



fitter stronger better

The Gym Group plc

FULL YEAR RESULTS

MARCH 2018





Forward-Looking Statement Disclaimer

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Overview

- > **High quality gym estate**
 - Accelerated profitable growth
 - Consistent returns
 - Organic and acquisition expansion
 - Strong pipeline
- > **Compelling customer proposition**
- > **Technology-led business model**
 - Scalable infrastructure to support further growth
- > **Growing the market**
- > **Attractive financial model**



Important Milestones

100th gym
opened in
Feltham

Highest ever
opening day
membership

Record number
of openings in
one year

- 21 organic
- 18 acquired

feefo 
Trusted
Service
Award

100 millionth
member visit

Increased
low cost
gym market
share to
22.4%

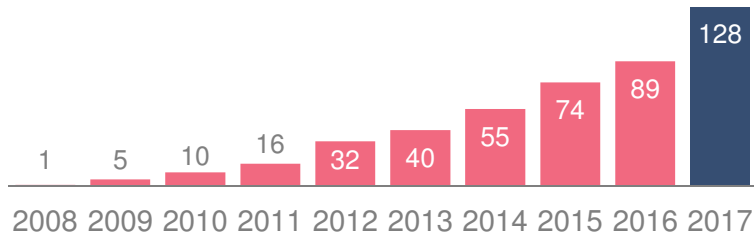
Launch of
LIVE IT.
premium price
product

New Member
Management
System

Operational KPIs

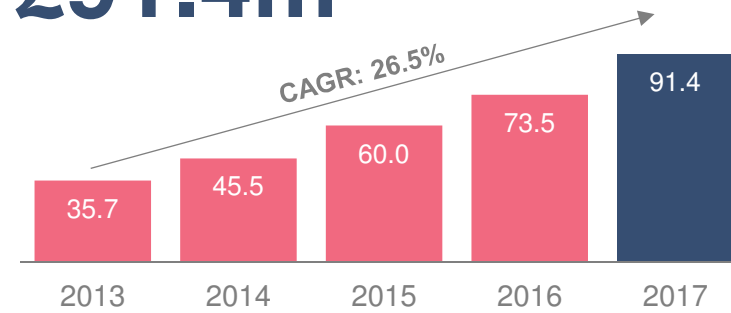
Gyms (#)

+ 39 sites open in 2017



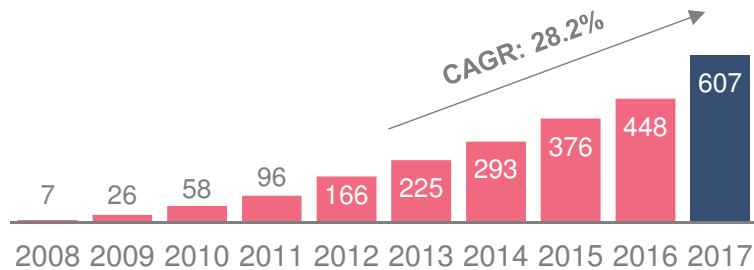
Revenue £'m

£91.4m



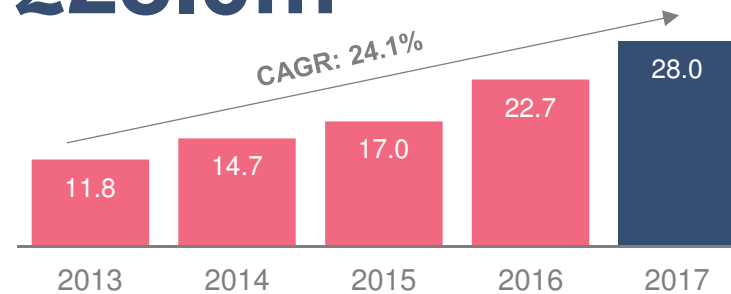
Members ('000)

607k



Group Adjusted EBITDA £'m

£28.0m





FINANCIAL UPDATE



Summary Performance

Estate

128 sites

+43.8% vs PY
(2016: 89 sites)

Members

607,000

+35.5% vs PY
(2016: 448,000)

Revenue

£91.4m

+24.3% vs PY

+23.4%
Av. Member
growth

+0.7%
Av. Revenue
per Member
growth

Group Adjusted EBITDA

£28.0m

+23.2% vs PY
(2016: £22.7m)

Adjusted PBT

£12.0m

+38.2% vs PY
(2016: £8.7m)

Adjusted EPS

7.4p

per share
(2016: 5.6p)

Net Debt

£37.5m

As at Dec 2017

Total dividend
per share

1.2p

(Interim: 0.3p
Final 0.9p)

Group Income Statement

£'m	2017	2016	% Change
Number of sites	128	89	43.8%
Revenue	91.4	73.5	24.3%
Site EBITDA	37.1	30.0	23.7%
Group Adjusted EBITDA	28.0	22.7	23.2%
% Margin	30.6%	30.9%	-25bps
Adjusted PBT	12.0	8.7	38.2%
Adjusted EPS	7.4p	5.6p	32.1%
Group adjusted EBITDA pre - POC	30.6	24.9	22.9%

- Small reduction in Site EBITDA margin reflecting less mature estate
- Central cost investment of £9.1m (2016: £7.3m) - quality teams to support scale and pace of growth
- Full year tax rate of 20.8% lower than guidance due to additional R&D claim
- £2.6m pre-opening costs for the year includes £0.3m in relation to Q1 2018 openings (2016: £2.2m)

2017:

54 sites
open < 2 years
(42% of estate)

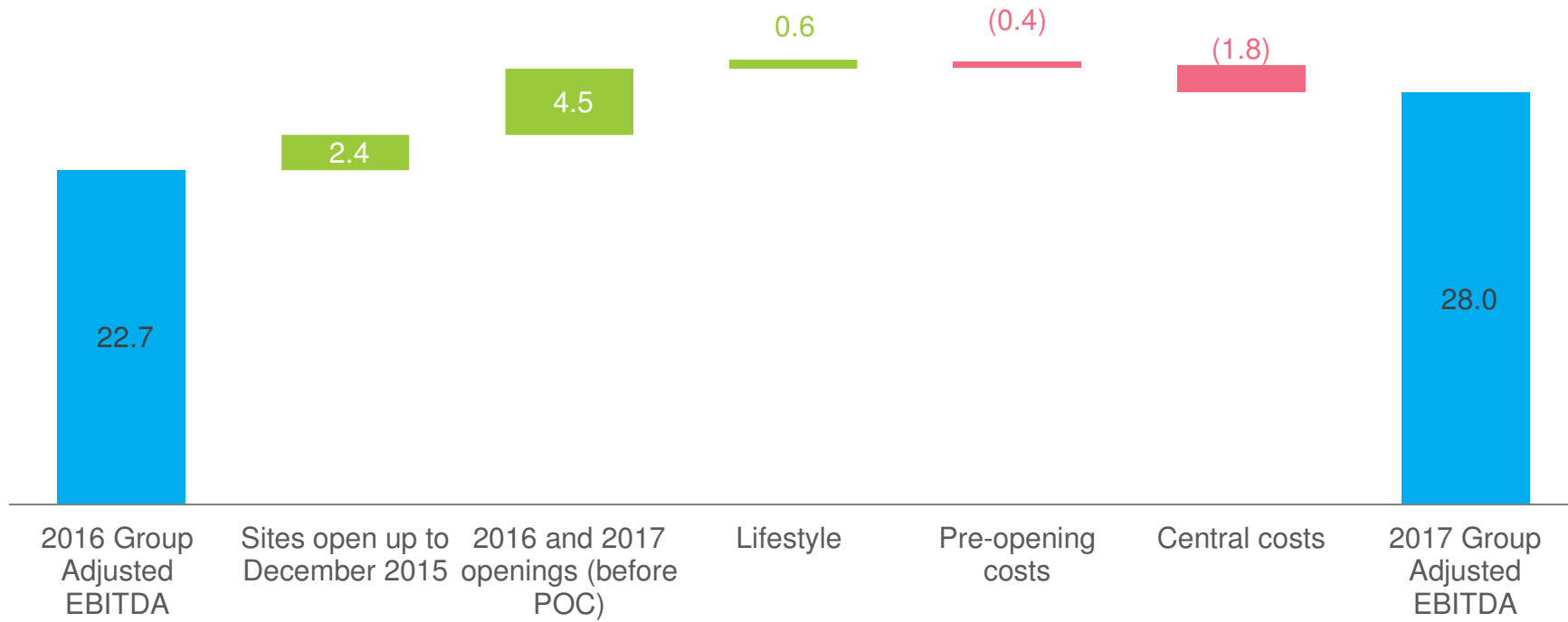
2016:

34 sites
open < 2 years
(38% of estate)

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 23.2%



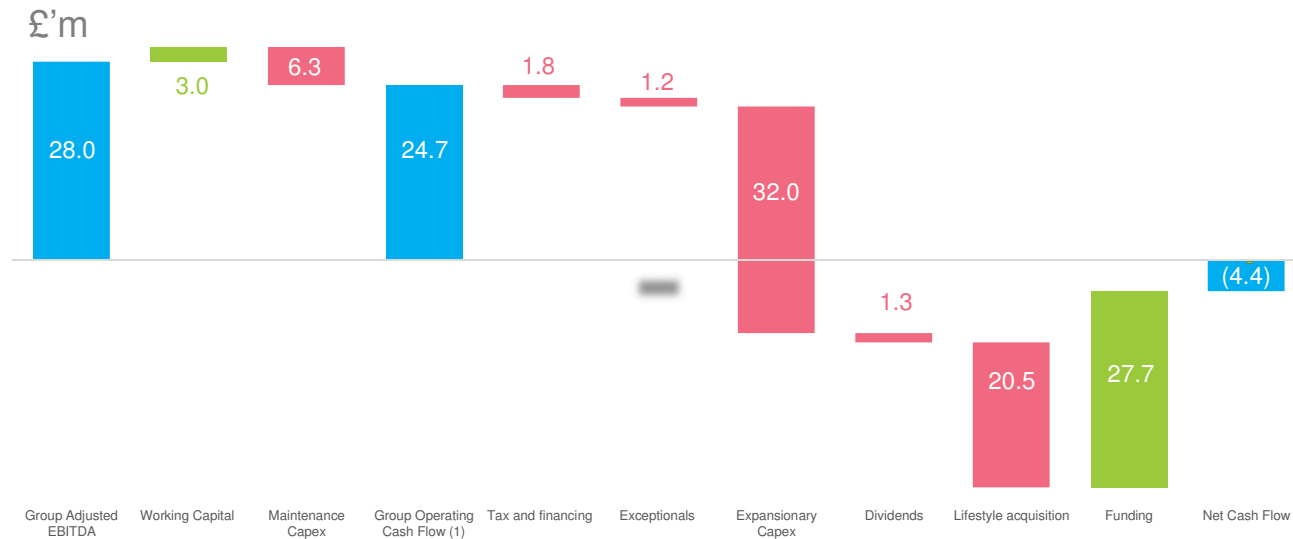


Predictable Cost Base

% of Revenue

2017	2016		
18.7%	18.2%	Rent	<ul style="list-style-type: none"> Fixed rental uplifts at five and ten years on majority of leases IFRS accounting results in straight line treatment of rent free periods and periodic fixed uplifts
10.0%	10.9%	Other Property Cost	<ul style="list-style-type: none"> Visibility on rates through 2017 rateable value assessments
4.8%	4.8%	Marketing	<ul style="list-style-type: none"> Marketing investment maintained at 5% of revenue
7.8%	7.0%	Staff	<ul style="list-style-type: none"> Staff costs increase reflects the large proportion of non mature sites (<2 years old)
17.0%	17.2%	Other	<ul style="list-style-type: none"> High margin subscription model means limited impact from import costs Utilities, Cleaning tied into contracts Limited Repair and Maintenance costs benefits from quality of the initial build IT costs investment for better proposition
1.1%	1.1%	Cost of Sales	<ul style="list-style-type: none"> Vending and direct debit processing costs tied to contracts
59.4%	59.2%	Total	

Group Cash Flow



Net Debt

£37.5m

(2016: £5.2m)

Free Cash Flow ⁽³⁾

£21.7m

(2016: £23.2m)

- Group Operating Cash Flow Conversion⁽²⁾ of 88.2% - refurbishment programme increasing maintenance capex
- Expansionary capex reflecting 21 openings in 2017 and the acquisition of 18 sites from Lifestyle Fitness including £1.5m for 6 conversions
- Net facility drawdown of £27.7m in H2 2017 to fund the accelerated rollout

1. Group Operating Cash Flow is calculated as Group Adjusted EBITDA less working capital and less maintenance capital expenditures.
 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, Expansionary capital expenditure, and the Lifestyle Fitness acquisition

Capital Expenditure

Expansionary

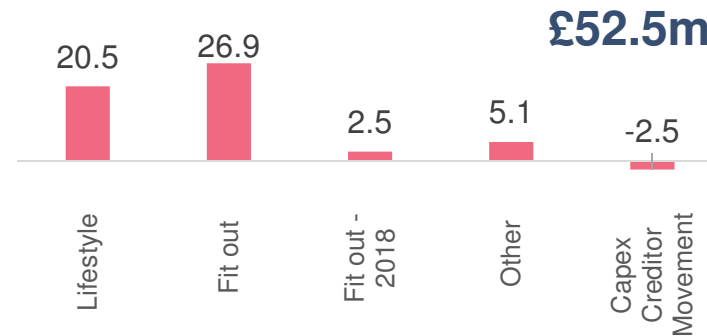
- Initial site investment, acquisitions, IT projects and product enhancement
- New gym fit-out cost in 2017 £1.35m per site
- Other expansionary costs include:
 - £0.8m for the LIVE IT launch
 - £2.2m for MMS, website and BI platform and initial costs for ERP
 - £1.6m site specific expansionary projects
 - £0.5m premium paid on Fitness First site

Maintenance

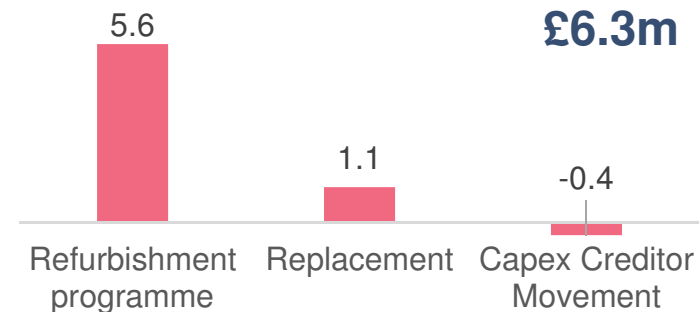
- Gym equipment replacement, 5 year refreshes and refurbishment
- 17 sites refurbished and rebranded in line with refurbishment plan

£'m	2017	2016	% Change
Expansionary Capex	(52.5)	(20.9)	150.7%
Maintenance Capex	(6.3)	(2.9)	113.7%
Total Capital Expenditure	(58.8)	(23.8)	146.2%

Expansionary capital expenditure 2017



Maintenance capital expenditure 2017



Guidance

Reconfirmed

- 15 to 20 openings for 2018;
- Depreciation expected to be 16% of revenue in 2018;
- Charge for long term employee incentives anticipated as £1.5m in 2018, rising to £1.8m in 2019.

New

- Expect new sites fit-out costs continue to be between £1.3m and £1.4m, with a further £4.0m to £4.5m of capital spend on IT projects (website optimisation, artificial intelligence), the ERP platform, estate wide LIVE IT. roll out and other expansionary projects;
- The 18 Lifestyle conversions expected to complete by Q3 2018 with total cost conversion in 2017 and 2018 of £470k per site;
- Maintenance capital expenditure expected to equate to 5.5% of revenue in 2018;
- Support office costs to be 8.5% to 9.0% of revenues (2017: 10%)
- Future tax effective rate, after adjusting for amortisation and exceptional items, expected to be 23% in 2018 (2017: 20.8%)

STRATEGIC AND OPERATIONAL UPDATE





Strategic and Operational Progress

> Accelerated growth

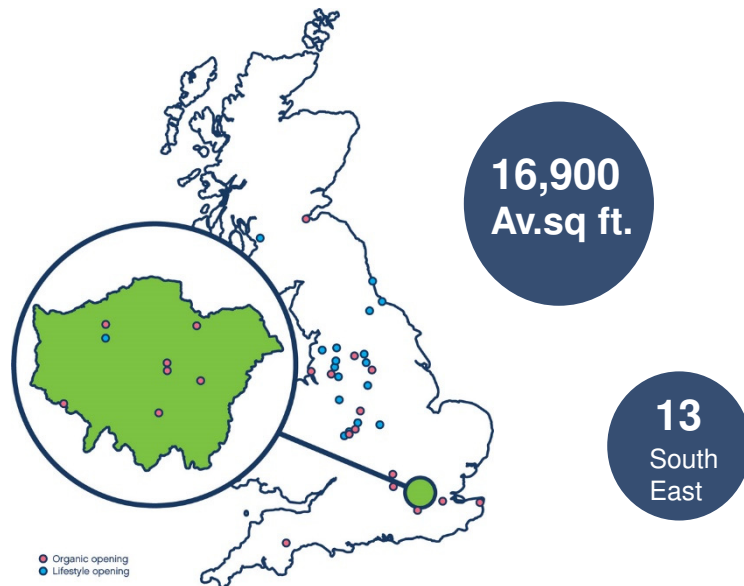
> Infrastructure

> Consistent profitability and returns

> Market Opportunity

1. Accelerated Growth: Pipeline Rollout

Expanding nationwide: 39 new sites



Number of organic openings ahead of guidance

- Capacity to fit out in short timeframes
- 12 organic openings and 8 refits in Q4 2017 successfully delivered
- Continue to target 30% ROCE

Attractive proposition for Landlords

- Excess space becoming available from retailers (Walthamstow, Edinburgh Murrayfield)
- Strong covenant for landlords due to low gearing and Plc status

Flexible approach to growth enables faster expansion

	2017 Openings	At 31 Dec 2017	% of Total Estate
1. Standard strip out and conversion	17	97	76%
2. Refurbishment of existing club	3	12	9%
3. Acquire club with membership database	19	19	15%
TOTAL	39	128	100%

1. Accelerated Growth: Lifestyle Acquisition

Background to Deal

- 18 high quality locations mainly in the Midlands and North increasing geographical footprint
- Acquired as going concerns with membership database
- Total consideration £20.5m; completed September 2017
- Attractive rental deals and longer leases (rent per sq ft below existing TGG rental average)
- Average sq ft of 19,600 sq ft higher than TGG average; membership average per site lower than TGG average
- Financed from existing facilities

2017 Progress and Next steps

- Initial trading in line with expectations
- 8 sites converted to The Gym brand to date and introduced 24/7
- Simplified pricing by removing 12 month contracts across the estate
- Will convert the remaining 10 Lifestyle branded sites to The Gym by September 2018
- 18 conversions expected to cost £470k per site
- Attractive multiple with cashflow benefit of acquiring existing sites

1. Accelerated growth: Proposition

Improved proposition

- Refurbishment programme:
 - Branding - colour and zoned areas
 - 17 refurbishments in 2017
- Functional improvements:
 - extended free weights
 - functional training
- Refurbishment drives improved performance and profitability

Customer Satisfaction

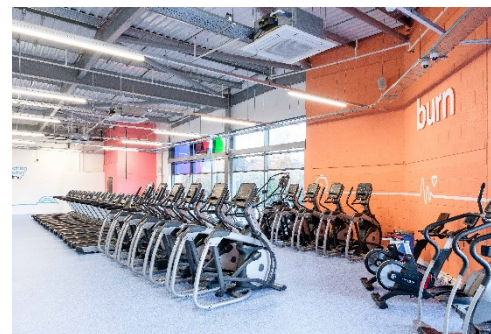
- Launched new tool to track customer satisfaction through SMG
- Actions taken to improve service based on more in-depth feedback
- Awarded 2018 Trusted Service Award by Feefo in February 2018



Then



Now



“The gym is very well equipped and sensibly laid out. All of the equipment is very clean and seems very well maintained. The location of the gym is excellent and the membership is very competitively priced.”

Customer Feedback, SMG

1. Accelerated growth: LIVE IT.

New Premium Product: LIVE IT.

- Offering developed on the back of substantial piece of customer research
- Enabled through launch of new member management system and website
- Trial across 44 sites starting in November 2017, early results promising
- Currently only 4 months of data; post launch review once nationwide
- Full rollout on track to be delivered by May 2018
- Expect LIVE IT. to continue to see promising levels of take-up as the initiative is launched across the estate and to underpin increased yield growth

LIVE IT.



Unlimited access and training



Discounts and perks



Free classes



Bring a friend



Multiple gym access



Free WiFi



Unlimited Fitness & Body Composition measurements

DO IT.



Unlimited access and training



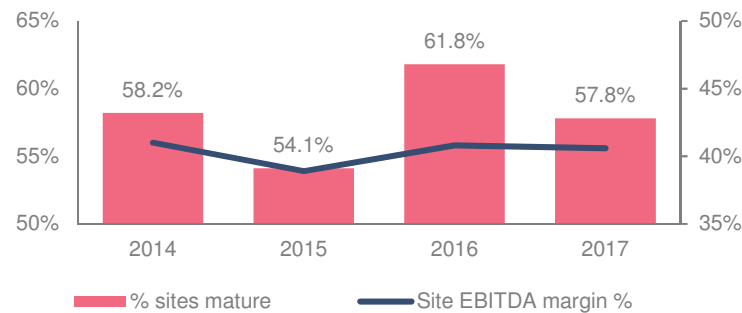
Free classes



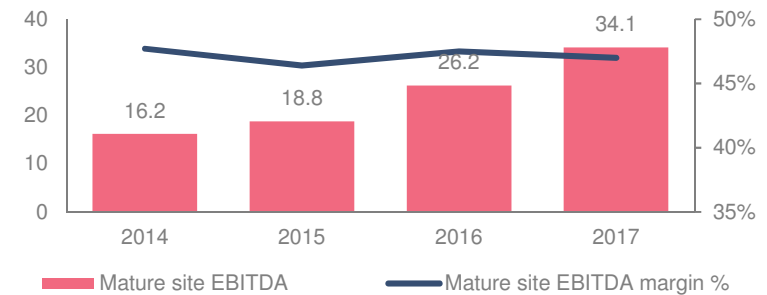
Free WiFi

2. Profitable Growth: Site Performance

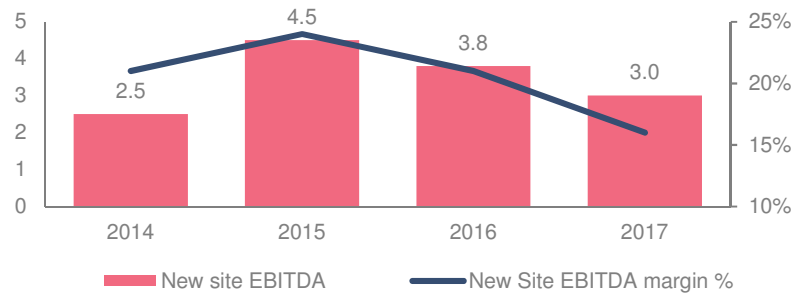
Small reduction in site EBITDA margin due to lower proportion of mature sites



Mature site margin maintained at 47%



New site absolute profit varies significantly year on year; dependent on timing of opening





2. Profitable Growth: Mature Site Performance

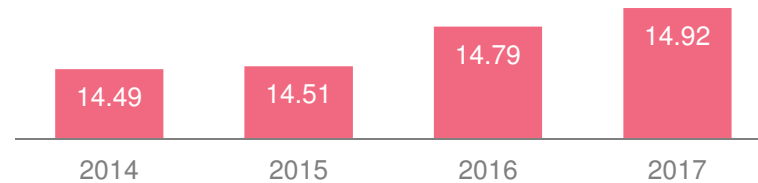
Sustained quality of earnings and returns from the mature portfolio

- 0.9% increase in mature Average Revenue per Member per Month
- Ability to grow yield through pricing for new members
- Mature site ROCE consistent at 32%

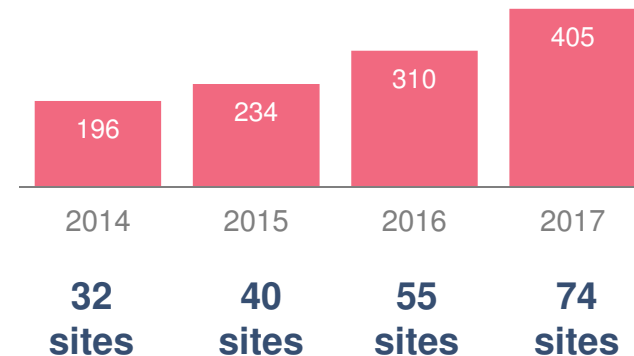
ROCE consistent across cohorts

Mature site performance	Av. mature site EBITDA £'000	ROCE
Sites open up to 2013	475	32%
Sites open between 2014 and 2015	444	32%
Total	461	32%

Mature Revenue per Member per Month (£)

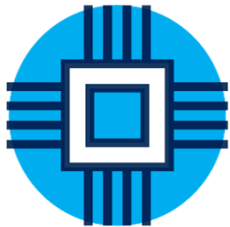


Mature Members ('000)



3. Infrastructure development: Technology

2018 will drive value from the new digital platform delivered in 2017



2017 achievements

- New scalable member management system (MMS) and digital platform launched in July 2017
 - Flexibility to launch new products
 - React faster to market conditions
 - Enhanced data security
- New infrastructure in use across the business: eCRM, MMS, Web, BI
- Centralised approach to member communication through Salesforce Marketing Cloud improving consistency of digital marketing
- Technology team using the new platform, data and services to support new strategic projects

2018 priorities

- Drive performance through new technology
- Investing in new Enterprise Resourcing Platform (ERP)
 - enable finance to better support the scale of the business
 - delivery of operating model changes

Other Key Projects

- Technology-led improvements to customer experience e.g. customer app
- Yield optimisation through dynamic pricing
- Using artificial intelligence to drive business value
- Digital optimisation programme



3. Infrastructure Development: Member service proposition

Delivering a better member offering and gaining competitive advantage by attracting the best personal trainers

Rationale

- Aim to drive better experience on site with greater consistency of service
- Exercise control of personal trainers in relation to some aspects of their interaction with The Gym
- Greater clarity around personal trainer roles
- Adapting to changing flexible working economy

Background

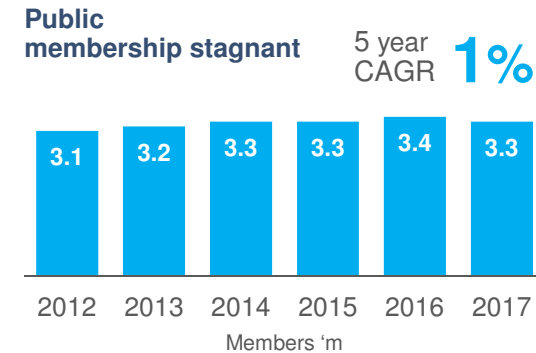
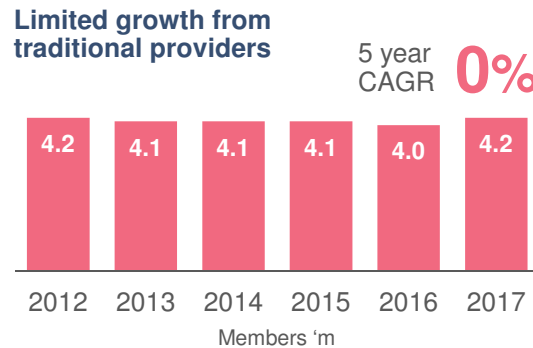
- Trial for new operating model started January 2018; expect full rollout summer 2018
- Part time employment offered to some personal trainers for 12 hours per week
- As self-employed personal trainers, these same individuals pay a rent to operate their personal training businesses outside their contracted employment hours
- Some personal trainers pay market rent without undertaking any employed activities

Financial Impact

- Financial impact expected to be neutral
- Benefit from rental from Personal Trainers offsetting any incremental employment costs.

4. Market Opportunity

Market developing as expected with continued growth of low cost segment

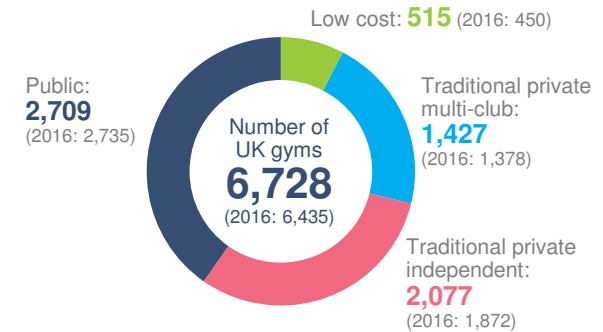


£4.7bn

Total size of UK Health and Fitness Market

“the fitness industry is entering a golden period where all sectors are expanding and our 2018 Report will show that the penetration rate will have gone past 15%, that the number of sites is at an all time high with the low-cost brands pushing the growth.”

David Minton: Leisure Database Company



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



4. Market Opportunity: Low Cost Gym Market Share

The Gym are the fastest growing in the market in 2017

Low Cost Development UK – Top 10
Mar '17 – Dec '17¹ (Number of clubs)

				24/7	Ownership structure
Pure Gym	174	192	+10.3%	✓	O
The Gym	91	128	+40.7%	✓	O
energie Fitness	58	64		✗	O/F
Xercise4Less	47	48		✗	O
Snap Fitness	27	43		✓	F
Sports Direct Fitness	31	29		✗	O
Easy Gym	15	16		✓	O
JD Gyms	9	12		✗	O
Fitness4Less	13	12		✗	O
24/7 Fitness	12	12		✓	O

O = Owned F = Franchise

TGG
22.4%
Estimated share of low cost market

65%
Estimated Low cost Market Growth from TGG since March 2017

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 not defined as low cost by Leisure Database Company
2. Mar' 17 Pure Gym excludes 2 premium sites purchased from LA Fitness, Jan '18 all sites included.
3. energie Fitness low cost only. Not included in the top 3 operators as a franchise model.

OUTLOOK



Outlook

- Year of accelerated profitable growth; 21 organic openings and acquisition of 18 sites from Lifestyle Fitness
- Strong membership growth Jan / Feb to 664,000, +9.4% in line with the Board's expectations
- Expect to achieve 15 – 20 openings guidance for 2018
- Expect to open 6 by end of H1 2018
- Infrastructure in place to support further growth



APPENDIX



£'m	2017	2016	2015	2014	2013	16-17 % change
Financial Data						
Revenue	91.4	73.5	60.0	45.5	35.7	24.3%
Group Adjusted EBITDA	28.0	22.7	17.0	14.7	11.8	23.2%
Group Adjusted EBITDA before POC	30.6	24.9	19.7	16.7	12.9	22.9%
Group Operating Cash Flow	24.7	24.9	18.6	16.5	14.8	-1.1%
Group Operating Cash Flow Conversion	88.2%	109.9%	109.4%	112.4%	125.5%	
Expansionary Capital Expenditure	52.5	20.9	28.2	20.3	14.1	150.7%
Net Debt	37.5	5.2	7.1	49.2	36.7	625.0%
Operational						
Total gyms in operation	128	89	74	55	40	43.8%
Total number of members ('000)	607	448	376	293	225	35.5%
Average number of members ('000)	528	428	355	271	212	23.4%
Average revenue per member per month (£)	14.41	14.31	14.08	13.98	14.06	0.7%
Total Mature Gyms in Operation	74	55	40	32	16	34.5%
Mature Gym Site EBITDA	34.1	26.2	18.8	16.2	9.5	30.3%

1. Expansionary capital expenditure in 2017 includes Lifestyle Fitness acquisition
2. Average number of members is calculated as the total number of members divided by the number of months in the period.
3. 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.

Financial Model

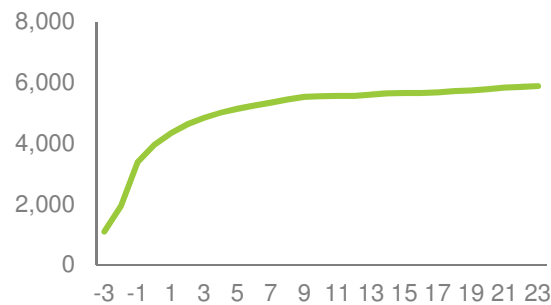
Technology led operating model with high margins and returns

- Low operating costs
- Leases⁽¹⁾ typically fixed rental uplifts
- Fit-out reducing with scale

	2017	2016
Revenue	£0.98m	£1.00m
Gross profit	99%	99%
Fixed property costs ⁽³⁾	26%	25%
Other opex ⁽⁴⁾	26%	26%
EBITDA	£0.46m	£0.48m
EBITDA margin	47.0%	47.5%
Average capital cost up to 2014/15	£1.46m	£1.49m
Current capital cost	£1.35m	£1.33m
Mature ROCE	32%	32%

Maturity: Members

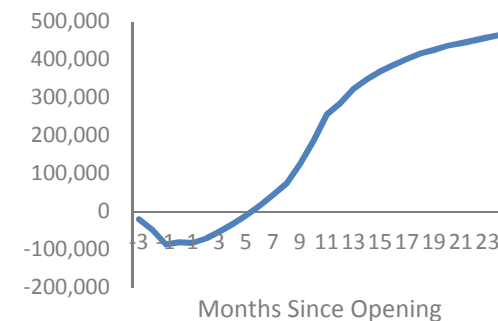
Average Mature Gym Site Members (#)



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

Maturity: Site EBITDA

Average estate LTM EBITDA



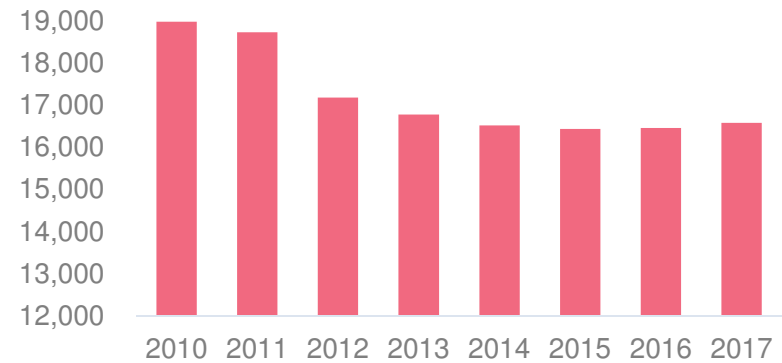
- Site EBITDA lags number growth
- Initial losses from pre-opening costs

1. Newer 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 with RPI or CPI.
2. Actual Mature gym site metrics in 2017 based off 74 Mature sites open to 31 Dec 2015.
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.

Map of all 128 Locations



Rolling Average Sq. Footage ⁽¹⁾



16,600

rolling average
square footage in
2017 including all
sites in 2017

1. Includes Lifestyle Fitness sites

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 and Digital Director

- IT Director since June 2014, and primary IT & digital consultant to The Gym Group since 2011
- Previously co-founded two technology consultancies and served as a 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

Developments

- Developed operations organisation structure
- New talent within Marketing and Technology teams adding capability
- Staff retention rate of 82.7% is high for the leisure sector
- 84 employees invested in share incentive plan
- Head of Property Development added to Executive Committee in 2018