13 March 2024

The Gym Group plc
(‘The Gym Group’, ‘the Group’ or ‘the Company’)
2023 Full Year Results

Positive momentum continuing

Leading low cost gym operator, The Gym Group, announces its full year results for the year ended 31 December 2023.

Key financial metrics[1]

	Year ended 31 December 2023	Year ended 31 December 2022	Movement
Revenue (£m)	204.0	172.9	+18%
Group Adjusted EBITDA (£m)	75.5	71.3	+6%
Group Adjusted EBITDA Less Normalised Rent (£m)	38.5	38.0	+1%
Adjusted Loss before tax (£m)	(5.5)	(5.5)	0%
Statutory Loss before tax (£m)	(8.3)	(19.4)	+57%
Statutory Loss after tax (£m)	(8.4)	(19.3)	+56%
Adjusted Basic and Diluted Loss per share (p)	(3.4)	(3.9)	+13%
Statutory Basic and Diluted Loss per share (p)	(4.7)	(10.9)	+57%
Free cash flow (£m)	27.0	16.7	+62%
Non-Property Net Debt (£m) (as at year end)	(66.4)	(76.0)	+13%

Financial highlights

- Revenue for the year increased by 18%, with average members up 8% and average revenue per member per month (‘ARPMM’) up 9%; like-for-like[2] revenue grew 8%
- EBITDA Less Normalised Rent at £38.5m was slightly ahead of 2022 as the increased revenue offset cost inflation, particularly utilities and staff costs
- Free cash flow generated in the year increased to £27.0m (2022: £16.7m) funding six new sites, enhancements to existing sites and technology projects. Non-Property Net Debt down by £9.6m to £66.4m (Dec 2022: £76.0m), resulting in reduced leverage[3] of 1.72x (within the range previously guided)
- Revolving Credit Facility (‘RCF’) extended to October 2025, syndicate strengthened and Covid-related covenants removed

Business and operational highlights

- Next Chapter three-fold growth plan for the next stage of The Gym Group’s development announced – ’Strengthen the core’ to increase returns from the existing estate, funding ‘Accelerate rollout of quality sites’, in turn enabling optionality to ‘Broaden our growth’ by finding additional revenue streams
- Board strengthened in the year with the appointment of Will Orr as CEO and Simon Jones, former MD of Premier Inn and current CEO of Away Resorts, as Non-Executive Director; Alison Sagar to join the Company in March 2024 as Chief Commercial Officer, further strengthening the Executive Committee
- High levels of member engagement and satisfaction levels sustained throughout the year. Average visits per member up 10%, with 92% of our members rating The Gym Group 4 or 5 out of 5 for overall satisfaction (57% 5/5)
- Six new sites opened in 2023, enhancements made in over 100 sites and launch of HYROX fitness programme collaboration
- Proposition developed with successful implementation of a three-tier price product architecture, rolling out Off-peak membership throughout the entire estate and supporting both volume and yield optimisation strategies

[1] For a summary of KPI definitions used in the table see the ‘Definition of non-statutory measures’ section.
[2] Like-for-like revenue vs 2022 includes all sites open as at 31 December 2020.
[3] Leverage calculated as Non-Property Net Debt divided by Group Adjusted EBITDA Less Normalised Rent.

Current trading and outlook

- Good start to trading in 2024; revenue after two months has grown by 16% year on year, reflecting a 3% increase in average members and 13% growth in yield, benefitting from price taken earlier in the year. Like-for-like revenue up 12%
- Like-for-like revenue in 2024 to increase by 4-5% overall as the impact of the early price increases normalises later in the year
- Plan to open 10-12 new sites in FY24; leverage expected to remain within the range of 1.5 to 2.0x. Next Chapter growth plan aims to deliver c.50 site openings with average ROIC of 30% over three years, funded from free cashflow

Will Orr, CEO of The Gym Group, commented:
"We have maintained positive momentum in revenue through the second half to deliver results that have offset cost inflation, in line with our guidance. With a strong start to 2024, and clear signs that demand for health and fitness has never been stronger, these are solid foundations on which to build our Next Chapter growth plan. Over the next three years, we aim to strengthen the performance of our core business and accelerate The Gym Group site rollout. There continues to be substantial headroom for low cost gyms in the UK and we are fully focused on our aim of making high value, low cost fitness even more accessible for all."

A live audio webcast of the analyst presentation will be available at 11:00 a.m. today via the following link: https://storm-virtual-uk.zoom.us/webinar/register/WN_28VdWzgCS76Snf8YfII7Lw.

A copy of the presentation and recording of the webcast will be published on the Company's website.

For further information, please contact:

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Forward-looking statements
This announcement includes statements that are, or may be deemed to be, 'forward-looking statements'. By their nature, such statements involve risk and uncertainty since they relate to future events and circumstances. Actual results may, and often do, differ materially from any forward-looking statements. Any forward-looking statements in this announcement reflect management's view with respect to future events as at the date of this announcement. Save as required by law or by the Listing Rules of the UK Listing Authority, the Company undertakes no obligation to publicly revise any forward-looking statements in this announcement following any change in its expectations or to reflect subsequent events or circumstances following the date of this announcement.

Notes for editors
The Gym Group was a pioneer of the low cost gym model, and now operates 233 high quality sites across the UK. These gyms offer 24/7 opening and flexible, no contract membership. As at 31 December 2023, there were 850,000 members nationwide. Our gyms have over 60 million visits per annum, score highly on member satisfaction and are consistently rated 'excellent' on Trustpilot. The Gym Group is the UK's first carbon neutral chain of gyms.

Sites opened in 2023 are: Accrington, Edinburgh Corstorphine, Wimbledon, Uxbridge, Stafford and Coventry.

CEO Operational Review

It's a pleasure to deliver my first set of results since I joined The Gym Group at the beginning of September 2023. One of my first priorities was to support the team with trading in the final quarter, ensuring we delivered a strong performance, building on the progress that was delivered in the first half and carrying that into 2024.

Positive trading trends through 2023

The financial outcome for 2023 was in line with the guidance given earlier in the year, with revenue growth of 18% offsetting the cost inflation, especially in utilities prices, that we experienced. Despite the cost inflation challenges, we grew EBITDA slightly compared with the prior year and reduced our net debt levels by £10m, whilst expanding the business, which is encouraging.

We built on the momentum of the first half of the year, with good growth in both membership and yield, supporting like-for-like revenue growth of 8%. After opening a record number of gyms in 2022, we took the proactive decision to moderate site openings in 2023, to ensure we could fund them out of free cash flow. We added a net four gyms to give a year end total of 233. We closed the year with 850,000 members, up 4% on 2022, while average members through the year were 8% ahead of the prior year.

Continued strength in yield

Average revenue per member per month ('ARPMM') rose 9% in the year to £19.50 as we continued to optimise our headline rate and drive penetration of our premium subscription product.

We trialled a three-tier pricing model in 64 sites through the Summer and early Autumn and rolled this out to all sites in November 2023. We now offer an Off-peak product, starting from as little as £13.99 per month; Standard membership (replacing 'DO IT'); and an Ultimate premium product (replacing 'LIVE IT').

This will give us significant future flexibility in marketing and yield management, as well as offering an even more accessible price point, in line with our aim to lower the barriers to fitness for everyone. The uptake of our Ultimate membership has continued to rise, reaching a penetration rate of 31.7% in December 2023.

Providing a great member experience

Our members are visiting our gyms more frequently, making more than 60 million visits to our gyms in 2023; and average visits per member per month were up 10% year on year. This means that the average member visited almost six times per month in 2023.

We have sustained our industry-leading customer satisfaction levels, with 57% of our members rating The Gym Group 5 out of 5 in overall satisfaction measures[4], and a massive 92% rating us at least 4 out of 5. Our Trustpilot and Google ratings also remain strong at 4.4. This is testament to the great work put in by our gym teams.

Maintaining a winning proposition that delivers results

As well as great value and convenience, one of the key factors which our members rate The Gym Group for is the quality of our equipment. We have been investing around 5% of our revenue annually in repairing, maintaining and upgrading our gyms. We have done this within our existing capital discipline, whilst maintaining the guidelines that continue to underpin our carbon-neutral status and commitment to net zero. This includes reusing, renewing and recycling of equipment where possible. In 2023, we refurbished 14 sites that were typically more than ten years old and made some form of enhancement investment in over 100 sites, including rolling out new equipment such as SkiErgs, air bikes and 50kg dumbbells, to ensure we are continuing to offer relevant and high quality equipment.

In addition, in 2023 we launched a new fitness programme collaboration offering HYROX training classes, initially in select London gyms in March, before expanding regionally in Manchester, Birmingham and Glasgow. We are the only UK nationwide low cost operator to offer this popular workout programme, which is free to our members. From 17 gyms at the end of 2023, we will extend HYROX to a total of over 50 sites in 2024.

We have also made good progress with our proposition for corporate members, which gives us substantial additional reach potential. We aim to work with companies to support their employee wellbeing strategy, with bespoke packages, discounts and wellness activities via employee benefit platforms. From small beginnings, corporate memberships have almost doubled and now account for more than 2% of our overall membership.

Data-driven and tech-enabled

The technology investment made in 2022 has supported an increase in online member engagement. Downloads of The Gym Group app rose 7% in 2023, and usage has jumped 25%, with an average across the year of almost 700,000 members using it, taking penetration levels to around 80% of our member base. Again, satisfaction levels are high with Apple rating the app 4.7 out of 5 and Android 4.6 out of 5.

We are planning significant additional enhancements to the app in 2024 in line with our drive to increase member retention. We will also step up our use of advertising technology ('AdTech') and use our growing data analytics capability to optimise across all areas of activity, from pricing and marketing ROI, to site selection and opening.

[4] Overall Satisfaction score surveys undertaken by Service Management Group

Sustainability
During the year, we continued to make progress with our sustainability goals. The Science Based Target Initiative ('SBTi') approved the Group's near and long term carbon reduction commitments and we are proud to be Prime-rated by the Institutional Shareholder Services Inc. ('ISS') for Corporate Responsibility. We also delivered £890m of Social Value in 2023, up 18% on 2022, reflecting the increase in frequency of visits by our members.

Introducing the Next Chapter growth plan
With these results, we are announcing the framework and strategic priorities of our Next Chapter growth plan for the next stage of The Gym Group's development. Our investment case is to deliver sustained growth from free cash flow and the Next Chapter growth plan is focused on how we will deliver this, within the highly resilient and growing market that is health and fitness.

In three parts, the Next Chapter growth plan aims to 'Strengthen the core' of our business by continuing to increase like-for-like revenue from our existing sites; this will generate the cash for us to 'Accelerate rollout of quality sites' – doubling to 10-12 openings this year – and create options over the longer term to 'Broaden our growth' as we develop our proposition into new channels, new adjacencies and/or new markets.

Robust and growing market
Low cost gyms have disproportionately grown their share of the market and of gym members rapidly over the past decade. The gym market itself has grown by 40%, while the share of low cost gyms has grown at a compound annual growth rate ('CAGR') of 25%, from 2% to 15% of the overall market.

Encouragingly, and notwithstanding the pressures of the cost-of-living crisis, it is clear that gym members are continuing to prioritise health and fitness spending, including gym memberships, over other areas of spend, and there are a number of long-run trends that will continue to drive growth in our market. These include a much greater awareness of health, fitness and body image; increasing demand for convenience and flexibility; and a polarisation of spend towards luxury and low cost, squeezing middle market operators.

A winning proposition
The Gym Group's high quality, low cost and flexible proposition is well placed to exploit these trends. Industry analysis (Mintel: Health and Fitness Clubs UK, 2023) shows that since before Covid-19, there has been a 21% increase in those who are not currently gym members considering joining a gym – now at 23% of UK adults (16+). Gym consideration rises to over 40% when looking at those aged 16-24 specifically, an area in which we are strongly represented in both our teams and members.

As our performance in 2023 demonstrates, our proposition is highly rated by existing members, who are visiting more frequently and scoring The Gym Group very highly in satisfaction metrics. When it comes to the prospect of new members, our analysis shows that within the catchment of our existing 233 sites, there are a further circa 5 million people within our target age range, who are either members of another gym or considering joining a gym.

(i) Strengthen the core
Under our plan to 'Strengthen the core', we have identified a number of growth drivers that will deliver increased returns in our existing estate and underpin the attractive returns we continue to drive from our new sites.

The key initiatives under this plan fall into three core categories:

- Yield and revenue management;
- Member acquisition; and
- Improving retention.

Each of these categories will contribute to like-for-like growth in our mature estate and provide an opportunity to access some of the potential new members we have identified. They are summarised as follows:

Yield and revenue management
Closing the pricing gap…
Analysis from Simon-Kucher (quantitative pricing experts used widely in digital subscription businesses) shows that members of our own and competing low cost gyms ascribe a higher value to their gym membership than they currently pay. Although we have increased the average headline rate of a Standard membership by 8% in December 2023 (vs December 2022), we remain on average around £2 per month cheaper than our closest competitors (within a one mile radius). We aim to continue to narrow that gap in 2024, as well as improving yield by focusing on more profitable promotions and continuing to improve the penetration of premium memberships, for example.

…whilst still offering great value
The introduction of three-tier pricing and fixed term Saver memberships has given us increased flexibility both in terms of recruitment and promotional activity. A lower entry-level price point (Off-peak membership from £13.99 per month) has the potential to attract more members who would prefer to work out at less busy times, as well as underpinning the value of the Standard and Ultimate products. In addition, with the fixed term Saver product, we can also offer the trade-off of cancellation flexibility for even better value.

Member acquisition
Maximising returns from member acquisition
The primary choice factor for joining a gym is convenience, and 80% of our membership base lives within three miles of their gym. As the data quoted above shows, there remains a substantial untapped market opportunity within the catchment area of our existing estate. Given this opportunity, we will geo-target our marketing activity to focus in the places where our sites are, and focus messaging on the key drivers of choice – convenient location, great equipment and affordable price. We will also have distinct acquisition strategies for our core product (Standard/Ultimate), Off-peak and students to maximise incremental volume. We'll harness advertising technology and data science to optimise returns on marketing investment.

Improving retention
Organisational focus on retention
The no contract model remains an important contributory factor to the attractiveness of our proposition. That said, there is a significant opportunity to improve member retention, which will in turn drive both yield and membership volume.

The highest rate of churn occurs in the first 45 days of a membership, before a habit has formed. We will therefore focus on the 'early life' of a new member, starting with the way they are acquired - because certain types of promotion increase churn, we are reducing the number of days on promotion and using data analytics to determine which promotional offers have the best retention rates. Having acquired through the right promotion, there is then an organisational focus on helping 'early life' members to build lasting habits, whether that's via our expert teams in the gyms or through digital channels like our App. Used by around 80% of our members and highly rated, we will invest in the App as a channel for engagement, information, encouragement and ultimately retention.

Across these and other related initiatives, we will drive like-for-like growth through our existing estate, which will help to improve returns and generate more cash to reinvest in expansion.

(ii) Accelerate rollout of quality sites
Analysis from PwC, building on their previous 'white space' analysis in 2019, shows that the opportunity in the UK extends to potential for between 600 and 850 additional sites in the low cost gym segment alone. At recent rates of site expansion by all low cost gym operators, this suggests there is scope for 10-15 years of further growth.

We have identified the key characteristics of high-returning sites and it is clear that Greater London and urban residential locations deliver the best returns for us. This, therefore, is where we are concentrating our site opening programme for the time being. Disciplined rollout of high quality and high-returning sites will deliver attractive returns and create significant value for shareholders. Retaining discipline in selecting the right sites – in terms of location, footprint and local market – is critical to maintaining the attractive 30% target Return on Invested Capital ('ROIC') that the Group's new site pipeline delivers.

Our ambition is to open circa 50 new sites over the next three years, but we have set our teams the priority of achieving the 30% ROIC target on new sites, and this will take precedence over delivering a specific number of site openings in any given year.

(iii) Broaden our growth
'Strengthen the core' and 'Accelerate rollout of quality sites' are where our executional focus is today. However, successful execution in these areas will create further options to 'Broaden our growth' for the mid and long term. We are currently making a strategic assessment of these options and will return with more details at the appropriate time. Illustratively, these options may include further developments to our existing proposition; format innovation; investigating new channels to market; and introducing new adjacent revenue streams to complement our existing business.

Board & Executive Committee changes
During 2023, there were a number of changes on the Board: John Treharne acted as Executive Chair of the Board until 1 September, and then stepped back to be Non-Executive Chair when I joined the Board as Chief Executive Officer. Richard Darwin (former CEO) and Non-Executive Directors David Kelly and Emma Woods stepped down during the year, while Simon Jones, CEO of Away Resorts and former MD of Premier Inn, was appointed as Non-Executive Director on 6 February 2023. Ann-marie Murphy, Chief Operating Officer, stepped down from the Board and the Executive Committee, leaving the Company on 31 January 2024, with our thanks for her contribution over the last six years.

Turning to the Executive Committee, we have taken positive steps in some important areas. Earlier in the year, we welcomed Milan Juza to the Company and Executive Committee as our Chief Technology Officer, bringing significant technology leadership experience, most recently at TUI Group where he was responsible for e-commerce technology globally. Ruth Jackson also joined our Executive Committee in late 2023 as Chief People Officer, having been promoted from People and Development Director. I'm also delighted to welcome Alison Sagar who will join us in March 2024 as Chief Commercial Officer, sitting on the Executive Committee and taking lead responsibility for all aspects of member and revenue growth. Alison brings a wealth of experience as a commercial and marketing leader, from roles at British Airways, Booz Allen, Amex and Paypal. Most recently, she has been Chief Marketing Officer at two digital scale-ups. She has also consulted extensively in the leisure sector. I'd like to thank Emily Kortlang (former Chief Marketing Officer), who left the business at the end of 2023.

Summary and outlook

The Next Chapter growth plan aims to create significant value over the medium term. ‘Strengthen the core’, underpinned by both membership and ARPMM increases, will deliver like-for-like revenue growth which, combined with tight control of central costs, will drive sustainable profit and cash generation. In turn, this will fund both the continuing investment of 5-6% of revenue in maintenance capital expenditure and the disciplined opening of circa 50 new sites over the medium term, whilst maintaining our target leverage.

We expect that the combined impact of ‘Strengthen the core’ and ‘Accelerate rollout of quality sites’ will improve our ROIC back towards historic levels. This will generate funds to invest in ‘Broaden our growth’.

I look forward to reporting on our progress later in the year, but in the meantime, we have made a promising start to 2024, with like-for-like revenue in the first two months of the year up 12%.

Financial Review

Presentation of results

This Financial Review uses a combination of statutory and non-statutory measures to discuss performance in the year. The definitions of the non-statutory key performance indicators can be found in the 'Definition of non-statutory measures' section.

To assist stakeholders in understanding the financial performance of the Group, aid comparability between years and provide a clearer link between the Financial Review and the consolidated financial statements, we have also adopted a three-column format for presenting the Group income statement in which we separately disclose underlying trading and non-underlying items.

Non-underlying items are income or expenses that are material by their size and/or nature and are not considered to be incurred in the normal course of business. They are classified as non-underlying items on the face of the Group income statement within their relevant category. Non-underlying items include costs of major strategic projects and investments, restructuring and reorganisation costs (including site closure costs), impairment of assets, amortisation and impairment of business combination intangibles, remeasurement gains or losses on borrowings, and refinancing costs. Further details on non-underlying items are provided later in this report.

Summary

	Year ended 31 December 2023	Year ended 31 December 2022	Movement
Total number of gyms at year end	233	229	+2%
Total number of members at year end ('000)	850	821	+4%
Revenue (£m)	204.0	172.9	+18%
Group Adjusted EBITDA (£m)	75.5	71.3	+6%
Group Adjusted EBITDA Less Normalised Rent (£m)	38.5	38.0	+1%
Adjusted Loss before tax (£m)	(5.5)	(5.5)	0%
Statutory Loss before tax (£m)	(8.3)	(19.4)	+57%
Statutory Loss after tax (£m)	(8.4)	(19.3)	+56%
Net cash inflow from operating activities (£m)	79.5	65.4	+22%
Free cash flow (£m)	27.0	16.7	+62%
Non-Property Net Debt (£m) (as at year end)	(66.4)	(76.0)	+13%

Results for the year

	Year ended 31 December 2023			Year ended 31 December 2022		
	Underlying result	Non-underlying items	Total	Underlying result	Non-underlying items	Total
	£m	£m	£m	£m	£m	£m
Revenue	204.0	-	204.0	172.9	-	172.9
Cost of sales	(2.8)	-	(2.8)	(2.0)	-	(2.0)
Gross profit	**201.2**	**-**	**201.2**	**170.9**	**-**	**170.9**
Other income	0.3	-	0.3	0.8	-	0.8
Operating expenses (before depreciation, amortisation and impairment)	(128.4)	(1.5)	(129.9)	(101.8)	(4.4)	(106.2)
Depreciation, amortisation and impairment	(57.5)	(0.8)	(58.3)	(59.3)	(8.5)	(67.8)
Operating profit/(loss)	**15.6**	**(2.3)**	**13.3**	**10.6**	**(12.9)**	**(2.3)**
Finance costs	(21.4)	(0.5)	(21.9)	(16.1)	(1.0)	(17.1)
Finance income	0.3	-	0.3	-	-	-
Loss before tax	**(5.5)**	**(2.8)**	**(8.3)**	**(5.5)**	**(13.9)**	**(19.4)**
Tax (charge)/credit	(0.6)	0.5	(0.1)	(1.4)	1.5	0.1
Loss for the year attributable to shareholders	**(6.1)**	**(2.3)**	**(8.4)**	**(6.9)**	**(12.4)**	**(19.3)**
Loss per share						
Basic and diluted (p)	**(3.4)**		**(4.7)**	**(3.9)**		**(10.9)**

Revenue

Trading in 2023 was robust despite the ongoing cost-of-living pressures on consumers, demonstrating the continued resilience of the low cost gym model. Revenue increased by 18% to £204.0m (2022: £172.9m), reflecting 8% higher average membership numbers throughout the year and a 9% increase in yield.

The average membership number in the year was 872,000 compared with 808,000 in the prior year; we closed the year with 850,000 members which was up 4% on 31 December 2022.

The average headline price of a Standard membership increased to £23.16 in December 2023 compared with £21.49 in December 2022, largely as a result of higher joining fees and price increases for new members, as well as some repricing of the base membership. In addition, the proportion of members taking our premium membership reached 31.7% in December 2023 compared with 29.6% in December 2022. As a result, Average Revenue Per Member Per Month ('ARPMM') in 2023 was up 9% to £19.50 compared with £17.82 in 2022.

Like-for-like revenue (based on all sites open as at 31 December 2020) increased by 8% year on year.

Cost of sales

Cost of sales, which includes the costs associated with the generation of ancillary income as well as call centre costs and payment processing costs, were £2.8m (2022: £2.0m) with the increase year on year mirroring the revenue and membership growth.

Underlying operating expenses (before depreciation, amortisation and impairment)
Underlying operating expenses (before depreciation, amortisation and impairment) are made up as follows:

	Year ended 31 December 2023	Year ended 31 December 2022
	£m	£m
Site costs before Normalised Rent	105.0	85.0
Site Normalised Rent	36.6	32.9
Site costs including Normalised Rent	**141.6**	**117.9**
Central Support Office costs	21.0	15.4
Central Support Office Normalised Rent	0.4	0.4
Central Support Office costs including Normalised Rent	**21.4**	**15.8**
Share based payments	2.4	1.4
	165.4	**135.1**
Less: Normalised Rent	(37.0)	(33.3)
Underlying operating expenses (before depreciation, amortisation and impairment)	**128.4**	**101.8**

Site costs including Normalised Rent
In 2023, site costs including Normalised Rent increased by 20% to £141.6m (2022: £117.9m).

The fixed costs associated with running the sites (predominantly building rates and service charges) increased by £5.9m year on year as a result of the increased estate size, inflationary increases in building rates costs (new three year assessment period starting April 2023), and the end of the Covid-19 related rates relief which reduced costs in the first quarter of 2022.

Controllable site costs increased by £14.1m with higher utilities costs accounting for £8.2m of this increase. Staff costs were also £1.1m higher, reflecting the increased estate size, inflationary pay increases and increased site bonuses. Other increases in controllable costs predominantly reflect the larger estate size.

Site Normalised Rent, which is defined as the contractual rent payable, recognised in the monthly period to which it relates, increased by £3.7m in the year, again reflecting the larger estate size.

Central Support Office costs including Normalised Rent
Central Support Office costs in the year increased to £21.4m (2022: £15.8m), reflecting an increase in headcount, pay inflation and the resumption of bonuses.

Share based payments
Share based payments in the year amounted to £2.4m (2022: £1.4m), reflecting a more regular run rate following a year in which the charge was lower than expected due to share price volatility and a number of adjustments for leavers.

In January 2024, the Group established an Employee Benefit Trust (‘EBT’). The EBT will be used to purchase shares in order to minimise dilution associated with the share based payments.

Underlying depreciation and amortisation
Underlying depreciation and amortisation charges in the year amounted to £57.5m (2022: £59.3m). The reduction year on year reflects a return to more normal levels as the prior year charge included accelerated depreciation and amortisation on a number of assets that were replaced following the launch of the new consumer website and brand.

Group Adjusted EBITDA Less Normalised Rent

The Group's key profit metric is Group Adjusted EBITDA Less Normalised Rent as the Directors believe that this measure best reflects the underlying profitability of the business. Group Adjusted EBITDA Less Normalised Rent is reconciled to Operating profit/(loss) as follows:

	Year ended 31 December 2023	Year ended 31 December 2022
	£m	**£m**
Operating profit/(loss)	**13.3**	**(2.3)**
Non-underlying operating items (see below)	2.3	12.9
Share based payments	2.4	1.4
Underlying depreciation and amortisation	57.5	59.3
Group Adjusted EBITDA	**75.5**	**71.3**
Normalised Rent[5]	(37.0)	(33.3)
Group Adjusted EBITDA Less Normalised Rent	**38.5**	**38.0**

Group Adjusted EBITDA Less Normalised Rent was slightly ahead of the prior year at £38.5m (2022: £38.0m), as the increased revenue was offset by increased operating costs.

Underlying finance costs

Underlying finance costs increased in the year by £5.3m to £21.4m (2022: £16.1m). The finance costs associated with our bank borrowings (comprising interest payable and fee amortisation less capitalised interest) increased by £3.2m to £6.0m (2022: £2.8m), reflecting the increases in SONIA rates during the year. Funds borrowed under the Revolving Credit Facility ('RCF') bear interest at a minimum rate of 2.85% above SONIA.

The implied interest relating to the lease liabilities was £15.5m (2022: £13.3m) with the increase largely reflecting the increased estate.

Non-underlying items

Non-underlying items are costs or income which the Directors believe, due to their size or nature, are not the result of normal operating performance. They are therefore separately disclosed on the face of the income statement to allow a more comparable view of underlying trading performance.

	Year ended 31 December 2023	Year ended 31 December 2022
	£m	**£m**
Affecting operating expenses (before depreciation, amortisation and impairment)		
Costs of major strategic projects and investments	0.9	4.6
Restructuring and reorganisation costs/(income) (including site closures)	0.6	(0.2)
	1.5	**4.4**
Affecting depreciation, amortisation and impairment		
Impairment of property, plant and equipment, right-of-use assets and intangible assets	0.6	8.3
Amortisation of business combination intangible assets	0.2	0.2
	0.8	**8.5**
Affecting finance costs		
Remeasurement of borrowings	0.1	0.9
Refinancing costs	0.4	0.1
	0.5	**1.0**
Total all non-underlying items before tax	**2.8**	**13.9**
Tax on non-underlying items	(0.5)	(1.5)
Total non-underlying charge in income statement	**2.3**	**12.4**

Non-underlying items affecting operating expenses (before depreciation, amortisation and impairment) amounted to £1.5m in the year (2022: £4.4m).

[5] Normalised Rent is the contractual rent payable, recognised in the monthly period to which it relates. A reconciliation of property lease payments to Normalised Rent has been included in Note 11 to the Consolidated financial information.

The costs of major strategic projects and investments of £0.9m (2022: £4.6m) include the costs incurred in relation to introducing the three-tier price product architecture, as well as consultancy and other costs incurred in shaping the Group's strategic plan.

Restructuring and reorganisation costs in the year of £0.6m (2022: credit of £0.2m) include the costs associated with the change of Group CEO and other Board and Executive Committee changes, as well as restructuring costs incurred in relation to the Central Support Office.

Non-underlying costs affecting depreciation, amortisation and impairment in the year amounted to £0.8m (2022: £8.5m), of which £0.6m (2022: £8.3m) relates to the impairment of two sites (2022: 13 sites). The majority of the charge in 2023 relates to one site which was impaired in 2022 but where the value-in-use estimate has fallen, partly driven by an increase in the discount rate. The remaining £0.2m (2022: £0.2m) of non-underlying costs affecting depreciation, amortisation and impairment relates to the amortisation of business combination intangibles acquired as part of the Lifestyle, easyGym and Fitness First acquisitions.

Non-underlying items affecting finance costs amounted to £0.5m (2022: £1.0m), of which £0.4m (2022: £0.1m) relates to costs incurred in relation to the amendments to the Group’s RCF which were agreed with the banks in September; and £0.1m (2022: £0.9m) relates to the remeasurement of the RCF following those agreed changes.

Taxation
The tax charge for the year was £0.1m (2022: credit of £0.1m).

The net deferred tax asset recognised at 31 December 2023 was £16.3m (31 December 2022: £16.3m). This comprised deferred tax assets in respect of tax losses and other temporary differences where the Directors believe it is probable that these will be recovered within a reasonable period. Short term timing differences are generally recognised ahead of losses on the basis that they are likely to reverse more quickly.

The trading losses incurred as a result of the Covid-19 pandemic and the subsequent cost-of-living crisis, together with the introduction in March 2021 of the temporary enhanced capital allowances regime (‘super-deduction tax break’), have resulted in significant tax losses to carry forward. Losses for which no deferred tax asset is recognised equate to £23.0m, resulting in an unrecognised deferred tax asset of £5.8m using a 25% tax rate. There is no time limit for utilising trade losses in the UK.

Earnings
As a result of the factors discussed above, the statutory loss before tax was £8.3m (2022: loss of £19.4m) and the statutory loss after tax was £8.4m (2022: loss of £19.3m).

Adjusted loss before tax is calculated by taking the statutory loss before tax and adding back the non-underlying items. Adjusted loss before tax was £5.5m (2022: loss of £5.5m). Adjusted loss after tax was £6.1m (2022: loss of £6.9m).

The basic and diluted loss per share was 4.7p (2022: loss of 10.9p), and the basic and diluted adjusted loss per share was 3.4p (2022: loss of 3.9p).

Dividend
We are a growth company, in a growth market, with a clear capital allocation policy. Whilst dividends and other returns of capital to shareholders will be considered by the Directors in the future, we are not proposing a dividend for the current year as we continue to see significant opportunities, with attractive returns, to invest our free cash flow in growing the business. In addition, there is a remaining condition in the RCF agreement that the Company shall not declare or pay a dividend if the £10m additional facility is drawn and, although this facility is currently undrawn, the Directors would like to continue to have access to it as necessary.

Cash flow

	Year ended 31 December 2023	Year ended 31 December 2022
	£m	£m
Group Adjusted EBITDA Less Normalised Rent	**38.5**	**38.0**
Movement in working capital	5.0	(5.2)
Maintenance capital expenditure	(10.3)	(8.8)
Free cash flow before non-underlying items, interest and tax	**33.2**	**24.0**
Non-underlying items	(1.0)	(5.3)
Net interest paid	(5.2)	(2.8)
Taxation	-	0.8
Free cash flow[6]	**27.0**	**16.7**
Expansionary capital expenditure	(16.4)	(43.0)
Refinancing fees	(1.0)	(0.7)
Proceeds from disposal of equipment	-	0.4
Net consideration paid on acquisition	-	(5.4)
Net proceeds from issue of Ordinary shares	-	0.1
Cash flow before movement in debt	**9.6**	**(31.9)**
Net (decrease)/increase in non-property lease indebtedness	(2.5)	5.0
Net (repayment)/drawdown of borrowings	(11.0)	25.0
Net cash flow	**(3.9)**	**(1.9)**

Free cash flow generated in the year was £27.0m (2022: £16.7m). The increase year on year is largely driven by improved working capital, including an increased uptake of pay-up-front and student products and the normalisation of rent payments. The prior year working capital outflow included £2.1m in relation to the unwind of deferred rents from 2020 and 2021.

Fixed asset additions in respect of maintenance capital expenditure in the year amounted to £8.7m (2022: £11.9m). However, the timing of settlement of some maintenance capital creditors brought forward from the prior year has meant that the cash outflow in respect of maintenance capital expenditure in the year was £10.3m (2022: £8.8m), including £1.5m funded by leases (2022: nil).

Fixed asset additions in respect of expansionary capital expenditure in the year amounted to £14.2m (2022: £46.5m) and relate to the fit-out of the six new gyms we opened in the year; refurbishments and enhancements in existing gyms; and spend on technology projects, including the rollout of the three-tier price product architecture. Adjusting for the movement in capital creditors, the cash outflow in respect of expansionary capital expenditure was £16.4m (2022: £43.0m), including £1.5m funded by leases (2022: £8.0m).

Balance sheet

	At 31 December 2023	At 31 December 2022
	£m	£m
Non-current assets	558.5	580.4
Current assets	13.0	15.2
Current liabilities	(72.3)	(64.7)
Non-current liabilities	(371.2)	(396.9)
Net assets	**128.0**	**134.0**

At 31 December 2023, non-current assets were £21.9m lower than at 31 December 2022, as the lower level of new site openings meant that depreciation on property, plant and equipment and right-of-use assets more than offset the costs incurred on new sites and enhancements of existing sites.

Net current liabilities at 31 December 2023 increased by £9.8m, reflecting a lower level of cash holding at year end 2023 and an increase in the proportion of lease liabilities being payable within one year.

Non-current liabilities decreased by £25.7m, as payments made in relation to existing leases more than offset the recognition of lease liabilities in relation to new sites.

[6] A reconciliation of Net cash inflow from operating activities to Free cash flow has been included in Note 12 to the Consolidated financial information.

Revolving Credit Facility
In September 2023, the Group agreed with its lenders certain changes to the Group's RCF. As a result, the Group now has access to a combined £80m facility which matures in October 2025. The RCF is subject to quarterly financial covenant tests on Adjusted Leverage (Non-property Net Debt divided by Group Adjusted EBITDA Less Normalised Rent must not exceed 3.0 times) and Fixed Charge Cover (Adjusted EBITDAR to Net Finance Charges plus Normalised Rent must be greater than 1.5 times). The previously reported liquidity covenant was removed as part of the revised RCF agreement.

As at 31 December 2023, the Group had Non-Property Net Debt of £66.4m (31 December 2022: £76.0m) comprising drawn facilities of £59.0m and non-property leases of £8.9m, less cash of £1.5m. The Directors believe that this measure of net debt best reflects the financial health of the business. In addition, it is a key constituent of the Adjusted Leverage covenant included in the Group's banking agreement. At 31 December 2023, Adjusted Leverage was 1.72 times (2022: 2.0 times), significantly below the banking covenant threshold of 3.0 times; and Fixed Charge Cover was 1.73 times (2022: 1.94 times).

Going concern
The Board has reviewed the financial plan and downside scenarios of the Group and has a reasonable expectation that the Group has adequate resources to continue in operational existence for the period to 30 June 2025. As a result, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements. In making this assessment, consideration has been given to the current and future expected trading performance; the Group's current and forecast liquidity position and the support received to date from our lenders and shareholders; and the mitigating actions that can be deployed in the event of reasonable downside scenarios. Further detail is provided in Note 2 to the Consolidated financial information.

Current trading and outlook
Trading in the first two months of the new financial year shows continued positive momentum, in line with Board expectations. Revenue after two months has grown by 16% year on year, reflecting a 3% increase in average members and 13% yield growth. Like-for-like revenue for the two months was up 12%, driven largely by price increases implemented at the start of 2024. Membership at the end of February 2024 was 909,000, up 7% versus the end of 2023.

We expect like-for-like revenue in 2024 to increase by 4-5% overall as the impact of the early price increases normalises later in the year. Utility rates will moderate slightly in 2024 resulting in like-for-like site cost growth of c.2%. Central Support Office costs are expected to increase year on year as we invest to deliver the Next Chapter growth plan.

We plan to open 10-12 sites in 2024, with all new sites continuing to be financed from free cash flow. As a result, Adjusted Leverage is expected to remain within the range of 1.5 to 2.0 times. The Next Chapter growth plan aims to deliver circa 50 site openings with average ROIC of 30% over three years, funded from free cashflow.

Definition of non-statutory measures

- *Group Adjusted EBITDA* – operating profit before depreciation, amortisation, share based payments and non-underlying items.
- *Normalised Rent* – the contractual rent payable, recognised in the monthly period to which it relates. A reconciliation of property lease payments to Normalised Rent is included in Note 11 to the Consolidated financial information.
- *Group Adjusted EBITDA Less Normalised Rent* – Group Adjusted EBITDA after deducting Normalised Rent. A reconciliation of Operating profit/(loss) to Group Adjusted EBITDA Less Normalised Rent is included below the Consolidated statement of comprehensive income in the Consolidated financial information section.
- *Adjusted Profit/Loss before tax* – profit/loss before tax before non-underlying items.
- *Adjusted Earnings* – profit/loss for the year before non-underlying items and the related tax.
- *Basic Adjusted EPS* – Adjusted Earnings divided by the basic weighted average number of shares.
- *Free cash flow* – Group Adjusted EBITDA Less Normalised Rent and movement in working capital, less maintenance capital expenditure, cash non-underlying items, bank and non-property lease interest and tax. A reconciliation of Net cash inflow from operating activities to Free cash flow is included in Note 12 to the Consolidated financial information.
- *Non-Property Net Debt* – bank and non-property lease debt less cash and cash equivalents. See Note 10 to the Consolidated financial information for the breakdown.
- *Maintenance capital expenditure* – costs of replacement gym equipment and premises refurbishment.
- *Expansionary capital expenditure* – costs of fit-out of new gyms (both organic and acquired), technology projects and other strategic projects. It is stated net of contributions from landlords.
- *Adjusted Leverage* – Non-Property Net Debt divided by Group Adjusted EBITDA Less Normalised Rent.
- *Fixed Charge Cover* – Group Adjusted EBITDA divided by Finance costs (excluding interest costs on property leases) less Finance income plus Normalised Rent.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

	Note	Year ended 31 December 2023			Year ended 31 December 2022		
		Underlying	Non-underlying (Note 5)	Total	Underlying	Non-underlying (Note 5)	Total
		£m	£m	£m	£m	£m	£m
Revenue	4	204.0	-	204.0	172.9	-	172.9
Cost of sales		(2.8)	-	(2.8)	(2.0)	-	(2.0)
Gross profit		**201.2**	**-**	**201.2**	**170.9**	**-**	**170.9**
Other income		0.3	-	0.3	0.8	-	0.8
Operating expenses (before depreciation, amortisation and impairment)		(128.4)	(1.5)	(129.9)	(101.8)	(4.4)	(106.2)
Depreciation, amortisation and impairment		(57.5)	(0.8)	(58.3)	(59.3)	(8.5)	(67.8)
Operating profit/(loss)		**15.6**	**(2.3)**	**13.3**	**10.6**	**(12.9)**	**(2.3)**
Finance costs		(21.4)	(0.5)	(21.9)	(16.1)	(1.0)	(17.1)
Finance income		0.3	-	0.3	-	-	-
Loss before tax		**(5.5)**	**(2.8)**	**(8.3)**	**(5.5)**	**(13.9)**	**(19.4)**
Tax (charge)/credit	6	(0.6)	0.5	(0.1)	(1.4)	1.5	0.1
Loss for the year attributable to equity shareholders		**(6.1)**	**(2.3)**	**(8.4)**	**(6.9)**	**(12.4)**	**(19.3)**
Other comprehensive income for the year							
Items that may be reclassified to profit or loss							
Changes in the fair value of derivative financial instruments		-	-	-	(0.1)	-	(0.1)
Total comprehensive expense attributable to equity shareholders		**(6.1)**	**(2.3)**	**(8.4)**	**(7.0)**	**(12.4)**	**(19.4)**
Loss per share (p)	7						
Basic and diluted		**(3.4)**		**(4.7)**	**(3.9)**		**(10.9)**

Reconciliation of Operating profit/(loss) to Group Adjusted EBITDA Less Normalised Rent[1]

		Note	Year ended 31 December 2023	Year ended 31 December 2022
			£m	£m
Operating profit/(loss)			**13.3**	**(2.3)**
Add back:	Non-underlying operating items	5	2.3	12.9
	Share based payments (included in Operating expenses)	14	2.4	1.4
	Underlying depreciation and amortisation	8, 9	57.5	59.3
Group Adjusted EBITDA			**75.5**	**71.3**
Less:	Normalised Rent[2]		(37.0)	(33.3)
Group Adjusted EBITDA Less Normalised Rent[1]			**38.5**	**38.0**

1 Group Adjusted EBITDA Less Normalised Rent is a non-statutory metric used internally by management and externally by investors. It is calculated as operating profit before depreciation, amortisation, share based payments and non-underlying items, and after deducting Normalised Rent.

2 Normalised Rent is the contractual rent payable, recognised in the monthly period to which it relates. A reconciliation of property lease payments and Normalised Rent has been included in Note 11.

Consolidated Statement of Financial Position

As at 31 December 2023

	Note	31 December 2023 £m	31 December 2022 £m
Non-current assets			
Intangible assets		91.4	92.7
Property, plant and equipment	8	171.7	181.0
Right-of-use assets	9	278.1	289.4
Investments in financial assets		1.0	1.0
Deferred tax assets	6	16.3	16.3
Total non-current assets		**558.5**	**580.4**
Current assets			
Inventories		0.7	0.9
Trade and other receivables		10.8	8.9
Cash and cash equivalents		1.5	5.4
Total current assets		**13.0**	**15.2**
Total assets		**571.5**	**595.6**
Current liabilities			
Trade and other payables		43.6	38.8
Lease liabilities	9	28.6	25.3
Provisions		0.1	0.6
Total current liabilities		**72.3**	**64.7**
Non-current liabilities			
Borrowings	10	58.9	70.0
Lease liabilities	9	310.6	325.1
Provisions		1.7	1.8
Total non-current liabilities		**371.2**	**396.9**
Total liabilities		**443.5**	**461.6**
Net assets		**128.0**	**134.0**
Capital and reserves			
Own shares held		0.1	0.1
Share premium		189.8	189.8
Merger reserve		39.9	39.9
Retained deficit		(101.8)	(95.8)
Total equity shareholders' funds		**128.0**	**134.0**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

	Note	Own shares held	Share premium	Hedging reserve	Merger reserve	Retained deficit	Total
		£m	£m	£m	£m	£m	£m
At 1 January 2022		**0.1**	**189.7**	**(0.1)**	**39.9**	**(77.5)**	**152.1**
Loss for the year		-	-	-	-	(19.4)	**(19.4)**
Other comprehensive income for the year		-	-	0.1	-	-	**0.1**
Income/(loss) for the year and total comprehensive expense		-	-	0.1	-	(19.4)	**(19.3)**
Issue of Ordinary share capital		-	0.1	-	-	-	**0.1**
Share based payments	14	-	-	-	-	1.7	**1.7**
Deferred tax on share based payments		-	-	-	-	(0.6)	**(0.6)**
At 31 December 2022		**0.1**	**189.8**	**-**	**39.9**	**(95.8)**	**134.0**
Loss for the year		-	-	-	-	(8.4)	**(8.4)**
Other comprehensive income for the year		-	-	-	-	-	**-**
Loss for the year and total comprehensive expense		-	-	-	-	(8.4)	**(8.4)**
Share based payments	14	-	-	-	-	2.4	**2.4**
At 31 December 2023		**0.1**	**189.8**	**-**	**39.9**	**(101.8)**	**128.0**

Consolidated Cash Flow Statement

For the year ended 31 December 2023

	Note	Year ended 31 December 2023 £m	Year ended 31 December 2022 £m
Cash flows from operating activities			
Loss before tax		(8.3)	(19.4)
Adjustments for:			
Finance costs		21.9	17.1
Finance income		(0.3)	-
Non-underlying operating items		2.3	12.9
Underlying depreciation of property, plant and equipment	8	24.0	26.4
Underlying depreciation of right-of-use assets	9	28.0	28.1
Underlying amortisation of intangible assets		5.5	4.8
Share based payments	14	2.4	1.4
Rent concessions		-	(0.5)
Profit on disposal of property, plant and equipment		-	(0.4)
Decrease in inventories		0.2	(0.6)
Increase in trade and other receivables		(2.2)	(3.1)
Increase in trade and other payables		7.6	3.2
Decrease in provisions		(0.6)	-
Cash generated from operations		**80.5**	**69.9**
Tax received		-	0.8
Net cash inflow from operating activities before non-underlying items		**80.5**	**70.7**
Non-underlying items		(1.0)	(5.3)
Net cash inflow from operating activities	12	**79.5**	**65.4**
Cash flows from investing activities			
Purchase of property, plant and equipment		(19.2)	(36.5)
Purchase of intangible assets		(4.5)	(7.2)
Bank interest received		0.3	-
Proceeds from disposal of property, plant & equipment		-	0.4
Business combinations		-	(5.4)
Net cash outflow used in investing activities		**(23.4)**	**(48.7)**
Cash flows from financing activities			
Repayment of lease liability principal		(28.0)	(27.4)
Lease interest paid		(15.5)	(13.3)
Bank interest paid		(4.5)	(2.3)
Payment of financing fees		(1.0)	(0.7)
Drawdown of bank loans		2.0	30.5
Repayment of bank loans		(13.0)	(5.5)
Proceeds of issue of Ordinary shares		-	0.1
Net cash outflow from financing activities		**(60.0)**	**(18.6)**
Net decrease in cash and cash equivalents		**(3.9)**	**(1.9)**
Cash and cash equivalents at the start of the year		5.4	7.3
Cash and cash equivalents at the end of the year		**1.5**	**5.4**

Notes to the Consolidated Financial Information

1. General information

The Gym Group plc ('the Company') and its subsidiaries ('the Group') operate low cost, high quality, 24/7, no contract gyms. The Company is a public limited company whose shares are publicly traded on the London Stock Exchange and is incorporated and domiciled in the United Kingdom. The registered address of the Company is 5th Floor, OneCroydon, 12-16 Addiscombe Road, Croydon, CR0 0XT, United Kingdom.

The financial information set out in this report does not constitute statutory accounts for the years ended 31 December 2023 or 2022 within the meaning of sections 435(1) and (2) of the Companies Act 2006 nor does it contain sufficient information to comply with the disclosure requirements of International Financial Reporting Standards.

An unqualified report on the consolidated financial statements for each of the years ended 31 December 2023 and 2022 has been given by the Group's auditor, Ernst & Young LLP. Each year's report did not include a modified opinion and did not contain any statement under section 498(2) or (3) of the Companies Act 2006.

The consolidated financial statements for the year ended 31 December 2022 have been filed with the Registrar of Companies, and those for 2023 will be delivered in due course subject to their approval by the Company's shareholders at the Company's Annual General Meeting on 9 May 2024.

2. Basis of preparation

The financial statements have been prepared in accordance with the Listing Rules and the Disclosure Guidance and Transparency Rules of the United Kingdom Financial Conduct Authority (where applicable) and United Kingdom adopted international accounting standards. The accounting policies applied are consistent with those described in the Annual Report and Accounts of the Group for the year ended 31 December 2022. The functional currency of each entity in the Group is pound sterling. The consolidated financial statements are presented in pound sterling and all values are rounded to the nearest one hundred thousand pounds, except where otherwise indicated.

The consolidated financial statements have been prepared on a going concern basis under the historical cost convention as modified by the recognition of derivative financial instruments, financial assets and other financial liabilities at fair value through the profit and loss and the recognition of financial assets at fair value through other comprehensive income.

The consolidated financial statements provide comparative information in respect of the previous period.

Going concern
In assessing the going concern position of the Group for the year ended 31 December 2023, the Directors have considered the following:

- the Group's trading performance in 2023 and throughout the traditional January and February 2024 peak period;
- future expected trading performance to June 2025 (the going concern period), including membership levels and behaviours in light of the continued difficult macroeconomic environment; and
- the Group's financing arrangements and relationship with its lenders and shareholders.

2023 was a year of solid membership and revenue growth for The Gym Group, with membership at the end of December 2023 reaching 850,000, an increase of 4% from the end of December 2022. Average revenue per member per month ('ARPMM') for the year was £19.50, up 9% from £17.82 in the prior year. Ultimate, the premium price product, ended the year at 31.7% of total membership compared with 29.6% in December 2022.

As a result, revenue for the year at £204.0m was 18% up on the prior year. Group Adjusted EBITDA Less Normalised Rent at £38.5m was £0.5m better than in 2022, as the growth in revenue was largely offset by cost inflation, particularly in utilities and staff costs.

The Group also reported strong cash generation in the year, with free cash flow of £27.0m (see Note 12 to the Consolidated financial information for a reconciliation to Net cash inflow from operating activities) being generated and used to fund six new site openings and a number of major refurbishments, as well as significant investment in technology.

In September 2023, the Group agreed with its lenders certain changes to the Group's Revolving Credit Facility ('RCF'). As a result, the Group now has access to a combined £80m facility which matures in October 2025. The Group also currently has access to £12.4m of finance lease facilities (£15m permitted under the RCF).

The RCF is subject to quarterly financial covenant tests on Adjusted Leverage (Non-property Net Debt divided by Group Adjusted EBITDA Less Normalised Rent must not exceed 3.0 times) and Fixed Charge Cover (Adjusted EBITDAR to Net Finance Charges plus Normalised Rent must be greater than 1.50 times). The previously reported liquidity covenant was removed as part of the revised RCF agreement.

2. Basis of preparation (continued)

Going concern (continued)
As at 31 December 2023, the Group had Non-Property Net Debt (including non-property leases) of £66.4m, consisting of £59.0m drawn debt under the RCF, £8.9m of non-property leases and £1.5m of cash. Headroom under the RCF (drawn debt less cash) was £22.5m. Adjusted Leverage was 1.72 times and Fixed Charge Cover was 1.73 times.

Whilst the going concern assessment covers the period to the end of June 2025, the Directors have considered the fact that the Group's RCF facility is currently expected to expire in October 2025 and concluded that, based on regular discussions with participating banks and financial advisors, there is a realistic prospect that this will be extended or refinanced before that time.

Following the January and February 2024 peak trading period, closing membership at 29 February 2024 was 909,000 members, an increase of 7% on the position at 31 December 2023, demonstrating that consumers consider gym memberships to be a high priority purchase, despite the ongoing difficult economic environment; and that the low cost gym model remains resilient.

Despite the above, the Directors have continued to take a cautious approach to planning. The base case forecast for the period to 30 June 2025 anticipates continued growth in yields across the whole estate as a result of pricing optimisation actions that have already been taken and the impact of the new three-tier price product architecture rolled out in FY23. Modest increases in membership levels are driven largely by the sites opened in 2022 and 2023, and not by growth in the mature estate.

In addition, the Directors have continued to take a measured approach to new site openings throughout the plan period, with all new sites assumed to be self-financed. Under this scenario, the financial covenants are passed with headroom and the Group can operate comfortably within its financing facilities.

The Directors have also considered a severe downside scenario in which membership numbers in the mature estate decline by approximately 5% during 2024 and 3% thereafter. Yields continue to increase as a result of pricing optimisation actions already taken, but they do so at a lower level than under the base case. In addition, the number of new site openings is reduced to conserve cash and discretionary performance-related bonuses are removed. Under this scenario, the financial covenants continue to be passed and the Group continues to operate within its financing facilities.

The Directors have also considered a reverse stress test scenario to ascertain the extent of the downturn in trading that would be required to breach the Group's banking covenants or liquidity requirements. Mitigating actions assumed in this scenario include moving to a minimum level of maintenance and technology capital expenditure; reducing controllable operating costs and marketing expenditure; and pausing the new site opening programme in order to preserve cash. In this scenario, the closing membership would need to decline by 16% from February 2024 before the Fixed Charge Cover covenant would be breached in June 2025. The Group would, however, continue to operate within its current level of debt capacity and the Adjusted Leverage ratio would not be breached.

In the event of a reverse stress test scenario, the Directors would introduce additional measures to mitigate the impact on the Group's covenants and liquidity, including: (i) further reductions in controllable operating costs, marketing and capital expenditure; (ii) discussions with lenders to secure a covenant waiver; and (iii) deferral of, or reductions in, rent payments to landlords. The Directors consider the reverse stress test scenario to be highly unlikely.

Conclusion
The Board has reviewed the financial plan and downside scenarios of the Group and has a reasonable expectation that the Group has adequate resources to continue in operational existence for the period to 30 June 2025. As a result, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements. In making this assessment, consideration has been given to the current and future expected trading performance; the Group's current and forecast liquidity position and the support received to date from our lenders and shareholders; and the mitigating actions that can be deployed in the event of reasonable downside scenarios.

3. New and amended IFRS standards that are effective for the current year

There were no new standards or amendments to standards in the year that had a material impact on the Group's consolidated financial statements for the year ended 31 December 2023.

However, the amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements* provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. These amendments have resulted in some changes to the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's financial statements.

4. Revenue

The principal revenue streams for the Group are membership income, rental income from personal trainers and ancillary income. The majority of revenue is derived from contracts with members and all revenue arises in the United Kingdom.

Disaggregation of revenue
In the following table, revenue is disaggregated by major products and service lines and timing of revenue recognition.

	Year ended 31 December 2023	Year ended 31 December 2022
	£m	£m
Major products/service lines		
Membership income	193.1	162.5
Rental income from personal trainers	7.7	7.8
Ancillary income	3.2	2.6
	204.0	**172.9**
Timing of revenue recognition		
Products transferred at a point in time	3.5	3.1
Products and services transferred over time	200.5	169.8
	204.0	**172.9**

Contract liabilities at 31 December 2023 amounted to £14.4m (2022: £11.0m).

Contract liabilities relate to membership fees received at the start of a contract, where the Group has the obligation to provide a gym membership over a period of time and are included within trade and other payables. The contract liability balance increases as the Group's membership numbers increase. The Group does not receive any consideration greater than 12 months in advance from members. Hence the total contract liability as at 31 December 2022 of £11.0m has been recognised as revenue during the year ended 31 December 2023.

5. Non-underlying items

	Year ended 31 December 2023	Year ended 31 December 2022
	£m	£m
Affecting operating expenses (before depreciation, amortisation and impairment)		
Costs of major strategic projects and investments	**0.9**	**4.6**
Restructuring and reorganisation costs/(income) (including site closures)	**0.6**	**(0.2)**
Total affecting operating expenses (before depreciation, amortisation and impairment)	**1.5**	**4.4**
Affecting depreciation, amortisation and impairment		
Impairment of property, plant and equipment, right-of-use assets and intangible assets	**0.6**	**8.3**
Amortisation of business combination intangible assets	**0.2**	**0.2**
Total affecting depreciation, amortisation and impairment	**0.8**	**8.5**
Total affecting operating expenses	**2.3**	**12.9**
Affecting finance costs		
Remeasurement of borrowings	**0.1**	**0.9**
Refinancing costs	**0.4**	**0.1**
Total affecting finance costs	**0.5**	**1.0**
Total all non-underlying items before tax	**2.8**	**13.9**
Tax on non-underlying items	**(0.5)**	**(1.5)**
Total non-underlying charge in income statement	**2.3**	**12.4**

At 31 December 2023, there were £0.5m of accruals on the Group balance sheet relating to non-underlying items affecting operating expenses (before depreciation, amortisation and impairment). As a result, the cash outflow in the year was £1.0m. In the prior year, in addition to the £4.4m of non-underlying items affecting operating expenses (before depreciation, amortisation and impairment), there was £0.9m of cash outflow in relation to prior year creditors, bringing the total amount of cash flow on non-underlying operating items to £5.3m. Depreciation, amortisation and impairment and remeasurement of borrowings are non-cash items.

The costs of major strategic projects and investments of £0.9m (2022: £4.6m) include the costs incurred in relation to introducing the three-tier price product architecture, as well as consultancy and other costs incurred in shaping the Group's strategic plan.

Restructuring and reorganisation costs in the year of £0.6m (2022: credit of £0.2m) include the costs associated with the change of Group CEO and other Board and Executive Committee changes, as well as restructuring costs incurred in relation to the Central Support Office.

Non-underlying costs affecting depreciation, amortisation and impairment in the year amounted to £0.8m (2022: £8.5m), of which £0.6m (2022: £8.3m) relates to the impairment of two sites (2022: 13 sites). The majority of the charge in 2023 relates to one site which was impaired in 2022 but where the value-in-use estimate has fallen, partly driven by an increase in the discount rate. The remaining £0.2m (2022: £0.2m) of non-underlying costs affecting depreciation, amortisation and impairment relates to the amortisation of business combination intangibles acquired as part of the Lifestyle, easyGym and Fitness First acquisitions.

Non-underlying items affecting finance costs amounted to £0.5m (2022: £1.0m), of which £0.4m (2022: £0.1m) relates to costs incurred in relation to the amendments to the Group’s Revolving Credit Facility ('RCF') which were agreed with the banks in September; and £0.1m (2022: £0.9m) relates to the remeasurement of the RCF following those agreed changes.

Tax on non-underlying items represents the tax charge or credit arising on the Group’s non-underlying items calculated at the current tax rate.

6. Taxation

The tax (charge)/credit in the consolidated statement of comprehensive income is broken down as follows:

	Year ended 31 December 2023	Year ended 31 December 2022
	£m	£m
Current income tax		
Current tax on profits for the year	(0.1)	(0.1)
Adjustments in respect of prior years	-	-
Total current income tax	**(0.1)**	**(0.1)**
Deferred tax		
Origination and reversal of temporary differences	-	(0.3)
Change in tax rates	-	0.5
Total deferred tax	**-**	**0.2**
Tax (charge)/credit	**(0.1)**	**0.1**

The net deferred tax asset recognised at 31 December 2023 was £16.3m (2022: £16.3m). This comprised deferred tax assets in respect of tax losses and other temporary differences where the Directors believe it is probable that these will be recovered within a reasonable period. Short term timing differences are generally recognised ahead of losses on the basis that they are likely to reverse more quickly.

In assessing the probability of recovery, the Directors have reviewed the Group's three year plan that underpins the Going concern and Viability assessments, and the goodwill and property, plant and equipment impairment testing. The Directors believe this detailed plan, supplemented with conservative projections for the years immediately following, provides convincing evidence to recognise the amount of deferred tax assets noted above which is forecast to be recovered within four years. As disclosed in more detail in respect of Going concern in Note 2, the Group's three year plan anticipates continued growth in yields across the whole estate and additional members from new site openings. The Directors have also considered the impact of climate-related risks.

The trading losses incurred as a result of the Covid-19 pandemic and the subsequent cost-of-living crisis, together with the introduction in March 2021 of the temporary enhanced capital allowances regime ('super-deduction tax break'), have resulted in significant tax losses to carry forward. Losses for which no deferred tax asset is recognised equate to £23.0m (2022: £20.2m), resulting in an unrecognised deferred tax asset of £5.8m (2022: £5.1m) using a 25% tax rate. There is no time limit for utilising trade losses in the UK.

A deferred tax asset has arisen on accelerated capital allowances, whereby the tax written-down value is higher than the net book value. A deferred tax liability has arisen on intangible assets of £0.3m (2022: £0.4m). Other deferred tax assets include timing differences on the accounting for the various share schemes.

The Finance Act 2022 increased the corporation tax rate from 19% to 25% with effect from 1 April 2023. The deferred tax assets and liabilities have been measured using the rates expected to apply in the reporting periods when the timing differences reverse.

There are no material uncertain tax provisions at 31 December 2023 (2022: nil). However, judgement has necessarily been applied in estimating the impact and timing of utilisation of capital allowances and tax losses which could give rise to prior period adjustments in future years.

7. Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity shareholders by the weighted average number of Ordinary shares outstanding during the year, excluding unvested shares held pursuant to The Gym Group plc's share based long term incentive schemes.

Diluted loss per share is calculated by adjusting the weighted average number of Ordinary shares outstanding to assume conversion of all dilutive potential Ordinary shares. During the year ended 31 December 2023, the Group had potentially dilutive shares in the form of share options and unvested shares issued pursuant to The Gym Group plc's share based long term incentive schemes.

	Year ended 31 December 2023	Year ended 31 December 2022
Loss (£m)		
Loss for the year attributable to equity shareholders	**(8.4)**	**(19.3)**
Adjustment for non-underlying items	2.3	12.4
Adjusted loss for the year attributable to equity shareholders	**(6.1)**	**(6.9)**
Weighted average number of shares		
Basic and diluted weighted average number of shares	**178,512,563**	**177,251,348**
Loss per share (p)		
Basic and diluted loss per share	**(4.7)**	**(10.9)**
Adjusted basic and diluted loss per share	**(3.4)**	**(3.9)**

At 31 December 2023, 7,164,017 share awards (2022: 6,804,605) were excluded from the diluted weighted average number of Ordinary shares calculation because their effect would be anti-dilutive.

8. Property, plant and equipment

	Assets under construction	Leasehold improvements	Fixtures, fittings and equipment	Gym and other equipment	Computer equipment	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2022	2.1	208.7	11.5	86.6	4.3	313.2
Additions	2.0	31.9	0.5	7.4	1.3	43.1
Business combinations	-	1.1	-	0.1	-	1.2
Disposals	-	(2.6)	(0.4)	(4.2)	-	(7.2)
Transfers	(1.8)	1.7	-	0.1	-	-
At 31 December 2022	**2.3**	**240.8**	**11.6**	**90.0**	**5.6**	**350.3**
Additions	1.4	8.9	0.3	4.2	0.7	15.5
Disposals	(0.3)	-	-	-	-	(0.3)
Transfers	(1.6)	1.5	-	0.1	-	-
At 31 December 2023	**1.8**	**251.2**	**11.9**	**94.3**	**6.3**	**365.5**
Accumulated depreciation						
At 1 January 2022	-	(79.2)	(9.1)	(55.9)	(3.4)	(147.6)
Charge for the year	-	(16.4)	(0.9)	(8.5)	(0.6)	(26.4)
Impairment	-	(2.2)	-	(0.3)	-	(2.5)
Disposals	-	2.6	0.4	4.2	-	7.2
At 31 December 2022	**-**	**(95.2)**	**(9.6)**	**(60.5)**	**(4.0)**	**(169.3)**
Charge for the year	-	(15.8)	(0.5)	(6.9)	(0.8)	(24.0)
Impairment	-	(0.4)	-	(0.1)	-	(0.5)
At 31 December 2023	**-**	**(111.4)**	**(10.1)**	**(67.5)**	**(4.8)**	**(193.8)**
Net book value						
At 31 December 2022	2.3	145.6	2.0	29.5	1.6	181.0
At 31 December 2023	**1.8**	**139.8**	**1.8**	**26.8**	**1.5**	**171.7**

Included within additions for the year is £0.1m of capitalised interest (2022: £0.2m) and £4.2m of accrued capital expenditure (2022: £6.2m).

The Group had £3.6m of commitments that were contracted but not provided as at 31 December 2023 relating to contracts for the fit-out of new gyms where works have not yet commenced (2022: £0.8m).

9. Right-of-Use assets and Leases

Amounts recognised in the consolidated statement of financial position in respect of right-of-use assets are as follows:

	Property leases	Non-property leases	Total
	£m	£m	£m
Cost			
At 1 January 2022	388.2	7.2	395.4
Additions	33.5	8.1	41.6
Business combinations	3.3	-	3.3
Disposals	(4.5)	-	(4.5)
At 31 December 2022	**420.5**	**15.3**	**435.8**
Additions	13.8	3.0	16.8
At 31 December 2023	**434.3**	**18.3**	**452.6**
Accumulated depreciation			
At 1 January 2022	(114.0)	(0.2)	(114.2)
Charge for the year	(26.5)	(1.6)	(28.1)
Impairment	(5.7)	-	(5.7)
Disposals	1.8	-	1.8
Transfer from intangible assets	(0.2)	-	(0.2)
At 31 December 2022	**(144.6)**	**(1.8)**	**(146.4)**
Charge for the year	(25.7)	(2.3)	(28.0)
Impairment	(0.1)	-	(0.1)
At 31 December 2023	**(170.4)**	**(4.1)**	**(174.5)**
Net book value			
At 31 December 2022	275.9	13.5	289.4
At 31 December 2023	**263.9**	**14.2**	**278.1**

The split of lease liabilities between current and non-current is as follows:

	31 December 2023	31 December 2022
	£m	£m
Current	28.6	25.3
Non-current	310.6	325.1
Total Lease liabilities	**339.2**	**350.4**

At 31 December 2023, the Group had in place total facilities of £12.4m in respect of non-property lease arrangements (2022: £12.5m) which it utilises to finance the fit-out of new gyms. As at 31 December 2023, the amount outstanding on these facilities was £8.9m (2022: £11.4m).

10. Borrowings and Non-Property Net Debt

The carrying value of the Group's bank borrowings at 31 December 2023 was £58.9m (2022: £70.0m).

The Group has in place a combined £80m Revolving Credit Facility ('RCF') (2022: £80m) which is syndicated to a three-lender panel of NatWest, HSBC and Barclays. Until September 2023, the syndicate included Banco de Sabadell, which was then replaced by Barclays. The facility was due to mature in October 2024, but as part of the changes agreed with the banks in September 2023, the facility was extended to October 2025.

The funds borrowed under the RCF bear interest at a minimum annual rate of 2.85% (2022: 2.85%) above the Sterling Overnight Index Average ('SONIA'). The average interest rate paid in the year on drawn funds was 8.2% (2022: 4.46%). Undrawn funds bear interest at a minimum annual rate of 1.14% (2022: 1.14%).

The Group's borrowings are held at amortised cost using the effective interest method. Each reporting period, the Group reviews its cash flow forecasts and if these have changed since the previous reporting period (other than as a result of changes in floating interest rates), the borrowings are remeasured using the original effective interest rate. Any remeasurement of borrowings is treated as non-underlying and excluded from Adjusted earnings.

The RCF is subject to quarterly financial covenant tests on Adjusted Leverage and Fixed Charge Cover (both terms defined on page 14). Adjusted Leverage must not exceed 3.0 times and the Fixed Charge Cover must be greater than 1.5 times.

At 31 December 2023, the Group had drawn down £59.0m under the RCF (2022: £70.0m), leaving £21.0m (2022: £10.0m) undrawn and available. The £59.0m is repayable in October 2025. Adjusted Leverage was 1.72 times (2022: 2.0 times) and Fixed Charge Cover was 1.73 times (2022: 1.94 times).

Non-Property Net Debt at the year end was made up as follows:

	31 December 2023	31 December 2022
	£m	£m
Bank borrowings	59.0	70.0
Less: Cash and cash equivalents	(1.5)	(5.4)
Non-Property Net Debt excluding non-property leases	57.5	64.6
Non-property leases (Note 11)	8.9	11.4
Non-Property Net Debt	**66.4**	**76.0**

11. Financial liabilities

The table below sets out the changes in liabilities arising from financing activities.

	Borrowings	Non-property lease liabilities	Property lease liabilities	Total lease liabilities
	£m	£m	£m	£m
At 1 January 2022	44.3	6.4	329.9	336.3
Repayments of interest and principal	(7.8)	(3.6)	(37.1)	(40.7)
Interest expense	2.3	0.5	12.8	13.3
Drawdowns	30.5	-	-	-
Business combinations	-	-	3.3	3.3
New leases and modifications	-	8.1	33.5	41.6
Lease disposals	-	-	(4.5)	(4.5)
Other	0.7	-	1.1	1.1
At 31 December 2022	**70.0**	**11.4**	**339.0**	**350.4**
Repayments of interest and principal	(17.5)	(6.5)	(37.0)	(43.5)
Interest expense	5.7	1.0	14.5	15.5
Drawdowns	2.0	-	-	-
New leases and modifications	-	3.0	13.8	16.8
Other	(1.3)	-	-	-
At 31 December 2023	**58.9**	**8.9**	**330.3**	**339.2**

Included in 'Other' is the effect of changes to amortised cost on borrowings using the effective interest rate method, accrued but unpaid interest, and rent concessions in 2022.

Reconciliation of property lease payments to Normalised Rent

	31 December 2023	31 December 2022
	£m	£m
Property lease payments	37.0	37.1
Lease payments made in advance	(0.2)	(0.7)
Leases terminated	-	(1.0)
Accrued rent not yet paid	0.3	-
Unwind of deferred rent	(0.1)	(2.1)
Normalised Rent	**37.0**	**33.3**

12. Net cash inflow from operating activities

The Directors believe that Free cash flow is the measure that best reflects the amount of cash available to the Group for investing in new sites and technology, and for enhancing existing sites. As such, Free cash flow is included within the Key performance indicators section of the Annual Report and Accounts 2023 and referenced in both the Financial Review and Going concern note. A reconciliation of Net cash inflow from operating activities to Free cash flow is included below.

Reconciliation of Net cash inflow from operating activities to Free cash flow

	31 December 2023	31 December 2022
	£m	£m
Net cash inflow from operating activities	79.5	65.4
Less: Property lease payments made (Note 11)	(37.0)	(37.1)
Less: Maintenance capital expenditure (including funded by lease)	(10.3)	(8.8)
Less: Bank and non-property lease interest paid	(5.5)	(2.8)
Add: Bank interest received	0.3	-
Free cash flow	**27.0**	**16.7**

13. Issued capital

The total number of shares in issue as at 31 December 2023 was 178,135,710 (2022: 178,039,002).

14. Share based payments

The Group operates share based compensation arrangements under The Gym Group plc Share Incentive Plan (‘SIP’), The Gym Group plc Performance Share Plan (‘PSP’), The Gym Group plc Restricted Stock Plan (‘RSP’), The Gym Group plc Long Service Award Plan and The Gym Group plc Save as You Earn Plan (‘SAYE’).

During the year, a total of 5,177,710 (2022: 3,453,795) shares were granted under the PSP, the RSP, the SIP and the SAYE. These grants and their vesting criteria are similar in nature to those awarded during 2022, except in the case of the deferred shares granted as part of the Deferred Share Bonus Plan for Executive Directors (details of which were set out on page 93 of the Annual Report and Accounts 2022), and an equivalent grant for other members of the senior management team, which are subject to continued employment over a two year or 18-month period respectively and have no other performance conditions. In addition, shares were granted under the RSP to Will Orr on joining the Group which are subject to continued employment over a one or two year period.

For the year ended 31 December 2023, the Group recognised a total charge of £2.4m (2022: £1.4m) in respect of the Group’s share based payment arrangements and related employer’s national insurance.