

XPOF ASSETCO, LLC
CONSOLIDATED BALANCE SHEET
(amounts in thousands)

	<u>December 31,</u> <u>2023</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 8,000
Accounts receivable, net	8
Deferred costs, current portion	4,065
Total current assets	12,073
Property and equipment, net	11,102
Intangible assets, net	88,881
Deferred costs, net of current portion	45,350
Total assets	<u>\$ 157,406</u>
Liabilities and Member's equity	
Current Liabilities:	
Accrued expenses	\$ 722
Deferred revenue, current portion	9,918
Total current liabilities	10,640
Deferred revenue, net of current portion	111,320
Total liabilities	121,960
Commitments and contingencies (Note 8)	
Member's equity:	
Member contribution	51,612
Receivable from Member (Note 6)	(11,690)
Accumulated deficit	(4,476)
Total member's equity	35,446
Total liabilities and member's equity	<u>\$ 157,406</u>

See accompanying notes to consolidated financial statements.

XPOF ASSETCO, LLC
CONSOLIDATED STATEMENT OF OPERATIONS
(amounts in thousands)

	For the period March 6, 2023 (date of inception) to December 31, 2023
Revenue, net:	
Franchise revenue	\$ 521
Operating costs and expenses:	
Costs of franchise revenue	221
Selling, general and administrative expenses	180
Depreciation and amortization	4,596
Total operating costs and expenses	4,997
Operating loss	(4,476)
Net loss	<u>\$ (4,476)</u>

See accompanying notes to consolidated financial statements.

XPOF ASSETCO, LLC
CONSOLIDATED STATEMENT OF CHANGES TO MEMBER'S EQUITY
(amounts in thousands)

	<u>Member Contribution</u>	<u>Receivable from Member</u>	<u>Accumulated Deficit</u>	<u>Total Member's Equity</u>
Balance at March 6, 2023	\$ —	\$ —	\$ —	\$ —
Member contributions (Note 7)	51,612	—	—	51,612
Receivable from Member (Note 6)	—	(11,690)	—	(11,690)
Net loss	—	—	(4,476)	(4,476)
Balance at December 31, 2023	<u>\$ 51,612</u>	<u>\$ (11,690)</u>	<u>\$ (4,476)</u>	<u>\$ 35,446</u>

See accompanying notes to consolidated financial statements.

XPOF ASSETCO, LLC
CONSOLIDATED STATEMENT OF CASH FLOWS
(amounts in thousands)

	For the period March 6, 2023 (date of inception) to December 31, 2023
Cash flows from operating activities:	
Net loss	\$ (4,476)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	4,596
Impairment of intangible assets	180
Changes in assets and liabilities:	
Deferred costs	221
Deferred revenue	(521)
Net cash provided by operating activities	—
Cash flows from financing activities:	
Member contributions	8,000
Net cash provided by financing activities	8,000
Increase in cash and cash equivalents	8,000
Cash and cash equivalents, beginning of period	—
Cash and cash equivalents, end of period	<u>\$ 8,000</u>
Noncash investing and financing activity:	
Contributions of assets and liabilities from Member	\$ 43,612

See accompanying notes to consolidated financial statements.

XPOF ASSETCO, LLC

Notes to Consolidated Financial Statements (amounts in thousands)

Note 1 – Organization and Description of Business

XPOF Assetco, LLC (the “Company”), a Delaware limited liability company (LLC), was formed on March 6, 2023. The single member of the Company is Xponential Fitness LLC, a Delaware limited liability company (the “Member”). The Company is the direct parent and sole member of Club Pilates Franchise SPV, LLC; CycleBar Franchising SPV, LLC; Stretch Lab Franchise SPV, LLC; Stride Franchise SPV, LLC; Row House Franchise SPV, LLC; Yoga Six Franchise SPV, LLC; AKT Franchise SPV, LLC; PB Franchising SPV, LLC; Rumble Franchise SPV, LLC and BFT Franchise SPV, LLC, (together “Subsidiaries”) each a Delaware limited liability corporation. The Company was formed in connection with a contemplated reorganization of Xponential Fitness LLC’s structure. The Company, through its brands, licenses its proprietary systems to franchisees who in turn operate studios to promote training and instruction programs to their club members. There were no operations of the Company prior to March 6, 2023.

The Member contributed \$8,000 in cash, \$8,910 in property and equipment and \$90,812 in intangible assets as of March 15, 2023. The majority of the intangible assets contributed consist of trademarks related to Club Pilates, CycleBar and Pure Barre brands. On December 31, 2023, the Member contributed deferred revenue and deferred costs related to franchise agreement contracts with customers of \$96,875 and \$40,765, respectively. As the Company and the Member are under common control, all of the assets and liabilities were contributed at their respective carrying value as of the contribution date. The assets contributed collateralize the existing debt of the Member.

Basis of presentation – The Company’s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”).

The Company has numerous transactions with its Member and affiliates. The Company relies on resources from the Member and other related parties under common control of the Member or the Member’s parent to support its operations including centralized cash collection and management support functions, as necessary to operate the Company’s franchising business. Accordingly, the consolidated financial statements may not necessarily be indicative of the conditions that would have existed or the results of operations that would have occurred if the Company had operated without such affiliations. The Member has committed to continue to provide these services to the Company for the Company’s franchising operations.

Principles of consolidation – The Company’s consolidated financial statements include the accounts of its wholly owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

Use of estimates – The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Actual results could differ from these estimates under different assumptions or conditions.

Note 2 – Summary of Significant Accounting Policies

Cash and cash equivalents – The Company considers all highly liquid investments purchased with an original maturity of ninety days or less to be cash equivalents.

Concentration of credit risk – The Company holds its cash balances in one financial institution. As the cash balances exceed the amounts covered by the Federal Deposit Insurance Corporation, the excess balances could be at a risk of loss.

Accounts receivable and allowance for expected credit losses – Accounts receivable primarily consist of amounts due from franchisees for franchise territory fees. Receivables are unsecured; however, the franchise agreements provide the Company the right to withdraw funds from the franchisee’s bank account or to terminate the franchise for nonpayment. On a periodic basis, the Company evaluates its accounts receivable balance and establishes an allowance

XPOF ASSETCO, LLC

Notes to Consolidated Financial Statements (amounts in thousands)

for expected credit losses based on a number of factors, including evidence of the franchisee's ability to comply with credit terms, economic conditions and historical receivables. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. As of December 31, 2023, no allowance for expected credit losses was recorded.

Property and equipment, net – Property and equipment includes software and digital platform and are carried at cost less accumulated depreciation. Depreciation is recognized on a straight-line method, based on the following estimated useful lives:

Software and digital platform 3-5 years

Software and digital platform consist primarily of costs associated with web development projects. The Company capitalizes eligible costs to acquire, develop, or modify digital platforms that are incurred subsequent to the preliminary project stage. Depreciation of these assets begins upon the initial usage of the digital platforms.

The cost and accumulated depreciation of assets sold or retired are removed from the accounts and any gain or loss is included in the results of operations during the period of sale or disposal.

Intangible assets – Intangible assets consist of indefinite and definitive-lived trademarks and web design and domains.

The Company tests for impairment of trademarks with an indefinite life annually or sooner whenever events or circumstances indicate that trademarks might be impaired. The Company first assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of the trademarks is less than the carrying amount. In the absence of sufficient qualitative factors, trademark impairment is determined utilizing a two-step analysis. The two-step analysis involves comparing the fair value to the carrying value of the trademarks. The Company determines the estimated fair value using a relief from royalty approach. If the carrying amount exceeds the fair value, the Company impairs the trademarks to their fair value. There were no impairments recorded for the period ended December 31, 2023.

The recoverability of the carrying values of all intangible assets with finite lives is evaluated when events or changes in circumstances indicate an asset's value may be impaired. Impairment testing is based on a review of forecasted undiscounted operating cash flows. If such analysis indicates that the carrying value of these assets is not recoverable, the carrying value of such assets is reduced to fair value, which is determined based on discounted future cash flows, through a charge to the consolidated statement of operations. Definite-lived intangible asset impairments during the period ended December 31, 2023, related to trademarks of the Row House and Stride brands for which the carrying value was deemed not recoverable in the amount of \$127 and \$53, respectively. Impairment expense is included in selling, general and administrative expenses in the consolidated statement of operations.

Revenue recognition – The Company accounts for revenue in accordance with Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

The Company's contracts with customers consist of franchise agreements with franchisees. The Company's revenues primarily consist of franchise license revenues.

XPOF ASSETCO, LLC

Notes to Consolidated Financial Statements (amounts in thousands)

Franchise revenue –

The Company enters into franchise agreements for each franchised studio. The Company's performance obligation under the franchise license is granting certain rights to access the Company's intellectual property; all other services the Company provides under the franchise agreement are highly interrelated, not distinct within the contract, and therefore accounted for as a single performance obligation, which is satisfied over the term of each franchise agreement. Those services include initial development, operational training, preopening support and access to the Company's technology throughout the franchise term. Fees generated related to the franchise license include development fees, royalty fees, marketing fees, technology fees and transfer fees, which are discussed further below. Variable fees are not estimated at contract inception, and are recognized as revenue when invoiced, which occurs monthly. The Company has concluded that its agreements do not contain any financing components.

Franchise development fee revenue – The Company's franchise agreements typically operate under ten-year terms with the option to renew for up to two additional five-year successor terms. The Company determined the renewal options are neither qualitatively nor quantitatively material and do not represent a material right. Initial franchise fees are non-refundable and are typically collected upon signing of the franchise agreement. Initial franchise fees are recorded as deferred revenue when received and are recognized on a straight-line basis over the franchise life, which the Company has determined to be ten years, as the Company fulfills its promise to grant the franchisee the rights to access and benefit from the Company's intellectual property and to support and maintain the intellectual property.

The Company may enter into an area development agreement with certain franchisees. Area development agreements are for a territory in which a developer has agreed to develop and operate a certain number of franchise locations over a stipulated period of time. The related territory is unavailable to any other party and is no longer marketed to future franchisees by the Company. Depending on the number of studios purchased under franchise agreements or area development agreements, the initial franchise fee ranges from \$60 (single studio) to \$350 (ten studios) and is paid to the Company when a franchisee signs the area development agreement. Area development fees are initially recorded as deferred revenue. The development fees are allocated to the number of studios purchased under the development agreement. The revenue is recognized on a straight-line basis over the franchise life for each studio under the development agreement. Development fees and franchise fees are generally recognized as revenue upon the termination of the development agreement with the franchisee.

Franchise royalty fee revenue – Royalty revenue represents royalties earned from each of the franchised studios in accordance with the franchise disclosure document and the franchise agreement for use of the brands' names, processes and procedures. The royalty rate in the franchise agreement is typically 7% of the gross sales of each location operated by each franchisee. Royalties are billed on a monthly basis. The royalties are entirely related to the Company's performance obligation under the franchise agreement and are billed and recognized as franchisee sales occur.

Technology fees – The Company may provide access to third-party or other proprietary technology solutions to the franchisees for a fee. The technology solution may include various software licenses for statistical tracking, scheduling, allowing club members to record their personal workout statistics, music and technology support. The Company bills and recognizes the technology fee as earned each month as the technology solution service is performed.

Transfer fees – Transfer fees are paid to the Company when one franchisee transfers a franchise agreement to a different franchisee. Transfer fees are recognized as revenue on a straight-line basis over the term of the new or assumed franchise agreement, unless the original franchise agreement for an existing studio is terminated, in which case the transfer fee is recognized immediately.

Training revenue – The Company provides coach training services either through direct training of the coaches who are hired by franchisees or by providing the materials and curriculum directly to the franchisees who utilize the materials to train their hired coaches. Direct training fees are recognized over time as training is provided. Training fees for materials and curriculum are recognized at the point in time of delivery of the materials.

The Company also offers coach training and final coach certification through online classes. Fees received by the Company for online class training are recognized as revenue over time for the 12-month period that the Company is obligated to provide access to the online training content.

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Notes to Consolidated Financial Statements (amounts in thousands)

Costs of franchise revenue – Costs of franchise revenue consists of commissions related to the signing of franchise agreements. Costs of franchise revenue excludes depreciation and amortization.

Selling, general and administrative expenses – The Company’s selling, general and administrative expenses primarily consist of asset impairment and other charges.

Income taxes – As a single member LLC, the Company is considered a disregarded entity. As such, the Company itself is typically not subject to an income tax liability as the taxable income or loss of the Company is passed through to the Member. Therefore, no liability for federal income taxes has been included in the financial statements. The Company accounts for uncertain tax positions in accordance with ASC 740. ASC 740 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and provides guidance on various related matters such as derecognition, interest, penalties and required disclosures. As of December 31, 2023, the Company does not have any uncertain tax positions.

Comprehensive income – The Company does not have any components of other comprehensive income recorded within the consolidated financial statements and therefore does not separately present a consolidated statement of comprehensive income in the consolidated financial statements.

Fair value measurements – ASC 820, Fair Value Measurements and Disclosures, applies to all financial assets and financial liabilities that are measured and reported on a fair value basis and requires disclosures that establishes a framework for measuring fair value and expands disclosure about fair value measurements. ASC 820 establishes a valuation hierarchy for disclosures of the inputs to valuations used to measure fair value.

This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates and yield curves), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 – Unobservable inputs that reflect assumptions about what market participants would use in pricing the asset or liability. These inputs would be based on the best information available, including the Company’s own data.

Note 3 – Contract Liabilities and Costs from Contracts with Customers

Contract liabilities – Contract liabilities consist of deferred revenue resulting from franchise fees and development fees paid by franchisees, which are recognized over time on a straight-line basis over the franchise agreement term. The Company classifies these contract liabilities as either current deferred revenue or non-current deferred revenue in the consolidated balance sheet based on the anticipated recognition of the revenue. The following table reflects the change in franchise development contract liabilities for the period ended December 31, 2023.

	Amount
Balance at March 6, 2023	\$ —
Contract liabilities contributed by Member	96,875
Revenue recognized that was included in deferred revenue at the beginning of the period	—
Increase, excluding amounts recognized as revenue during the period	24,363
Balance at December 31, 2023	\$ 121,238

XPOF ASSETCO, LLC

Notes to Consolidated Financial Statements (amounts in thousands)

The following table illustrates estimated revenue expected to be recognized in the future related to performance obligations that were unsatisfied (or partially unsatisfied) as of December 31, 2023. The expected future recognition period for deferred franchise development fees related to unopened studios is based on management's best estimate of the beginning of the franchise license term for those studios. The Company elected to not disclose short term contracts, sales and usage-based royalties, marketing fees and any other variable consideration recognized on an "as invoiced" basis.

Contract liabilities to be recognized in revenue in	Amount
2024	\$ 9,918
2025	10,895
2026	12,188
2027	13,005
2028	12,974
Thereafter	62,258
	<u>\$ 121,238</u>

The following table reflects the components of deferred revenue:

	December 31, 2023
Franchise and area development fees	\$ 121,238
Non-current portion of deferred revenue	111,320
Current portion of deferred revenue	<u>\$ 9,918</u>

Contract costs – Contract costs consist of deferred commissions resulting from franchise and area development sales by third-party brokers and sales personnel. The total commission is deferred at the point of a franchise sale. The commissions are evenly split among the number of studios purchased under the development agreement and begin to be amortized when a subsequent franchise agreement is executed. The commissions are recognized on a straight-line basis over the initial ten-year franchise agreement term to align with the recognition of the franchise agreement or area development fees. The Company classifies these deferred contract costs as either current deferred costs or non-current deferred costs in the consolidated balance sheet. The associated expense is classified within costs of franchise revenue in the consolidated statement of operations. At December 31, 2023, there were approximately \$4,065 and \$45,350 of current deferred costs and non-current deferred costs, respectively. The Company recognized approximately \$221 in franchise sales commission expense for the period ended December 31, 2023.

Note 4 – Property and Equipment

Property and equipment consisted of the following:

	December 31, 2023
Software and digital platform	\$ 13,946
Less: accumulated depreciation	(2,844)
Total property and equipment	<u>\$ 11,102</u>

Depreciation expense for the period ended December 31, 2023 was \$2,844.

Note 5 – Intangible Assets

Intangible assets consisted of the following:

XPOF ASSETCO, LLC

Notes to Consolidated Financial Statements (amounts in thousands)

	Amortization period (years)	December 31, 2023		
		Gross amount	Accumulated amortization	Net amount
Trademarks	8.6	\$ 17,824	\$ (1,646)	\$ 16,178
Web design and domain	2	179	(83)	96
Total definite-lived intangible assets		18,003	(1,729)	16,274
Indefinite-lived intangible assets:				
Trademarks	N/A	72,607	—	72,607
Total intangible assets		<u>\$ 90,610</u>	<u>\$ (1,729)</u>	<u>\$ 88,881</u>

The estimated amortization expense of intangible assets is as follows:

Year ending December 31,	
2024	\$ 2,145
2025	2,067
2026	2,067
2027	2,064
2028	2,012
Thereafter	5,919
Total	<u>\$ 16,274</u>

Amortization expense for the period ended December 31, 2023, was \$1,752.

Note 6 – Related Party Transactions

Significant related party transactions consist of allocations of expenses from the Member, including commissions paid to employees of the Member related to the sale of franchise and area development agreements, borrowings from, and excess cash transfers to the Member and other related parties under common control of the Member. During the period ended December 31, 2023, the net result of the related party transactions with the Member and its affiliates is a receivable of \$11,690 and is recorded as a reduction to Member's equity as the Member has no plan to repay the receivable in the foreseeable future.

In addition, the Member has a credit facility that requires collateral. All obligations under the Member's credit facility are secured by substantially all of the tangible and intangible assets of the Company.

Note 7 – Member's Equity

The capital structure of the Company consists of one class of membership interests (the "Interests"). The Member owns all of the Interests issued and outstanding and is the sole member of the Company and contributed \$8,000 in cash, \$8,910 in property and equipment and \$90,812 in intangible assets as of March 15, 2023 to use in its operations and to satisfy minimum net worth requirements to qualify for large franchisor exemptions available under certain state franchise registration laws.

On December 31, 2023, the Member contributed deferred revenue and deferred costs related to franchise agreement contracts with customers of \$96,875 and \$40,765, respectively. As the Company and the Member are under common control, all of the assets and liabilities were contributed at their respective carrying cost as of the contribution date.

Note 8 – Contingencies and Litigation

The Company is subject to normal and routine litigation brought by customers, franchisees, vendors or others. The Company intends to defend itself in any such matters. The Company believes that the ultimate determination of liability in connection with legal claims pending against it, if any, will not have a material adverse effect on its

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Notes to Consolidated Financial Statements (amounts in thousands)

business, annual results of operations, liquidity or financial position; however, it is possible that the Company's business, results of operations, liquidity, or financial condition could be materially affected in a particular future reporting period by the unfavorable resolution of one or more matters or contingencies during such period.

Note 9 – Subsequent events

The Company has evaluated subsequent events through March 30, 2024, which is the date these consolidated financial statements were available to be issued.

On February 13, 2024, the Member entered into an asset purchase agreement with a buyer, pursuant to which the Company divested the Stride brand, including the intellectual property, franchise rights and franchise agreements for open studios. The buyer of the Stride brand is a member of management and stockholder of the Member's parent. The Company received no consideration from the divestiture of the Stride brand and the Member will assist the buyer with transition support including cash payments of approximately \$265 payable over the next year. The divestiture allows the Company to better focus and utilize its resources on its other brands. The assets divested did not meet all criteria to be classified as assets held for sale as of the balance sheet date, and as such are not presented and disclosed as assets held for sale in the consolidated financial statements.