

# building strength

The Gym Group plc

## CAPITAL MARKETS DAY

JUNE 2017



# Forward-Looking Statement Disclaimer

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# Agenda

## Introduction

John Treharne, CEO

## Market Opportunity

John Treharne, CEO

## Technology

Jasper McIntosh, IT and Digital Director

## Commercial and Marketing

Barney Harrison, Commercial and Marketing Director

## Rollout

David Melhuish, Head of Property Development

## Financial Model

Richard Darwin, CFO

## Trading update and Q&A

Richard Darwin, CFO

## Depart for Lewisham gym





# Lewisham Site Visit



Opened  
**OCT  
2016**

Square footage  
**16,600**

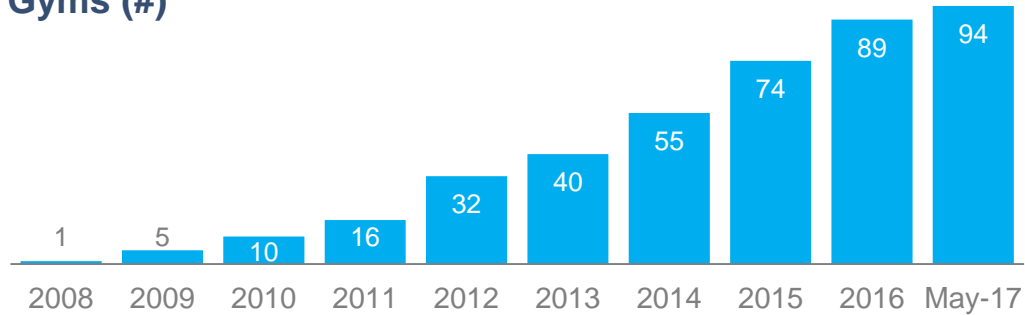
P&L rent psf  
**<£12**

Current  
membership  
**£17.99**

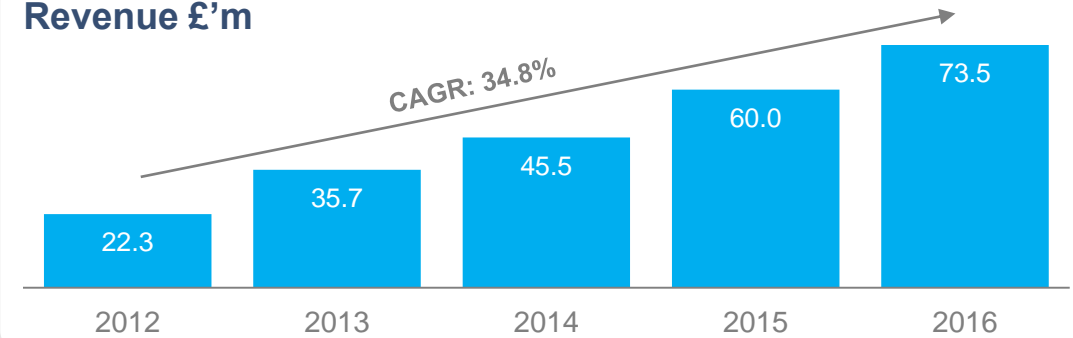
- New build mixed use development
- Close to railway station, DLR and bus station

# Our Journey So Far

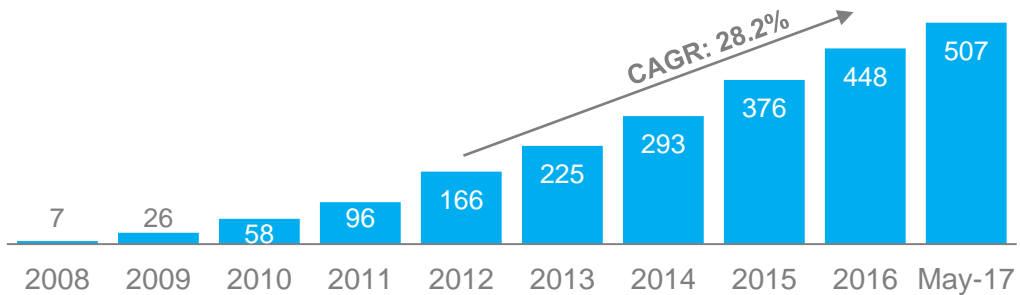
Gyms (#)



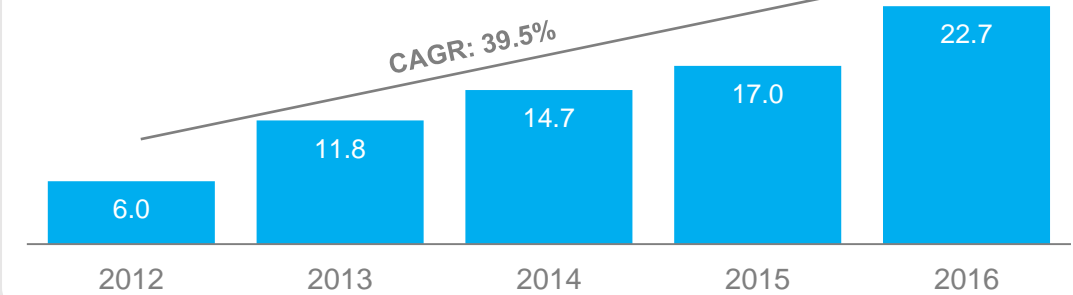
Revenue £'m



Members ('000)








Group Adjusted EBITDA £'m



**2016 Average Mature Gym Site ROCE 32%**

# Investment Proposition

	 <p><b>Market opportunity</b></p>	 <p><b>Technology-led business model</b></p>	 <p><b>Compelling customer proposition</b></p>	 <p><b>High quality gym estate</b></p>	 <p><b>Attractive financial model</b></p>
<b>Investment rationale</b>	Low cost segment leading the growth of the UK health and fitness market	Investment in technology has created a low operating cost, high margin business	Attractive low cost product drives high levels of member acquisition	Disciplined site selection process assisted by attractive covenant for landlords	High returns on capital, maintained as the market develops
<b>Further developments</b>	<ul style="list-style-type: none"> <li>• Opportunities arising from local authorities and the mid market</li> <li>• The Gym Group: low cost leader within London</li> <li>• The Gym Group creates strength through clusters of sites</li> </ul>	<ul style="list-style-type: none"> <li>• New Member Management system</li> <li>• Enhancing use of data to aid commercial decision making</li> </ul>	<ul style="list-style-type: none"> <li>• Developments to our marketing and CRM strategies</li> <li>• Focusing on customer satisfaction through NPS</li> <li>• Developing the product and proposition</li> </ul>	<ul style="list-style-type: none"> <li>• Flexible approach to space</li> <li>• Opportunities from excess retail space</li> <li>• Adapting the model for smaller catchments</li> <li>• Opportunity for high quality site expansion continues</li> </ul>	<ul style="list-style-type: none"> <li>• Reductions in capital cost in all areas</li> <li>• Strong balance sheet enables high quality site maintenance programme and drives competitive advantage</li> </ul>

# The Right Team for Growth

## BOARD

**John Treharne**  
Chief Executive

**Nick Henwood**  
Operations

- Operational review and control
- Operating performance
- Net Promoter Score
- People development

**Barney Harrison**  
Commercial & Marketing

- Member acquisition
- Customer relationship management
- Product and proposition
- Data and insight

**Jasper McIntosh**  
Technology

- IT infrastructure
- Member Management system
- Website

**Jonathan Spaven**  
Property

- Property development
- Acquisitions
- Estates management
- Facilities management

**Richard Darwin**  
Finance

- Reporting
- Planning and analysis
- Financial control
- M&A
- Investor relations
- Company secretarial

## Other people here today

**David Melhuish**  
Head of Property Development

**Becky Tummey**  
Group Financial Controller

**Emma Castledine**  
Group Reporting Manager

**Cornelia Woschek**  
Head of Special Projects



# MARKET OPPORTUNITY





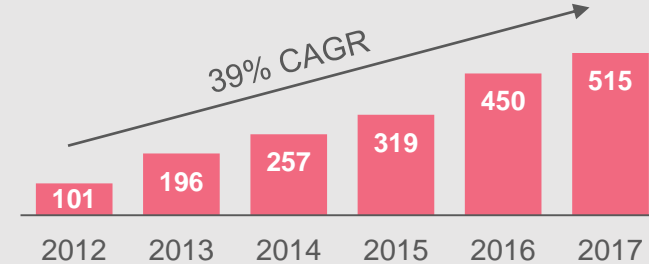
# Market Opportunity

## Investment rationale

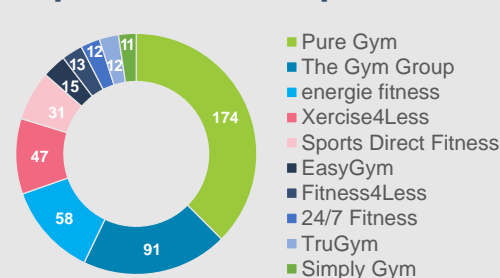
A rapidly growing market,  
driven by the low cost segment  
Scope for the market to double  
over the coming years<sup>1</sup>

## Results to date

Number of low cost gyms<sup>1</sup>



Top 10 low cost operators<sup>1</sup>



The Gym Group:

2nd largest operator

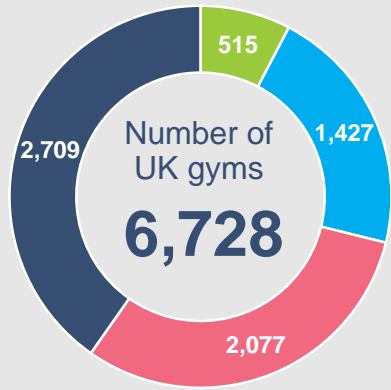
18% market share

## Developments and insights

- Local authority segment experiencing decrease in spending
  - Consolidation of the mid market
- Continuing opportunity in London. The Gym Group is the leading low cost operator in London
- 3 main operators pulling away
  - The Gym Group creates strength through clusters of sites

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

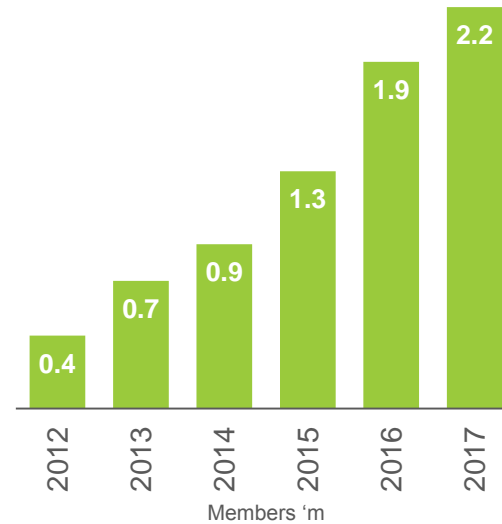
# The Current Market



- Low cost
- Traditional private multi-club
- Traditional private independent
- Public

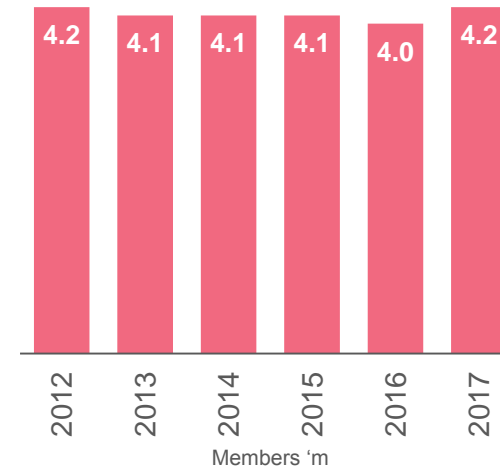
## Market growth driven by low cost

5 year CAGR **44%**



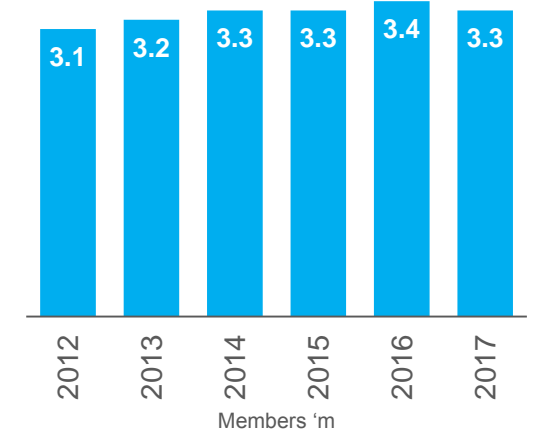
## Limited growth from traditional providers

5 year CAGR **0%**



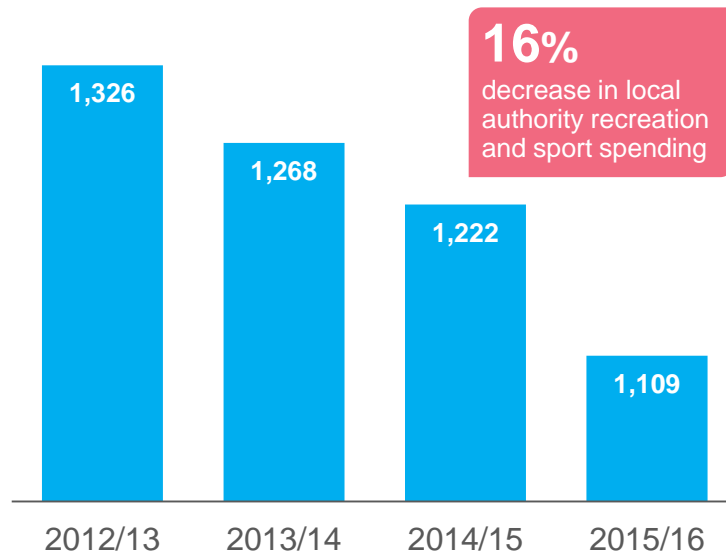
## Public membership stagnant

5 year CAGR **1%**

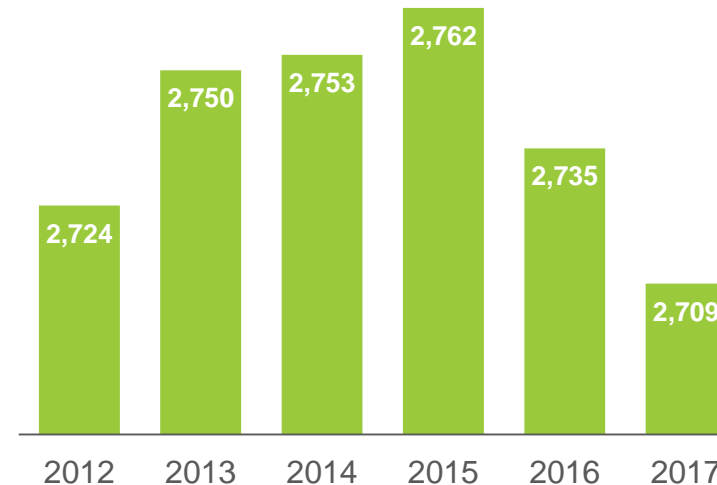


# Low Cost - an Alternative to Local Authority Provision

England local authority recreation and sport spending<sup>1</sup> £'m



Number of public gyms<sup>2</sup>



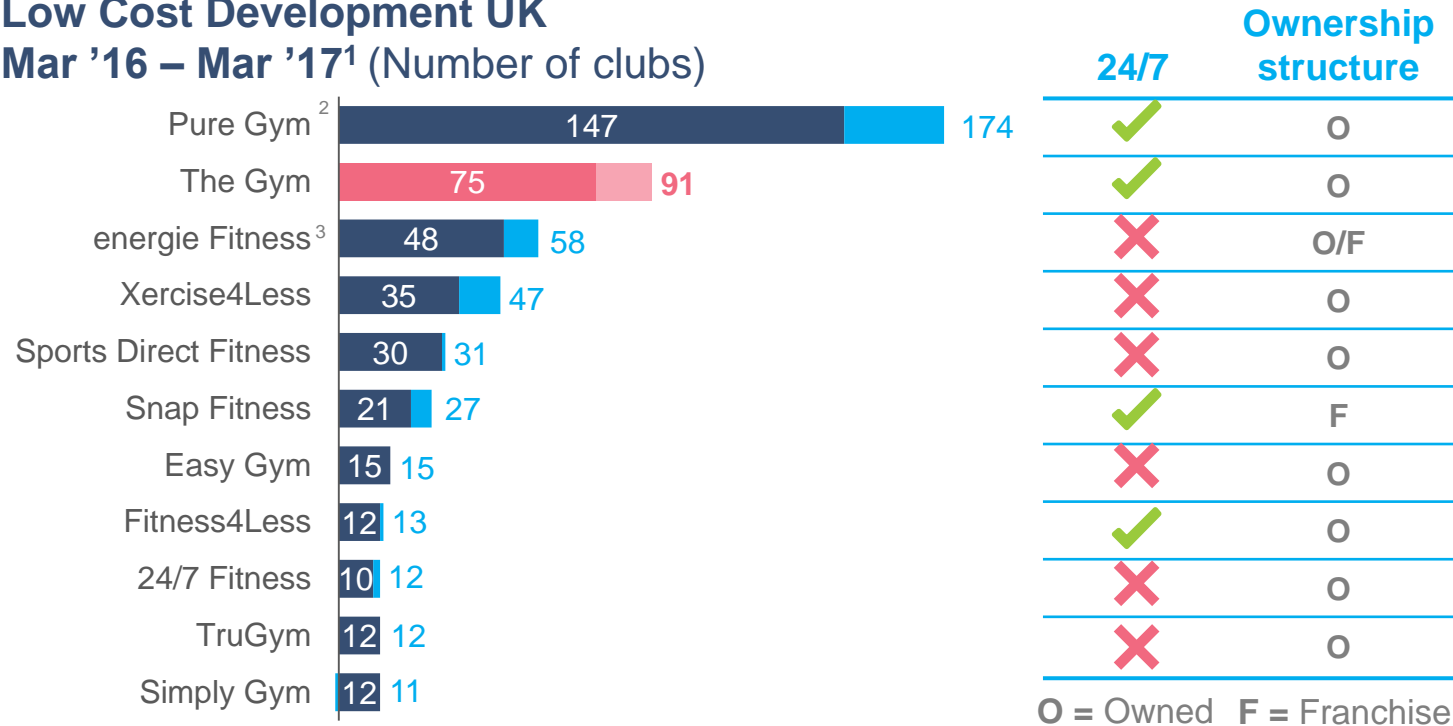
Public gyms <sup>2</sup>	The Gym Group
AVERAGE MEMBERSHIP FEE	
£30	£17
AVERAGE NUMBER OF EQUIPMENT STATIONS	
47	170
AVERAGE MEMBERSHIP PER GYM	
1,234	5,644

**An alternative model provided by The Gym Group**

1. Department for Communities and Local Government Revenue Account Budgets for England  
2. Leisure Database Company 2017 State of the UK Fitness Industry Report. As at 31 March 2017.

# Growth of the Top Low Cost Operators

## Low Cost Development UK Mar '16 – Mar '17<sup>1</sup> (Number of clubs)



## Consolidation of the mid market

- LA Fitness brand acquired by Pure Gym in 2015
- Fitness First sold in 2016. Purchases made by The Gym Group, DW Fitness and GLL
- 35 Virgin Active clubs purchased by Nuffield Health in 2016
- Virgin Active in the process of selling 16 clubs to David Lloyd

**The top 3 operators are pulling away from the competition**

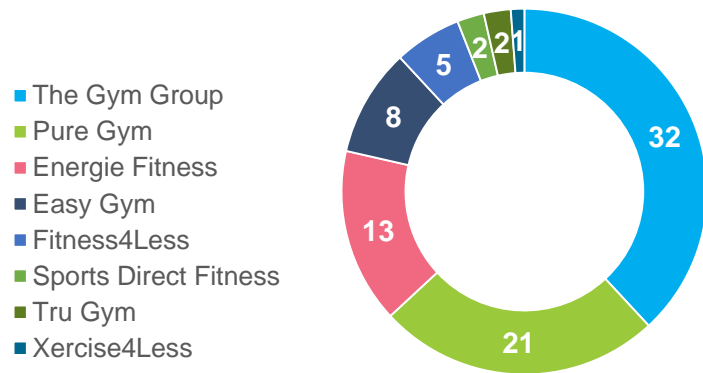
1. Leisure Database Company 2017 State of the UK Fitness Industry Report. Low cost defined as majority of membership options <£20 per month. Note: Snap Fitness and DW Fitness not defined as low cost by Leisure Database Company  
 2. Pure Gym excludes 2 premium sites purchased from LA Fitness  
 3. energie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



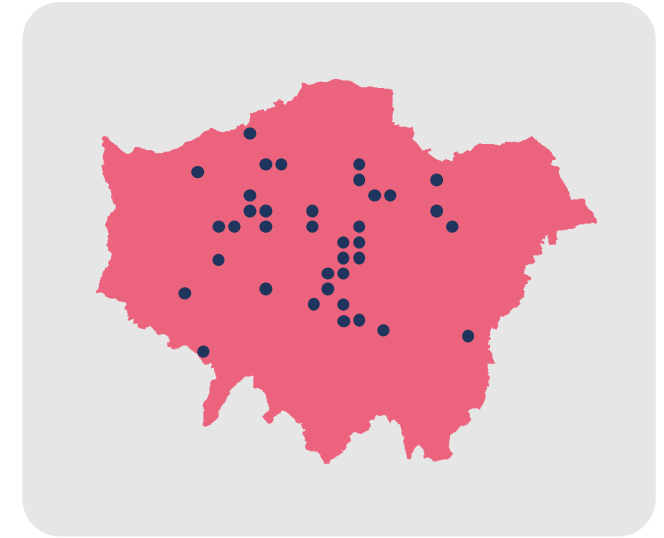
# London Low Cost Leader

## London Low Cost Market Share <sup>1</sup>

Number of sites charging <£25



## Average Headline Price<sup>2</sup>

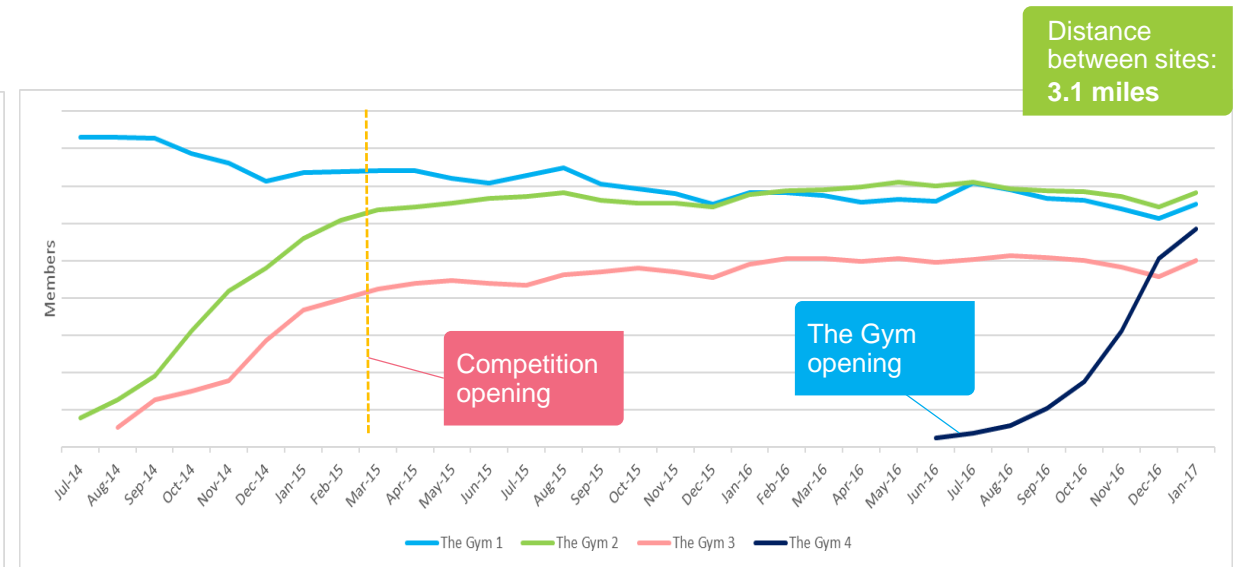
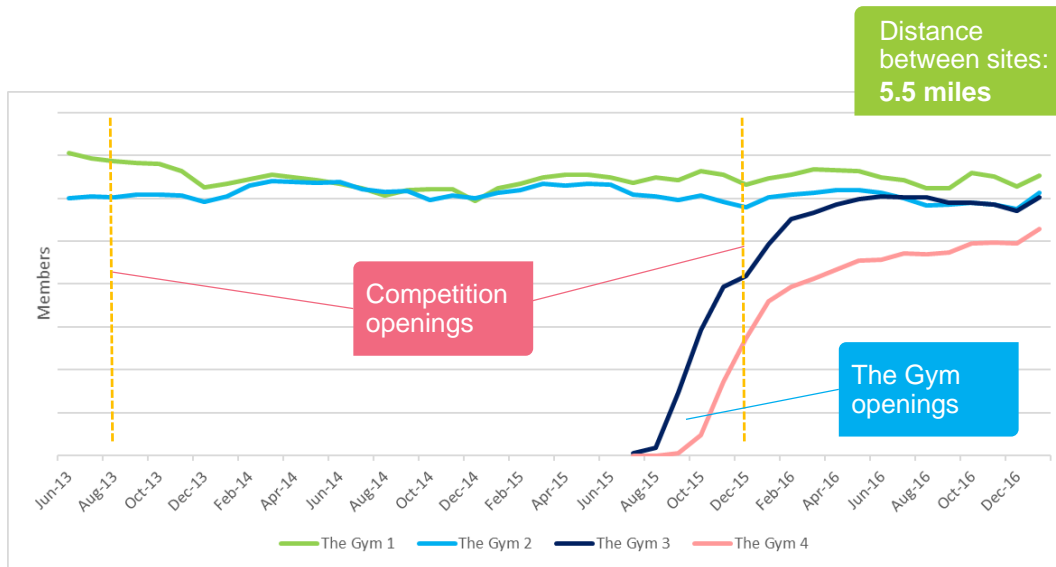


	Number of sites within the M25	Sites charging <£25
<b>The Gym Group</b>	<b>34</b>	<b>32</b>
Pure Gym	41	21
Energie Fitness	20	13

- A further 6 sites exchanged inside the M25 for the rest of 2017, including Bloomsbury, Streatham and Walthamstow
- Inner London sites require a cost effective rent deal
- Clusters of London sites helps build brand loyalty

1. Low cost defined as headline rate <£25.00  
2. Average headline rate for sites inside the M25 as at 30 April 2017

# Clusters of Sites



**Forming local clusters of sites helps to cement position in local market**  
**Opening of additional gyms in close proximity to mature gyms results in an overall increase in size of market and market share**

# TECHNOLOGY



## Investment rationale

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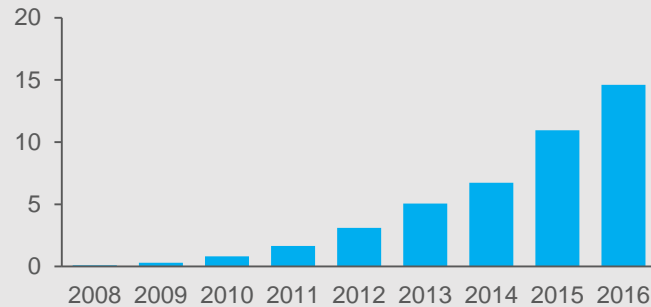
**Technology is central to the business model and facilitates our low cost, high margin operation.**

**Expertise gathered over ten years is difficult for other low cost operators to replicate.**

## Results to date

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**Website sessions (millions)**



Serving all areas of the business:

- Operations
- Rollout
- Marketing
- Member services

## Developments and insights

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- 1** • A new scalable member management system and digital platform due to launch this year in readiness for the next 100 sites
- 2** • Our systems provide comprehensive data to aid commercial decision making: we are enhancing this capability through a new Business Intelligence platform



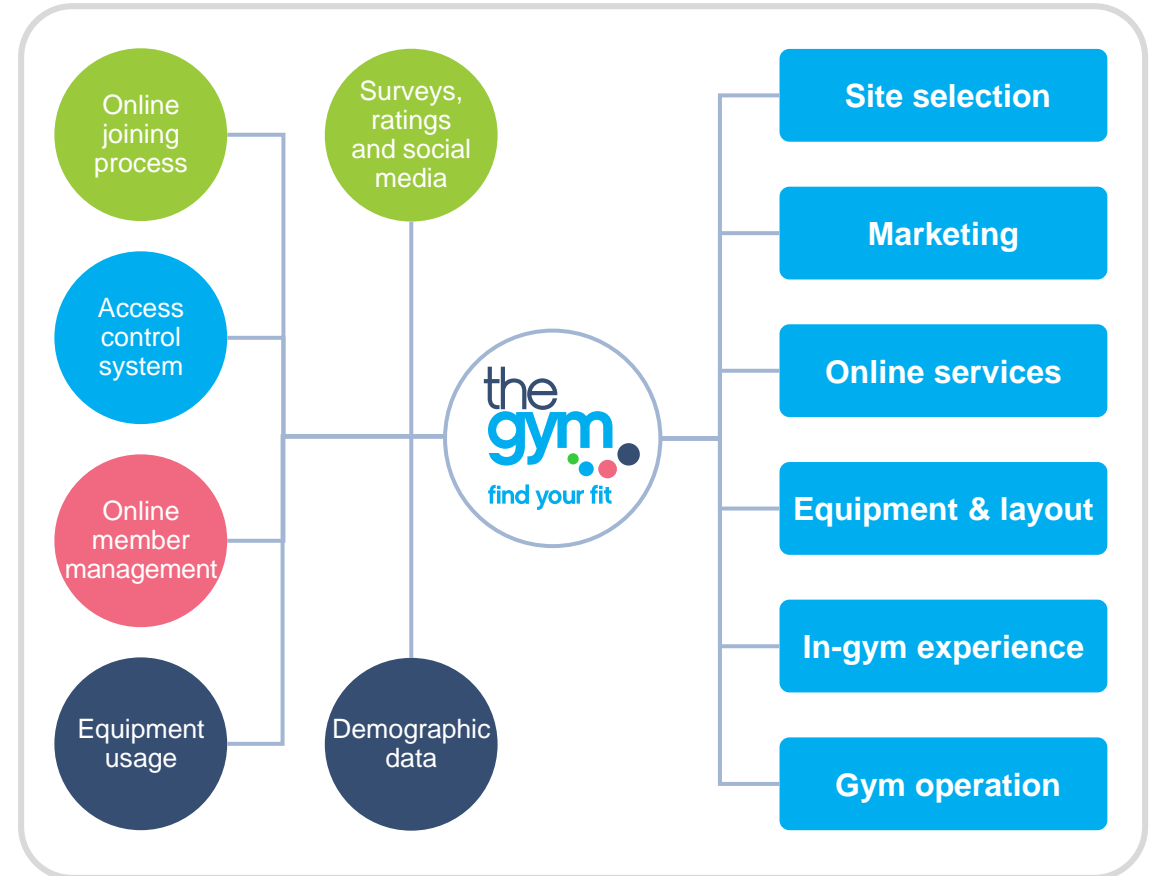
# Technology is Central to our Business Model

- Technology is a key enabler of The Gym Group's low cost, 24/7, online model
- Data is a unique asset; high quality, comprehensive and owned by The Gym Group
- Key focus on security of data, cyber environment and members

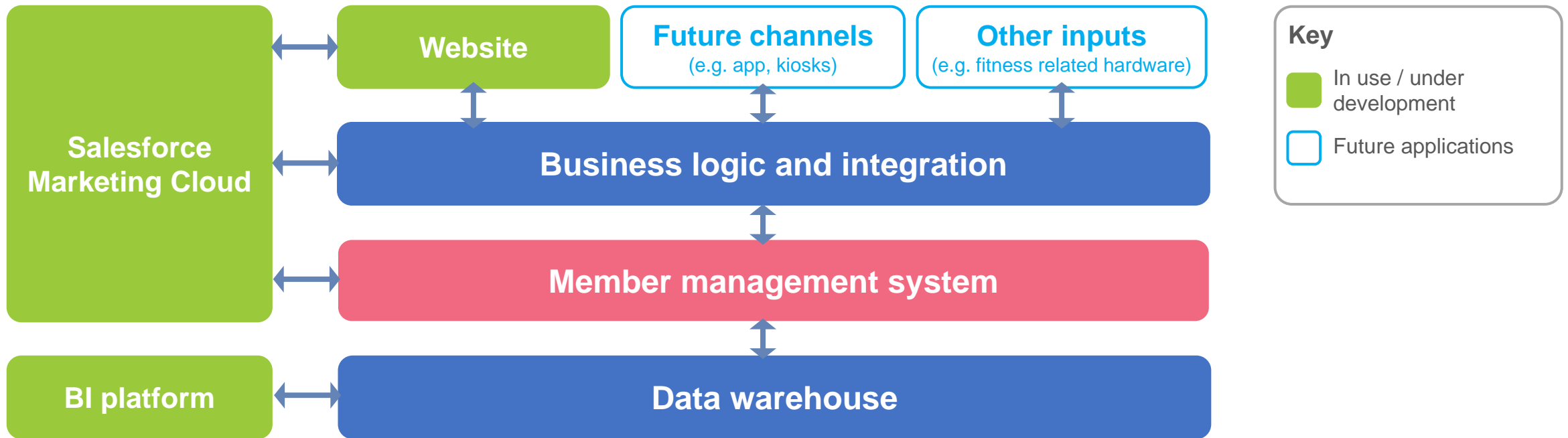


**795,000**  
website visitors  
in May 17

**82TB**  
member wifi data  
downloaded in May 17



# New Member Management System and Digital Enablement Platform



# Programme benefits

- Increased supplier capacity
- Upskilling across design and development
- Test and learn optimisation
- Personalisation capability
- Product and promotion launch speed
- Supports diversification of product
- Better insight through data
- Improved security
- Wider support coverage
- Enterprise scale and stability
- Best of class technology stack





# COMMERCIAL AND MARKETING





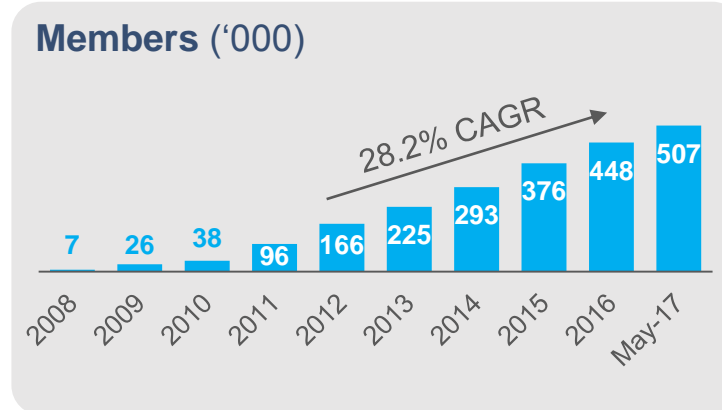
# Commercial and Marketing

## Investment rationale

**Until now:** A compelling low cost product and a proven method of member acquisition successfully filling sites.

**The future:** Developing capability across existing customer marketing, product & proposition development and pricing strategy. All aiming to improve member satisfaction (with NPS key)

## Results to date



### Marketing costs:

**3.5%**  
revenue for Mature sites

**£50k**  
launch marketing per site

## Developments and insights

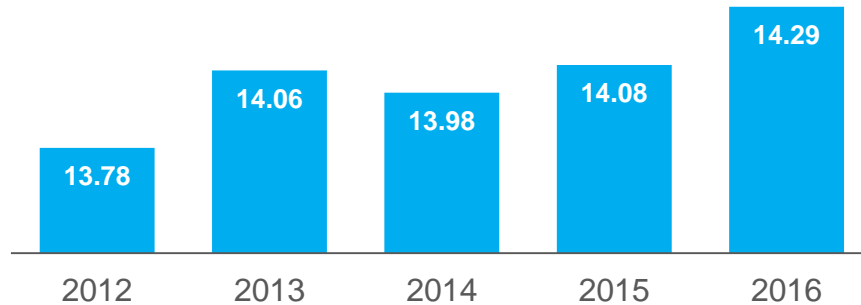
- 1**
  - Improved yield management through pricing
  - Enhancements to pre-opening marketing
- 2**
  - Enhancing CRM using technology
  - Developing the member journey
- 3**
  - Attrition is naturally high in a no contract, subscription model
  - Member satisfaction (NPS) is important to rejoin
- 4**
  - Developments to product and proposition
  - Learning from international peers on premium pricing

# Improved Yield Management through Pricing

- Retain the principle that the longest serving members get the best price
- Central review of repricing opportunities by the data and insight team
- 65 price increases in 2016

**Average revenue per member  
per month £**

**1.5%**  
Increase in 2016



## Proven Method of Member Acquisition

- Highly localised
- Drives visits to the gym to view, or to the website to purchase
- Marketing includes:
  - Leaflets
  - Mail shots
  - Print, billboard, transport
  - Banners and posters
- Word of mouth



# Enhancing Launch Marketing

## Flexibility

- Experience shows reaction to pre-open marketing differs depending on customer familiarity with the low cost proposition
- Increased flexibility in timing and type of marketing

## Messaging

- Updated messaging to drive action and sense of urgency
- Traditional and new locally targeted channels
- Improved social media messaging

## Outreach

- Sales office to give base of operations
- Sales presenter for ipad and print
- Disruptive leaflet formats

## Pricing

- Stepped pricing throughout pre-opening period
- Timings to drive urgency and yield
- Differential time for pre-opening offers



# Enhancing CRM using Technology

## Join

### Grow prospect conversion

- Opportunities presented by new website:
  - Conversation rate optimisation
  - Personalised web journeys
- Look-a-like targeting of high value membership groups
- Improved CRM journeys to drive lead conversion

## Early Life

### Increase visits during early life to reduce risk of cancellation

- Use joining survey to feed segmentation model, enabling bespoke communications:
  - Previous exercise experience
  - Motivation to join The Gym
- Communications triggered by usage frequency, to support habit formation

## In Life

### Enforce habits to drive ongoing engagement and tenure

- Segmentation model drives member engagement
- Churn identification; changes in habit triggers email and SMS

Member management  
system



Salesforce



Member segmentation



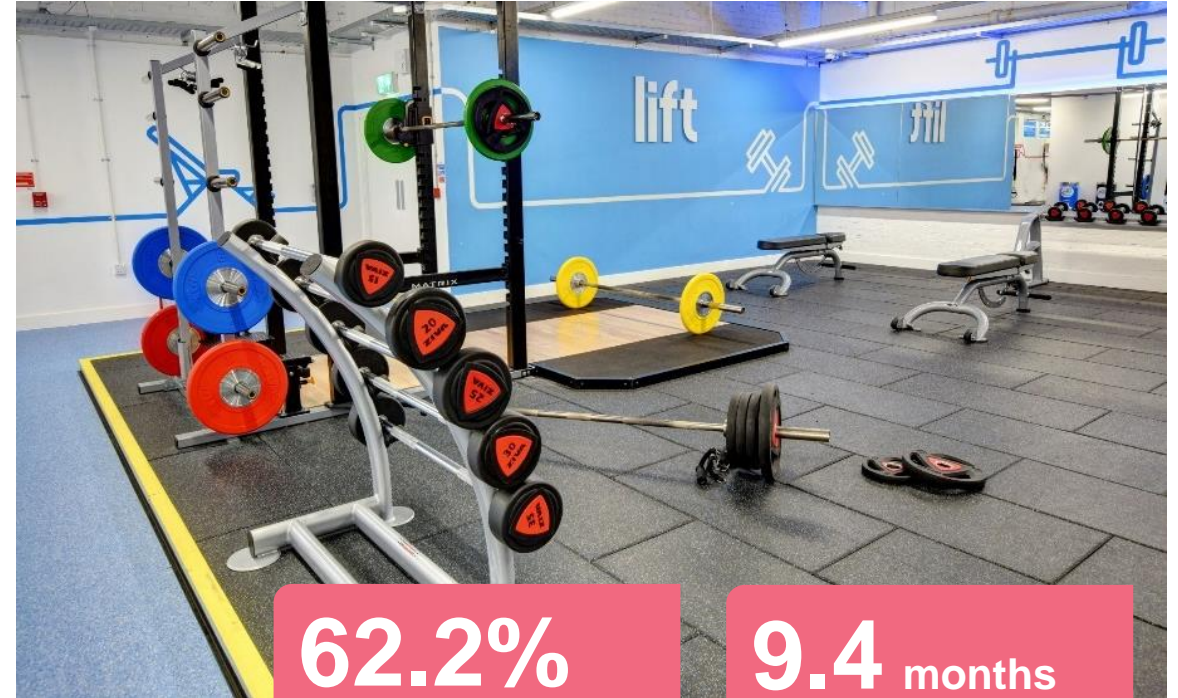
# Rejoiners and Customer Satisfaction

## Attrition

- Flexible membership model: leaving as easy as joining
- Key consideration for students and first-timers
- Members have multiple join/cancel/rejoin cycles over a number of years
- Member satisfaction, monitored through Net Promoter Score, is key to encourage rejoining

## Taking NPS to the next level

- Correlation between NPS and site performance
- Using BI tool to enable daily monitoring
- Understanding member journeys and gym usage
- NPS performance linked to site targets



**62.2%**

2016 NPS score  
(2015: 60.2%)

**9.4 months**

Average tenure  
(2015: 8.9 months)

# Improving the Look and Feel

Clean, uncomplicated branding to reinforce the no-frills concept



Original branding

**35**  
SITES

Bringing more life to the brand



Second generation branding

**34**  
SITES

Adding excitement whilst helping members navigate the gym



'Zoned' branding

**24**  
SITES

All sites brought up to most recent branding during refurbishment. Some other selective rebranding.

# Developing the Proposition

## Role of the product and proposition team

Using our 9 years of expertise to deliver new and innovative products:



## Site product developments

- Online class booking
- Extensions to free weights areas
- Member zones and refurbishments

## Research and trials taking place and to come

- Individual fitness plans (My Fit)
  - To support 'Early Life' stage member interaction
- Group exercise
- Mobile apps
- Ancillary revenue generation
- Premium pricing

# Premium Pricing

- Lessons learned from review of international peers
- The Gym Group will develop our own premium pricing product with market leading content

**Premium pricing to be trialled by  
The Gym Group following  
implementation of member  
management system**

## Planet Fitness Black Card

- \$19.99 per month
- Access to all franchise locations
- Unlimited guest access to any location
- Unlimited use of massage chairs
- Half price drinks
- Money off with partnership retailers

## Basic Fit extras

- Induction session with a personal trainer (€14.99)
- Unlimited access to all group exercise classes (€7.99 per month)
- Pro App: additional exercises, create training and nutrition programmes (€3.99 per month)
- Unlimited fill ups of sports drink (€3.99 per month)



# ROLLOUT



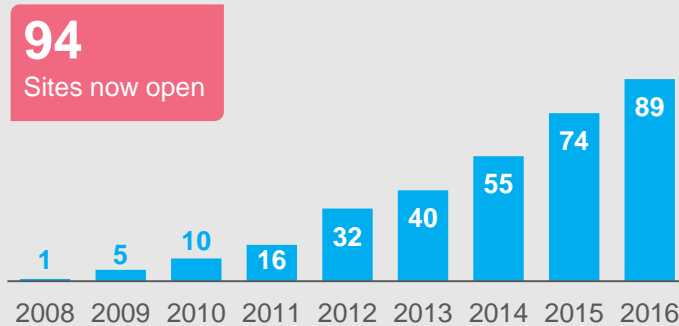
## Investment rationale

**An adaptable concept and a disciplined approach to site selection that achieves high returns.**

**Our strength of covenant means we receive attractive site opportunities to achieve our target of 15-20 openings p.a.**

## Results to date

### Number of sites



- Average 17 sites p.a. opened in the past two years
- Strong pipeline for 2017/18: 20 sites exchanged
- Expect to open 15-20 sites p.a. in the medium term

## Developments and insights

- 1 • Flexible approach to space means that the range of types of space we convert continues to expand
- 2 • Opportunities arising from excess retail space
- 3 • Our model works in smaller catchments. Anticipate more of these sites in future years

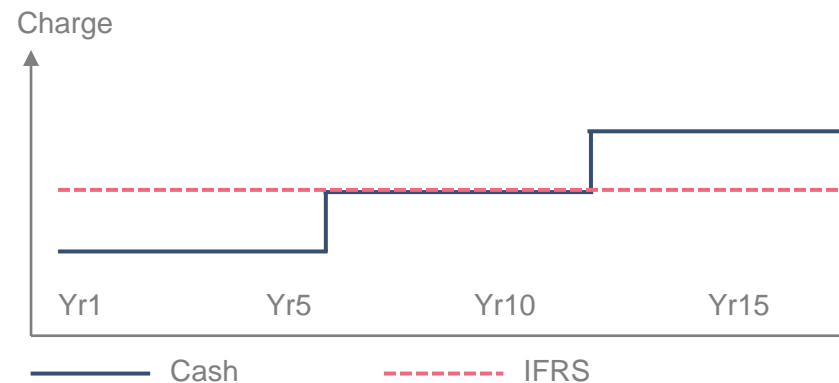


# Flexible and Disciplined Approach

## Selective acquisition criteria to deliver strong returns

- Location
  - Transport links
  - Visibility
- Demographics
  - Population density: >75,000 within a 15 min drive
  - CACI/ACORN analysis
- Property
  - Size: 10,000 – 20,000 sq. ft.
  - Condition: good condition or a contribution to landlord works
- Lease
  - Reasonable rent
  - Typically 15 years with fixed uplifts

P&L Rent psf 2016 <sup>1</sup>	
Inside M25	£11.90
Outside M25	£8.80
Total estate	£10.00



## Desirable covenant

- Dun & Bradstreet 5A1 rating
- Plc status
- Strong balance sheet and cash generation

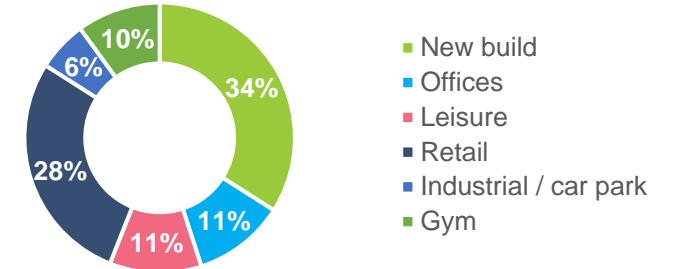
1. Inclusive of all space, monetised and non-monetised

# Real Estate Market Opportunities

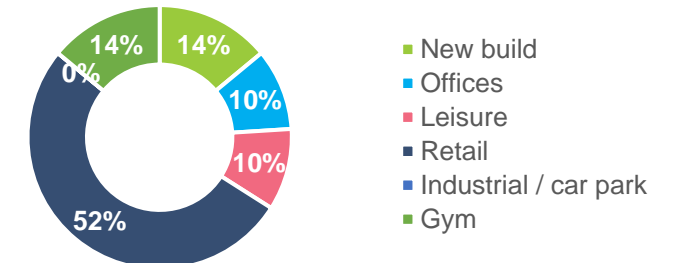
- Retailers and landlords seeking alternative uses for excess space
- Enhancing value of new developments
  - Mixed use
  - Retail
- Purpose built units

Various avenues to grow the estate	Open
Standard fit out and conversion	82
Refurbishment of existing club	12
Acquire club with membership database	-

**Sites to 2016**  
(89 sites)



**Sites to 2017**  
(15-20 sites)



**Opportunities to occupy vacant space and work with landlords in innovative ways**

# Opportunities Arising from the Retail Sector

## Edinburgh Murrayfield

- First floor within Sainsbury's
- Dedicated entrance
- Large car park
- Good visibility and signage opportunities



## Walthamstow

- Former BHS site
- First floor of main shopping centre
- Directly opposite tube station
- Highly visible, high footfall volumes



# Effective Uses of Space

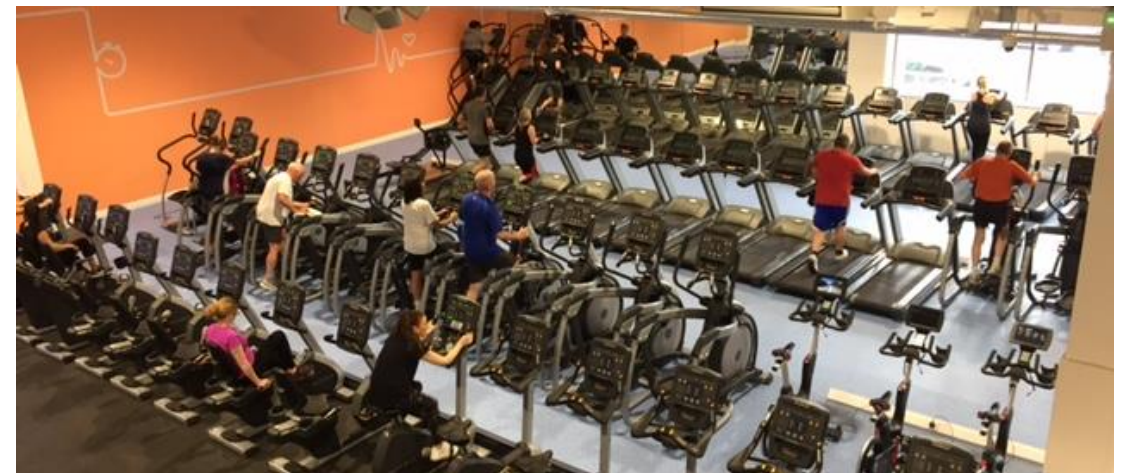
## Blackpool

- Previously 1930s-built car park
- Close to rail, tram and bus links
- Excellent signage opportunities
- £1.24m fitout cost
- 17,250 sq. ft.



## Bristol Longwell Green

- Former Fitness First site
- Rapid fitout and opening
- Sensible rent (passing rent < £6.50 psf)
- 22,000 sq. ft.



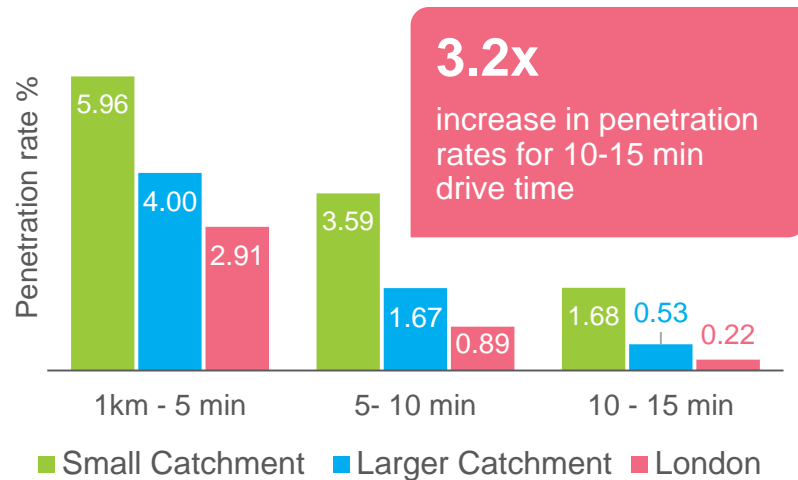
**Flexibility across multiple locations and formats increases market opportunity**



# Smaller Catchments: Adapting the Model

## Current catchments

- Current estate has:
  - Smaller catchments: 75,000 – 150,000 adults within 15 min drive
  - Larger catchments: >150,000 adults within 15 mins drive
- Significantly higher penetration rates into smaller catchments



## Extending the model

- 150 potential towns with small catchments of 50,000 adults within 15 mins. Scope to increase addressable market.
- Strong returns achieved if model varied by one or more factors:

	Standard model	Smaller catchment
Price	£17 average headline price	Demographics to support above average pricing
Capital cost	£1.33m per site in 2016	Lower capital cost through gym size or landlord contributions

### Ashford

- 9,800 sq. ft.

### Redhill

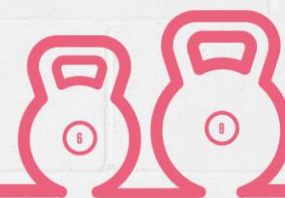
- 12,000 sq. ft.
- Strong South-East price point

### Dartford

- 10,000 sq. ft.
- Strong South-East price point

**Enabling us to realise the full potential of the low cost market size**

# FINANCIAL MODEL





# Financial Model

## Investment rationale

The financial model drives high returns on capital which have been maintained even as the market develops and business rolled out nationwide

## Results to date

Average EBITDA per Mature site

£480k

2016 Mature site ROCE

32%

Average capital cost

£1.35m

## Developments and insights

- 1
  - Reductions in capital costs in all areas: equipment, tender negotiations, fit out content
- 2
  - Maintenance cycle equivalent to 9% revenue for first 55 Mature sites
  - Subsequent sites built more effectively: new maintenance cycle of 7% of revenue
- 3
  - Strength of balance sheet means maintenance cycle can be a source of competitive advantage
  - Refurbishments at year 5 can be a source of improved performance

# Financial Model

Mature site metrics	2016
Revenue	£1.00m
Gross profit	99%
Fixed property costs	26%
Other opex	26%
<b>EBITDA</b>	<b>£0.48m</b>
<b>EBITDA margin</b>	<b>47.5%</b>
Average capital cost up to 2014	£1.49m
Actual capital cost 2016	£1.33m
<b>ROCE Mature</b>	<b>32%</b>

Mature site performance	Av. mature site EBITDA £'000	ROCE
Sites open up to 2012	483	32%
Sites open between 2013 and 2014	465	32%
<b>Total</b>	<b>476</b>	<b>32%</b>

## High returns on capital

- Increase in ROCE for mature sites to 32%
- Absolute mature EBITDA per site improvement
- ROCE consistent across cohorts

## Cash generative

- Negative working capital profile
- Free Cash Flow in 2016 of £23.2m to fund dividends and expansionary capital expenditure
- Net Debt £5.2m at Dec 2016

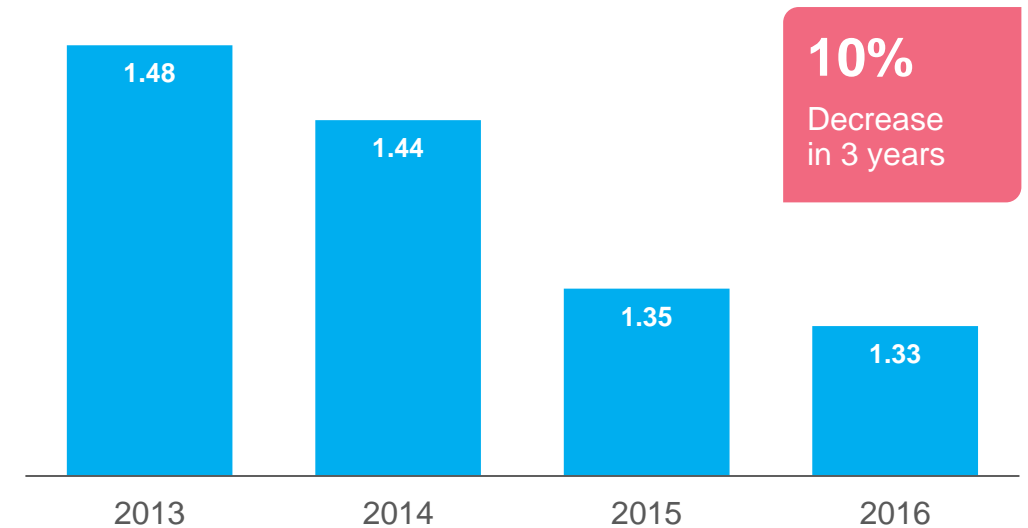
# Cost Reductions in All Areas

## Cost reductions in all areas of the fitout process

- Competitive tender processes for main contractors
- Negotiation of volume discounts
- Management of supply chain
- Improved specification of:
  - Lighting and heating
  - Air conditioning and ventilation
  - Acoustic insulation
  - Washroom products and sanitary ware
  - Finishes and tiling

**New site fitout costs expected to be  
£1.3m - £1.4m per site**

### Average capital cost per site £'m



# Maintenance Cycle

## Pre 2014 Sites

YEAR 2-4	Overall maintenance £50k
YEAR 5	Cardio equipment and site refurbishment £340k
YEAR 6	Overall maintenance £20k
YEAR 7	Other equipment and minor refurbishment £220k

Total = £630k  
Average = £90k p.a

**9%**  
revenue

## 2014 and Later Sites

YEAR 2-4	Overall maintenance £50k
YEAR 5	Cardio equipment and rebranding £120k
YEAR 6	Overall maintenance £20k
YEAR 7	Other equipment and site refurbishment £350k

Total = £500k - £550k  
Average = £70k - £80k p.a

**7%**  
revenue

## 2014 and Later Sites

- Experience gained from earlier fitouts: lower requirement for ongoing maintenance capex
  - Longer lasting showers
  - More robust materials
  - Easier to replace flooring
- Timing and works flexible dependent on site usage and size
- Rebranding programme incorporated into maintenance cycle

# Maintenance Cycle as a Source of Competitive Advantage

## Nottingham

- Opened Q4 2010
- Refurbished Q4 2015
  - Extension to free weights area
  - 2 new functional zones
  - Rebranding
  - New member zone
- Cardio equipment Q1 2017

**9.4%**

year on year increase in  
average member numbers



## Leeds Headrow

- Opened Q2 2011
- Refurbished Q2 2016
  - New light weights area
  - New functional zone
  - Rebranding
  - New member zone
- Strength equipment Q2 2016

**10.0%**

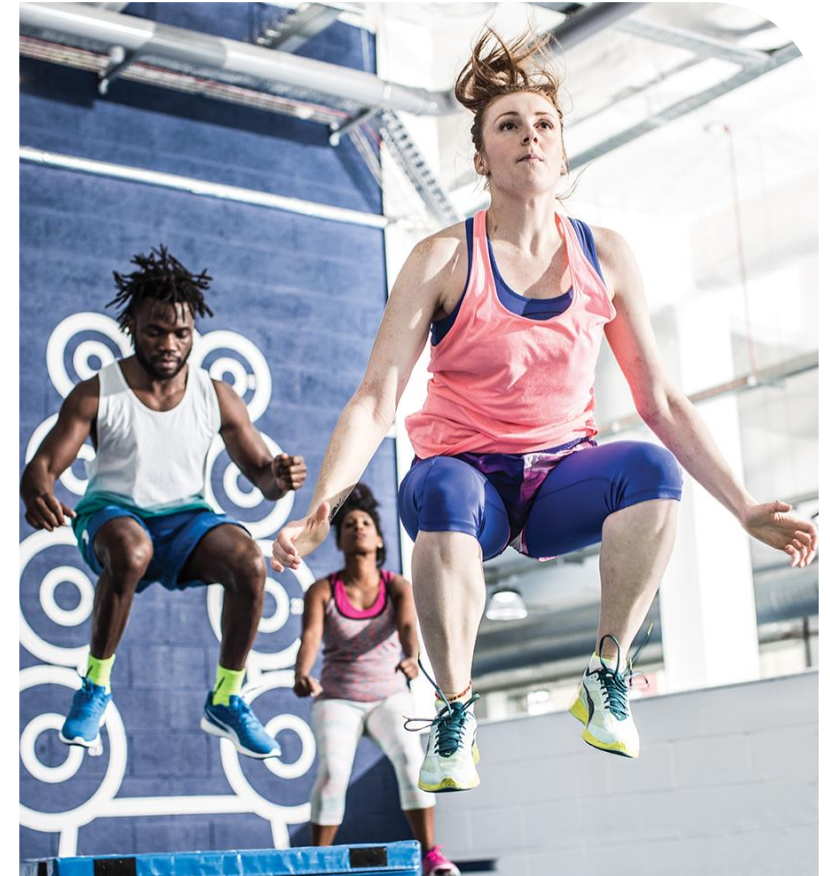
year on year increase in  
average member numbers



**Leveraging our strong balance sheet to drive competitive advantage from the application of capital in the refurbishment cycle**

# Trading Update

- Trading for first five months of the year has met the Board's expectations
- Profit for full year 2017 anticipated to be in line with consensus market expectations
- Six new sites to have opened by the end of H1 2017
- Total members at 31 May 2017 of 507,000 +19.6% vs H1 2016
- Average members at 31 May 2017 of 498,000 + 18.6% vs H1 2016
- Strong pipeline for 2017
- Expect to open towards top end of expected range of 15-20 openings for 2017





# Summary

 <b>Market</b>	 <b>Technology</b>	 <b>Commercial and marketing</b>	 <b>Rollout</b>	 <b>Financial model</b>
<ul style="list-style-type: none"> <li>• Opportunities arising from local authorities and the mid market</li> <li>• The Gym Group: Strength within London</li> <li>• The Gym Group creates strength through clusters of sites</li> </ul>	<ul style="list-style-type: none"> <li>• New Member Management system</li> <li>• Enhancing use of data to aid commercial decision making</li> </ul>	<ul style="list-style-type: none"> <li>• Developments to our marketing and CRM strategies</li> <li>• Focusing on customer satisfaction through NPS</li> <li>• Developing the product and proposition</li> </ul>	<ul style="list-style-type: none"> <li>• Flexible approach to space</li> <li>• Opportunities from excess retail space</li> <li>• Adapting the model for smaller catchments</li> </ul>	<ul style="list-style-type: none"> <li>• Reductions in capital cost in all areas</li> <li>• Strong balance sheet enables high quality site maintenance programme and drives competitive advantage</li> </ul>

**Ready for continued expansion**

# APPENDIX



# Financial Record

£'m Financial	2016	2015	2014	2013	2012	15-16% change
Revenue	73.5	60.0	45.5	35.7	22.2	22.6%
Group Adjusted EBITDA	22.7	17.0	14.7	11.8	6.0	33.4%
Group Adjusted EBITDA before POC	24.9	19.7	16.7	12.9	7.6	26.5%
Group Operating Cash Flow	24.9	18.6	16.5	14.8	9.6	34.4%
Group Operating Cash Flow Conversion	109.9%	109.4%	112.4%	125.5%	160.4%	
Expansionary Capital Expenditure	20.9	28.2	20.3	14.1	21.6	-25.9%
Net Debt	5.2	7.1	49.2	36.7	19.0	-27.5%
<b>Operational</b>						
Total Number of Gyms	89	74	55	40	32	20.3%
Total Number of Members ('000)	448	376	293	225	166	19.1%
Average Number of Members <sup>(1)</sup> ('000)	429	355	271	212	135	20.8%
Average Revenue per Member per Month <sup>(2)</sup> (£)	14.29	14.08	13.98	14.06	13.78	1.5%
Number of Mature Gyms in Operation	55	40	32	16	10	37.5%
Mature Gym Site EBITDA	26.2	18.8	16.2	9.5	6.0	38.9%

1. Average number of members is calculated as the total number of members divided by the number of months in the period.

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