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The Gym Group plc

INTERIM RESULTS

AUGUST 2017

Forward-Looking Statement Disclaimer

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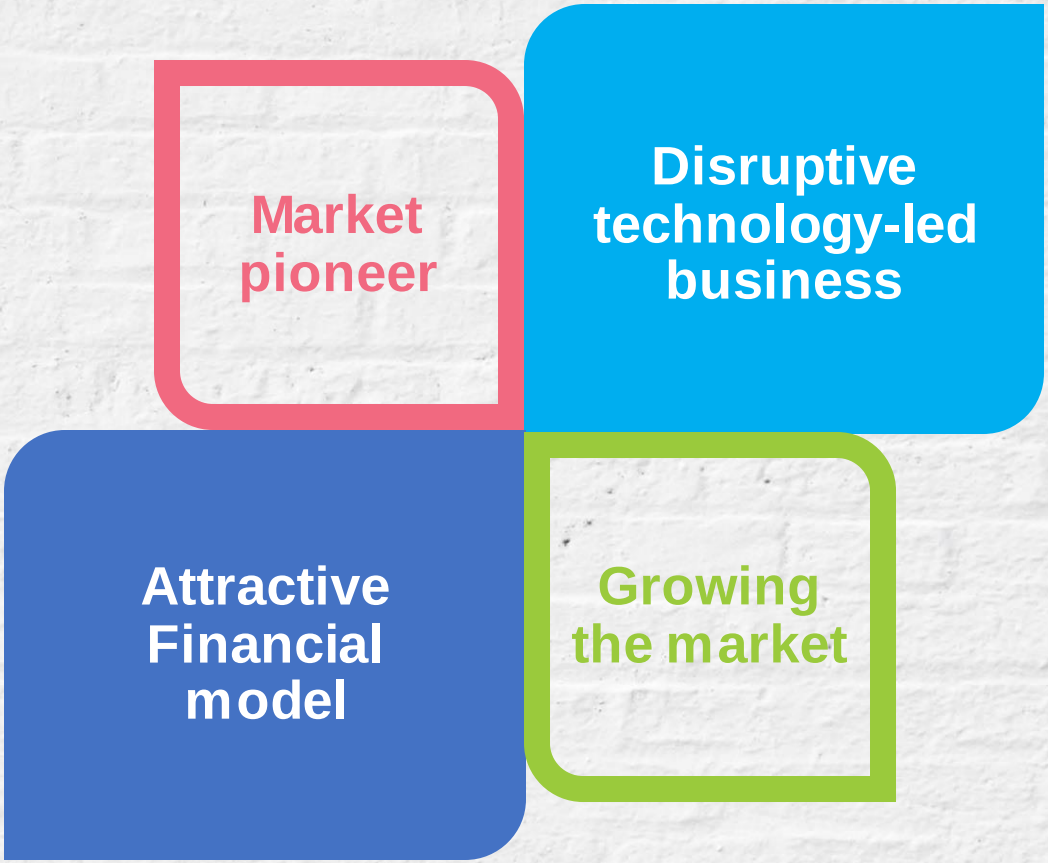
Overview



- Creating infrastructure for sustained growth
- Strong financial and operational results
- H1 openings performing well
- Strong pipeline for remainder of year

Summary Performance

Estate
95 sites
+18.8% vs PY
(H1 2016: 80 sites)

Members
508,000
+19.8% vs PY
(H1 2016: 424,000)
Av. Member growth
+19.0%

Revenue
£42.8m
+18.8% vs PY

Group Adjusted EBITDA
£13.7m
+£2.2 m; +19.1% vs PY
(H1 2016: £11.5m)

Adjusted PBT
£6.5m
(H1 2016: £4.6m)
+41.7%

Adjusted EPS
3.9p **+39.3%**
per share
(H1 2016: 2.8p per share)

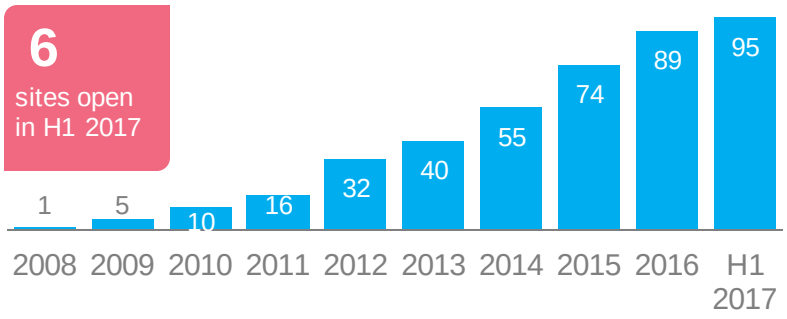
Strong cash generation
£4.6m
Net Debt
as at June 2017

Interim dividend per share
0.3p
+20.0% vs H1 2016

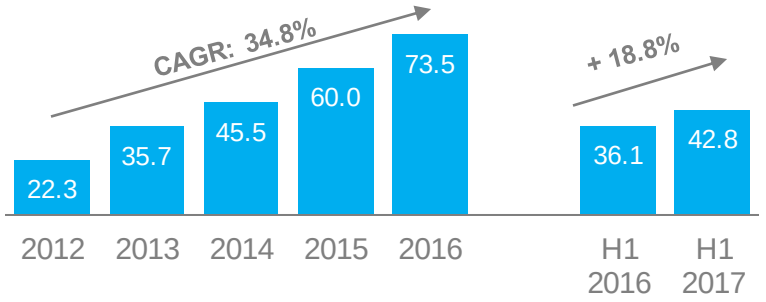
Operational KPIs

Gyms (#)

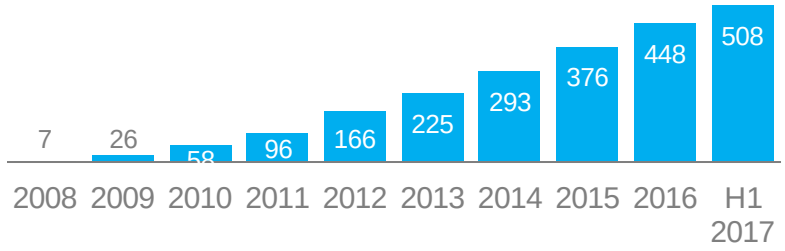
6 sites open in H1 2017



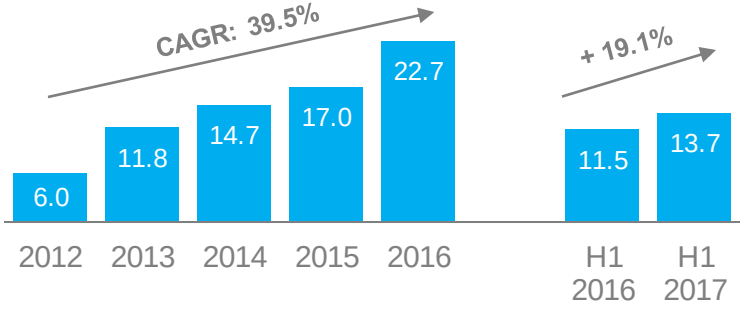
Revenue £'m



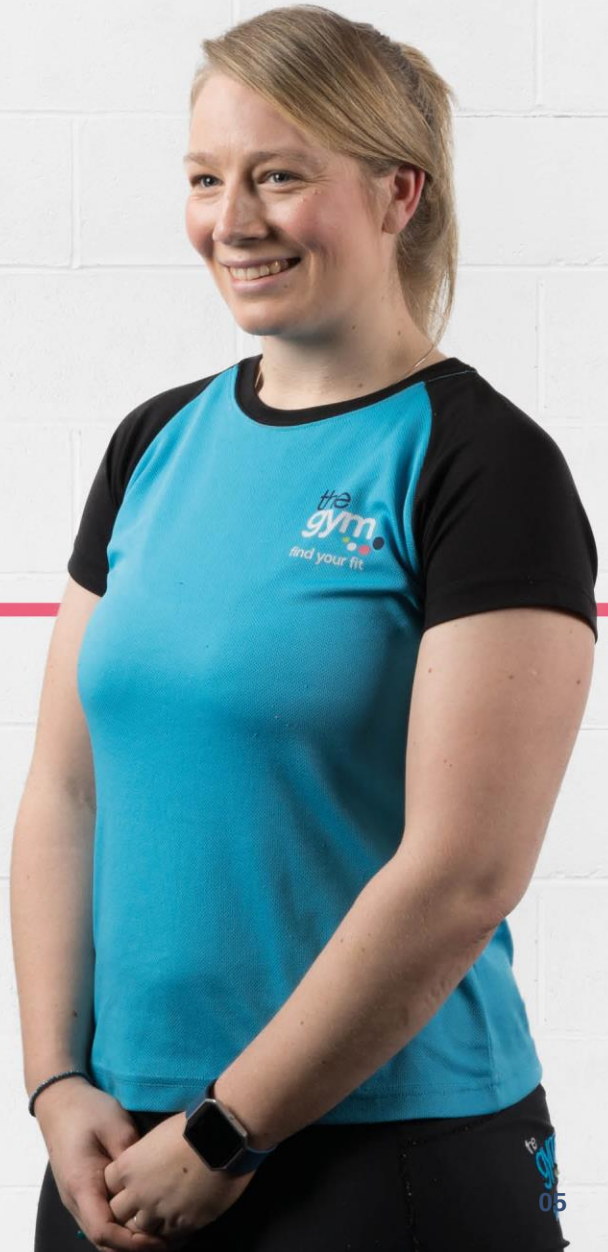
Members ('000)



Group Adjusted EBITDA£'m



FINANCIAL UPDATE



Summary Financials

£'m	H1 2017	H1 2016	%Change
Total Number of Gyms	95	80	18.8%
Revenue	42.8	36.1	18.8%
Group Adjusted EBITDA (1)	13.7	11.5	19.1%
% Margin	*32.0%*	*31.9%*	*10bps*
Adjusted PBT (2)	6.5	4.6	41.7%
Adjusted EPS (3)	3.9	2.8	39.3%
Average EBITDA per site £'000 (4)	187	187	0.0%

- Average membership growth +19.0%, driving overall revenue growth of +18.8%
- Group Adjusted EBITDA grew by £2.2m to £13.7m driven by increased size of the estate
- Group Adjusted EBITDA margin increased to 32.0% as estate matures
- Adjusted Profit before Tax of £6.5m, an increase of £1.9m versus prior year
- Adjusted Earnings per Share of 3.9p resulting from higher operating profit

1. Group Adjusted EBITDA is calculated as operating profit before depreciation, amortisation, long term employee incentive costs and exceptional items
2. Adjusted PBT is calculated as profit before tax before amortisation and exceptional items
3. Adjusted EPS is calculated as the Group's profit for the period before amortisation, exceptional items and the related tax effect, divided by the basic weighted average number of shares
4. Average EBITDA per site is calculated as Group Adjusted EBITDA contributed by the gym portfolio (Site EBITDA) divided by the number of sites at the period end

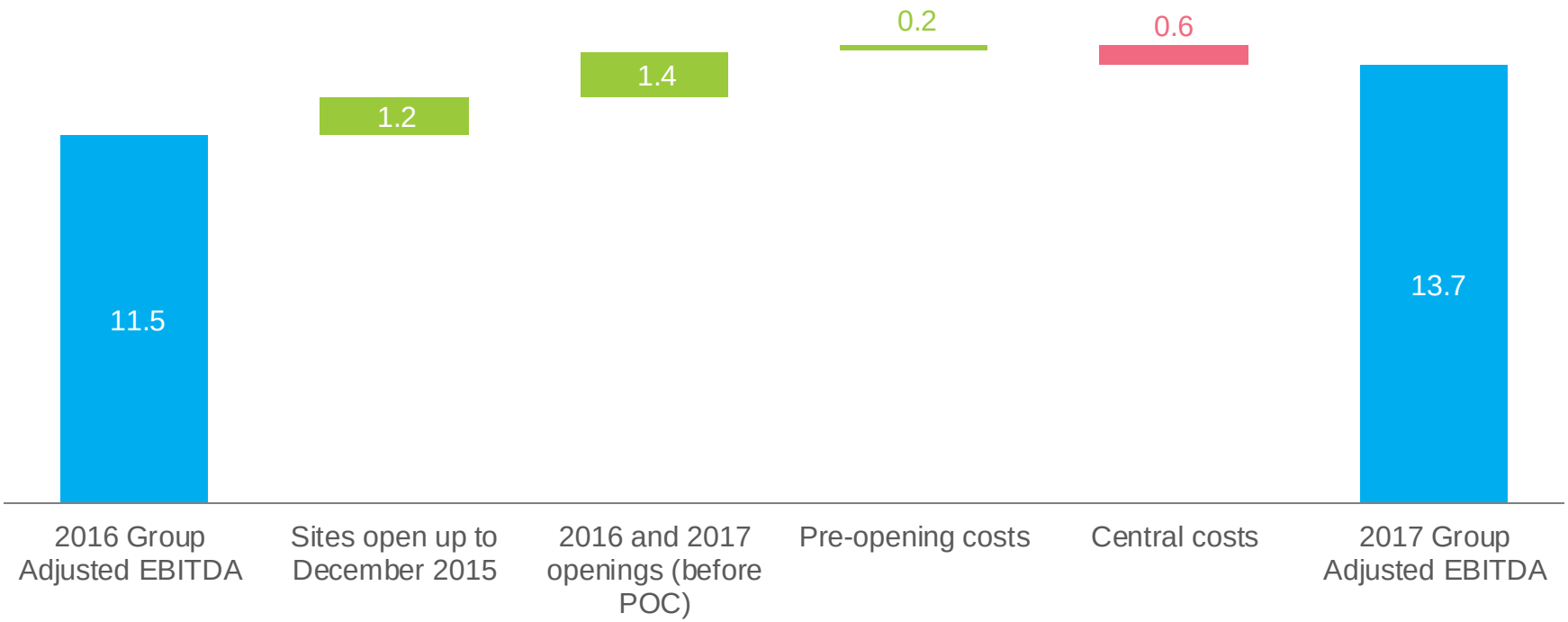
Group Income Statement

£'m	H1 2017	H1 2016	% Change
Revenue	**42.8**	**36.1**	**18.8%**
Site EBITDA	**17.8**	**15.0**	**18.9%**
Central costs	(4.1)	(3.4)	18.6%
Group Adjusted EBITDA	**13.7**	**11.5**	**19.1%**
Depreciation	(6.4)	(6.1)	6.0%
Amortisation	(0.4)	(1.0)	
Long term employee incentive costs	(0.4)	(0.5)	
Exceptional items	(0.1)	(0.2)	
Operating profit	**6.3**	**3.8**	**68.1%**
Finance costs	(0.4)	(0.4)	
Profit before tax	**5.9**	**3.4**	**75.5%**
Tax	(1.4)	(0.9)	
Profit after tax	**4.5**	**2.5**	**77.6%**
Site EBITDA margin	*41.5%*	*41.5%*	*7bps*
Adjusted PBT	6.5	4.6	41.7%
Adjusted Earnings	5.0	3.6	40.3%
Group Adjusted EBITDA pre-POC (1)	14.6	12.6	16.1%

- Site EBITDA maintained at 41.5%, a strong performance with a maturing estate
- Central cost investment supports rollout
- Depreciation reduced to 15% of revenue (H1 2016: 17%) as a result of lower capital cost and reassessment of useful economic lives of assets
- Full year tax rate of 23%, prior year lower due to R&D claim

1. Pre-opening costs means the costs associated with new site openings, which primarily consists of staff costs, marketing and rent.

Group Adjusted EBITDA Increased 19.1%



Average Site EBITDA maintained at £187,000 (H1 2016: £187,000)

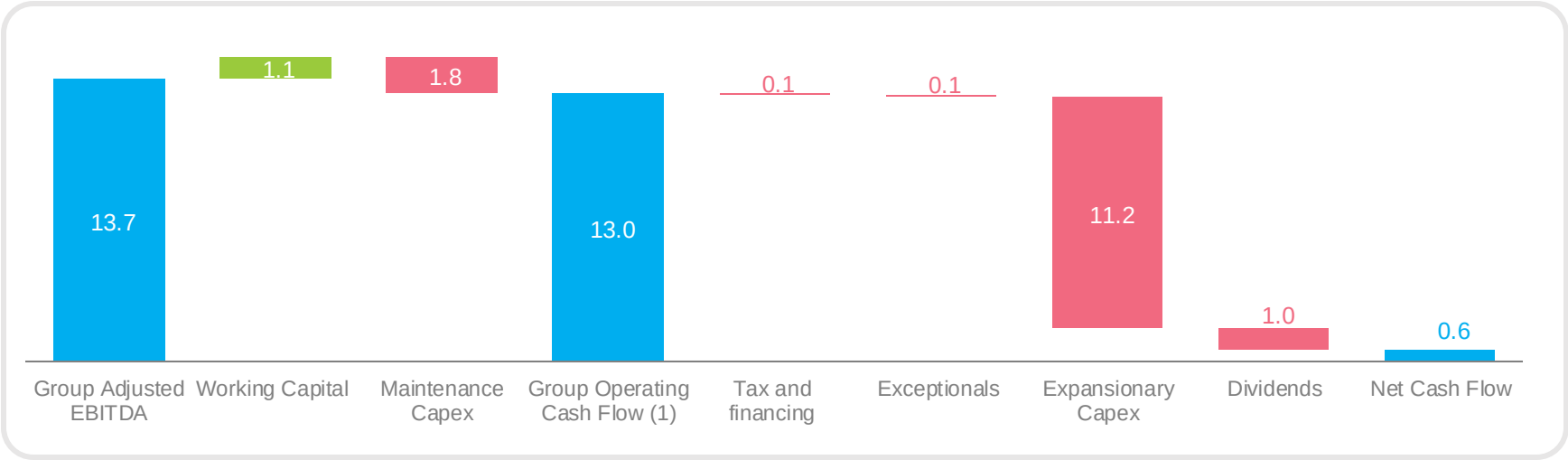
Operational Costs

£'m	H1 2017	H1 2016	% Change
Average number of sites	92	76	20.1%
Marketing costs (1)	2.0	1.5	38.9%
Other operating costs (1)	10.3	8.5	20.9%
Operating costs (1)	12.3	10.0	23.5%
Property costs (1)	11.4	9.7	18.0%
Site operating costs excluding pre-opening costs	**23.7**	**19.6**	**20.8%**

- Operating costs higher than prior year as marketing spend allocated to key trading periods
- Property costs growth in line with increase in estate
- No significant impact from April 2017 rateable value changes

1. Costs excluding pre-opening costs

Group Cash Flow



- Self-funded growth during the period
- Group Operating Cash Flow Conversion(2) of 94.7%
- Positive cash flow from negative net working capital of £1.1m (IFRS accounting for leases, lease incentives and strong revenue growth)
- Expansionary capex reflecting 6 openings in H1 2017

Net Debt
£4.6m
(Dec 16: £5.2m)

Free Cash Flow (3)
£12.8m
(H1 2016: £13.1m)

1. Group Operating Cash Flow is calculated as Group Adjusted EBITDA less working capital and less maintenance capital expenditure
2. Group Operating Cash Flow Conversion is calculated as Group Operating Cash Flow as a percentage of Group Adjusted EBITDA
3. Free Cash Flow is calculated as Net Cash Flow before dividends and Expansionary capital expenditure

Capital Expenditure

Expansionary

- Initial site investment, acquisitions, IT projects and product enhancement
- Expect new site fit out costs to continue to be between £1.3m and £1.4m for the full year
- Increase of £0.8m other expansionary capex
  - premium paid for Fitness First site
  - development spend on the website and member management system
- Increase of £1.9m fitout expansionary capex reflects higher number of anticipated Q3 openings in 2017 vs 2016

Maintenance

- Maintenance made up of gym equipment replacement, 5 year refreshes and refurbishment
- 3 sites (Ashford, Stockwell and Wood Green) underwent a 5 year refresh in H1 with new equipment, improved facilities and new branding
- Extensive 5 year refresh programme planned for H2 with a further 11 sites to be upgraded

£'m	H1 2017	H1 2016	% Change
Expansionary Capex – Fit Out	9.8	7.9	24.7%
Expansionary Capex – Other (1)	1.4	0.6	134.3%
Maintenance Capex	1.8	0.8	119.1%
Total Capital Expenditure	**13.0**	**9.3**	**40.0%**

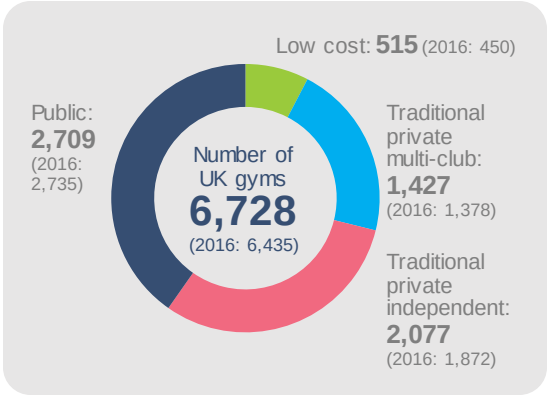
1. Expansionary Capex – Other includes capital spend on IT, acquisition premium and other expansionary projects

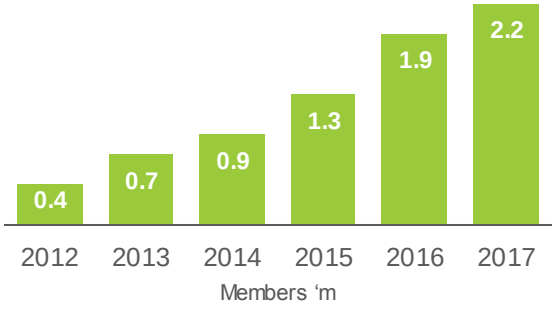
STRATEGIC AND OPERATIONAL UPDATE

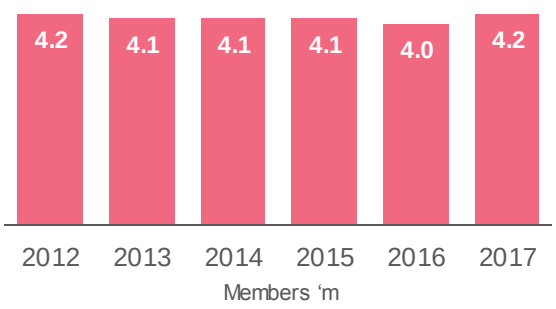
Strategic and Operational Progress

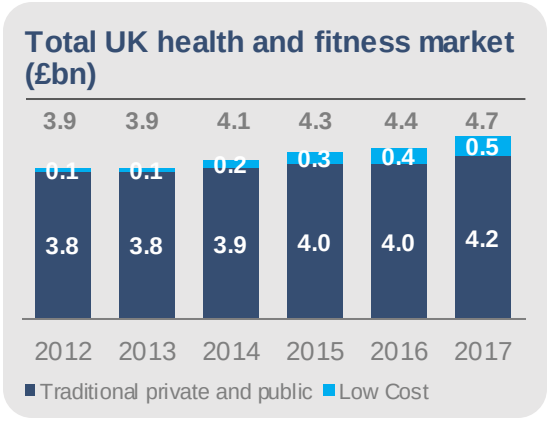
- Accessing the significant market opportunity
- Building technology to support growth
- Enhancing commercial and marketing expertise
- Rolling out sites from a strong pipeline
- Developing our business model

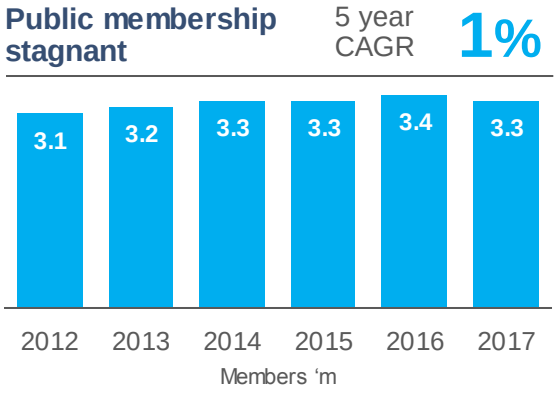
The Current Market











Market developing as expected with growth of low cost segment

Source: Leisure Database Company 2017 State of the UK Fitness Industry Report. As at 31 March 2017.

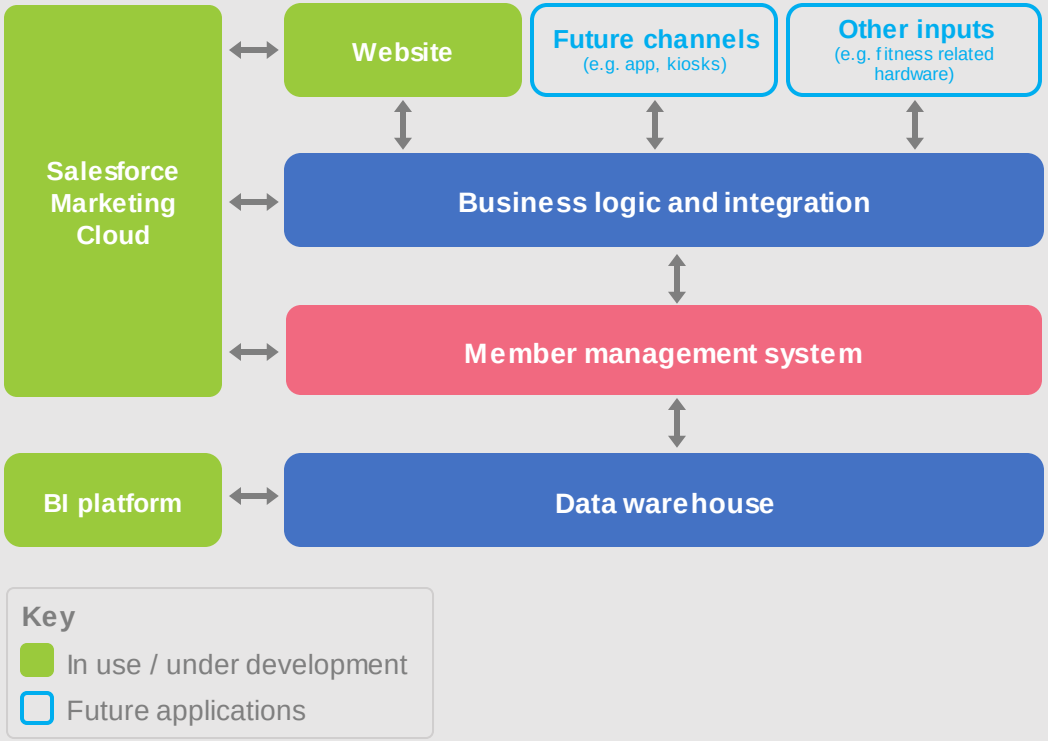
Technology

2017 progress

- New scalable member management system and digital platform launched in July 2017
- All 97 open sites moved to the digital platform
- Application Program Interface (API) with commercial website

Key Benefits

- Increased supplier capacity
- Best of class technology
- Test and learn optimisation of promotions
- Product and promotion launch speed
- Greater flexibility for interaction and communication with members
- Improved security



Platform ready for future expansion

Commercial & Marketing

2017 progress

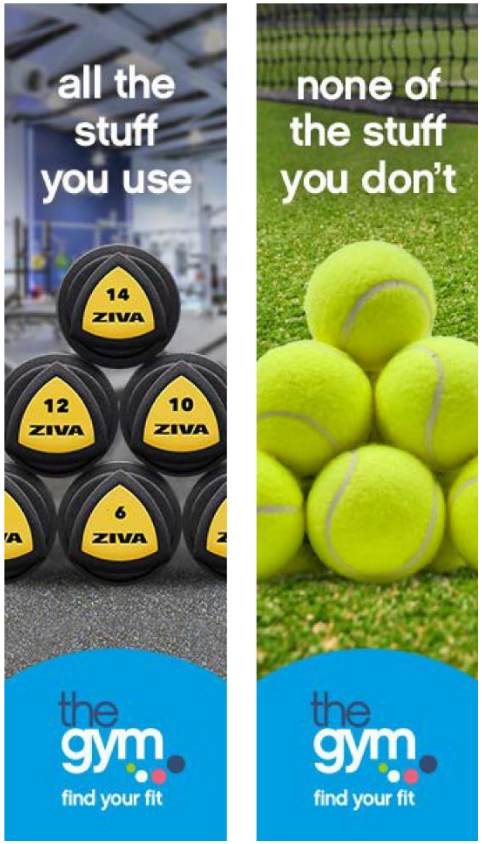
- Increased digital marketing
- Enhanced CRM through Salesforce system with a more centralised approach to email communication
- Greater differentiation on launch marketing depending on the location and demographics
- New approach to customer segmentation
  - Tailoring communication to members' motivation
  - Targeting members of premium price operators
  - Early life programme to reduce risk of cancellation

Agency spend on digital platforms **27%**

(H1 2016: 21%)

Premium Pricing

- Offering developed on the back of substantial piece of customer research
- Enabled through launch of new member management system
- Expect partial launch in Q4 2017
- Will include
  - ✓ Multi-site access
  - ✓ Bring a friend for free
  - ✓ Fitness measurements
  - ✓ Affiliate product offers
- Price £5.00 above headline rate



Property

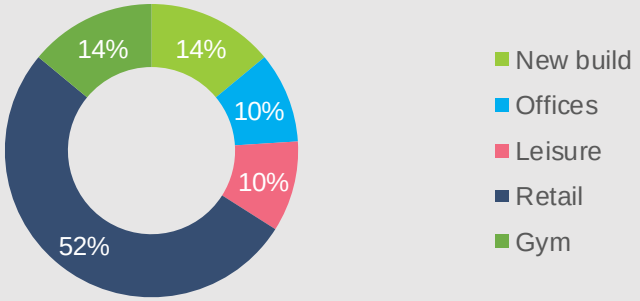
2017 progress

- 6 gyms opened in H1, performing in line with expectations
- Openings weighted towards Q4 2017, strong line up of London openings for H2 - Streatham, Kingsbury, Feltham, Walthamstow
- Expect 2017 openings c.15,000 sq. ft.
- Well developed pipeline for 2018
- Desirable covenant for landlords

Target of
15-20
new sites p.a. over medium term

Flexible across multiple formats

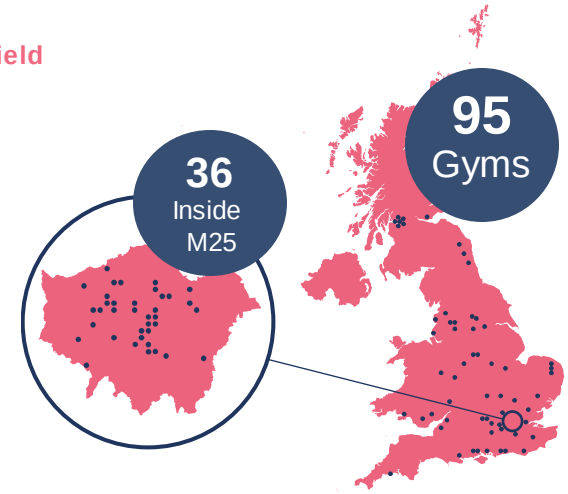
2017 openings
15-20
sites



Edinburgh Murrayfield
18 March 2017
13,000 sq. ft.
Retail

Altrincham
2 May 2017
20,400 sq. ft.
Ex Retail

Holborn Circus
10 May 2017
10,100 sq. ft.
Ex Fitness First



Rotherham
22 March 2017
13,000 sq. ft.
New Build

High Wycombe
18 May 2017
15,900 sq. ft.
Ex Retail

Bloomsbury
21 June 2017
14,600 sq. ft.
Ex Fitness First

Expect to achieve the top end of guidance range of 15-20 site openings in 2017

Operations – 2017 Progress

Pricing

- Remain competitively priced versus other low cost operators
- Average revenue per member per month for H1 decreased from £14.31 to £14.28 due to mix and timing of rollout
- Excluding average members from sites not yet open, average revenue per member per month increased from £14.45 to £14.49
- Expecting growth in average revenue per member per month for the full year due to price increases already implemented
- Price range £10.99 - £28.99 per month (1)

Average headline price

£17.50

per month

Customer Satisfaction

- Significant progress on member satisfaction
- Net Promoter Score (NPS) at an all time high
- NPS performance now linked to site targets

NPS H1 2017

63.2%

⊕ 1.2% vs H1 2016

Other activities

- 7 sites rebranded in H1 to meet current standards, as well as 3 as part of the 5 year refresh cycle
- Further 4 sites with rebranding planned in H2 2017, in addition to the 11 sites receiving 5 year refreshes
- Roll out of enhanced offerings across the estate
  - classes
  - induction program

1. Multi-site membership is £29.99

OUTLOOK

Outlook

- Strong membership growth in H1 to 508,000, +19.8% vs H1 2016 in line with expectations
- Opening programme on track, 6 open at end of H1 2017
- Expect to achieve the top end of 15 – 20 openings guidance for 2017
- Strong pipeline for 2018
- On track to meet market expectations for profit in 2017

APPENDIX

KPIs

£'m Financial	H1 2017	H1 2016	H1 2015	H1 2014	16-17%	FY 2016
Revenue	42.8	36.1	28.9	22.0	18.8%	73.5
Group Adjusted EBITDA	13.7	11.5	8.5	7.9	19.1%	22.7
Group Adjusted EBITDA before POC	14.6	12.6	9.7	8.4	16.1%	24.9
Group Operating Cash Flow	13.0	13.5	11.8	8.0	-3.5%	24.9
Group Operating Cash Flow Conversion	94.7%	116.9%	139.2%	101.4%		109.9%
Expansionary Capital Expenditure	11.2	8.5	12.6	8.0	32.4%	20.9
Net Debt	4.6	2.5	55.7	39.5		5.2
Operational						
Total gyms in operation	95	80	63	44	18.8%	89
Total number of members ('000)	508	424	355	266	19.8%	448
Average number of members ('000)(1)	500	420	342	261	19.0%	429
Average revenue per member per month (£)(2)	14.28	14.31	14.08	14.06	-0.2%	14.29

1. Average number of members is calculated as the total number of members divided by the number of months in the period.
2. Average revenue per member per month is calculated as revenue divided by the average number of members divided by the number of months in the period.

Keys to Success in the Low Cost Gym Market

Key success factors for The Gym Group

Know how and expertise

- 9 years refinement of the model
- Large format, high utilisation gyms
- Efficiently marketing a low cost proposition online
- Integration of multiple components of technology

Ability to source sites

- Dedicated acquisitions team: well networked with landlords and agents
- Historic data about what works (and what doesn't)
- Strong covenant and brand, impacted positively by IPO

Scale advantages

- Increasing returns to scale for large operators
- Reducing marginal costs to operations and fit-out

Access to capital

- High quality, durable gym fit-out with significant upfront capex
- Bank debt is difficult to secure until operators have reached a position of scale

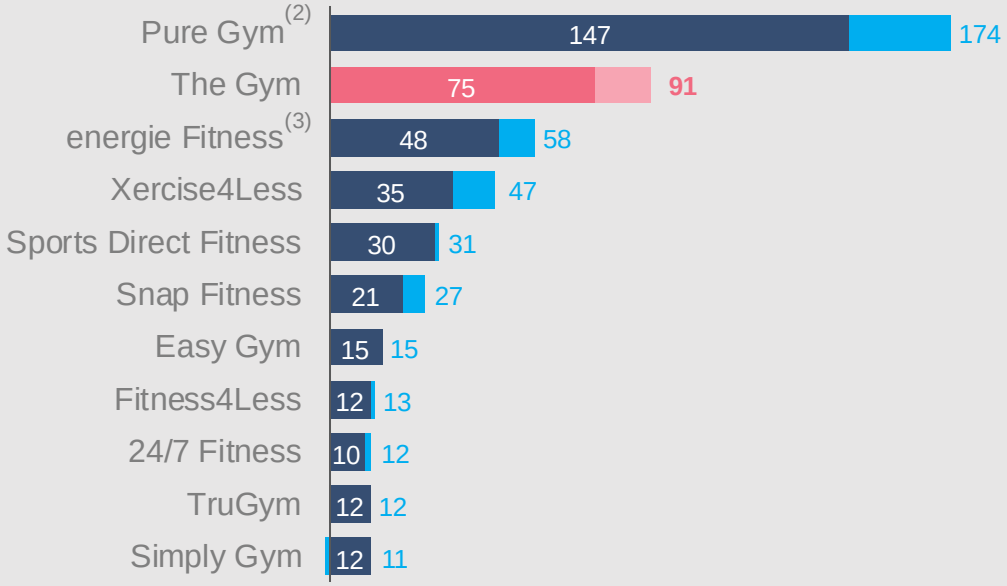
Technology

- Technology key to a successful low cost product offering
- Underpins low staff costs: facilitates online model, 24/7[1] access and generates valuable data

1. All gyms open 24/7 excluding 5 gyms due to licensing restrictions as at 30 August 2017

Growth of the Top Low Cost Operators

Low Cost Development UK
Mar '16 – Mar '17[1] (Number of clubs)



24/7	Ownership structure
✓	O
✓	O
✗	O/F
✗	O
✗	O
✓	F
✗	O
✓	O
✗	O
✗	O

O = Owned **F** = Franchise

The top 3 operators are pulling away from the competition

1. Leisure Database Company 2017 State of the UK Fitness Industry Report. Low cost defined as majority of membership options <£20 per month. Note: Snap Fitness and DW Fitness not defined as low cost by Leisure Database Company
2. Pure Gym excludes 2 premium sites purchased from LA Fitness
3. energie Fitness includes Fit4Less. Not included in the top 3 operators as a franchise model.

Financial Model

Technology led operating model with high margins and returns

- Low operating costs
- Leases[1] typically fixed rental uplifts
- Fit-out reducing with scale

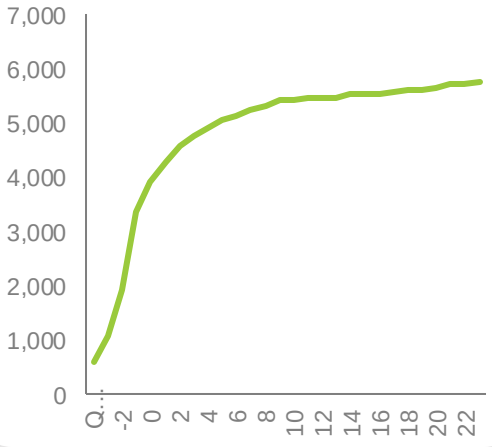
Illustrative returns on Mature gym site metrics[2]:

	2016	2015
Revenue	**£1.00m**	**£1.02m**
Gross profit	99%	98%
Fixed property costs [3]	26%	26%
Other opex [4]	26%	26%
EBITDA	**£0.48m**	**£0.47m**
EBITDA margin	***47.5%***	***46.4%***
Average capital cost up to 2013/14	£1.49m	£1.51m
Current capital cost	£1.33m	£1.35m
Mature ROCE	**32%**	**31%**

Maturity: Members

- Consistent maturity profile with member outcome dependent on sq footage per site
- Strong pre-opening process: open with 3,000 members

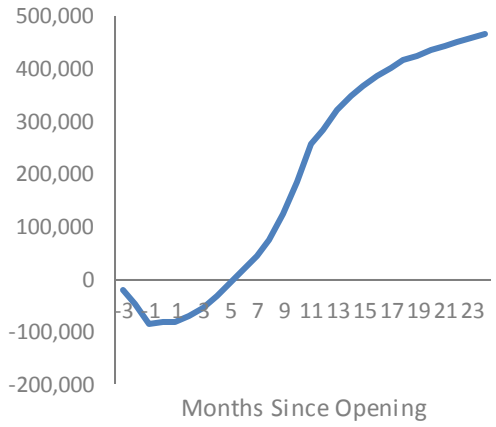
Average Mature Gym Site Members (#)



Maturity: Site EBITDA

- Site EBITDA lags number growth
- Initial losses from pre-opening costs

Average estate LTM EBITDA

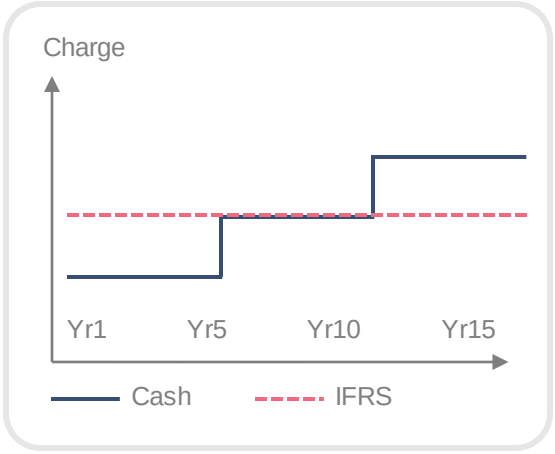


1. New er leases generally have initial terms of 15 years, with upwards-only rent adjustments every five years, typically either by fixed increases or increases in line w ith RPI or CPI.
2. Actual Mature gym site metrics in 2016 based off 55 Mature sites open to 31 Dec 2014.
3. Fixed property costs include Rent, Rates, Service Charge and Landlord Insurance,.
4. Other Opex includes all other costs below Gross Profit, the principal costs are Marketing, Staff, Utilities, Cleaning, Repairs and Maintenance and Administration costs such as travel.

Business Model: Financial Dynamics

Property rent costs

- Leasehold with fixed step-up every 5 years[1]
- Under IFRS, the 5 year fixed uplift charge smoothed over life lease
- Higher P&L charge than actual cash cost



Depreciation

- Depreciation P&L charge relatively high given upfront cost of investment in sites
- Depreciation charge does not reflect maintenance capex spend
- Maintenance capex spend approximately £630,000 over a 7 year cycle for the current mature estate (c. 9% of revenue)
- Compares to c.£160,000 of depreciation per gym in 2016
- Expect depreciation to be 16% of revenue in 2016 due to assessment of UELs

£'m	2016
Revenue	73.5
Depreciation	12.7
Depreciation as a % of revenue	**17%**
Average number of gyms	80
Depreciation per site (£'000)	**160**

Pre-opening costs

- Indicative pre-opening cost c.£140,000[2] per site
- Costs incurred before revenue benefits; negative site operating profit in initial year of opening
- Pre-opening marketing maximises opening membership

1.New er leases generally have initial terms of 15 years, with upwards-only rent adjustments every five years, typically either by fixed increases or increases in line w ith RPI or CPI.
2.Pre-opening costs means the costs associated with new site openings, w hich primarily consists of staff costs, marketing and rent.

The Gym Group Team

John Treharne
Chief Executive Officer

- Founder and CEO since November 2007
- Previously Managing Director at Crown Sports plc and Founder of Dragons Health Clubs

Richard Darwin
Chief Financial Officer

- CFO since May 2015
- Previously CFO of Essenden plc and Paramount Restaurants

Jonathan Spaven
Property Director

- Property Director since October 2013
- Previously Director of Property at Matalan and agent roles for KwikSave, Iceland Frozen Foods and MFI Hygena

Jasper McIntosh
IT Director

- IT Director since June 2014, and primary IT & digital consultant to The Gym Group since 2011
- Co-founder of two digital marketing agencies, and director for three digital agencies

Nick Henwood
Operations Director

- Joined the team in August 2016
- Previously Operations Director at David Lloyd Leisure, Mothercare and Autoglass

Barney Harrison
Commercial and Marketing Director

- Joined the team in October 2016
- Previously held several Head of Marketing and Acquisition roles at Sky