gerais, but into new cities. This is explained by these two states' large population density coupled with high purchasing power, with over 20 cities meeting our thresholds of (i) over 100k inhabitants and (ii) GDP per capita above R\$14k, which accounts for ~30% of potential candidates of new cities in the country.

**However, there's still room to increase capillarity.** Moreover, according to our analysis, ~70% of SMFT's marginal expansion comes from cities where the company is already present, reinforcing its strategy to increase capillarity and support Black membership's penetration. Manaus (+21 stores), Salvador (+10 stores) and Goiania (+8 stores) stand as the cities with the greatest number of potential openings.

Table 5: Number of cities above minimum expansion thresholds in which SMFT is not yet present

State	Number of cities	Average of Population
São Paulo	21	119.288
Minas Gerais	21	125.989
Rio Grande do sul	14	156.573
Paraná	11	124.003
Bahia	10	135.467
Pará	10	212.823
Rio de Janeiro	9	167.016
Goiás	8	133.022
Santa Catarina	5	148.425
Pernambuco	5	148.560
Espírito Santo	4	138.546
Sergipe	3	105.697
Paraíba	3	186.526
Mato Grosso	2	108.535
Maranhão	2	104.083
Mato Grosso do Sul	2	187.760
Amazonas	2	102.741
Ceará	2	230.386
Tocantins	1	171.301
Rondônia	1	124.333
Alagoas	1	234.696
Amapá	1	107.373

Table 6: Number of estimated gym club openings per state (XPe)

State	Number of potential openings
Acre	2
Alagoas	10
Amazonas	23
Amapá	5
Bahia	40
Ceará	12
Espírito Santo	15
Goiás	27
Maranhão	11
Minas Gerais	63
Mato Grosso do Sul	10
Mato Grosso	11
Pará	30
Paraíba	14
Pernambuco	30
Piauí	9
Paraná	37
Rio de Janeiro	52
Rio Grande do Norte	6
Rondônia	5
Roraima	3
Rio Grande do sul	43
Santa Catarina	25
Sergipe	7
São Paulo	111
Tocantins	3

# A profitable business model

## SMFT to keep growing at healthy ROIC levels

August 17, 2023  
Brazil Retail

**A profitable business.** Aside from growth potential, the other key discussion of SMFT's investment case is marginal expansion's profitability. In this sense, we see four potential drivers for the company to shield or increase marginal ROIC going forward: (i) Higher Black membership penetration; (ii) More members per gym; (iii) Suppliers' partnerships and (iv) Changes on store layout, with cardio losing ground to weightlifting equipment. We believe SMFT could also use these profitability levers to sustain greater competitiveness and, thus, reach a larger addressable market.

**Black membership penetration to increase supported by higher capillarity and hybrid work.** We still see room for Smartfit to increase its Black membership penetration, mainly supported by higher capillarity, which should come as a consequence of the company's expansion plan. Currently, the company has a 62% penetration of such plan, which may seem already high at a first glance, especially considering that US' leader, Planet Fitness, has the same penetration on its premium plan. However, we see two key reasons to support a higher penetration for SMFT: (i) the company still has a relatively small market share in LatAm, of 13% vs. Planet's 22%; and (ii) we see a more favorable competitive landscape for SMFT when compared to other countries. Moreover, we believe that greater work flexibility could be another driver to premium subscription penetration, once people can now choose to workout before, during or after work hours nearby their offices, or near their houses during home-office days. Interesting to note that when we compare the public transportation and traffic jam in the city of São Paulo before 2019 and today (Figure 20), it becomes clear that people are prioritizing presential work from Tuesday to Thursday, while Monday and Friday had a big decline in people's flow in the streets.

**We could see more members per gym due to greater work flexibility.** A more flexible work politics could help on softening peak hours in the gyms (usually from 6-8am, lunch time and 6-8pm), thus opening some space to having more members/gym as of today. For instance, our base case considers an average of 3.1k members/gym, but if this number was 3.3k, 4-wall EBITDA margin would reach 55% from 52%.

Table 7: Key figures comparison between international peers (2022a)

	Smart Fit	Planet Fitness	Basic Fit
<b>Operational</b>	<i>in Reais</i>	<i>in Dollars</i>	<i>in Euros</i>
Clubs	945	2.410	1.200
Members (000)	2.689	17.000	3.575
Members/club	2.845	7.054	2.979
% of Franchisees	21%	90%	n.a.
Plans	R\$ 119 - 129.9	US\$ 10 or 24.99	€ 24.99 - € 49.99
Annual fee	n.a.	US\$ 49	n.a.
Enrollment fee	R\$ 50 on smart	up to US\$ 59	€ 19.99
% of premium subscription	62%	63%	34%
<b>4-wall figures</b>	<i>in Reais</i>	<i>in Dollars</i>	<i>in Euros</i>
Avg. Ticket	86,1	18,0	22,9
<b>Avg. Net sales/club (000)</b>	<b>2.796</b>	<b>376</b>	<b>657</b>
<b>Avg. EBITDA 4-wall (000)</b>	<b>1.111</b>	<b>158</b>	<b>264</b>
EBITDA mg 4-wall	40%	42%	40%
Capex/club (mn)	5,0	2,5	1,2
Avg. Club size (sqm)	1.200	1.858	1.285
<b>Consolidated figures</b>	<i>in Reais</i>	<i>in Dollars</i>	<i>in Euros</i>
<b>Net sales (mn)</b>	<b>2.931</b>	<b>937</b>	<b>795</b>
<b>EBITDA</b>	<b>591</b>	<b>369</b>	<b>385</b>
EBITDA mg.	20,2%	39,3%	48,4%
<b>Net income</b>	<b>(11)</b>	<b>99</b>	<b>(4)</b>

# A profitable business model

## SMFT to keep growing at healthy ROIC levels

**Capex efficiency in focus.** After a challenging time during the pandemic, with almost no revenues and increased construction costs, SMFT has done an extensive work on cost and Capex optimization, which should be an ongoing exercise. In this sense, the company is working together with Movement, one of its key equipment suppliers, to build an exclusive line of weight-lifting equipment for Smart, with a more appealing cost/benefit. As a reference, US' Planet Fitness have done a similar move and today they already have their own planet fitness-branded cardio, circuit and weight-training equipment, that has proved to be successful. We ran a sensitivity analysis to estimate the potential impact on the gym's ROIC for different levels of Capex savings resulting from such partnership with Movement and note that for each 10p.p. savings, ROIC increases by ~40bps (see Table 8).

**Store layout adjusted to reflect workout trends.** SMFT is adjusting its store layout to reduce cardio space and increase weight-lifting to improve gyms' value proposition amid consumers' higher interest for weight training. This is also aligned with Capex optimization as weight equipment is cheaper while also having a greater life usage. As a reference, SMFT gym's average area is currently around 1.2k sqm, out of which 200 sqm is dedicated to cardio, 700 sqm to weight-lifting and 100 sqm to group activities, such as dance (and operational areas occupying the remaining space). This layout (Figure 1) implies on a capex/sqm of ~R\$4.2k/sqm, being R\$6k/sqm of cardio and R\$1.1k/sqm of weight-lifting and, thus, for each 50 sqm of cardio shift into weight-lifting, Capex declines by ~5% (Table 9).

Figure 2: SMFT's gym layout

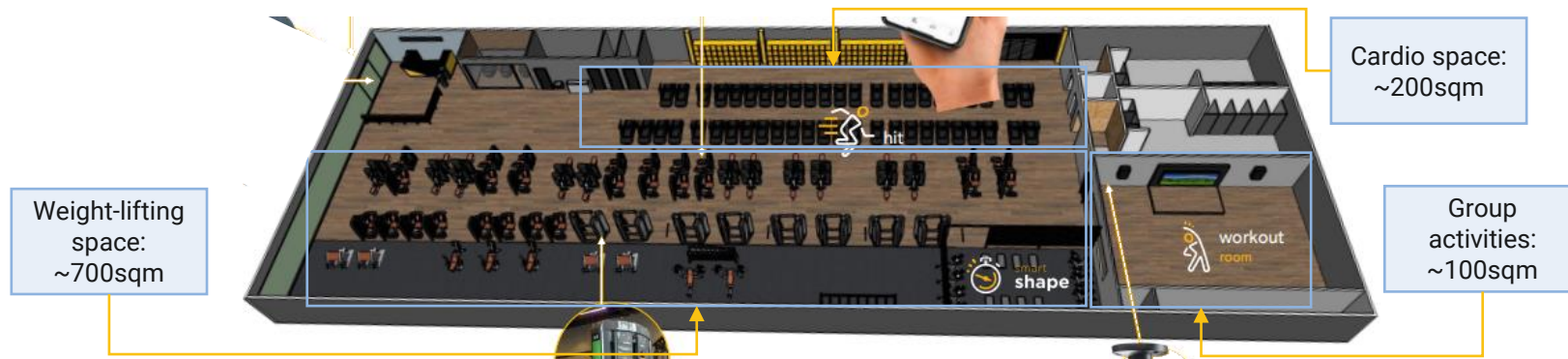


Table 8: SMFT's 4-Wall ROIC @ 5th year (BZ)

Workout Capex Efficiency (%)	Black membership penetration per Gym at maturity				
	55,0%	60,0%	65,0%	70,0%	75,0%
0%	17,4%	18,7%	20,0%	21,4%	22,7%
10%	17,8%	19,1%	20,5%	21,8%	23,2%
20%	18,2%	19,5%	20,9%	22,3%	23,6%
30%	18,6%	20,0%	21,4%	22,8%	24,2%
40%	19,0%	20,4%	21,8%	23,3%	24,7%

Table 9: SMFT's 4-Wall ROIC @ 5th year (BZ)

Workout Capex Efficiency (%)	Adjustment on Cardio space (sqm)				
	0	25	50	75	100
0%	18,7%	19,3%	20,0%	20,7%	21,4%
10%	19,1%	19,8%	20,5%	21,2%	22,0%
20%	19,5%	20,2%	21,0%	21,8%	22,6%
30%	20,0%	20,7%	21,5%	22,3%	23,2%
40%	20,4%	21,2%	22,1%	22,9%	23,9%

# Hidden gems

## Studios as a growth optionality

**Positioning for an upcoming trend.** SMFT currently operates through three key models: (i) HVLP through the Smartfit brand; (ii) Premium gyms through BioRitmo; and (iii) Niche Studios, through five brands: Race Bootcamp (high intensity aerobic trainings), Vidya (Yoga classes), TORQ (biking classes where members battle each other), Tonus Gym (muscle) and Jab House (boxing classes), located inside malls, streets or inside BioRitmo's gyms and totaling 15 units. Pricing-wise, single classes start from R\$35.0, while a multi-club offering is still being pivoted.

**Estimating the long-term expansion potential in Brazil.** Given the still early stages of the business model in the country, a precise estimate of the expansion potential is difficult to calculate. We, thus, looked at Velocity's footprint as a benchmark, as the company is the largest indoor biking studio chain in Brazil with 49 units. The main driver behind the decision to open a studio is purchasing power (GDP per capita), once Velocity operates in cities with population as low as 77k people (Vinhedo) while its footprint's average GDP/capita is R\$60k (vs. SMFT's R\$46k). Conducting a similar analysis to the one on Smartfit's potential (pgs. 12-13), we concluded that there is a potential of up to ~250 Studios in the country, based on Velocity's metrics as minimum thresholds.

**Too early to price in but an optionality to consider.** Despite the proven high-growth potential for the model, we believe it is still too early to embed it in our model, given the still low visibility on its LT potential while its addressable market is more limited vs. the HVLP model. However, we believe this could turn out to be an interesting growth optionality with a resilient target audience and a potential lever for TotalPass penetration.

Table 10: Footprint of Velocity indoor biking studios

	Population (000)	GDP Per Capita (R\$ '000)					
		50	60	70	80	90	100
	50	478	263	83	79	70	34
	70	460	254	79	75	67	31
	90	446	246	72	70	62	26
	110	436	243	70	68	60	24
	130	422	236	67	65	57	21
	150	418	233	65	65	57	21

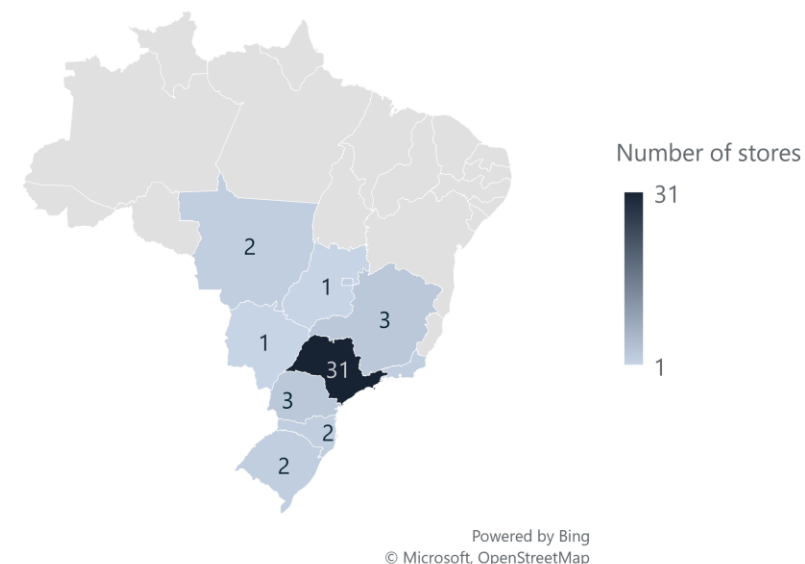
  

	Stores multiplier (population needed to open a new store)	GDP Per Capita (R\$ '000)					
		50	60	70	80	90	100
	50	916	503	153	145	131	58
	70	656	362	109	104	94	42
	90	507	279	83	80	72	32
	110	416	227	70	67	60	27
	130	358	195	61	58	53	24
	150	318	173	54	51	46	22

Figure 3: SmartFit's studio portfolio



Chart 28: Footprint of Velocity biking studios (# of units per state)



# Hidden gems

## TotalPass could become a sales and profitability lever

**CADE settlement in 2022 as a game changer.** Up until 2021, Gympass had unlimited exclusivity agreements with gym operators, benefiting from its large scale and creating an entry or expansion barrier to competitors. However, following a CADE (Brazilian Antitrust Chamber) settlement in 2022, those agreements are now limited to i) 20% of the company’s gym base in each city; ii) must be tied to investments; and iii) should not exceed 2 years. This decision fostered competition in the space, benefiting SMFT’s TotalPass offering, which according to local news ([link](#)), tripled the number of partner gyms to 8k and doubled the number of registered corporate clients since then.

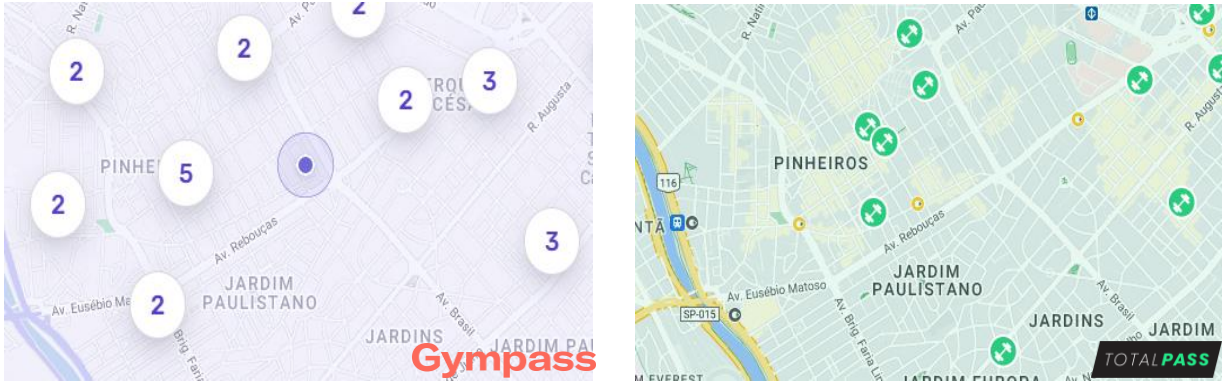
**Another growth optionality to consider.** As in the case of the studios, we also find it hard to price in the TotalPass’ optionality into our model. Nonetheless, we believe there is room for it to be a growth and profitability lever for SMFT as: i) SMFT’s increased capillarity coupled with Studios’ rollout strengthen TotalPass value proposition through higher convenience and a greater modalities and models’ assortment; and ii) TotalPass’s pricing is cheaper than Gympass for companies, which could favor its adoption. Moreover, since its cost structure is mostly fixed, its growth should have a strong contribution to margins.

**Gympass could be a stumbling block.** Although we see a lot of potential for TotalPass, we also note that Gympass is a risk for SMFT through two venues: i) it could provide some relief to smaller / less capitalized players that do not have a sound value proposition; and ii) Gympass currently offers a much wider range of gyms/studios and apps at the same price for final consumers, which may be more appealing to consumers vs. TotalPass.

Table 11: Comparison of Gympass, TotalPass and Smartfit plans

	<b>Gympass</b>	<b>TOTALPASS</b>	<b>smart fit</b>
Price	R\$ 119,90	R\$ 119,90	R\$ 129,90
Cost per member*	R\$ 35,00	R\$ 23,00	n.m
Plan	Silver	TP 2	Black
# of gyms/studios	18000+	7700+	1200+
Other features	Access to 34 wellness apps	Access to all Smartfit units + SmartFit coach, Queima Diária, Zen App	Access to all SmartFit units
Chains included	Bodytech, BlueFit, Peralta Fitness and others	Peralta Fitness, AMS Xperience, VOLL Pilates and others	SmartFit

Figure 4: Available gym clubs/studios (Gympass vs. TotalPass) at the same price level/month at a neighborhood cluster in SP



Valuation

XP Estimates

# SmartFit (SMFT3): Not a Fake Natty

August 17, 2023

Brazil Retail

## Initiating with a Buy; YE24 TP of R\$28.0/sh

**Initiating SMFT at a Buy.** We are initiating coverage of SmartFit, with a Buy rating and an YE24 TP of R\$28.0/sh, implying a 32% upside potential to current prices. Our target is based on a 10-year DCF (FCFF) valuation approach with our main assumptions being: (i) 6.0% long-term growth rate, (ii) 13.7% cost of capital (WACC) and (iii) ~38.5% long-term EBITDA margin (ex-IFRS). As a reference, our target multiple implies a forward EV/EBITDA of 9.0x, fairly in-line with current levels (of 8.7x EV/EBITDA 2023e) and a 20% discount to global peers' average (of 10x EV/EBITDA 2024e).

**A lot of growth yet to be delivered.** We assume SMFT to roughly double its footprint in the next 5 years, with the expansion being driven mostly by own stores (80% of openings) and Brazil still leading the way (40%), followed by Mexico (34%). In terms of growth dynamics, we expect a top line CAGR in 2022-27e of +22% but with EBITDA CAGR stronger at +36% on the back of stores' maturation process. If we look 2023 beyond, given 2022 is still a pressured comp base, a more normalized top line CAGR should be around mid teens, while EBITDA should grow closer to ~20% and net income to ~30%, benefited by deleveraging.

**Discounted to peers with a stronger growth profile.** We see SMFT's valuation as appealing, with the stock trading at ~8x EV/EBITDA 2024e, which is a 20% discount to global peers despite its stronger growth profile while also counting with a higher ROIC 4-wall for mature stores (at 52%) when compared to its peers (at ~40%). We note that looking at P/E may be misleading, as SMFT's short-term bottom line should be pressured by the company's strong expansion plan, with its PEG ratio at 0.5x.

Table 12: CAPM Assumptions

WACC	
Risk Free Rate	3,9%
Country Risk	2,8%
Equity Risk Premium	5,7%
Levered Beta	1,1
Inflation Differential	2,0%
<b>Cost of Equity</b>	<b>15,0%</b>
Debt Rate	10,1%
Tax Rate	34,0%
<b>After Tax Debt Rate</b>	<b>6,7%</b>
Target Capital Structure	14,8%
<b>WACC</b>	<b>13,7%</b>

Table 13: DCF Model

Discounted Cash Flow (R\$m)	2023e	2024e	2025e	2026e	2027e
EBIT	875	879	1.071	1.396	1.785
(-) Taxes	(144)	(209)	(255)	(332)	(587)
(+) D&A	651	752	852	926	991
(+/-) Working Capital Change	(28)	(65)	(49)	(87)	(98)
(-) Capex	(1.254)	(1.231)	(1.147)	(1.240)	(1.337)
<b>Free cash flow firm</b>	<b>99</b>	<b>126</b>	<b>471</b>	<b>663</b>	<b>754</b>

# SmartFit (SMFT3): Not a Fake Natty

August 17, 2023  
Brazil Retail

## XP Estimates – Operational Metrics

Operating Metrics	2018	2019	2020	2021	2022	2023e	2024e	2025e
<b>Stores</b>								
<b>Country</b>	<b>637</b>	<b>834</b>	<b>911</b>	<b>1.077</b>	<b>1.236</b>	<b>1.428</b>	<b>1.618</b>	<b>1.808</b>
Brazil	407	498	539	615	648	725	800	875
Mexico	121	162	182	201	254	319	384	449
Others LatAm	109	174	190	261	334	384	434	484
<b>Profile</b>	<b>637</b>	<b>834</b>	<b>911</b>	<b>1.077</b>	<b>1.236</b>	<b>1.428</b>	<b>1.618</b>	<b>1.808</b>
Own Stores	509	652	715	846	980	1.133	1.283	1.433
Franchises	128	182	196	231	256	295	335	375
<b>Key Financials Breakdown (R\$m)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
<b>Net Sales</b>	<b>1.452</b>	<b>1.984</b>	<b>1.256</b>	<b>1.707</b>	<b>2.931</b>	<b>4.251</b>	<b>5.048</b>	<b>5.860</b>
Brazil	908	1.150	755	944	1.513	2.037	2.408	2.756
Mexico	296	421	292	349	635	977	1.164	1.384
Others LatAm	248	414	210	413	782	1.237	1.476	1.720
<b>Gross margin</b>	<b>47,1%</b>	<b>47,9%</b>	<b>34,1%</b>	<b>30,3%</b>	<b>41,7%</b>	<b>49,9%</b>	<b>49,6%</b>	<b>49,5%</b>
Brazil	44,5%	45,1%	34,2%	25,8%	37,6%	49,0%	49,4%	49,1%
Mexico	50,7%	52,2%	36,1%	30,4%	39,5%	43,7%	41,9%	41,6%
Others LatAm	52,0%	51,3%	30,9%	40,4%	51,6%	56,3%	56,2%	56,4%
<b>EBITDA (ex-IFRS)</b>	<b>580</b>	<b>797</b>	<b>295</b>	<b>330</b>	<b>931</b>	<b>1.787</b>	<b>2.109</b>	<b>2.440</b>
Brazil	337	424	166	107	372	810	967	1.102
Mexico	127	185	77	81	201	335	378	444
Others LatAm	116	189	52	143	358	642	765	895
<b>EBITDA Mg. (ex-IFRS)</b>	<b>39,9%</b>	<b>40,2%</b>	<b>23,5%</b>	<b>19,4%</b>	<b>31,8%</b>	<b>42,0%</b>	<b>41,8%</b>	<b>41,6%</b>
Brazil	37,2%	36,9%	22,0%	11,3%	24,6%	39,7%	40,1%	40,0%
Mexico	42,9%	44,0%	26,4%	23,2%	31,7%	34,2%	32,5%	32,1%
Others LatAm	46,6%	45,6%	24,8%	34,5%	45,7%	51,9%	51,8%	52,0%

# SmartFit (SMFT3): Not a Fake Natty

August 17, 2023  
Brazil Retail

## XP Estimates – Consolidated Financials

Consolidated Financials (R\$m)	2018	2019	2020	2021	2022	2023e	2024e	2025e
Net Sales	1.452	1.984	1.256	1.707	2.931	4.251	5.048	5.860
Gross Profit	683	951	428	516	1.223	2.121	2.506	2.899
Gross mg	47,1%	47,9%	34,1%	30,3%	41,7%	49,9%	49,6%	49,5%
EBIT	216	245	(302)	(386)	95	873	870	1.056
EBIT margin	14,9%	12,3%	-24,0%	-22,6%	3,3%	20,5%	17,2%	18,0%
Adj. EBITDA	412	551	54	47	591	1.352	1.624	1.908
EBITDA mg	28,4%	27,8%	4,3%	2,8%	20,2%	31,8%	32,2%	32,6%
Net Financial Results	(121)	(215)	(221)	(178)	(109)	(171)	(236)	(93)
Income Taxes	(27)	(41)	51	22	(4)	(117)	(153)	(231)
Adj. Net Income (ex-IFRS)	80	(13)	(487)	(558)	(11)	415	489	740
Net mg	5,5%	-0,6%	-38,8%	-32,7%	-0,4%	9,8%	9,7%	12,6%

### Balance Sheet (R\$m)

Total Gross Debt	1.809	2.207	2.616	3.590	3.420	3.274	3.274	3.274
Cash & Equivalents	667	1.351	1.020	3.720	2.923	2.399	2.353	2.747
Net (debt) / cash	1.142	855	1.596	(129)	497	875	921	528
Net (debt) / EBITDA	0,0x	1,6x	29,7x	(2,7x)	0,8x	0,6x	0,6x	0,3x

### Return / Yield Metrics

ROIC			n.m.	n.m.	2,2%	9,4%	8,1%	9,9%
ROE			n.m.	n.m.	n.m.	12,3%	9,2%	12,3%
FCF Yield						0,8%	1,0%	3,7%

### Valuation Metrics

EV/EBITDA						8,7x	8,2x	6,8x
P/E						29,9x	25,4x	16,8x
PEG ratio						1,7x	0,5x	0,5x

Chart 29: 2023e XP vs. Consensus

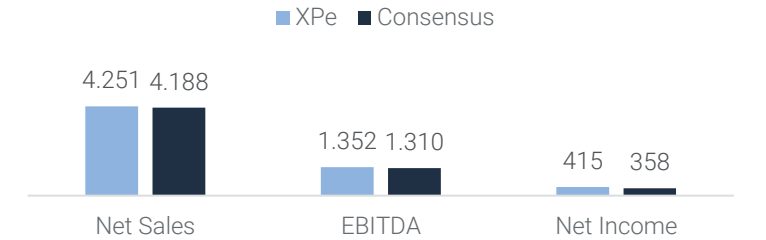


Chart 30: 2024e XP vs. Consensus

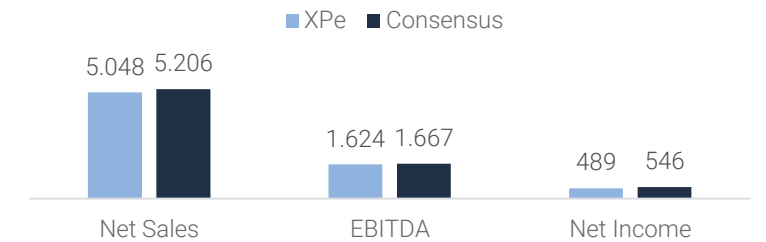
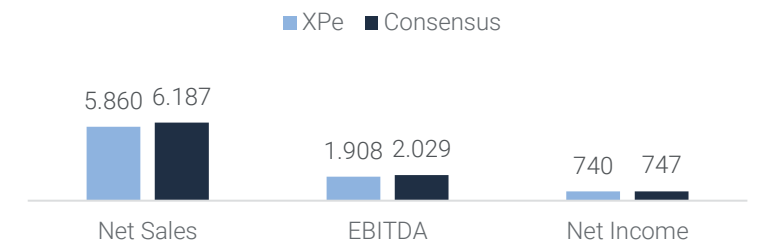


Chart 31: 2025e XP vs. Consensus



# Valuation Comps

August 17, 2023

Brazil Retail

Table 14: Gym's Global valuation comps

Companies	Current Price	Rating	Market Cap (\$ mi)	ADTV (\$ mi)	EV/EBITDA		P/E		PEG	Gross Margin	EBITDA mg	Revenue CAGR	EBITDA CAGR	Net Income CAGR
					2023	2024	2023	2024	2024	2023	2023e	2022-2025	2022-2025	2022-2025
<b>Brazil</b>														
SmartFit	21,2	Buy	2.574	9,0	8,7x	8,2x	29,9x	25,4x	0,5x	50%	36%	26%	48%	34%
Lojas Renner	17,5	Buy	3.378	94,7	12,4x	10,7x	12,5x	9,3x	0,4x	61%	20%	13%	23%	20%
C&A	6,4	Neutral	397	5,2	3,5x	3,0x	n.m.	76,1x	0,8x	50%	14%	7%	11%	n.m.
Grupo Soma	8,8	Buy	1.381	23,5	7,4x	5,1x	13,8x	8,5x	0,3x	58%	16%	14%	26%	40%
Vivara	29,7	Buy	1.406	15,9	12,4x	10,7x	18,0x	17,4x	0,4x	69%	26%	15%	22%	17%
Alpargatas	9,5	Neutral	1.321	12,3	34,9x	5,4x	n.m.	23,3x	0,4x	41%	3%	6%	7%	35%
Arezzo & Co.	81,2	Buy	1.806	23,7	10,9x	8,6x	20,0x	15,1x	0,6x	54%	16%	14%	19%	19%
Grupo SBF	9,3	Buy	455	9,3	3,3x	2,7x	10,6x	6,0x	0,2x	48%	14%	15%	29%	46%
Track&Field	13,8	Neutral	199	0,4	11,8x	9,8x	20,5x	17,3x	0,9x	57%	26%	15%	17%	17%
Vulcabras	21,6	Buy	1.066	2,3	8,8x	7,2x	11,6x	9,5x	0,4x	38%	20%	15%	20%	16%
<b>Total Average Brazil</b>					<b>11,4x</b>	<b>7,1x</b>	<b>17,1x</b>	<b>20,8x</b>	<b>0,5x</b>	<b>54%</b>	<b>19%</b>	<b>15%</b>	<b>25%</b>	<b>25%</b>
<b>Global Gyms</b>														
Planet Fitness	60,6	N/C	5.340	99,3	16,3x	14,3x	27,8x	23,5x	1,3x	59%	41%	11%	14%	18%
Xponential	22,4	N/C	1.121	14,1	14,1x	10,8x	43,9x	17,2x	0,2x	76%	35%	17%	30%	107%
Basic Fit	28,8	N/C	2.073	4,4	10,0x	7,8x	41,7x	22,0x	0,3x	97%	40%	20%	25%	76%
GYM Group PLC	115,4	N/C	262	0,2	8,6x	7,9x	N.A.	N.A.	N.A.	99%	36%	8%	10%	N.A.
<b>Total Average Global</b>					<b>12,2x</b>	<b>10,2x</b>	<b>37,8x</b>	<b>20,9x</b>	<b>0,6x</b>	<b>83%</b>	<b>38%</b>	<b>14%</b>	<b>19%</b>	<b>67%</b>
<b>Total Average</b>					<b>13,1x</b>	<b>9,7x</b>	<b>22,2x</b>	<b>18,8x</b>	<b>0,6x</b>	<b>61%</b>	<b>28%</b>	<b>15%</b>	<b>22%</b>	<b>32%</b>

Risks

Mapping key risks

## Tax Reform, Execution, Macro and Capex dynamics

**Tax reform could lead to an increased tax burden.** In July, the Lower house approved its version of the Brazilian Tax Reform (read more at our Tax Novel series [here](#)), with the main highlights being: i) the implementation of a dual VAT, creating a CBS (substituting IPI, PIS and COFINS), to be managed by the Federal Government, and another called IBS (substituting ICMS and ISS), to be managed between States and Municipalities; ii) gradual transition period until 2033; and iii) Final IVA rate still undefined but likely above 25%. Currently, most Brazilian gyms operate in tax regimes defined under the Real / Presumed Profit Regimes, which are subject to reduced rates for PIS/COFINS (3.65%) and ISS (ranging from 2% to 5%), and, thus, count with a consolidated tax burden of 12-19%, which compares to at least 25% once the Tax Reform is fully implemented, according to the sector's association (ACAD Brasil). However, the reform will also enable companies to credit costs that they couldn't before, such as marketing and occupancy costs, which could help them mitigate a higher tax burden, though the informal market could also increase.

*Our view: SMFT should have access to more credits when compared to its competitors given its strong expansion pace and, thus, should be better positioned to curb or mitigate this effect than its peers.*

**Execution risk.** Since SMFT's key investment pillar is its strong expansion plan (of ~190 gyms/year), leading the company's footprint to almost double by 2027e, execution is key for it to be successful. In this sense, if the company is not able to (i) choose good locations; (ii) adjust its value proposition to consumer trends; and (iii) shield its ROIC, this could compromise the value to be unlocked by the case.

*Our view: The company has been delivering a sound execution track record, more than doubling its footprint in 2017-22 even amid Covid, with seasoned executives with a long history in the company (C-level with 10+ years) running the business. As a result, SMFT has been the consolidated fitness market leader in LatAm, with a strong gap to #2. Moreover, we believe that the company's franchise strategy is used to mitigate this risk when entering new markets through local partnerships.*

**Maintenance Capex could increase in the mid-term.** Gym equipment's life usage ranges between 5-10 years, with cardio at the low of the range and weight-lifting at the top, and, thus, we still haven't seen a renewal cycle for the company, which could pressure maintenance Capex in the long-term.

*Our view: In our model, we assume a maintenance Capex at ~8%/year of mature stores' sales once they mature (Year 3), which accumulates roughly R\$2mn by the 10<sup>th</sup> year. This is equivalent to a gym's equipment capex once its opened and, thus, we believe to already reflect this risk in our numbers.*

**Deteriorated macro could be headwind to growth.** If we see macro dynamics deteriorating or keeping more pressured for longer, this could compromise consumers' disposable income, potentially compromising SMFT's future growth / profitability, either through a lower number of consumers per gym or through a higher difficulty to pass inflation into subscription plans.

*Our view: We believe that Health & Wellness gained more relevance in consumers' mindset, potentially becoming less discretionary vs. other categories. Nonetheless, we don't see the segment as shielded from a more pressured purchasing power as there are cheaper (or free) work out alternatives (e.g. running in the park).*

ESG

The secret of getting  
ahead is getting started

# ESG: The secret of getting ahead is getting started

August 17, 2023

Brazil Retail

## Stock debut in 2021 accounts for disclosure gaps, despite clear progress in ESG-backed performance

Despite SmartFit's recent IPO (Jul/21), we recognize the efforts to improve its ESG performance and advance the disclosure and transparency. In the **(E)** pillar, despite being less material, we welcome the company's water optimization strategies, coupled with energy-efficiency initiatives, though we underline room for embrace further solutions, while in the **(S)** front, as a service business related to health and wellness' promotion, we highlight its commitment to expand access to fitness activity, mainly driven by their affordable monthly membership rates vs. peers, coupled with a national footprint and units spread across all Brazilian states. Finally, in **(G)**, SmartFit has its shares listed on B3 Novo Mercado, with the Corona family and Patria Investimentos as controlling shareholders, while we see room for improvement in gender diversity at leadership level.

**(E) Less carbon-intensive business vs. others, with room for enhancing (E)-related data.** Despite being less material due to a smaller carbon footprint vs. other industries, we highlight the importance to deploy water optimization and energy-efficiency solutions, to which we back: **(i)** the adoption of eco-friendly technology, including shower and locker room sinks timer with auto shut-off option that reduces water consumption; **(ii)** the use of energy-efficient LED lights in owned stores; and **(iii)** the expansion of clean energy use across units in Brazil. However, we missed higher disclosure on initiatives' outcomes, as well as broader metrics to measure their (E)-backed performance.

**(S) Affordable service business-line linked to health and wellness promotion.** SmartFit has operations in 14 countries, a total workforce of ~13K and ~4.2M client membership. Thus, we note that the company showed little disclosure on **(i)** attraction and retention policies; **(ii)** diversity, equity, and inclusion roadmap; and **(iii)** data privacy and security policies, which we look forward to seeing more details ahead. On a positive note, we believe the company is instrumental to expanding access to fitness activity, which can bring benefits to overall population health, mainly driven by their affordable monthly membership rates vs. other fitness facilities in Brazil and wide national footprint.

**(G) Skilled management with broad experience; Ongoing progress, despite recent IPO.** After raising R\$2.3bn in their IPO on B3 stock exchange in July 2021, SMFT3 listed shares on B3 Novo Mercado, the highest standard for corporate governance. Regarding the company's controlling shareholders, Corona family holds 15% stake, while Patria Investimentos 33%, though we note that Patria's participation is through two Private Equity (PE) funds, which can drive both risks and opportunities for the stock. Additionally, we highlight that SmartFit features a strong and skilled management staff, with extensive experience in the financial market, backed by a present and highly engaged founder and CEO executive, Edgar Corona, on the helm of the organization for the past 11 years. On Board of Directors, we note that it is composed of 8 members, of which only 2 are independent ones (25%), while only one is female (12%), lacking both independent majority and gender diversity.

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Company	Ticker	Listed company?	Novo Mercado?	Sustainability Report?	Materiality Matrix?	% of women (BoD)	% of women (C-Level)	% independent members (BoD)	ESG MSCI Rating <sup>1</sup>
SmartFit	SMFT3	✓	✓	✗	✓	12%	16%	25%	CCC B BB BBB A AA AAA

# ESG: The secret of getting ahead is getting started

August 17, 2023

Brazil Retail

## (E) Less carbon-intensive business vs. others, with room for enhancing (E)-related data

**Water stress.** To reduce the environmental footprint in gyms, water management is a critical part of a robust strategy. When it comes to SmartFit, the use of showers in locker rooms, sinks, toilets and drinking fountains in their 1.231 fitness units respond to a large part of water consumption – as a reference, according to data from the University of Minnesota, fitness facilities worldwide consume thousands of gallons of water per month to fill pools, cleaning, heating, air conditioning, toilets, showers and water fountains during opening hours. While we positively note that the company adopted eco-friendly technology, including shower and locker room sinks timer with auto shut-off option that reduces water consumption, we missed higher disclosure on the outcomes from such initiatives, in addition to the adoption of broader optimization strategies.

**Energy & carbon emissions.** Despite being traditionally less carbon-intensive vs. other industries, we welcome SmartFit's adoption of energy-efficiency measures to integrate sustainability into the business strategy, including: **(i)** the use of energy-efficient LED lights in owned stores; **(ii)** setting forward a call for proposals to hire clean energy generation projects to expand its use across units in Brazil, with 122 gyms in the country already powered by solar energy since 2020; **(iii)** the partnership with Raízen, established in 2022, to secure clean energy generation and commercialization for the next 5 years, which will lessen SmartFit's carbon footprint in ~370 tons of CO2 per year, resulting in an annual reduction of ~R\$1.5mn in electricity-related costs. Nonetheless, we would have welcomed further disclosure on overall (E)-backed data, which, in our view, is likely to improve with the launch of its sustainability report (expected by year-end), including **(i)** carbon footprint; and **(ii)** total energy use across all fitness units.

## (S) Affordable service business-line linked to health and wellness promotion

**Labor management.** SmartFit has operations in 14 countries and a total workforce of ~13K, with ~45% located in Brazil (~6K), with SmartFit's CEO, Edgar Corona, being vocal on building an inclusive culture and workforce environment, as mentioned in our podcast CEO Expert Talks ([watch here](#)); however, it's worth mentioning that the company showed little disclosure on **(i)** attraction and retention policies; and **(ii)** diversity, equity, and inclusion roadmap, which we look forward to seeing more details ahead.

**Product Safety & Quality.** As a service business, consumer satisfaction is key. Thus, we note SmartFit's progress in their ReclameAqui<sup>2</sup> score, reaching 7.7 (out of 10) between Feb-Jul/23, vs. 6.1 in 2021.

**Access to fitness.** According to the World Health Organization (WHO), regular physical activity is proven to prevent and manage several diseases such as heart disease, stroke, diabetes, and several cancers; thus, being an important aspect of health and wellbeing. Consequently, expanding access to fitness activity can bring benefits to overall health of the population. Regarding SmartFit's efforts to embrace and boost population's access to fitness, we highlight: **(i)** affordable monthly membership rates vs. other fitness facilities in Brazil, ranging from R\$89.90-R\$129.90, and counting with aggressive frequent promotions; and **(ii)** 634 fitness facilities across all 27 Brazilian states, having a considerably large national footprint (please refer to pg. 12 for further details).

**Data security & privacy.** SmartFit has a large data base of 4.2 million members<sup>3</sup>, which coupled with the strengthening in privacy regulations, such as the General Data Protection Law (LGPD, in Portuguese), means a need for the company to have better practices in place to protect customers' privacy and safeguard sensitive data. Thus, we missed disclosure on data management processes and overall security ecosystem to guarantee a responsible data use. Despite complying with LGPD, we note the importance of showcasing transparency efforts on the data collected from customers, including guidelines on how to use and share data.

# ESG: The secret of getting ahead is getting started

## (G) Skilled management with broad experience; Ongoing progress, despite recent IPO

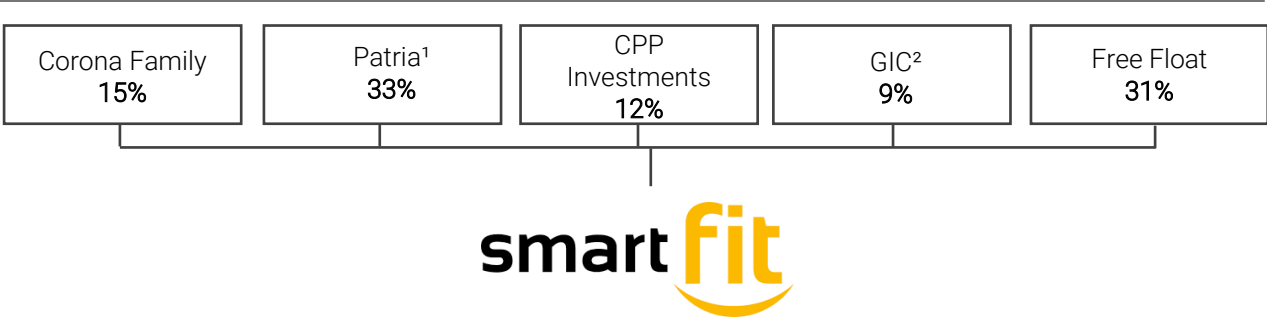
SmartFit raised R\$2.3bn in their IPO on B3 stock exchange in July 2021, with shares listed on Novo Mercado, the highest corporate governance standards. Regarding the company's controlling shareholders, Corona family holds 15% stake, while Patria Investimentos 33% (Figure 5), though we note that Patria's participation is through two Private Equity (PE) funds<sup>1</sup>, that besides providing capital, they can build ongoing engagements to exchange experience backed by shared values to improve operational performance of the investee companies, which we welcome. However, both PE funds have a finite-life, being required to liquidate investments after holding them for a certain period. When it comes to SmartFit, Patria has been a shareholder of the company since 2010, but its two PE funds were announced in 2019, with an exit rate in 2027, though they can request an extension to 2029, which can become a potential overhang for the company's shares.

On the positive side, in our view, maintaining strong corporate governance practices are essential to fulfilling the company's business strategy and creating long-term sustainable value. In SmartFit's case, we highlight a strong and skilled management staff, with extensive experience in the financial market, with many executives holding previous strategic positions at Patria, backed by a present and highly engaged founder and CEO executive, Edgar Corona, on the helm of the organization for the past 11 years.

On Board of Directors, we note that it is composed of 8 members, of which only 2 are independent ones (25%), while only one is female (12%), lacking both independent majority and gender diversity. Finally, it's worth mentioning that both the Board Chairman and the CEO are representatives of the controlling family, which can, in some cases, pose risks to management oversight.

Finally, in terms of disclosure and transparency, we see SmartFit strengthening efforts to improve availability of data and communication with the market, backed by (i) the company developing their first-ever Sustainability Report 2022 edition, likely to be launched at the 4Q23; (ii) a more detailed corporate presentation published in May/23 vs. the same period in 2022; and (iii) building a dedicated ESG team to ramp up efforts and initiatives.

Figure 5: Ownership Structure



# ESG: The secret of getting ahead is getting started

August 17, 2023

Brazil Retail

## Management and Board of Directors

Table 15: Board of Executive Officers

Name	Position	Brief bio
Edgar Gomes Corona	Chief Executive Officer	Edgar Corona, chemical engineer, founding partner and CEO of SmartFit, has over 30 years of experience in the fitness industry, and received the EY Entrepreneur of the Year Award in Brazil in 2016.
Thiago Borges	Chief Financial Officer	Current CFO and DRI of SmartFit, Thiago joined the company in 2017. From 2009 to 2017, Thiago held the position of CFO and DRI of Arezzo & Co. Thiago worked for five years at Braskem, in different strategic areas.
André Pezeta	Head of LatAm and Business Development	Mr. Pezeta has been the Head of SmartFit's International Operations for 8 years. Prior to this role, he was the CEO and CFO of SmartFit Mexico and the officer in charge of the expansion of SmartFit in Brazil. Before joining SmartFit, Mr. Pezeta was Director for Pátria.
Diogo Corona	Chief Operating Officer	Responsible for SmartFit's business in Brazil since 2010. Before that, he worked as an analyst at Itaú Unibanco. Prior to being elected as Chief Operating Officer, Mr. Diogo was responsible for the financial planning and pricing of the products. Currently, he is also a director at the company's main subsidiaries.
Juana Melo Pimentel	General Counsel	Ms. Juana Pimentel is the General Counsel for SmartFit's LatAm operations since March 2020. Prior to joining the group, she worked as General Counsel for CVC Corporation from 2018 to 2020 and for Grupo Bandeirantes Comunicação for 6 years.
Alexandre Gregianin	Chief Technology Officer	Mr. Gregianin has been with SmartFit since 2009, holding the position of CTO since 2017. Prior to that, he worked as the software development manager for the group, and before joining SmartFit, he worked as the head of software for several Brazilian startup-ups.

Table 16: Board of Directors

Name	Position	Brief bio
Daniel Rizardi Sorrentino	Chairman	Daniel Sorrentino is a Managing Partner & Brazil's Country Manager, responsible for managing the Brazilian office, BRL demoninated products and strategies. Mr. Sorrentino was the Chief of Portfolio Management of the PE Group since 2017.
Luis Felipe Françaoso Pereira da Cruz	Board member	Mr. Luis Felipe is Partner and Head of New Business at Private Equity Brazil. He joined Pátria in 2010 and became partner in 2019. He started his career as a member of Anhanguera's M&A's team, becoming Microlins' Business Development Director until its divestment in 2010.
Soraya Teixeira Lopes Corona	Board member	Soraya is founding partner and executive director of the SmartFit Group. Before joining SmartFit, Soraya worked in journalism at Rede Globo TV branch in Campinas and was owner of a relevant press advisory agency.
Edgar Gomes Corona	Board member	Edgar Corona, chemical engineer, founding partner and CEO of SmartFit, has over 30 years of experience in the fitness industry, and received the EY Entrepreneur of the Year Award in Brazil in 2016.
Diogo Corona	Board member	Responsible for SmartFit's business in Brazil since 2010. Before that, he worked as an analyst at Itaú Unibanco. Prior to being elected as Chief Operating Officer, Mr. Diogo was responsible for the financial planning and pricing of the products. Currently, he is also a director at the company's main subsidiaries.
Leonardo Lujan Gonzalez	Board member	Mr. Leonardo is a Director of Pátria Investments, working in the Private Equity area since 2014, developing new theses and leading transaction in several sectors. Since 2015, it has helped SmartFit in its inorganic and international expansion efforts. Previously, he worked in the Investment Banking area of the bank Credit Suisse, working on IPOs and M&As. He began his career in Equity Research at Barclays.
Wolfgang Stephan Schwerdtle	Independent Board member	He joined GIC in 2009 in London. In 2011, he joined the team of the GIC office in New York and, in 2014, moved to São Paulo to open the GIC office in Brazil and take over as Head of the Brazilian office. Prior to joining GIC, Wolfgang worked in private equity at Cambridge Capital and Madison Dearborn Partners, as well as in investment banking at Goldman Sachs.
Ricardo Lerner Castro	Independent Board member	Mr. Ricardo Castro is Head of CPPIB South America. Prior to joining CPPIB in 2018, Ricardo was a director at Lone Star Funds. Ricardo also served as Vice President of TPG Capital and was an associate at J.P. Morgan.

# ESG: The secret of getting ahead is getting started

## MSCI ESG Ratings

**MSCI ESG Ratings:** Smartfit has a **BB** rating by MSCI ESG Ratings. On a global perspective, the **BB** rating places SMFT3 among the 27% companies with this rating under MSCI ACWI Index constituents within Hotels & Travel (26 companies).

Chart 32: MSCI Ratings Distribution – Hotels & Travel

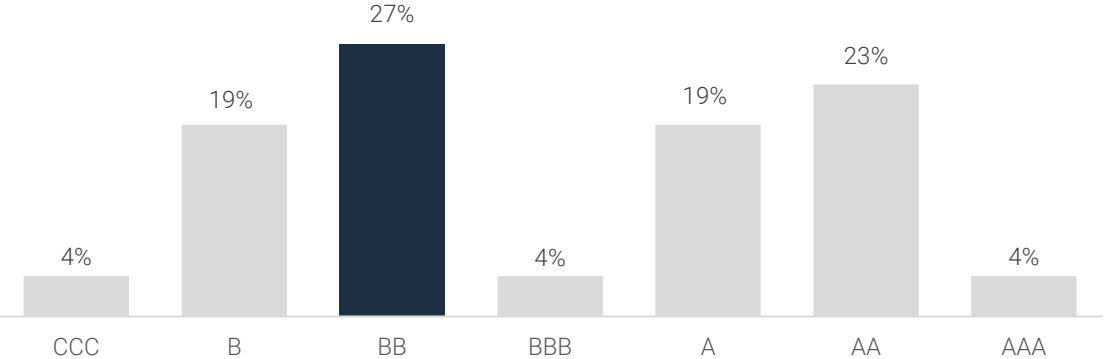


Chart 34: MSCI Rating – Weights

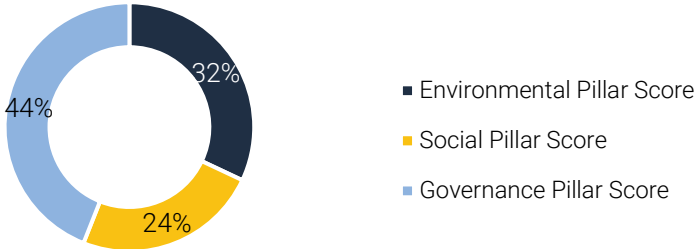
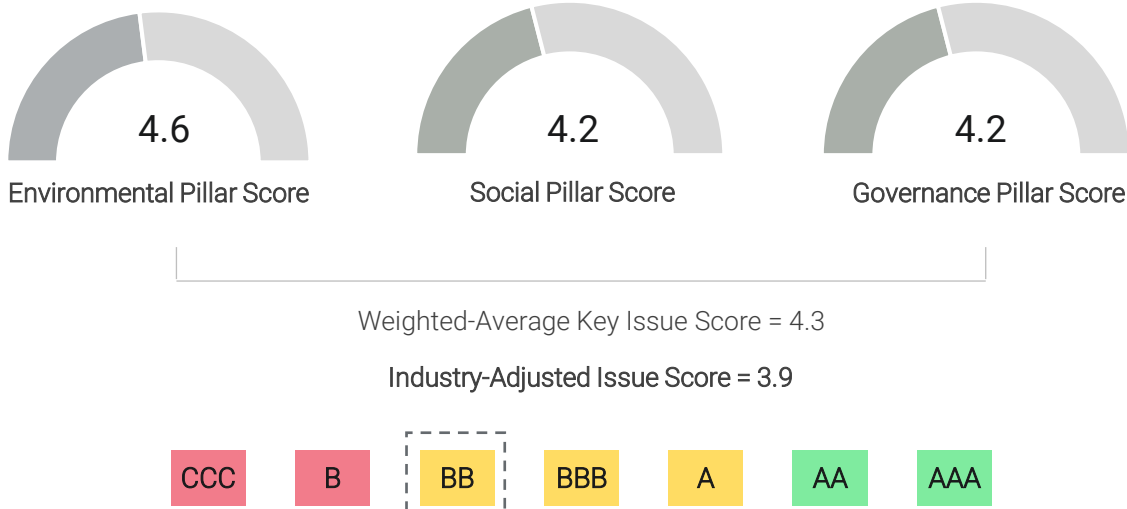


Chart 33: ESG MSCI Rating – Scores



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15. Equity investments available are portion a company's capital that is traded on the market. Stock is a variable financial investment (i.e. an investment in which profitability is not pre-established and varies depending on market quotations). Investment in stock is a high-risk investment and past performance is not necessarily indicative of future results and no statement or warranty, expressed or implied, is made in this material in relation to future performance. Market conditions, macroeconomic scenario, company and sector specific events can affect investment performance and may even result in significant asset losses. The recommended duration for equity investments is medium-long term. There is no guarantee of investment return for customers' investments in stock.
16. Investment in options is the purchase or sale rights of a good shall be negotiated at a price fixed at a future date, and the purchaser of the negotiated duty should pay a premium to the seller as in a secure agreement. Operations with these derivatives are considered very high risk for presenting high risk and return relationships and some positions present the possibility of losses higher than the capital invested. The recommended duration for the investment is short-term and the customer's assets are not guaranteed in this type of product.
17. Investment in terms are contracts for the purchase or sale of a certain number of shares at a fixed price for settlement within a specified period. The term of the contract is freely chosen by the investors, complying with the minimum period of 16 days and a maximum of 999 days. The price will be the value of the added share of a portion corresponding to the interest-which are set freely on the market, depending on the term of the contract. Every transaction in the term requires a guarantee deposit. These guarantees are provided in two forms: coverage or margin.
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