the gym group

# Capital Markets Day

19 May 2022

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# Welcome & introduction

**Richard Darwin,**
**Chief Executive Officer**

# Who you will meet today

## Richard Darwin
### Chief Executive Officer

- CEO since September 2018 (CFO 2015 - 2018)
- Formerly CFO of Essenden plc (now Ten Entertainment Group plc) and Paramount Restaurants
- Held senior roles at Diageo plc, Hard Rock Cafe International and The Rank Group Plc

## Mark George
### Chief Financial Officer

- Joined TGG as CFO in October 2018
- Previously Deputy CFO of Auto Trader plc
- Held senior roles in finance, strategy and investor relations at Asos Plc and Tesco Plc

## Ann-marie Murphy
### Chief Operating Officer

- COO since February 2022 (previously Chief People Officer since joining The Gym Group in April 2018)
- Has over 15 years' experience across a variety of senior Human Resources roles, particularly in the travel and retail industries
- Qualified executive coach from the highly regarded Henley programme

## Jasper McIntosh
### Chief Information Officer

- IT Director since June 2014, and primary IT and digital consultant to The Gym Group since 2011
- Previously delivered high profile projects for GlaxoSmithKline, Global Fund, the NHS and the French Presidential Palace
- Awarded a top 20 place in the CIO 100 list that recognises the most transformational and disruptive CIOs in the UK

## Nick Shelmerdine
### Director of Strategy & Corporate Development

- Joined TGG in November 2021
- Former Associate Partner at OC&C Strategy Consultants and MD at The Restaurant Group plc, focused on building a food delivery business and major transformation projects
- Expertise in growth strategy, M&A, business development and change in the Consumer and Leisure space

## Emily Kortlang
### Group Brand & Marketing Director

- Joined TGG as Group Brand & Marketing Director in October 2021
- Formerly Brand Director for Beats by Dr. Dre, at Apple
- Prior to that, held marketing roles at Red Bull and Fallon, responsible for brand, social media, creative, campaign & retail marketing

# The story so far...

**Rapid growth and proof of business model**

**Continued growth and investment in scale**

**Managing through COVID and recovery**

**Strategic expansion**

## 2008
First gym opened in Hounslow

## 2015
Successful IPO on London Stock Exchange

## 2019
Gyms and members more than doubled in 4 years

Funded 20 new sites from operating cash flow

## 2020
Business significantly impacted by COVID-19

Rollout slowed to reduce capital spend

## 2021
Revenue recovery starts

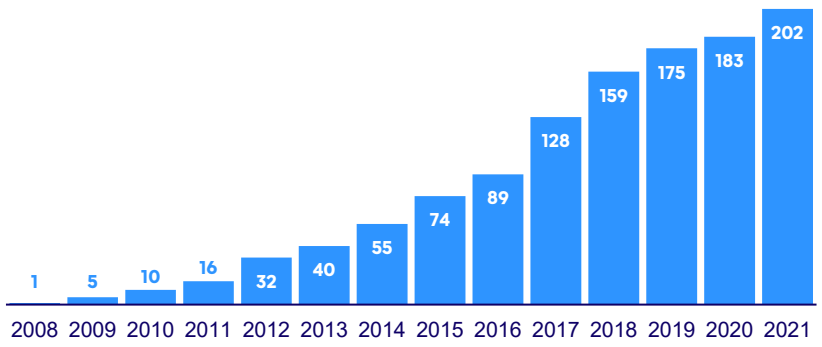
Accelerated growth plan

## 2025
300+ sites

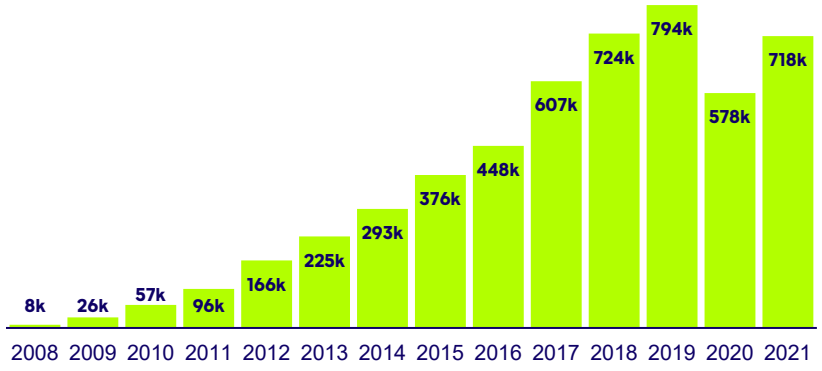
£95-105m EBITDA

£40-50m PBT

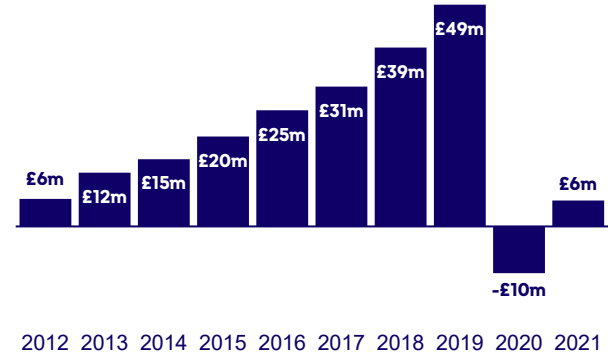
## Number of gyms




## Number of members[1]




## EBITDA (£m)[2]




1) 825k members at Feb 2022.
2) EBITDA for 2012 and 2013 is presented on an aggregated basis as the Group did not constitute a single legal group until 13 June 2013. EBITDA for 2012-2014 has not been restated for IFRS 16.

# Business transformed since the IPO

## 01

**Significant investment made in core infrastructure to run business of 200+ gyms**

- New Tech platforms to support enhanced Member Experience (via Website and App)
- ERP system (Workday)
- New Gym Team model (Personal Trainers)

## 02

**Rapid growth in estate**

- 104 organic new sites
- 36 sites acquired through four separate acquisitions

## 03

**Market-leader in sustainability**

- First Carbon Neutral Gym in UK
- Commitment to Net Zero by 2035
- Rated AAA by MSCI
- First UK Health & Fitness Business to measure Social Value targets

## 04

**Great place to work**

- #25 in Glassdoor's top 50 places to work for in the UK
- High calibre Gym and Central Support teams

# Strong proposition appealing to a wide demographic with multiple growth drivers

**High quality, low cost gym proposition**

Rated “Excellent” on Trustpilot

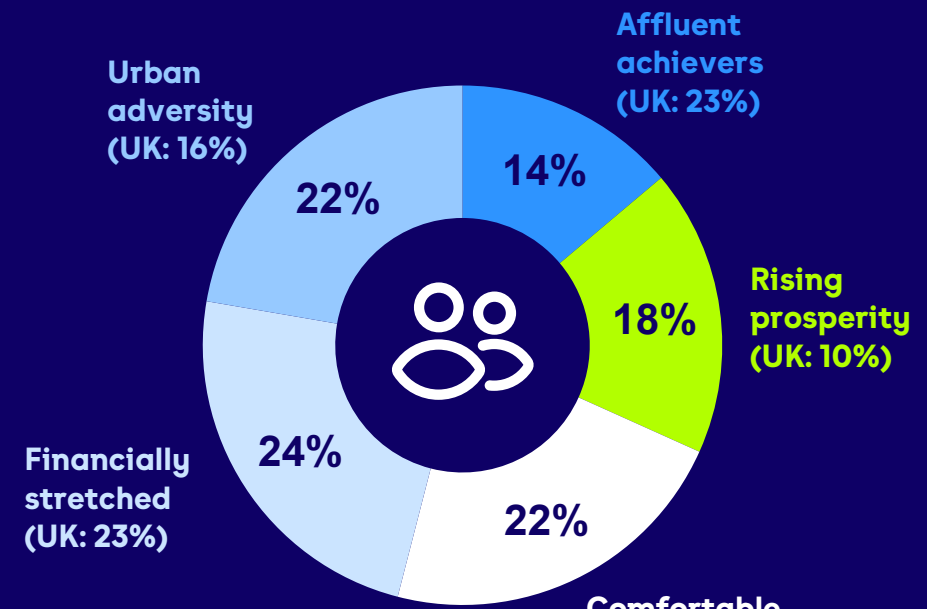
Consistently strong member satisfaction scores

c. 50 million gym visits p.a.

**Growth drivers**

- Site expansion
- Yield optimisation
- Like for like growth from new products
- Expanding consumer appeal

**Member demographic**



# Business model enables self financing growth

# Our plan to 2025

## Financial drivers

**Revenue Recovery**
of existing estate

**25-30**
new sites per year

## 2025 targets

**300+**
sites

**£95-105m**
EBITDA

**£40-50m**
PBT

# Areas of focus today

## Low cost gym market

- Market opportunity

## Key strategic initiatives

- Enabling faster growth
- Next generation technology
- Revenue optimisation
- Brand

## Financial potential

- Financial outlook and capital allocation

# Market opportunity

**Richard Darwin,**
**Chief Executive Officer**

# Unique market opportunity to accelerate expansion

- Distress in retail / leisure; greater availability of sites at affordable rents
- Reduced competition for target sites
- End of rent moratorium

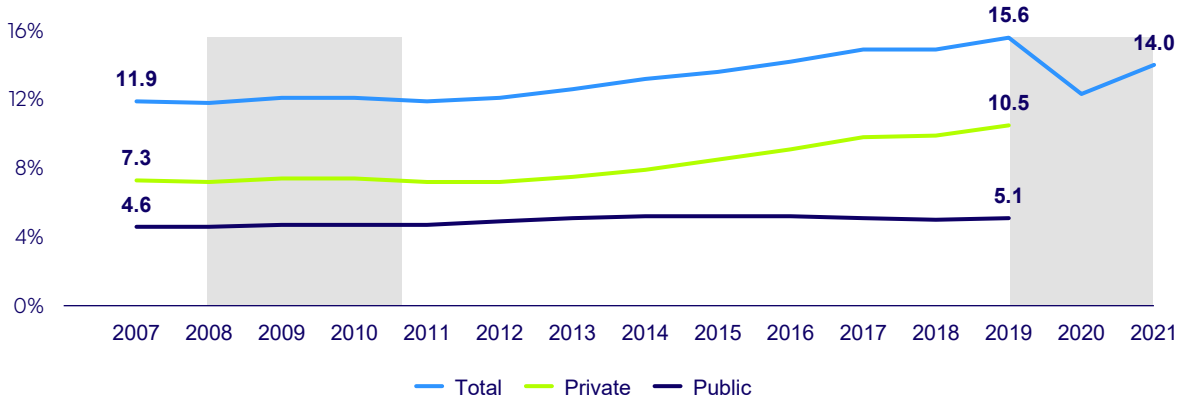
- Strong and resilient demand for health and fitness
- Low cost fastest growing segment
- Additional opportunity in small towns

- Growth in low cost an existing theme
- Large proportion of market weakened
- Cost of living squeeze

- Economies of scale results in two clear market leaders
- Challenges for smaller operators led to slow growth and exit

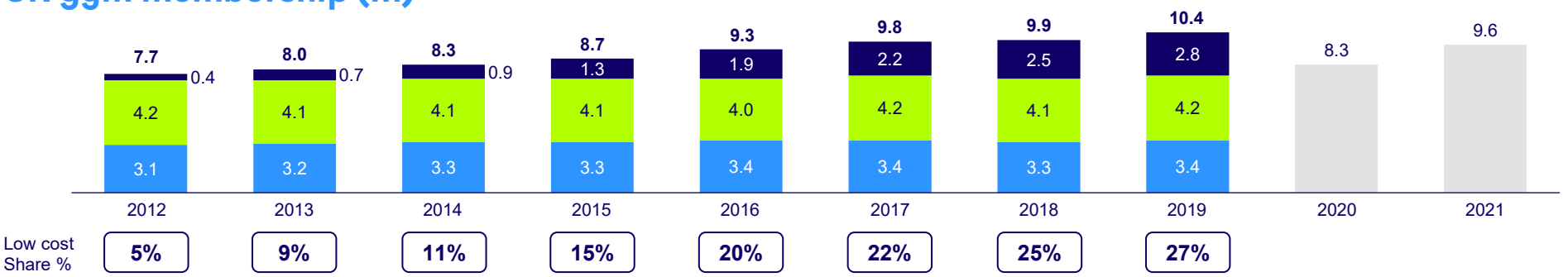
# Long-term growth and resilience in the UK gym market

## % of UK population that are members of a health & fitness club




- Memberships of health & fitness clubs in structural long-term growth
- Private sector drives increased penetration; led by low cost gyms
- Market resilient to economic downturns
- Strong rebound in 2021 post COVID-19

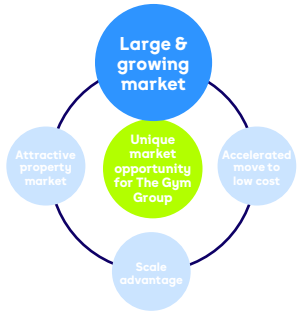
## UK gym membership (m)



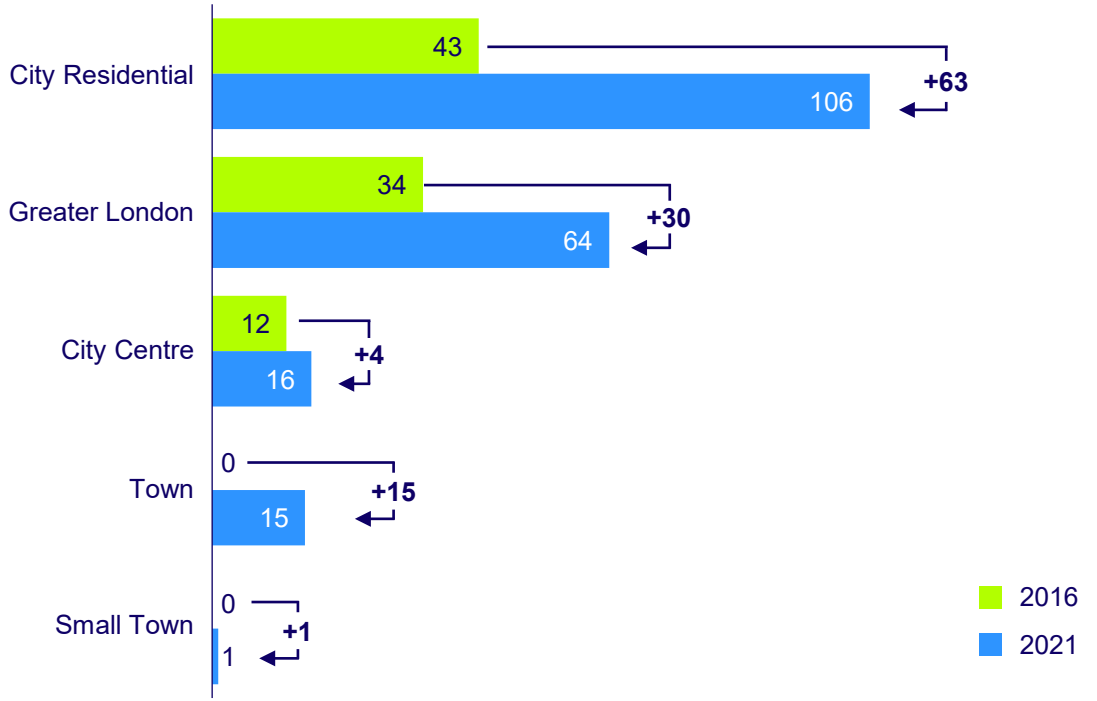

| 2015-19 CAGR | |
|---|---|
| **Total** | **+5%** |
| Low cost | +21% |
| Mid-market & Premium | +1% |
| Public | +1% |

Source: LDC State of the Industry Report 2019 (as at March); Deloitte EHFMR 2022 for 2020-21 data (as at year end), segment split not available

# Rapid growth across various categories with further opportunity in small towns




## Number of sites by category 2016-21[1]

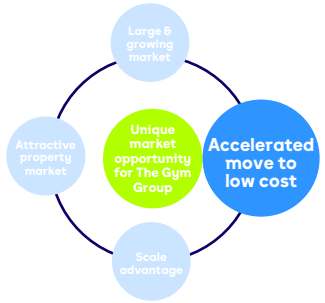



- Substantial growth in high performing City Residential (+147%) and Greater London (+88%) locations
- City Centre now ex-growth
- Model proven in Town locations (<10,000sq.ft)
- Developing format to operate in Small Towns

**Plan to deliver 25-30 sites from expansion of current categories; with additional sites to come from Small Towns**

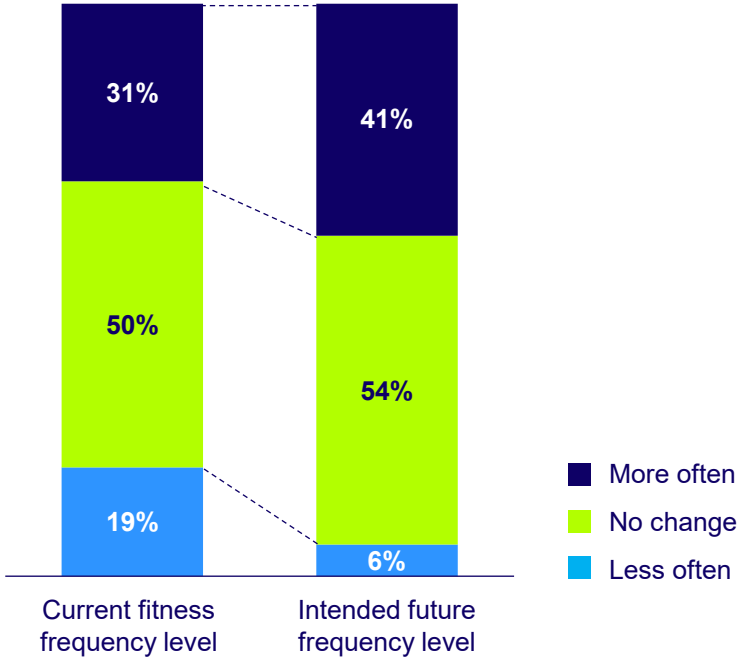
1) Number of UK sites at year end

# An increased interest in health & fitness post-COVID



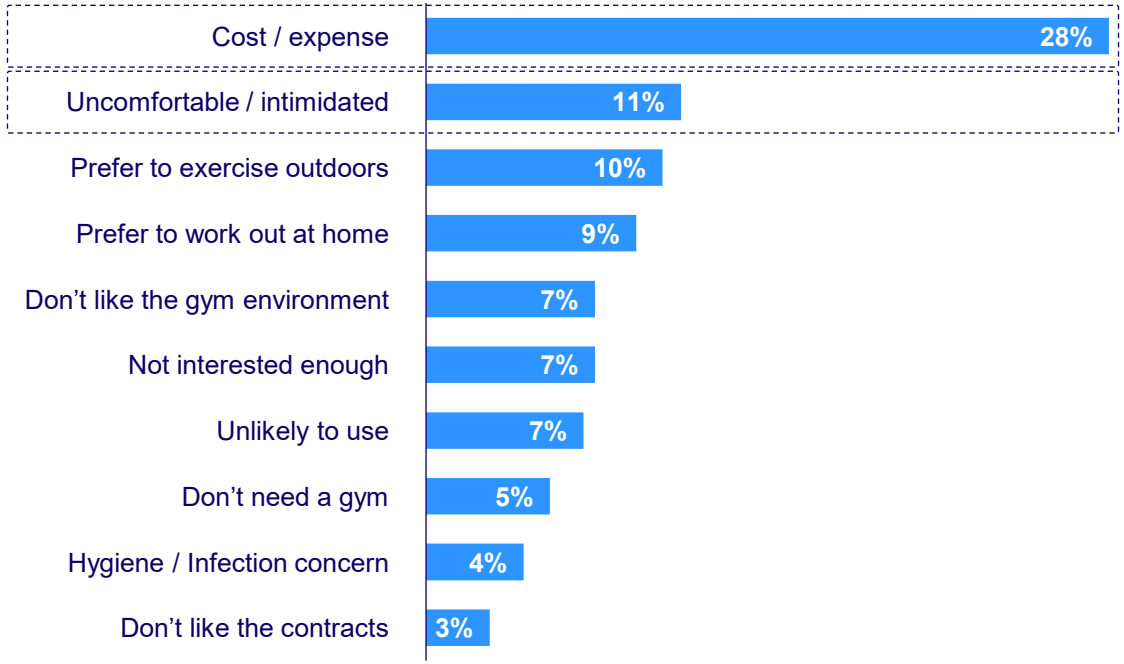

## Fitness frequency now above pre-COVID levels and expected to increase further

UK Fitness frequency vs pre-COVID levels[1]



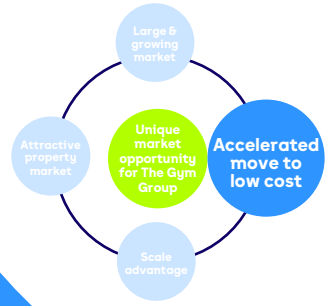

## Sustained opportunity to target people interested in the gym but put off by cost

Main reasons to not join a gym[2]




1) % change versus pre-COVID levels, Deloitte EHFMR 2022
2) Top 10 reasons to not join a UK gym from non-gym members, TGG U&A Survey 2021

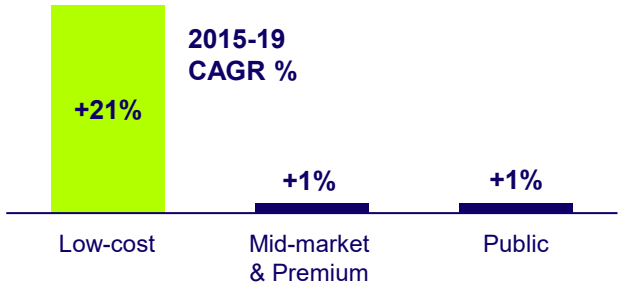
# Post COVID structural trends accelerating move to low cost




## 01

### Growth in low cost an existing theme pre-COVID

+21% CAGR pre-COVID vs. +1% rest of market




Growth in low cost segments has been a continued theme across a range of sectors

## 02

### Parts of Health & Fitness market weakened

Premium & mid-market distress; restructuring and administration

Virgin active · Frame · DW Fitness · DIGME

Leisure / public sector under threat; a number remain closed

freedomleisure where you matter · fusion · everyone ACTIVE · Places Leisure Part of Places for People

## 03

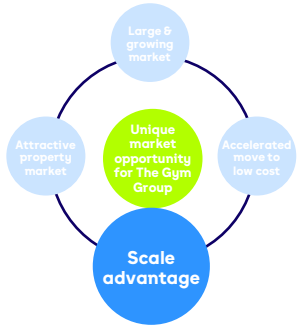
### Cost of living crisis will increase focus on low cost options

Budget operators typically outperform the market during recession / downturns

RYANAIR · Premier Inn · easyJet · Travelodge

Consumers consider fitness / gym access a necessity but may look to trade down

# Scale advantages enhance strong market position



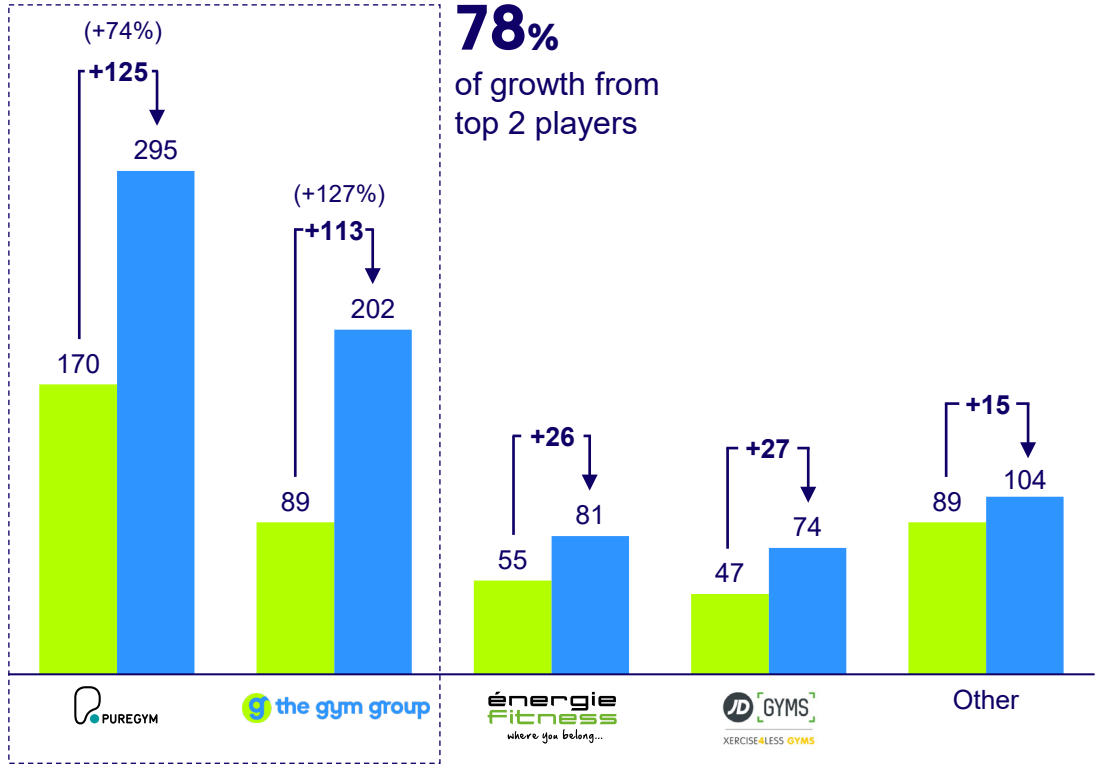

- Economies of scale result in a market with two clear leaders
- Challenges for smaller operators led to slow growth and exit
- The Gym Group fastest relative growth (+127%) in 2016-21
- 78% of growth in low cost gyms from top two players; combination of organic growth and acquisition
- Strong presence in Greater London (64 sites)[1]

**26.7%**

market share

Number of sites vs low cost gym market as of 2021 year end.

## UK number of low cost gyms, 2016-2021[2]




**78%**

of growth from top 2 players

1) The Gym Group number of sites inside M25 as of 2021 year end
2) Company estimates for the number of sites per low cost operator as at year end; low cost defined as majority of membership options <£25 per month and <£30 within London

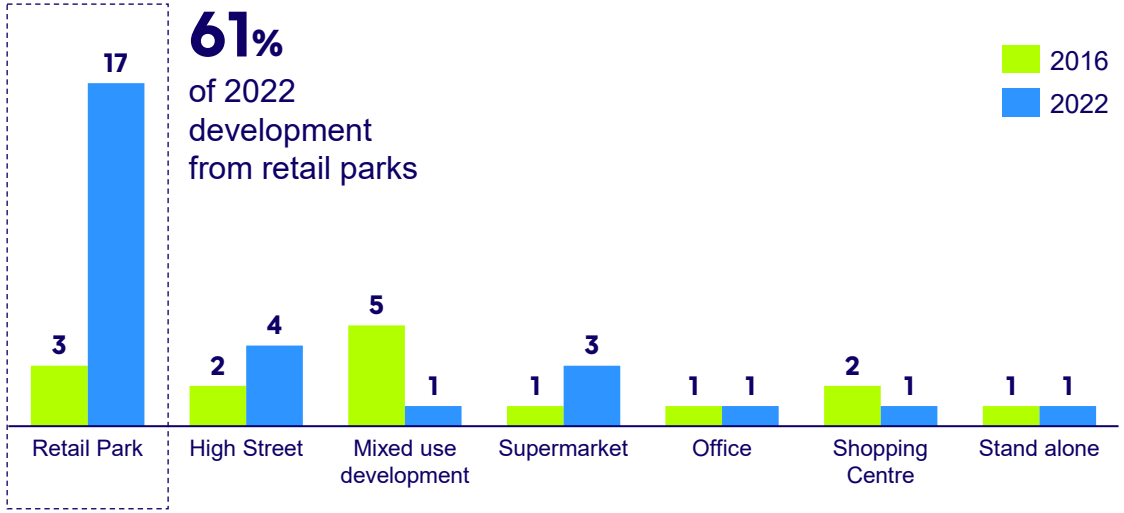
# Attractive property market creates opportunities to expand estate and achieve historic returns

- Distress in retail / leisure - greater availability of target sites at affordable rents
- Opportunity in property market expected to continue into 2023 and beyond
- Rent moratorium ended March 2022; further boost to availability of property
  - General retail sites
  - Other gyms (direct from landlord); acquired three sites already
- Tailwinds to support acceleration of new-site rollout:
  - 28 sites to open in 2022 - fully secured
  - 25-30+ in 2023 and 2024 - partly secured

## Strong pipeline targeting 30% ROIC

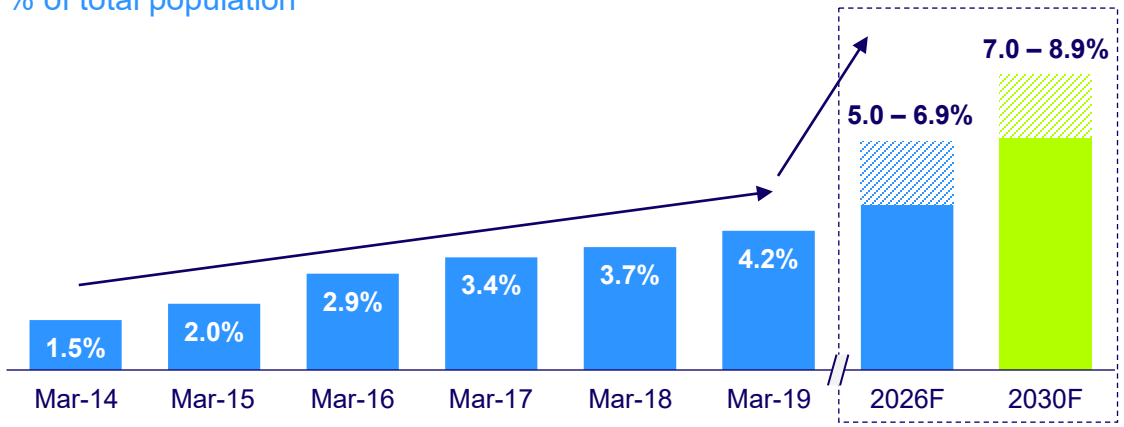
| | |
|---|---|
| **Sites in Fit out / Pre-sale** | **9** |
| **Exchanged / Lease Complete** | **13** |
| **Heads of terms / In legals** | **21** |
| **Offers out** | **58** |
| **Total** | **101** |

## New-site openings/acquisitions 2016 vs 2022

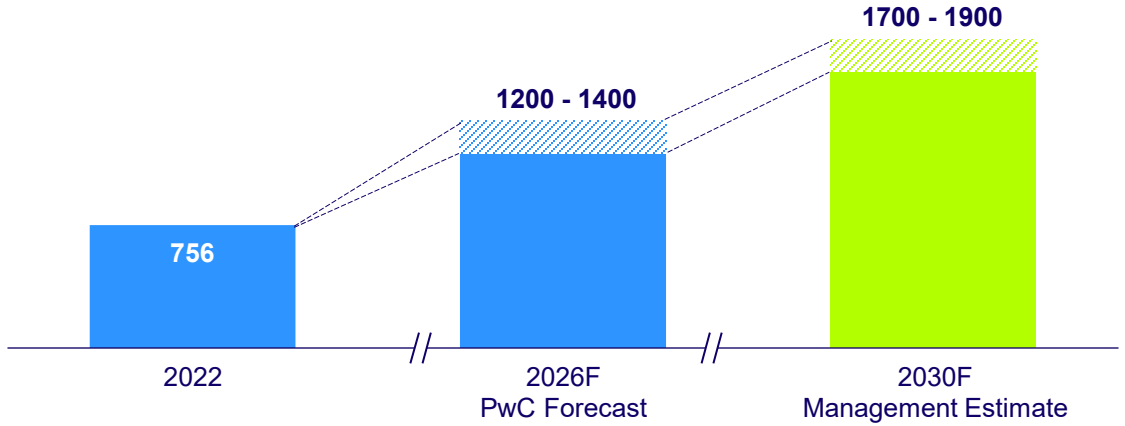


# Significant headroom in low cost gym market

## Low cost gym members penetration
% of total population




## UK potential for low cost gyms
Number of low cost gyms




- Fitness penetration in Northern Europe above UK (Denmark 19%, Norway and Sweden 22%)[1]
- PwC forecast 17% for UK by 2026
- Forecast penetration:
  - 5.0-6.9% by 2026 (PwC forecast)
  - 7.0-8.9% by 2030 (Management estimate)

- Pre-COVID PwC research[2] potential for c.1,200-1,400 low cost gyms in 2026
- Management forecast c.1,700-1,900 gyms by 2030
- Growth potential of low cost:
  - Up to 2x by 2026
  - Up to 2.5x by 2030
- Management estimate extends low cost growth to 2030

1) As at 2019; % of total population, Deloitte EHFMR 2020
2) PwC: UK low cost gym market headroom assessment January 2019

# Enabling faster growth

**Ann-marie Murphy,**
**Chief Operating Officer**

# We will enable faster growth through…

01

**Outstanding product & operational delivery**

02

**Highly satisfied members**

03

**Flexible model & product formats**

# We have a high quality, great value product

**01** Outstanding product & operational delivery

**Low cost**
no contract membership

**Free**
group exercise classes

Access to
**200 top quality**
digital classes

**Friendly, helpful**
staff & access to personal trainers

**High quality**
gym equipment

**Convenient locations**
with 24/7 access

**Multi-gym**
access*

Bring a
**friend***

* Available with LIVE IT membership

# The most successful operating model in the market

## Market leading flexible operating model

**Fitness trainer Model**

Employed contract – **12 hours a week**

Paid at top banding NMW

Reduced rental agreement

Self-employed personal trainer business opportunity

Keep 100% of earnings

No license fee

## Recognised as a great place to work

- **#25** in Glassdoor's top 50 places to work in the UK
- Won **Employee Excellence Award** for Best Approach to Covid
- **93%** approve of CEO & recommend on Glassdoor*

glassdoor BEST PLACES TO WORK 2022

# Highly effective operational delivery at scale

01 Outstanding product & operational delivery

## 4 operational performance pillars

**People / member service / safe, clean and legal / profit**

### Safe, clean and legal

We are consistently delivering high levels of quality audits, 96.8% on average

Constantly looking for areas to improve. We never stop our focus to ensure our gyms are safe, clean and compliant

### 4+ Visit frequency, driving Social Value

**4+ visits per month**

Aligns our commercial and social interests with our members interest - becoming and staying healthy and fit

Drives member engagement

Links into improving tenure and reducing churn

# Our members ‘love us’

“ Immediately I noticed the abundance of diversity in the gym.. I did the burn 400 class and loved it. All very tidy, clean and perfectly functional.”

**London Walthamstow**

“ The gym is always so clean and welcoming, the staff are great and never make you feel silly and are all so approachable. This makes me really enjoy working out which encourages me to come which is great for my fitness goals! 10/10 gym.”

**Bristol Longwell Green**

“ I really like the layout of The Gym, and always felt that there was plenty of equipment and a good range too. Overall, a great experience and I have referred many of my friends to The Gym West End!”

**Glasgow West End**

1) Average monthly churn 2022 versus 2021 (Apr – Dec)

**02 Highly satisfied members**

## Engaged colleagues delivering great member service satisfaction

Increased our member service score +8pts over 12 month period from Mar 2020 to Apr 2021 (57%)

Focusing on clean, friendly and inclusive gyms has seen us further increase to 58% across the estate

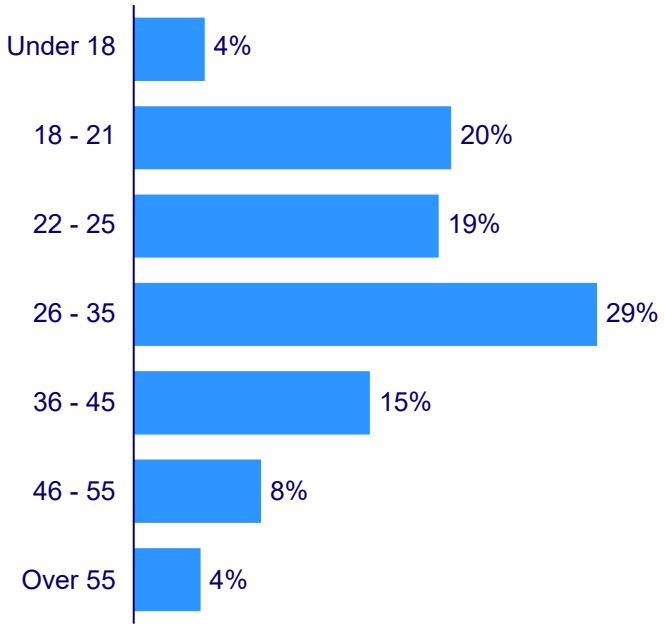
Trustpilot

Our reviews increased by 23.1% in March 2022

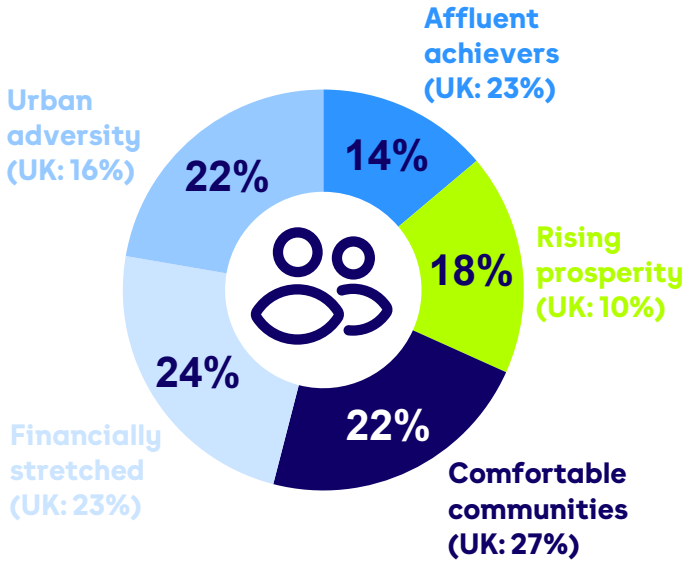
# We provide affordable fitness for all

**02** Highly satisfied members

## Age

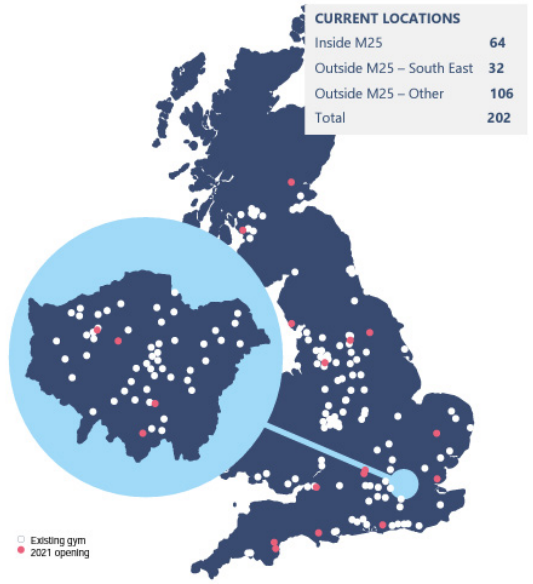



## Affluence




32% of our estate is in the 20 most deprived local authorities

## Location




c.50% of the UK population live within 15 min drivetime of at least one of our gyms

# Our formats reflect member requirements

**03 Flexible model & product formats**

**01 Live classes**
Solutions from full studio to open plan flexible spaces

**02 Digital classes**
App integration of exercise plans and on-line classes

**03 Gym amenities**
Changing and showering facilities to match gym profile

**04 Operating model**
Flexing our resource model and deploying self serve

**05 Product solutions**
Range of kit tailored to membership profile and usage

**06 Flexible space**
Designed space to maximise flexibility of function and layout

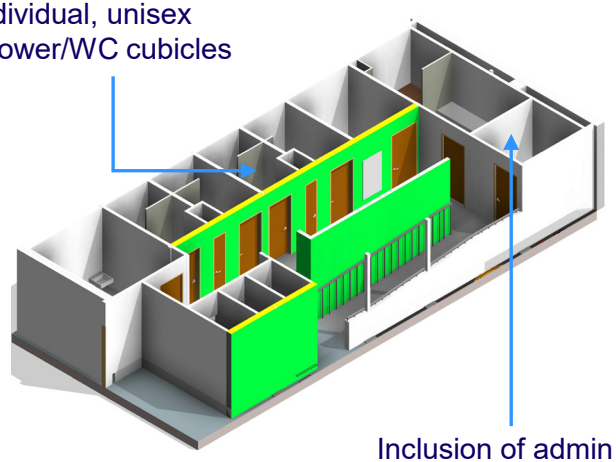
**07 Inclusive & relevant**
Innovation and diverse formats to remain relevant to all members

# We optimise space and product...

**03 Flexible model & product formats**

## Small

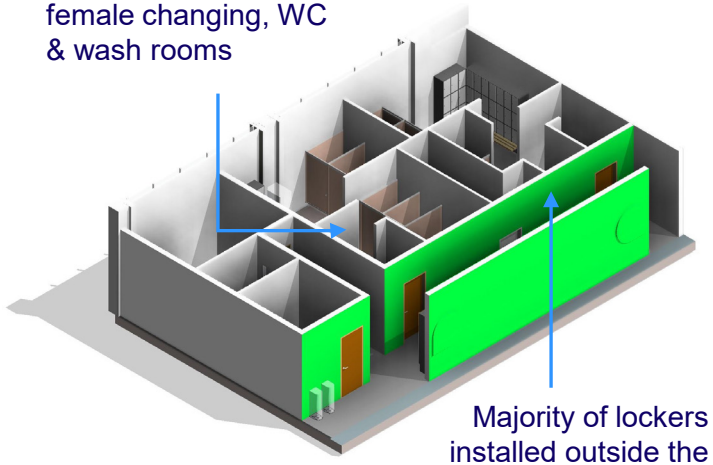
Individual, unisex shower/WC cubicles



Inclusion of admin & BOH areas within changing block

## Medium

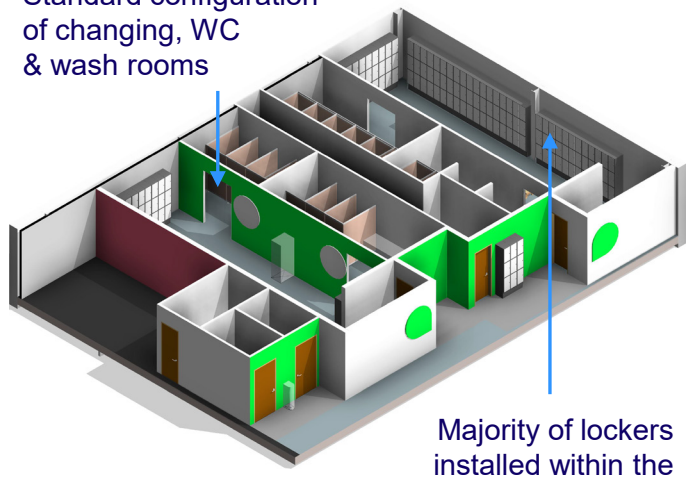
Reduced size male and female changing, WC & wash rooms



Majority of lockers installed outside the changing rooms

## Large

Standard configuration of changing, WC & wash rooms

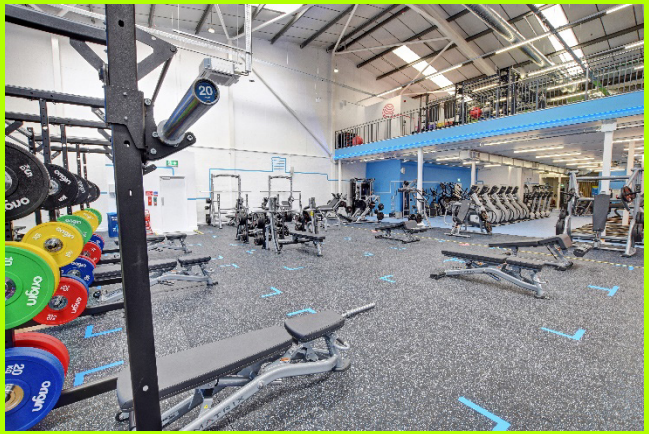


Majority of lockers installed within the changing rooms

| Gym size | Gym ancillary (sq.ft & %) | | Gym (sq.ft & %) | | TOTAL (sq.ft) |
|---|---|---|---|---|---|
| Small | 660 | 9% | 6,840 | 91% | 7,500 |
| Medium | 1,600 | 13% | 10,900 | 87% | 12,500 |
| Large | 2,720 | 18% | 12,280 | 82% | 15,000 |

# ...delivering growth across a range of sizes

**03** Flexible model & product formats



## York

**City Residential**

Retail Park

Opened April 2021

Size: 15,250 sq.ft

## Sydenham

**Greater London**

High Street

Opened May 2021

Size: 12,750 sq.ft

## Paignton

**Town**

Retail Park

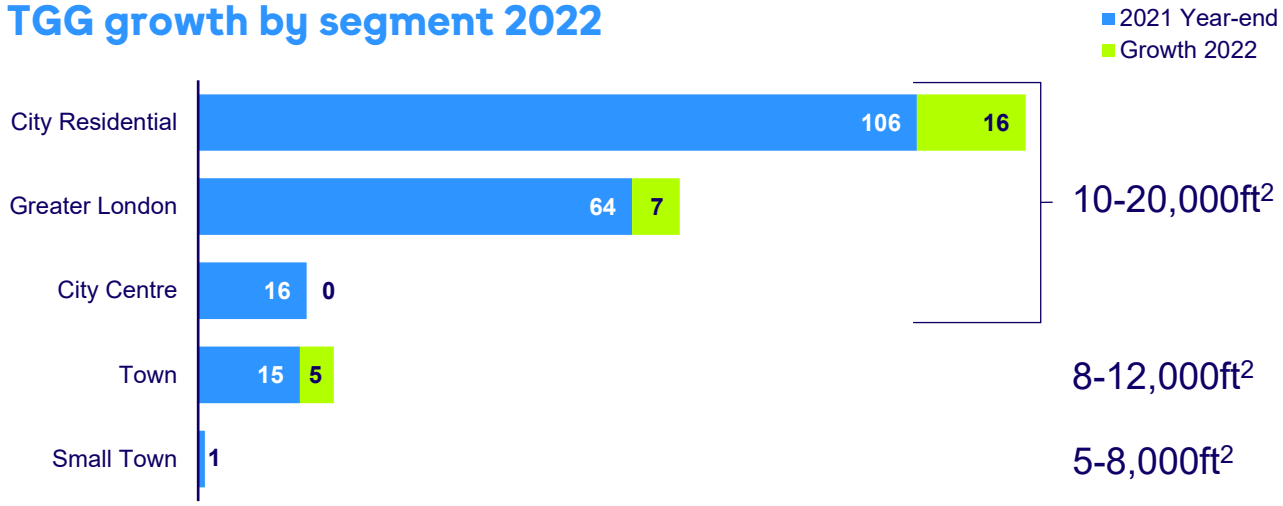
Opened September 2021

Size: 10,250 sq.ft

# Our formats give us headroom for growth…

03 Flexible model & product formats

## TGG growth by segment 2022




| TGG estimated share of low cost market 2021 | TGG growth 2022 | UK low cost headroom |
|---|---|---|
| 26.7% (24.9% PY) | +28 (sites) | 650 (to 2026) |

1) Town catchment 25-55,000 adults within 10 min drive time

## Accelerating growth

28 new sites to be opened in 2022, including three gyms purchased from Fitness First

Low cost market share expected to increase further

Town locations increasing by 33%

High performing City Residential and Greater London residential locations continue growing due to favourable property market

Maintaining strong position in London residential market from organic growth and strategic acquisition

Pipeline for 2023 building successfully

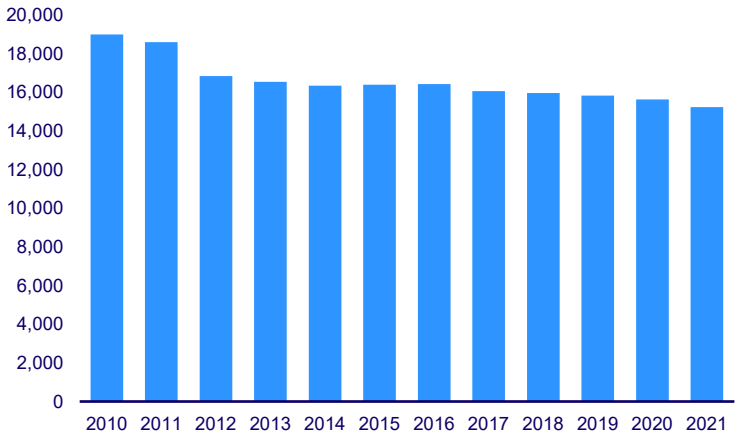
# ...and deliver proven returns

**03 Flexible model & product formats**

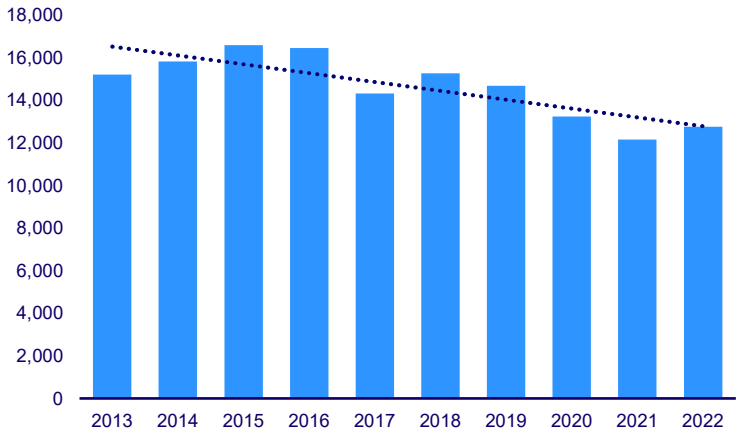
## Smaller sites still delivering high returns

- The average size of a new gym through organic growth has been gradually reducing over several years as we have entered smaller catchments
- In 2021 the average new gym was c.12,000ft, ranging from 21,000ft$^2$ in Leeds to 7,000ft$^2$ in Dorchester
- Proven format and operating model across all sizes to deliver consistent ROIC
- Continuing to evolve and develop model for operating in even smaller catchments

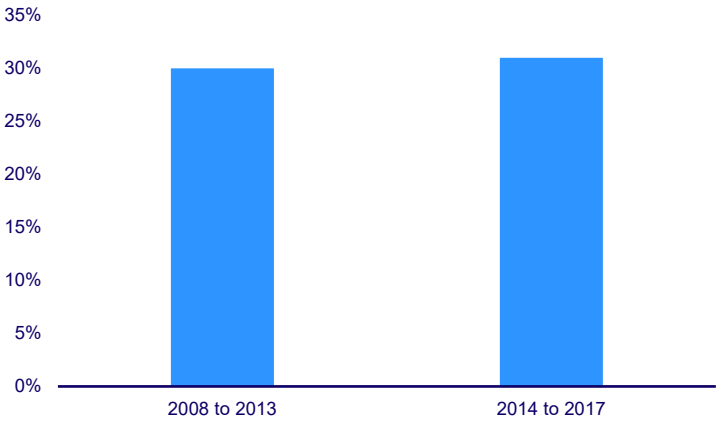
### Rolling average size




### Annual average new site size sq.ft




### 2019 ROIC in mature sites




Excl. Lifestyle and EasyGyms

# Continued innovation enabling faster growth…

**Remote operation.**

**Small Town format.**

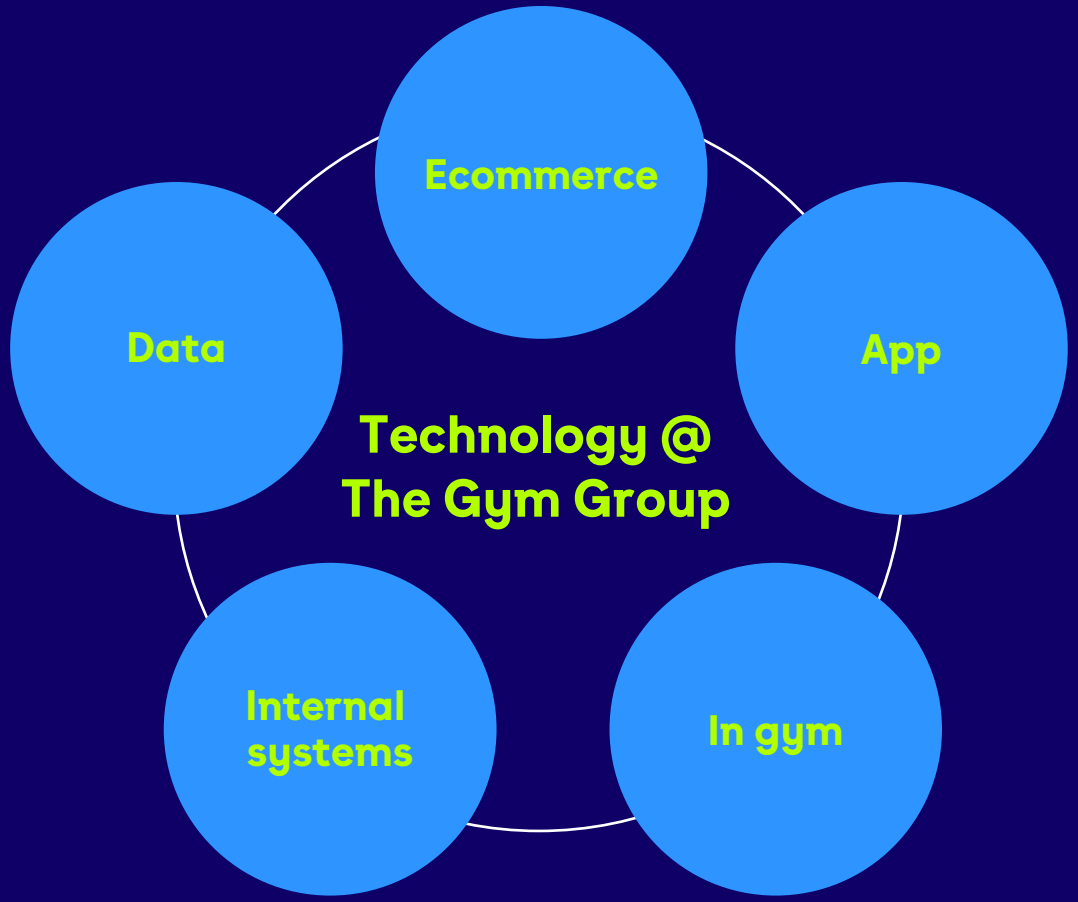
**Digital fitness.**

**Diet and nutrition.**

# Next generation technology

**Jasper McIntosh,**
**Chief Information Officer**

# Technology is a critical enabler and key differentiator




## Activity in Q1 2022

**>14m** gym visits

**>19m** app sessions

**>6.5m** web sessions

## Technology drives every area:

- Online joining
- Gym entry
- Operational efficiency
- Digital content
- Decision support

# Scale enables us to invest in initiatives beyond the reach of almost all other UK operators

**£14m capex**
**invested evenly across 2019 - 2021**

- Website and App upgrades
- Proprietary software
- Pricing & Behavioural models
- Digital & Data infrastructure
- Digital content
- Cyber & Data security

## Delivered 2019 - 2021

**Gym visits**
c.104m

**App sessions**
c.59m

**Web sessions**
c.80m

+

## Opportunity 2022+

**Lower CPA**
10% reduction
= c.£1m saving

**Improved conversion**
50bps increase
= c.£8m revenue

**Extended tenure**
14 extra days
= c.£6m revenue

# Our strategy uses technology to drive KPI across acquisition, experience and efficiency

## Acquisition

Ecommerce

Pricing

**KPI impact**

Web traffic, conversion & yield

## Experience

App

In-gym

**KPI impact**

Visits, member satisfaction, churn

## Efficiency

Productivity

Automation

**KPI impact**

Rejoin, cost

**Data & insight as a key enabler**

# We are active right across the user journey and see further opportunity in many areas

## Consideration

Targeted marketing

Multi-channel integration

* Advanced product & proposition

## Acquisition

* Online content

* Optimised joining

* Advanced pricing

## Activation

Automated access

Billing

* Digital “welcome” experience

* Behaviour modelling

## In gym

Activity tracking

Free wifi

* Workout programmes

* Remote site management

## At home

Digital classes

Fiit App

Online member management

* Instructional content

* Wearable devices

## Leave & win-back

Churn prediction

Re-join marketing

* Targeted eCRM

* Area of further opportunity

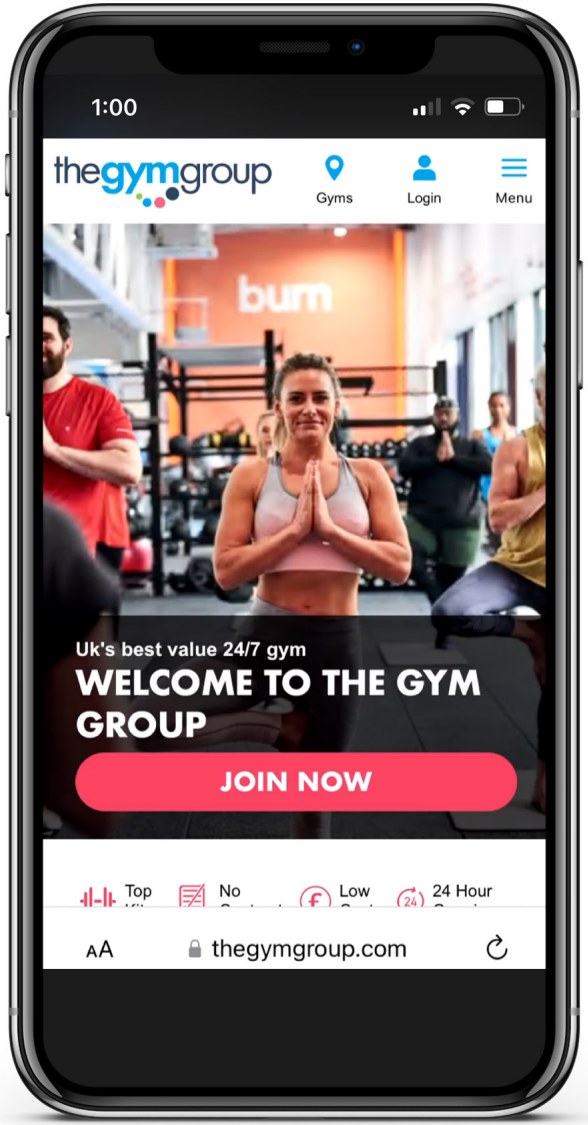
# A new ecommerce platform build for acquisition and growth

## A platform for acquisition

- Mobile first
- Search optimised
- “Welcome” experience
- Digital content

## A platform for growth

- Latest technology
- New content tools
- Data & analytics
- Security



# The platform launched in April drives marketing, engagement & product

## Driving marketing

- Increased search visibility
- Improved speed and stability
- Stronger merchandising
- Quicker online joining

## Driving engagement

- Improved mobile experience
- More engaging content
- Improved testing tools

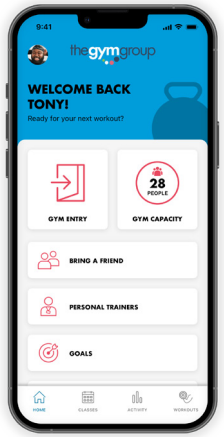
## Driving product

- Data driven product design
- Faster time to market

**Improving website conversion by 50bps could deliver an additional £8m in annualised revenue**

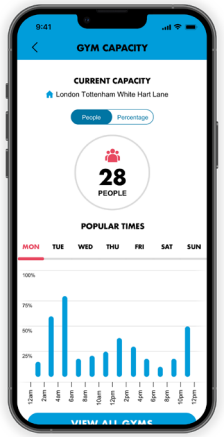
* Based on Jan/Feb conversion data

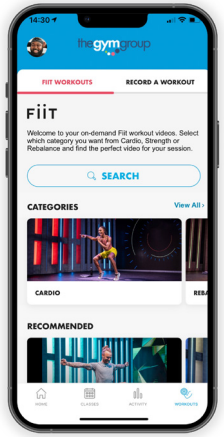
# Our app experience has been significantly improved



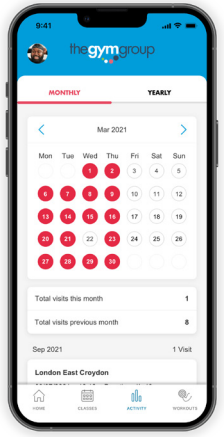

**Contactless entry**

**Live gym busyness**

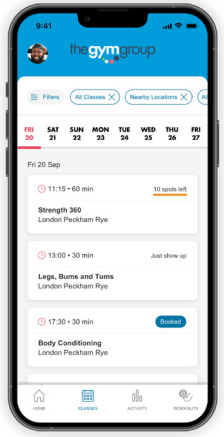


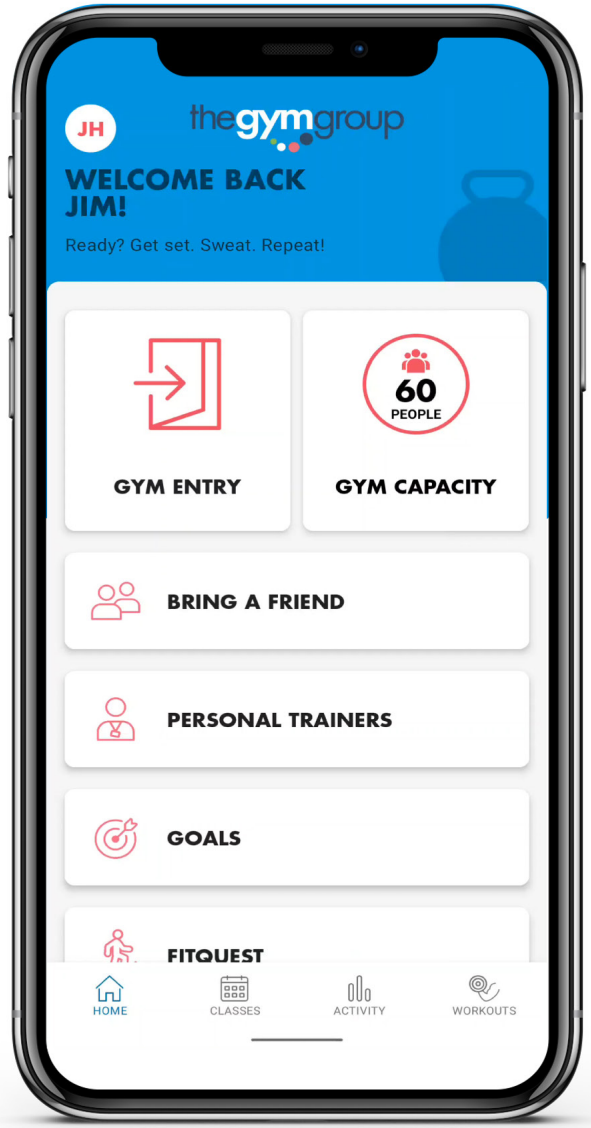




**Classes & activities**




**Digital classes**

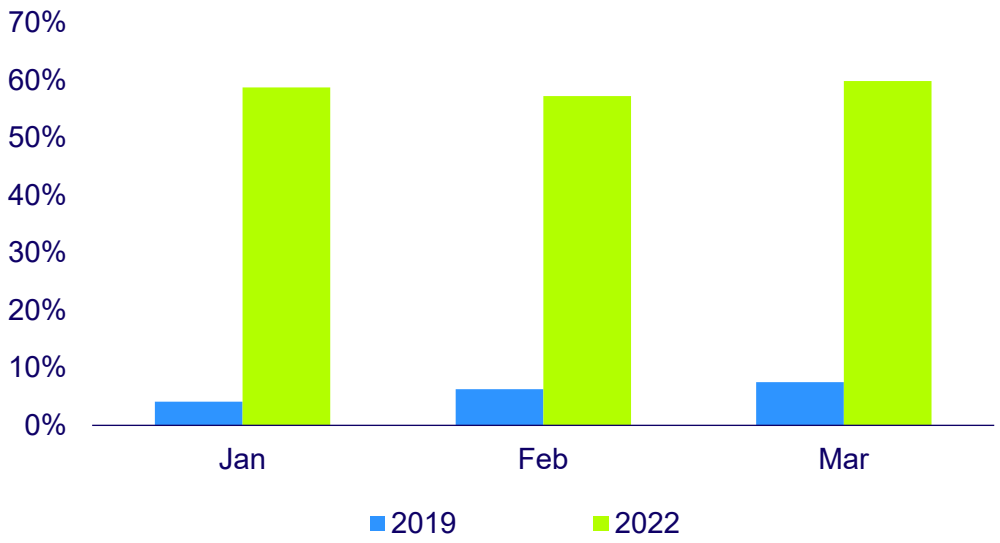


# Our app is market leading and delivers very high user engagement

## App usage has increased significantly:

### Monthly Active App Users as % of Closing Membership 2022 vs 2019




## Our app ratings are now the best in the industry:

| Operator | Apple App Store Rating * | Google Play Store Rating * |
|---|---|---|
| The Gym Group | 4.7 | 4.6 |
| PureGym (UK) | 4.8 | 4.1 |
| Virgin Active (UK) | 4.7 | 2.8 |
| Fitness First (UK) | 4.1 | 2.7 |
| Planet Fitness (US) | 3.8 | 3.8 |
| David Lloyd Clubs (UK) | 3.1 | 2.4 |
| Basic-Fit (EU) | 2.5 | 1.7 |
| JD Gyms (UK) | 1.6 | 1.9 |

## Our app enriches the gym experience for our members

* Ratings as at 15-05-22

# New data capabilities enable us to optimise price, churn and operational efficiency

## Pricing

Subscription, promotion, demand

**KPI impact**

Increase conversion & yield

## Churn

Churn propensity, analysis, feedback

**KPI impact**

Increase member satisfaction, reduce churn

## Operations

Location, performance

**KPI impact**

Reduce costs, increase ROIC

**A market-leading analytics capability adds value to every area of the business**

# We're investing into new technology in several other areas

| New Technology | Increasing Automation | Digital Product |
|---|---|---|
| Access control | Digitisation | Out-of-gym exercise |
| Image recognition | Reporting | Connected fitness |
| Video help stations | Data | Performance measurement |
| **KPI impact** | **KPI impact** | **KPI impact** |
| Grow estate | Grow estate | Reduce churn |
| Reduce costs | Reduce costs | Increase satisfaction |

# We are set up for ongoing success

**We have a strong team and a best in class platform.**
**We will continue to invest to realise the opportunity.**

## 01 – Key differentiator

Our scale advantage is a key point of differentiation

## 02 – Market leading position

Our capability in digital and data is market leading

## 03 – Further opportunity

We are building further competitive advantage

## An experienced senior management team:

**CIO in role since 2014.**
Rated in the
**top 20 UK CIO's** in 2021

Ex-Head of Digital Product
& Customer Experience
Debenhams

Ex-Head of Analytics & Intelligence
THOMSON REUTERS

Ex-EMEA Director of Architecture
JLL

# Revenue optimisation

**Nick Shelmerdine,**
**Director of Strategy &**
**Corporate Development**

# Our price product architecture today

## Core memberships:

**LIVE IT**
(27% of members)[1]

Multi-Gym Access, Bring a Friend, Fitness & Body Tracking, Discounts & Offers

↑ +£5-7

**DO IT**
(67% of members)[1]

Unlimited 24/7 Gym Time, Free Group Classes, 200 Free On-Demand Workouts. Prices currently range from £13.99 to £35.99

## Add-ons and additional memberships:

- Student Membership
- Yanga Sports Water
- 1, 3, 5 Day Passes
- On-Demand Fitness App - Fiit

The next stage

# Three significant opportunities to drive this forward

**01** **Price point optimisation**

Selectively increasing prices to maximise revenue

**02** **Three tier architecture**

Introducing a third core membership and new features to help us drive volume and yield

**03** **Commercial sophistication**

Leveraging the benefits of scale and investments to unlock new levels of optimisation

Price point optimisation

# In Dec 2021, our competitors were materially more expensive...

## Price Position vs Competitors, Dec 2021[1]

£ per month

### Average across all locations

### Other gym sectors

| Mid-Market | Premium | Public Authority |
|---|---|---|
| £35-55 | £55-150+ | £30-50 |

### Average difference to The Gym Group in competing locations

| | Average |
|---|---|
| JD GYMS | +£4.12 |
| PUREGYM | +£4.48 |
| énergie Fitness | +£4.06 |

**Average 18-26% higher than the gym group**

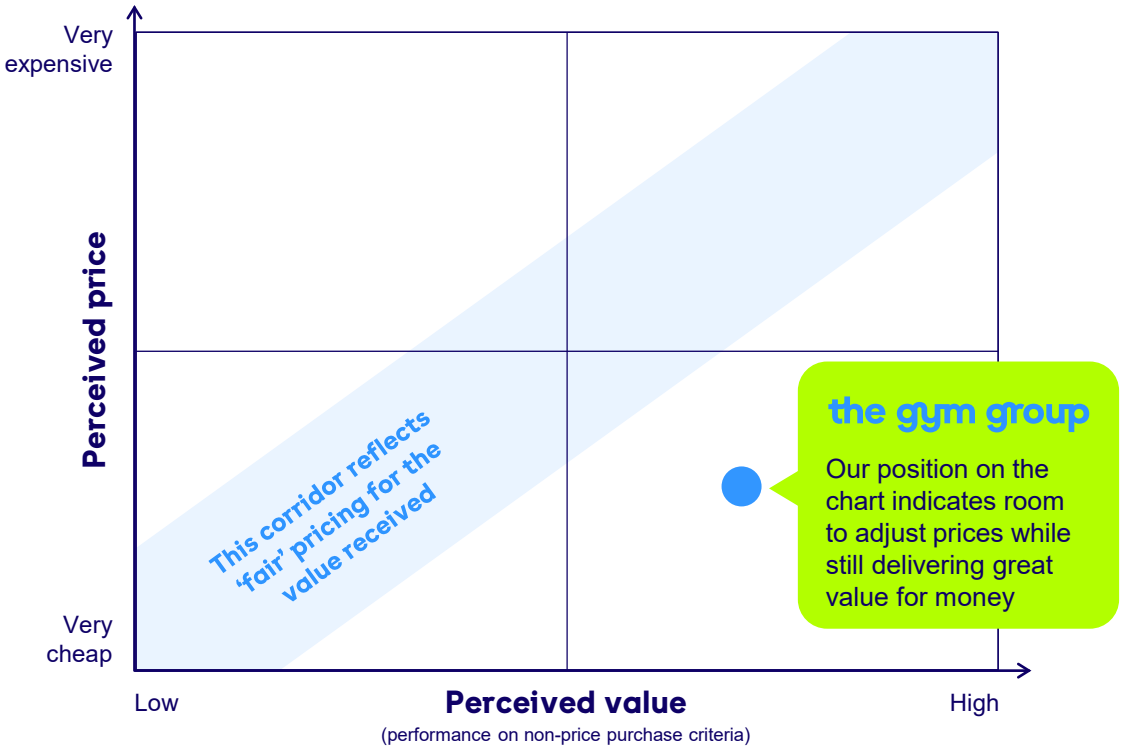
1) Company analysis of average headline rates December 2021 (no contract option if available)

Price point optimisation

# ...and research showed an opportunity to narrow the gap

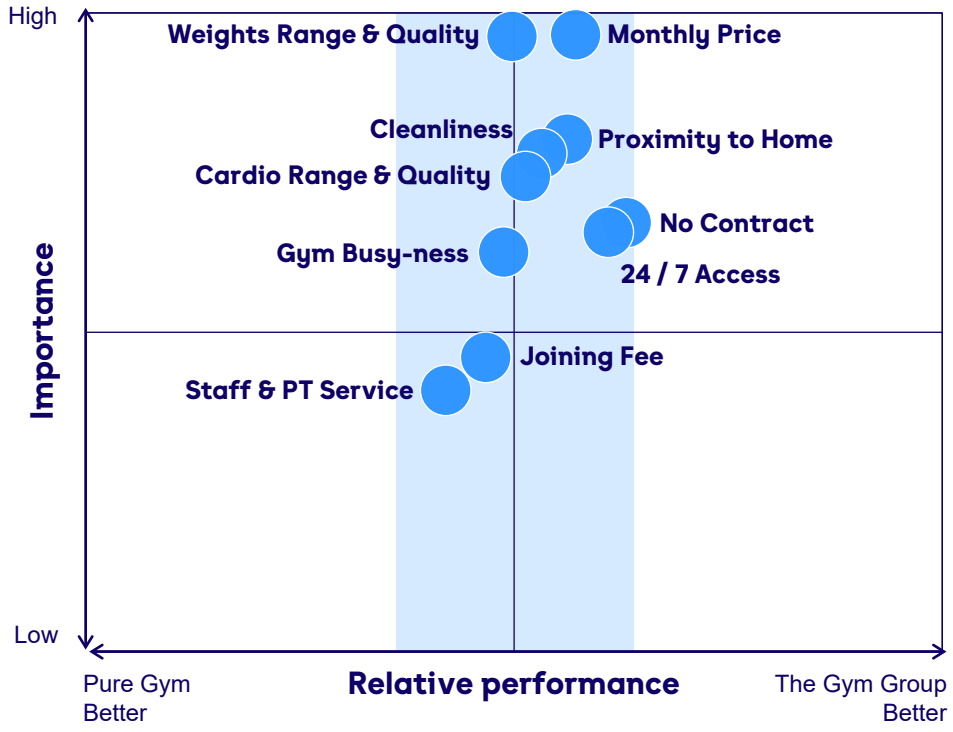
## In members' views, the value we deliver outweighs the price we charge...

### Value Map – The Gym Group Price vs Value Performance[1]




## ...and they see little difference between The Gym Group and Pure Gym on the top 10 most important criteria

### The Gym Group vs Pure Gym – Relative Rating on Top 10 Purchase Criteria[1]

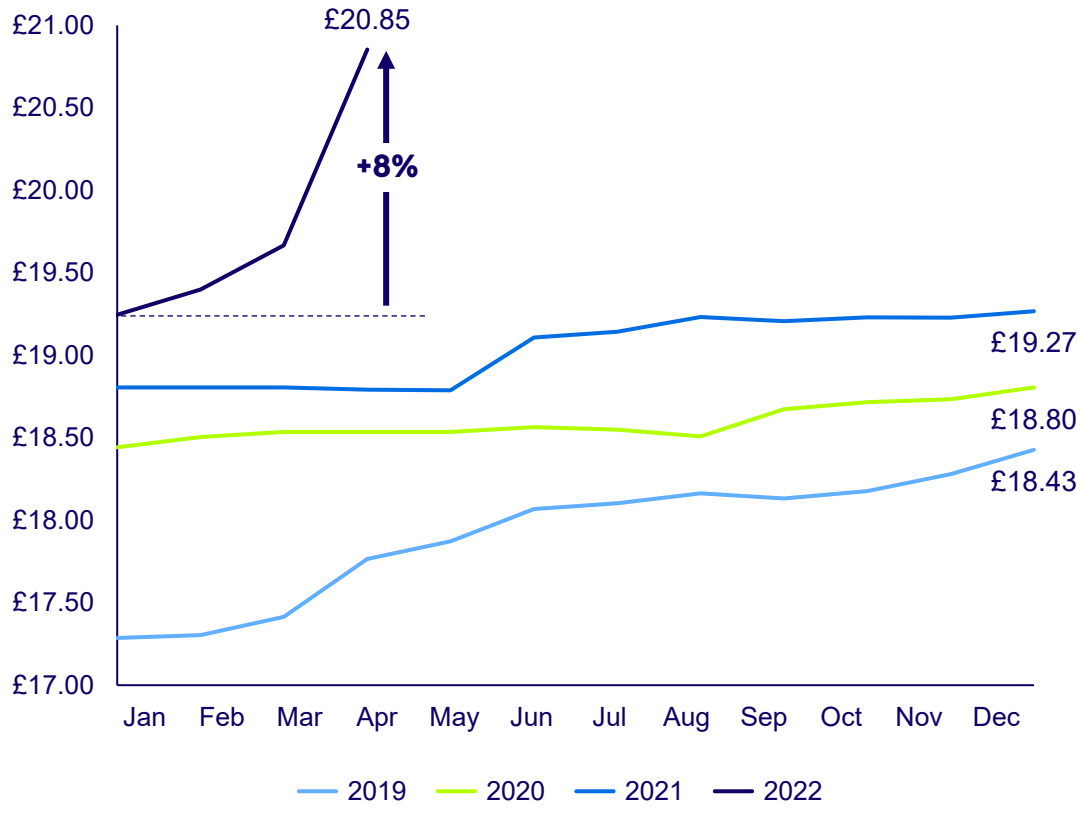



1) Consumer survey Nov 2021, Simon Kucher & Partners analysis

Price point optimisation

# We are now accelerating price increases to optimise revenue

## Average headline rate, Jan 2019 to Apr 2022[1]




**New members**

- Headline price increased across 178 sites in April
- But The Gym Group remains best value in competing locations…
- …and well placed to benefit from customers trading down from mid-market / public authority

**Existing members**

- Rate increases unlock potential to reprice existing members who joined on lower rates
- We are increasing the volume and level of repricing…
- …but keep this below the full headline rate to reward loyalty and discourage churn

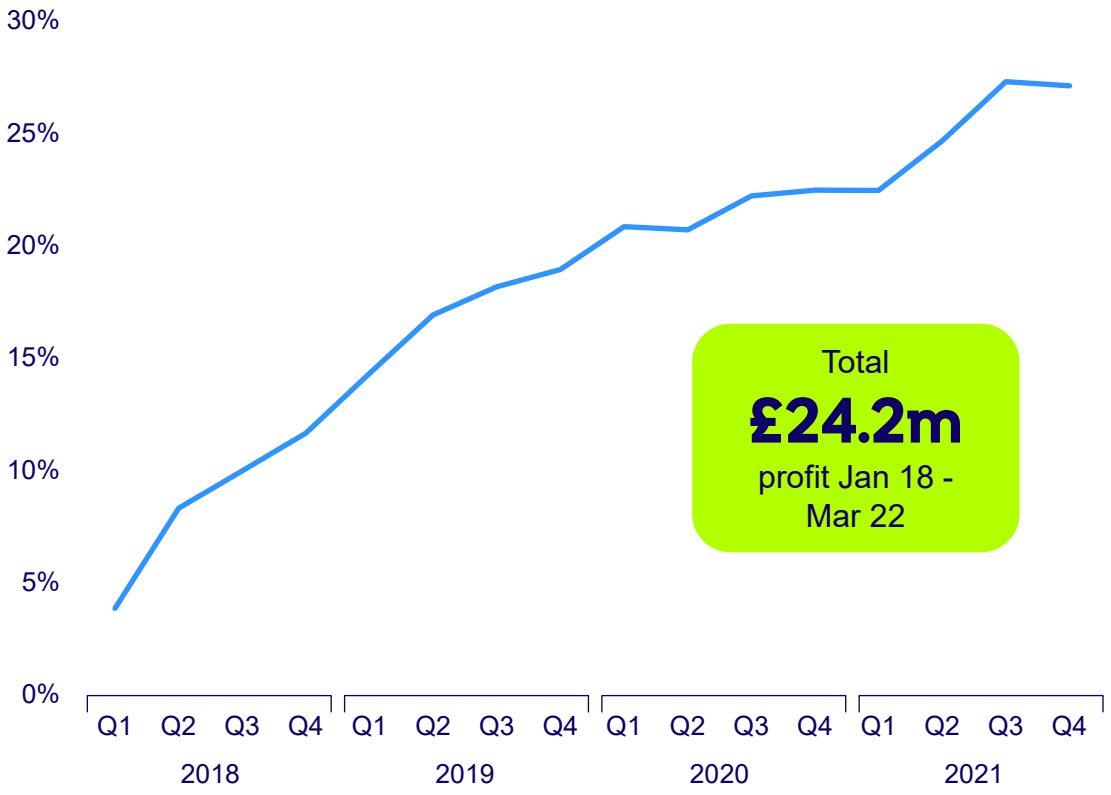
**Key implications**

- Reduced price gap to competitors
- Improved member experience in busy gyms
- Trials have shown this creates additional revenue
- This will take time to flow through the member base

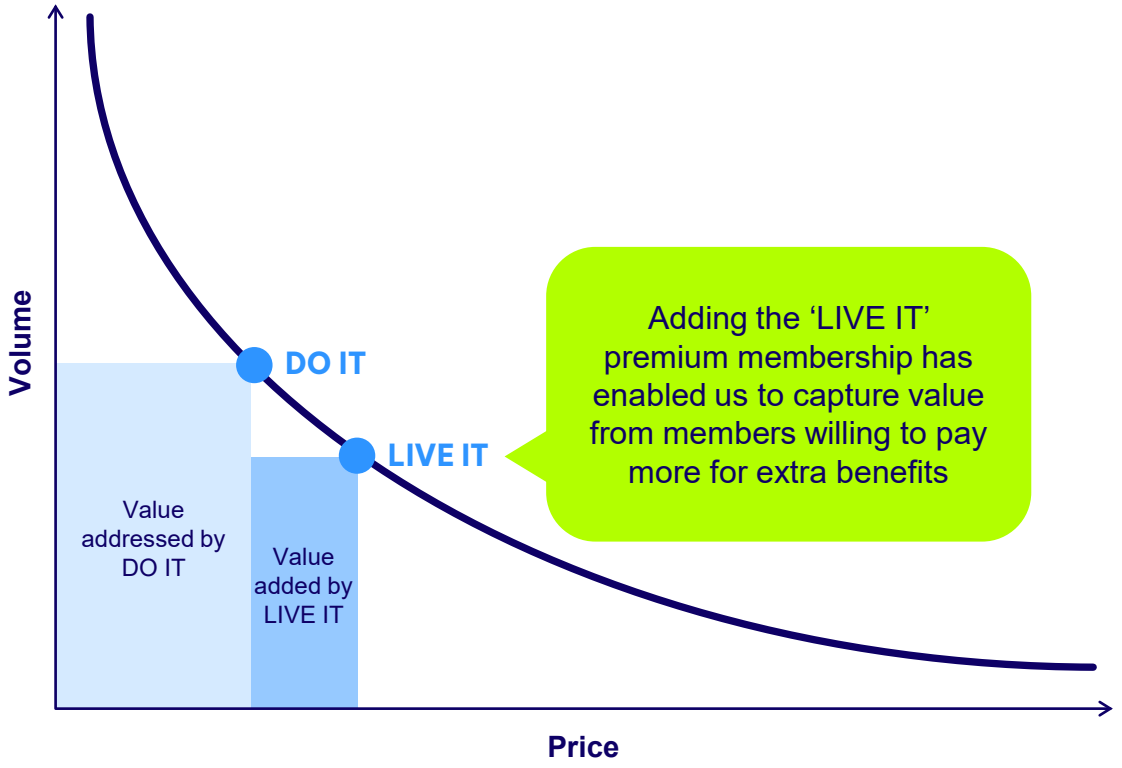
1) Headline price includes VAT

# LIVE IT's success has generated £24m in profit

## LIVE IT penetration
% of total memberships

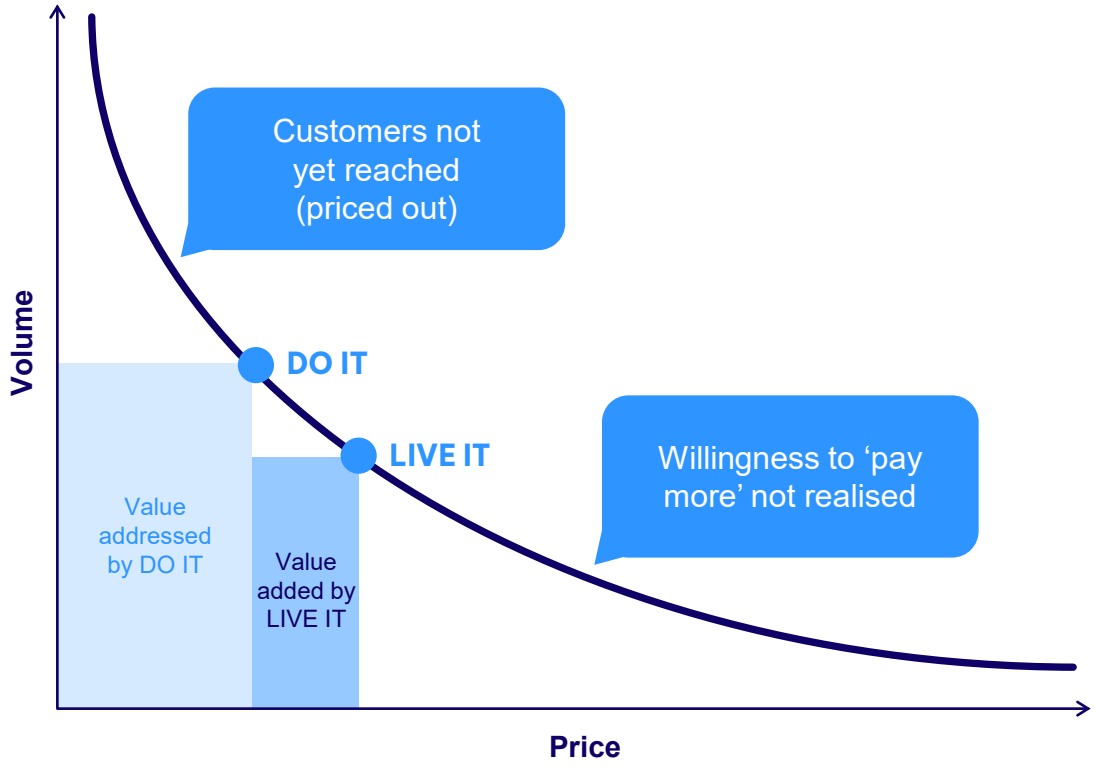



## How LIVE IT has added value
(Illustrative)



# Now we can make another step-change

## Current structure
(Illustrative)




## The opportunity

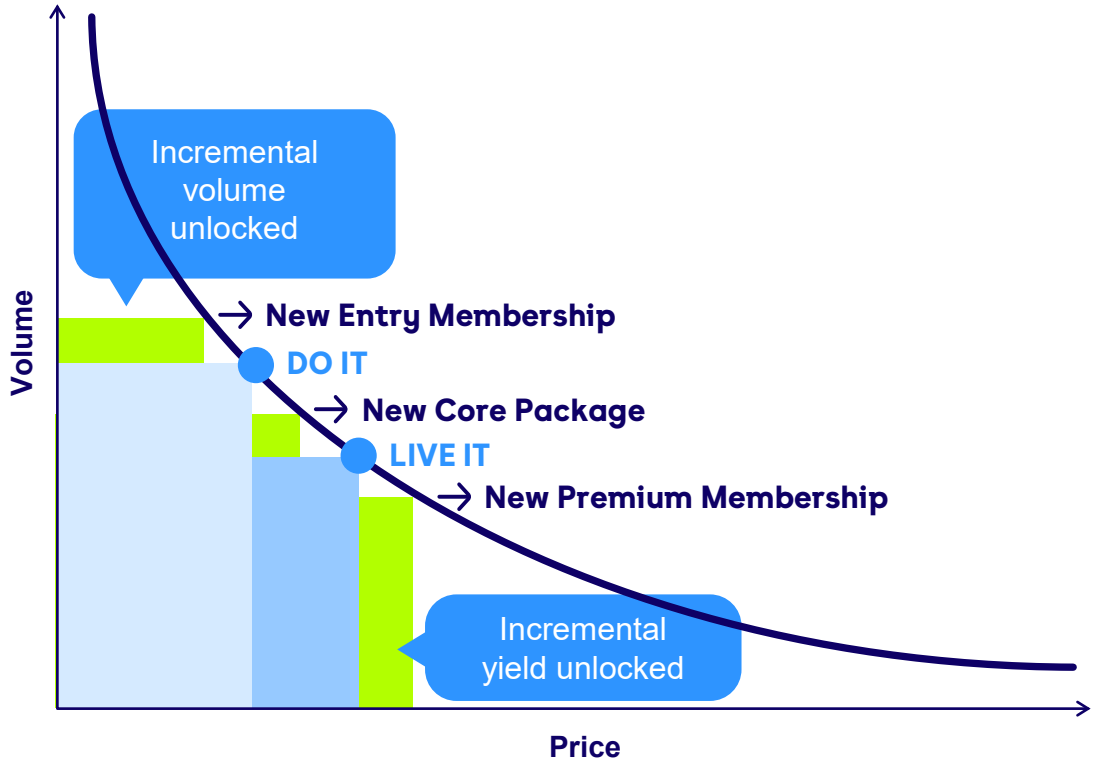
**Volume**
A lower priced membership package can attract incremental volume (net of cannibalisation) from non-gym goers unwilling to pay for DO IT today

**Yield**
There is potential to capture more willingness to pay with an enhanced premium package

# Adding a third core membership brings transformative benefits

## New structure

(Illustrative - relative price points not exact)




## Key benefits

- Potential to drive both incremental volume and yield
- Enables us to close the headline rate gap to competitors with fewer downsides
- Lower entry prices to drive awareness and consideration
- More flexible structure for commercial strategies and local market needs
- Better monetisation of new membership benefits and features

## Timing

- Opportunity unlocked by new tech platform
- Expecting to begin trials before the end of the year
- Phased introduction of new features and benefits
- Value delivered will build over time

# And we will unlock new levels of sophistication

## Investments in technology, data & analytics and brand enable us to unlock new ways to optimise our commercial strategy

**Site-level tailoring** across more elements

More sophisticated strategies for **new site pricing, member repricing, tactical promotions and retention / re-activation**

**Stronger 'test & learn' capability** (volume, pace and agility of trials)

**Data science and modelling** to drive faster and better decision making

**Behavioural economics** to improve the way we communicate and nudge member decisions

Improving **price and value awareness** to attract new and existing gym goers

the gym group

# Q&A

# Break

# Brand

**Emily Kortlang,**
**Group Brand & Marketing Director**

# Why is brand & branding important to The Gym Group?

# Strong brands deliver a competitive advantage

**01**

## Brands are remembered

*Increase consideration*

**02**

## People pay more for brands

*Reduced price sensitivity*

**03**

## Reduce the cost to acquire

*Increase conversion, lowering CPA*

**Increased awareness** → **Increased traffic** → **Higher conversion** → **Improved acquisition**

# To stay strong, brands need to evolve...So do we!

**Brands need to update their identity and meaning to...**

**Attract new audiences & retain core customers**

**Develop new revenue streams**

**Remain competitive**

---

Therefore:

## ...gaining more customers and market share

# What is our challenge in this area?

# We're a great business but the brand isn't strong enough

Trustpilot

Google

**product.**

first month
half price and
no joining fee
are you ready?
Join now at thegymgroup.com

**price.**

**place.**

BEST PLACES TO WORK 2022

**people.**

to break down the barriers of fitness for all

**purpose.**

CERTIFIED CARBON NEUTRAL® company
CarbonNeutral.com

**planet.**

# ‘The Gym’ is generic…

- When we spend to advertise ‘The Gym’, we advertise the gym and grow the category and our competitors
- When consumers search for ‘The Gym’ there is considerable leakage to our competitors (who use the term within their website to improve their SEO ranking)
- ‘The Gym’ lacks distinctiveness and isn’t memorable which harms our brand awareness
- Consumers can’t buy a brand they aren’t aware of (or can’t remember)

the gym
JOIN FROM

# ‘The Gym’ costs us money

| | The Gym | Best in Category |
|---|---|---|
| **Top of Mind**<br>Q: What gyms are you aware of? | 7% | 28% |
| **Awareness**<br>Q: Are you aware of The Gym? | 16% | 54% |

Source: YouGov, Feb 2022

- Brand awareness of ‘The Gym’, is low for a business of our size and scale
- Awareness is the first phase in the marketing funnel, and without this, consumers are unable to consider and therefore purchase your product
- We need a name, that our consumers can remember and we can give meaning to, to build an emotional connection with

# How can we address this challenge?

# A strong brand needs a strong identity & an emotional connection

## Name

Memorable, with significant SEO benefits

## Identity

Distinctive & memorable brand assets

## Essence

Meaning & an emotional connection

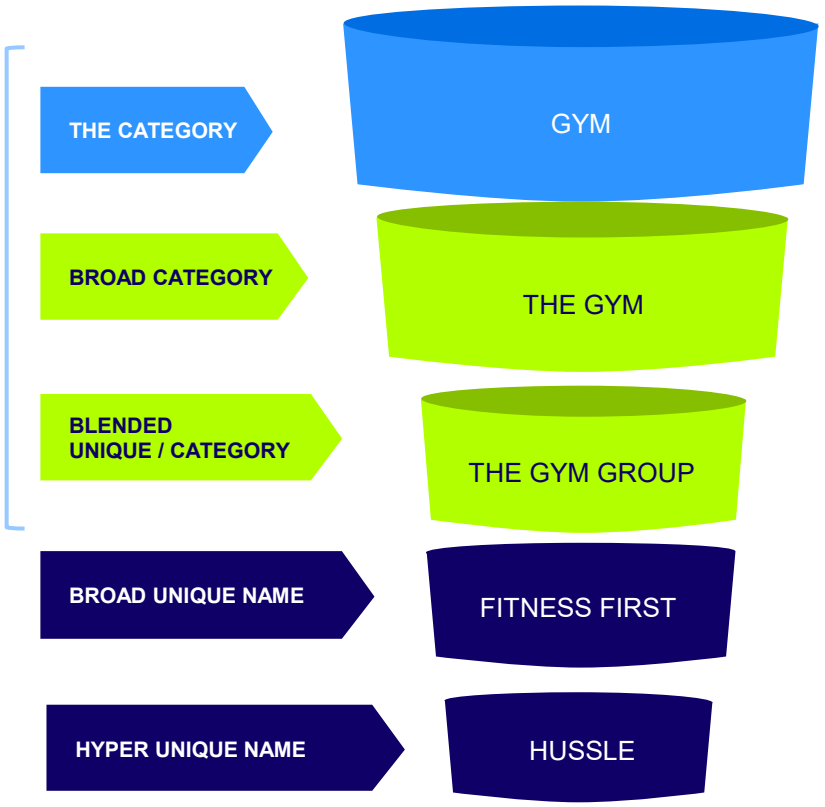
# We're changing our name, logo and our visual identity

Name

the gym

the gym group

# Moving to The Gym Group has significant commercial upsides




**Generic**
high competition, high cost & weak defensibility

**Unique**
low competition, lower cost & stronger defensibility

| | The Gym | The Gym Group | X Gym |
|---|---|---|---|
| Domain Equity | ● | ● | ● |
| CPA | ● | ● | ● |
| Marketing Investment | ● | ● | ● |
| Memorability | ● | ● | ● |
| Consumer Research | - | ● | ● |

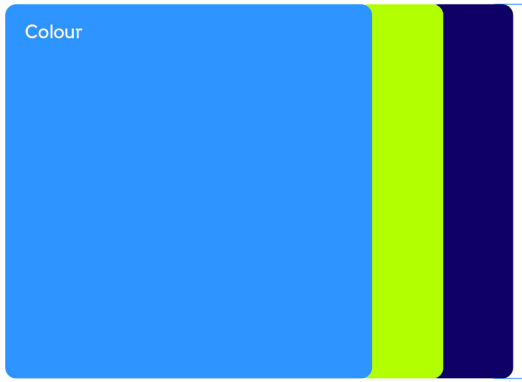
**Moving to The Gym Group allows us to retain play in the category, the broad category but also unlock more brand defensibility by being more unique which is critical as we harvest more brand demand**

# We're creating a new digital first, visual identity system

Identity

Logo

Colour



Typography

stretch.
lift.
join.

Iconography

- Created for the digital consumer journey with AA accessibility rating
- Delivery of a digital first toolkit for digital-centric experiences
- Future proof for expansion of digital experiences & touchpoints needed for a Gen-Z audience

**A new visual identity, anchored in cyan with a logo wordmark, modern colour pallete & custom made font**

# ‘The Gym Group’ enables us to create powerful connections with key audiences

Essence

**01** Groups bring psychological safety and create a sense of community & belonging

**02** The gym-intimidated are looking for gyms to be friendly, approachable and inclusive

**03** Groups are powerful motivators, groups get behind their members and individuals in groups achieve more

**04** This meaning of the *group* allows our brand to resonate with more people, growing our audience

# Our new brand and branding

## Name

## Identity

## Essence

# The new brand and branding will launch this year

## July

### Signage

Signage across our 204 sites updated to The Gym Group

## August

### Web & App

The website and app updated to new visual identity and switched over in August

## September

### Marketing Campaign

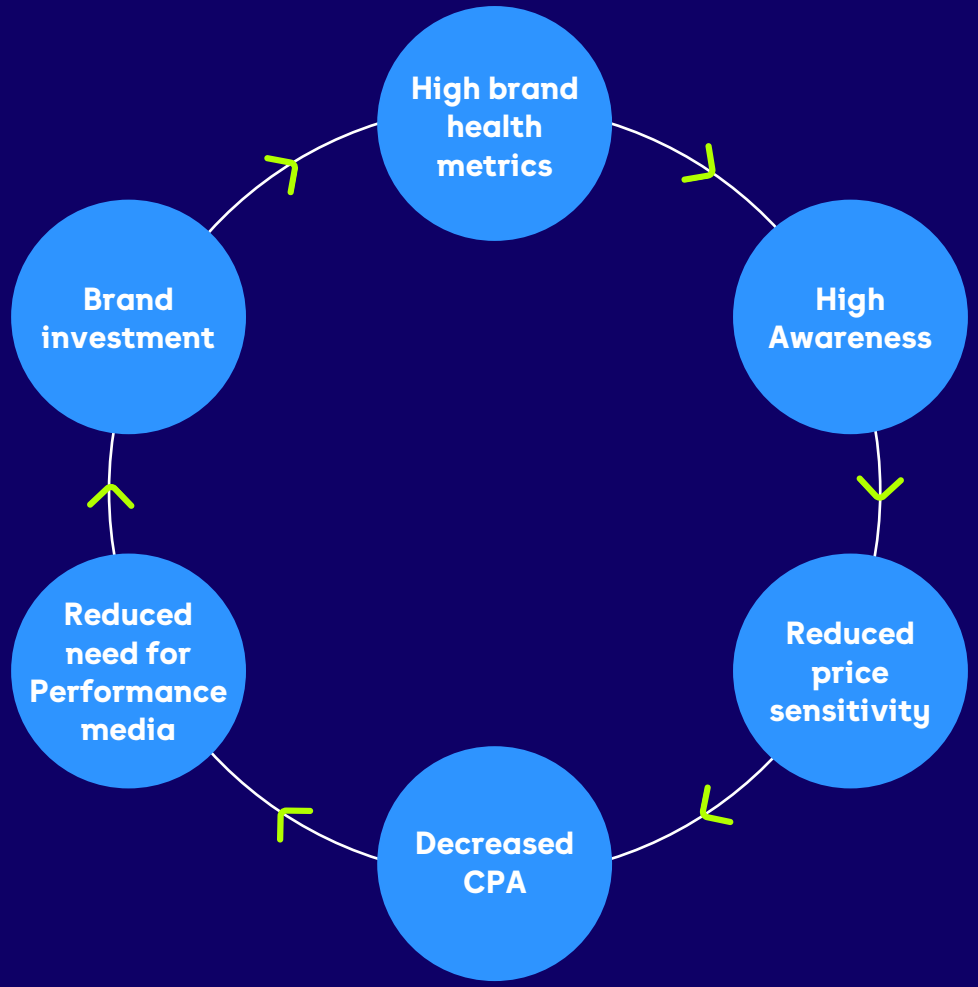
With bought and earned media

# We have a new team that can deliver and realise the value

## Marketing Team

| Emily Kortlang | Seanpaul Walsh | Matt Puddephatt |
|---|---|---|
| | | |
| **Cassie Melrose** | **Amy Binns** | **Greg Mills** |
| | | |

# ‘The Gym Group’ will create new value for the business




## Our new brand delivers:

01 More awareness

02 More consideration

03 More members

04 Outstanding financial performance

# Financial outlook and capital allocation

**Mark George,**
**Chief Financial Officer**

# Financial outlook and capital allocation

**01 Medium term outlook**

02 Capital allocation principles

1) “EBITDA” here refers to EBITDA less Normalised Rent

# Proven financial model: strong returns and self-funding growth

## High-growth business that delivers consistently strong financial returns

### 2019 P&L £million

| | |
|---|---|
| Revenue | 153.1 |
| Cost of sale | (1.4) |
| Gross Profit | 151.7 |
| Fixed costs including rent | (40.6) |
| Controllable Costs | (49.7) |
| Site EBITDA[1] less rent | 61.4 |
| *Site EBITDA[1] margin %* | *40.1%* |
| Central costs | (12.9) |
| Group EBITDA[1] less rent | 48.5 |
| *Group EBITDA[1] margin %* | *31.7%* |

Site EBITDA margin includes mix of mature & immature sites

Central costs at 8.4% of revenue

### 2019 ROIC for mature sites

| | Average Site EBITDA[1] £'000 | ROIC |
|---|---|---|
| Sites open between 2008 and 2013 | 457 | 30% |
| Sites open between 2014 and 2017 | 426 | 31% |
| Total | 437 | 31% |

**In 2019 the business opened 20 new sites (12% growth) funded entirely from operating cash flow**

## Economic model driven by gyms delivering 30% ROIC[2] at maturity (from year 3 onwards)

### Target mature site economics by gym size £000

| | 16,000 sqft | 12,000 sqft | 8,000 sqft |
|---|---|---|---|
| Revenue | 1,100 | 900 | 630 |
| Cost of sale | 11 | 9 | 6 |
| **Gross Profit** | **1,089** | **891** | **624** |
| Fixed Costs including rent | 300 | 250 | 170 |
| Controllable Costs | 355 | 280 | 200 |
| **Site EBITDA[1] less rent** | **434** | **361** | **254** |
| Site EBITDA[1] margin % | 40% | 40% | 40% |
| Initial capital invested | 1,425 | 1,200 | 850 |
| **Target ROIC[2]** | **30%** | **30%** | **30%** |

1) "EBITDA" here refers to EBITDA less Normalised Rent
2) Mature Site Return On Invested Capital (ROIC) calculated as mature site EBITDA less normalised rent divided by initial capital invested to build the site

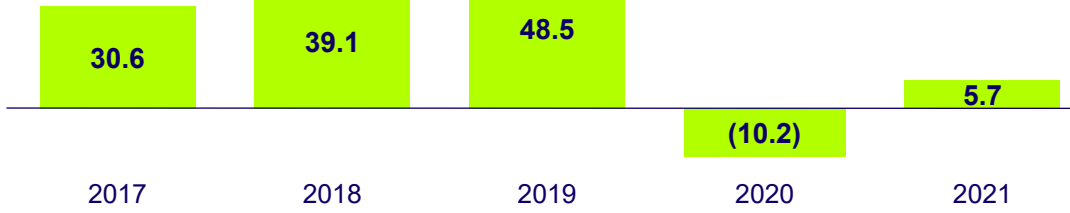
# 2025 targets: 300+ sites and c.£100m EBITDA[1]

## Building blocks to target EBITDA[1]

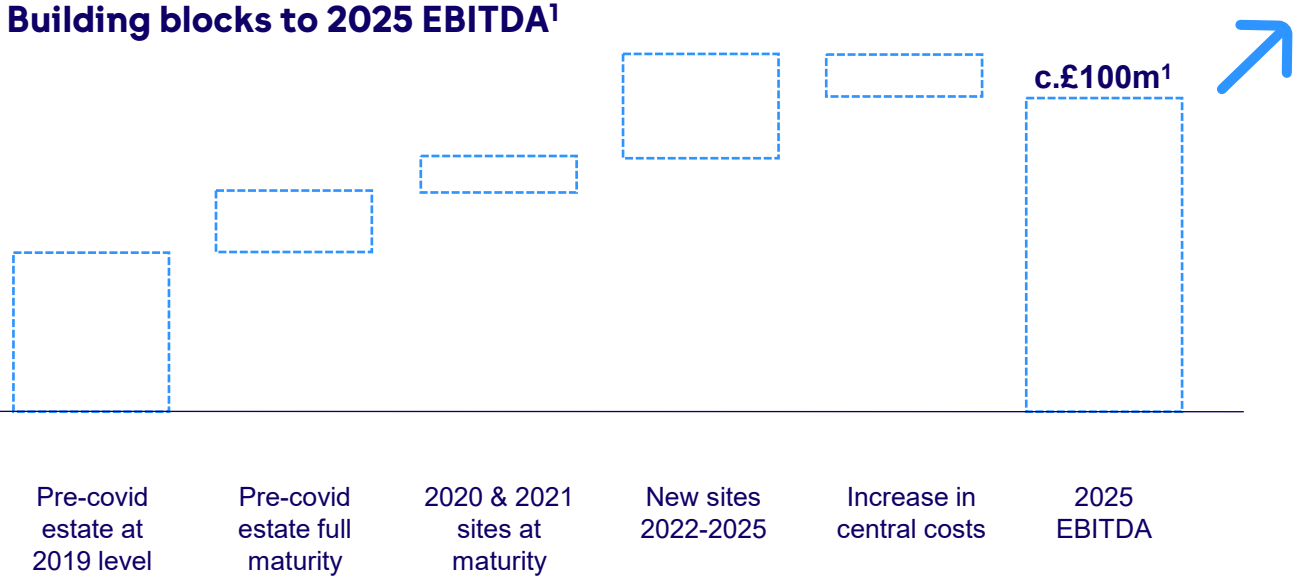
- Recover to pre-Covid levels of profitability per site:
- 28 new sites in 2022 and 25-30 sites per year 2023, 2024 & 2025
- Average size & EBITDA[1] of gyms decreases over time
- 30% mature gym ROIC regardless of size

- Delivers £40-50m PBT[2]
- Latent profitability from 2024 and 2025 sites still to mature
- Targets represent a staging post - further growth to come

### EBITDA[1] 2017-2021




### Building blocks to 2025 EBITDA[1]




1) "EBITDA" here refers to EBITDA less Normalised Rent. "c.£100m" target based on £95-105m range
2) Adjusted Profit Before Tax

# Our plan to 2025

## 2025 targets

**300+**
sites

**£95-105m**
EBITDA

**£40-50m**
PBT

## Financial drivers

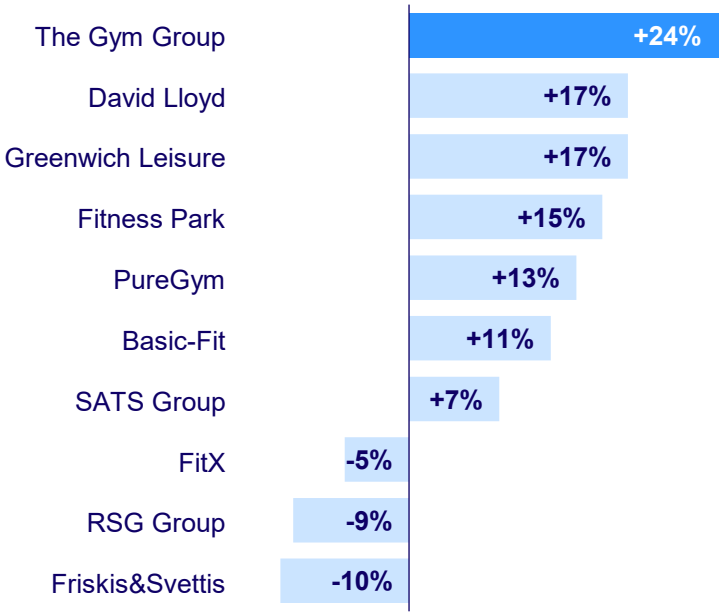
**Revenue Recovery**
of existing estate

**25-30**
new sites per year

# Recovery well underway with more to come

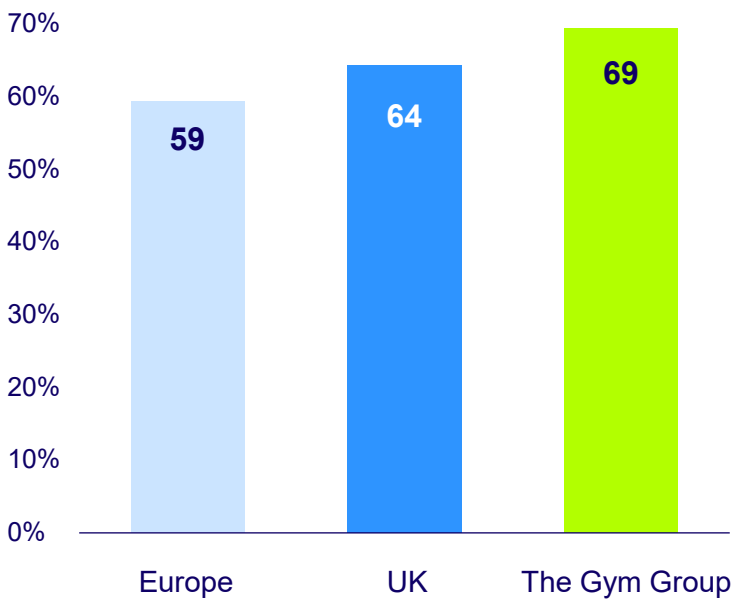
## Outperformed Top 10 European operators in membership recovery

### Membership change 2020-21(%)[1]



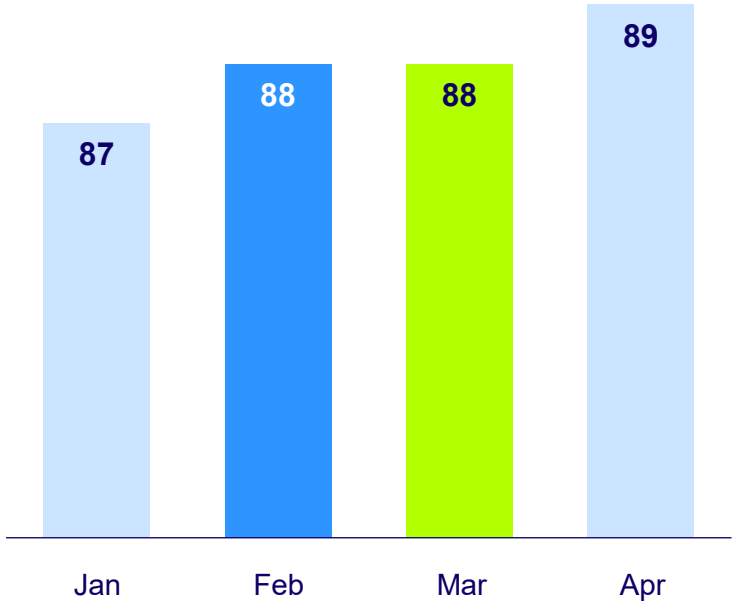

## Revenue recovery above industry average across UK and rest of Europe

### 2021 Industry Revenue % of 2019 Levels[2]




## LFL revenue expected to be at pre-COVID levels by end of 2022

### LFL Revenue by Month (2022 as a % of 2019)[3]




1) Top 10 closing membership #s – ranked by % chg. (2021), Deloitte EHFMR 2022
2) 2021 revenue as a % of 2019 levels, Deloitte EHFMR 2022
3) Comparison of monthly revenue in 2022 with equivalent month in 2019 for sites open as at 31 Dec 2018. Excludes revenue from new Fitness Trainer model that was earned in 2022 but not in 2019

# Factors influencing the shape of recovery

| | Infection concerns? | Shift in working patterns? | Alternative fitness options? | Cost of living squeeze? |
|---|---|---|---|---|
| **Short term** | Fear from catching covid still a factor but down from peak | Work-from-home affecting gyms, particularly city centres | Expansion of digital and outdoor fitness options during lockdowns | Consumers thinking carefully about any new discretionary spend |
| **Medium/ Long term benefits** | Covid has increased the public's focus on health & fitness | Gyms in residential areas offering multi-site access will have advantage | Most people not satisfied with alternatives; likely to complement gym usage | Low cost gyms will attract trading down from mid-market and premium |

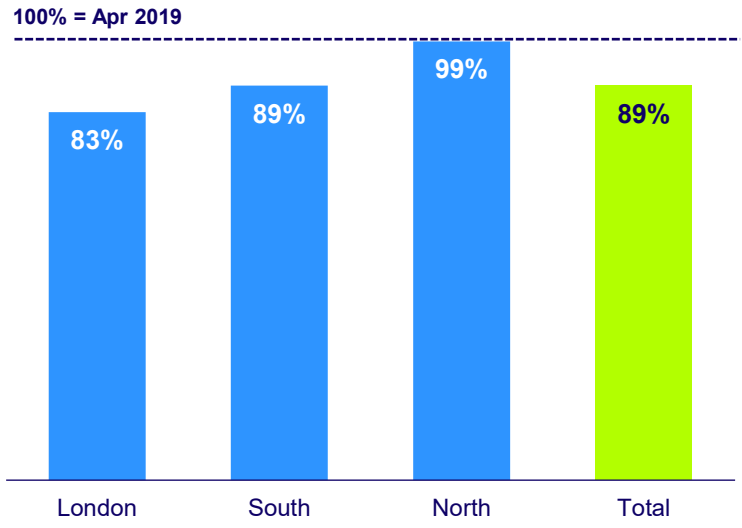
**In the short term some of these factors are affecting the speed of recovery; in the medium-to-long term they will benefit our business**

# Speed of recovery varies across estate

## Disruption of normal routines, particularly working from home, is affecting the speed of return to gyms

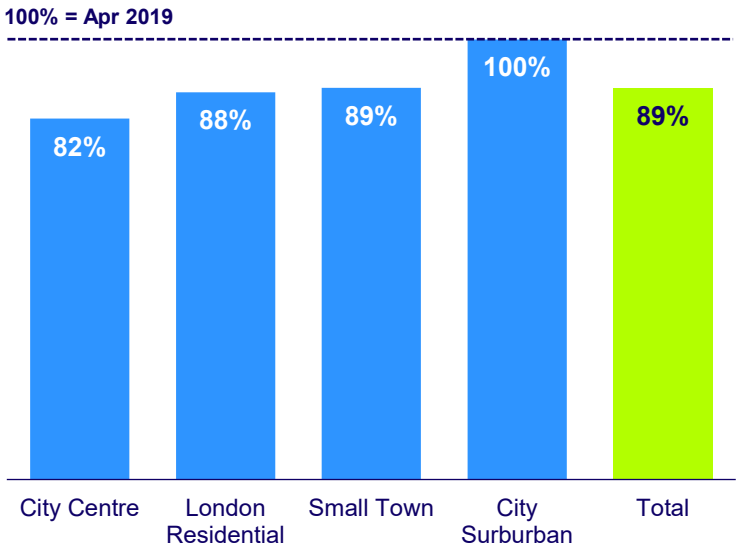
### Regions with highest prevalence of WFH clearly more impacted

#### Apr 22 LFL revenue vs 2019 by region[1]



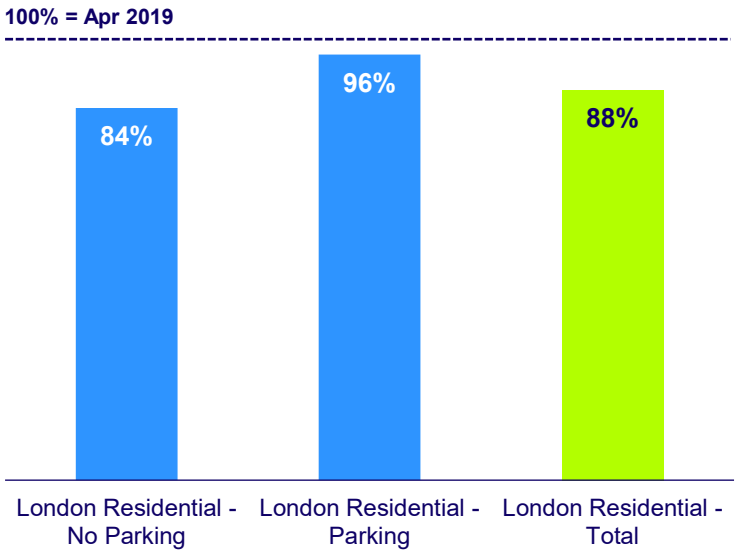

### Office-focused city centre gyms slowest to recover so far

#### Apr 22 LFL revenue vs 2019 by gym type[1]




### Gyms with parking recovering faster than those reliant on public transport

#### Apr 22 LFL revenue vs 2019 by parking[2]

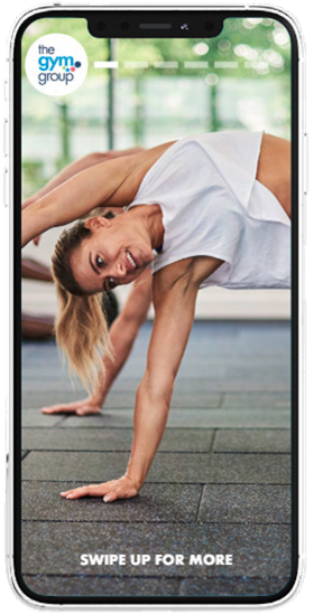


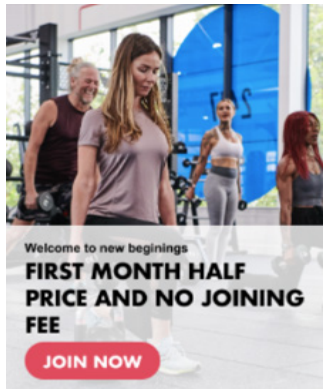

1) For the 155 sites open up to 31st Dec 2018
2) London Residential sites only (No parking – 31 sites, Parking – 18 sites)

# Tactical and strategic actions to support recovery and growth

## Marketing & promotions

Measured and targeted marketing and promotions to attract re-joiners and new joiners when they're ready

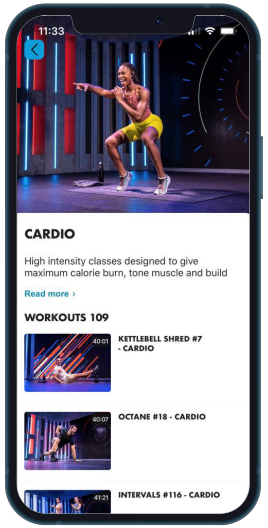





## Improving the member experience

In the gym and in the app – taking a great member offer and making it even better

### Fiit classes in app launched




### Improved class timetable

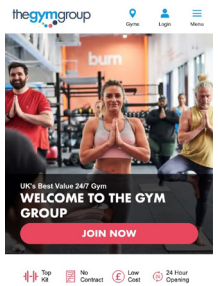
### Focus on member service

## Strategic initiatives

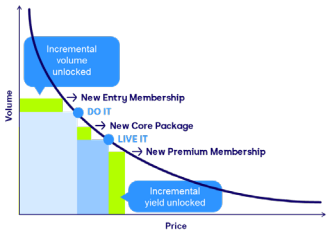
Major projects going live in 2022 that will support membership recovery and drive long-term value

### Brand transformation

### New technology platform




### Yield optimisation



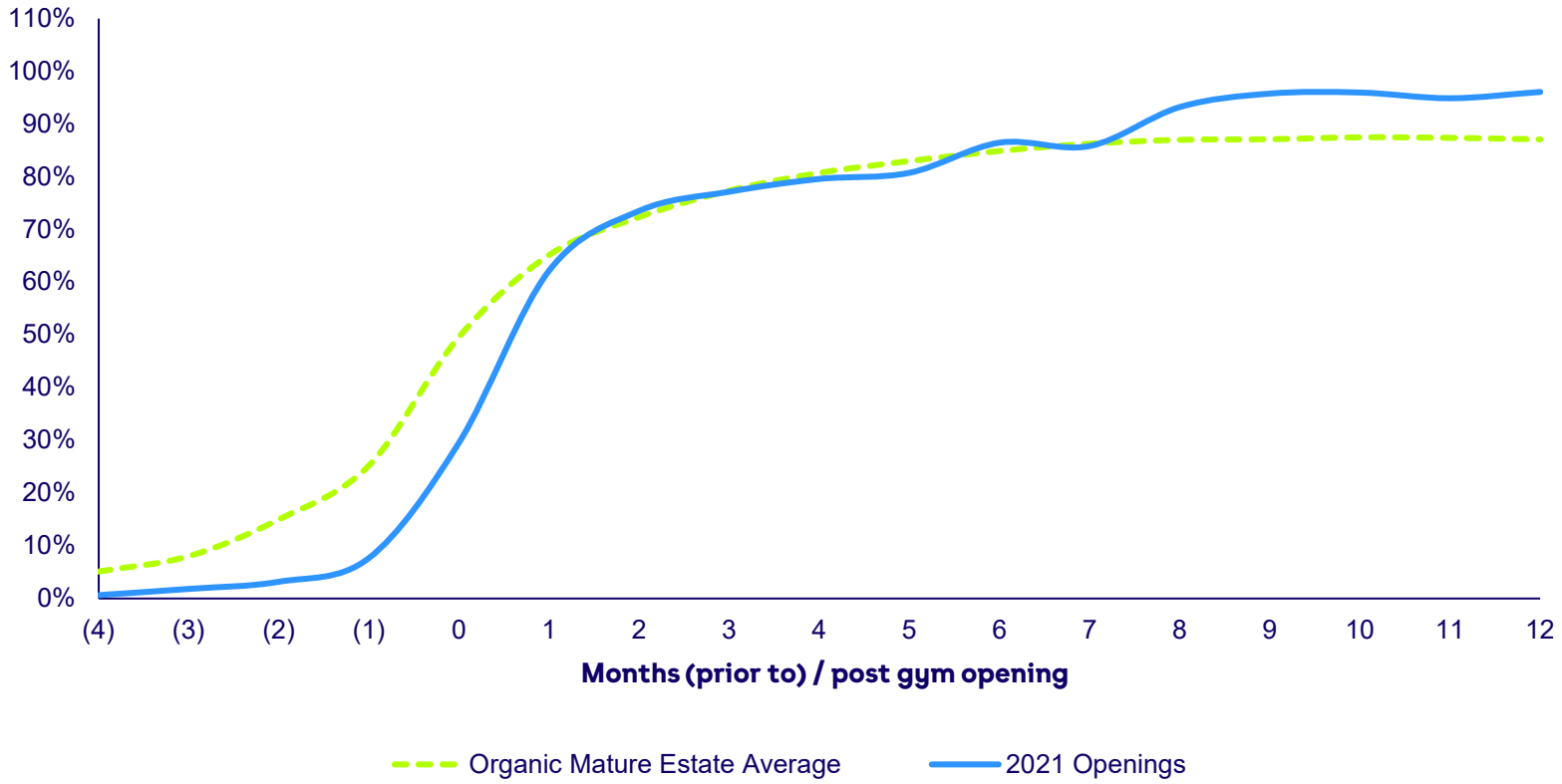
# New sites performing well

Sites opened since the end of lockdowns performing in line with historical norms, indicating they will deliver

**30% ROIC**

once mature

## Membership vs mature target by month of opening



# Financial outlook and capital allocation

01 Medium term outlook

**02 Capital allocation principles**

1) “EBITDA” here refers to EBITDA less Normalised Rent

# Capital allocation principles

## Re-investment

Ongoing investment in physical and digital product to maintain outstanding member experience

**Maintenance capex @**
**6%**
**of revenue**

**Tech capex @**
**3%**
**of revenue**

## Growth capex

Investing in high-returning growth opportunities

**Invest where we can deliver return on capital[2] of**
**30%+**

**Medium term expectation (not a cap) of**
**25-30**
**new sites per year**

## Leverage and cash

Sensible leverage with excess cash returned to shareholders

**Target leverage**
**1.5X – 2.0X**
**(net debt[3] / EBITDA[1])**

**Excess cash**
**returned**
**to shareholders**

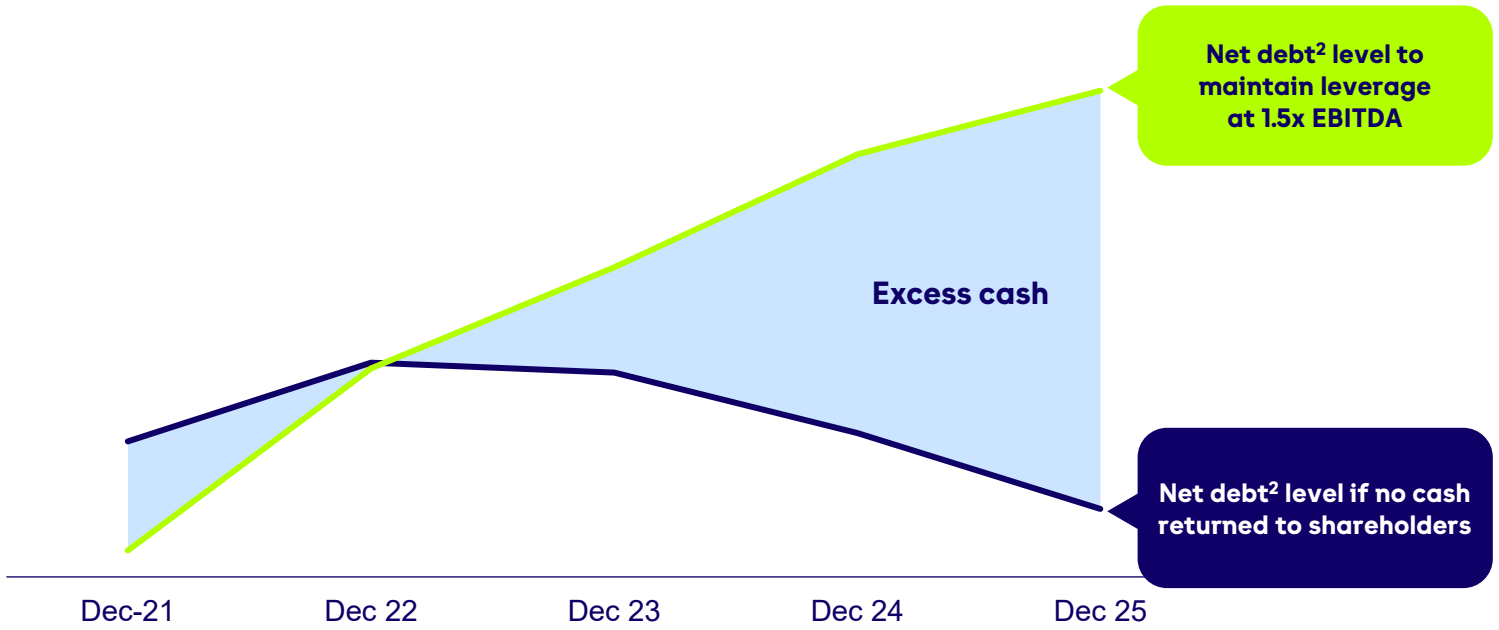
1) "EBITDA" here refers to EBITDA less Normalised Rent
2) Mature Site Return On Invested Capital (ROIC) calculated as mature site EBITDA less normalised rent divided by initial capital invested to build the site
3) "Net Debt" here refers to Non-Property Net Debt (i.e. excludes IFRS16 lease indebtedness)

# Delivering strong growth and free cash flow

**In 2022,**
with EBITDA[1] per site recovering to pre-covid levels and with significant growth capex, net cash flow will be negative

**In 2023,**
the business starts to generate net cash flow, which grows in subsequent years, reducing net debt rapidly

**Net Debt[2] £**



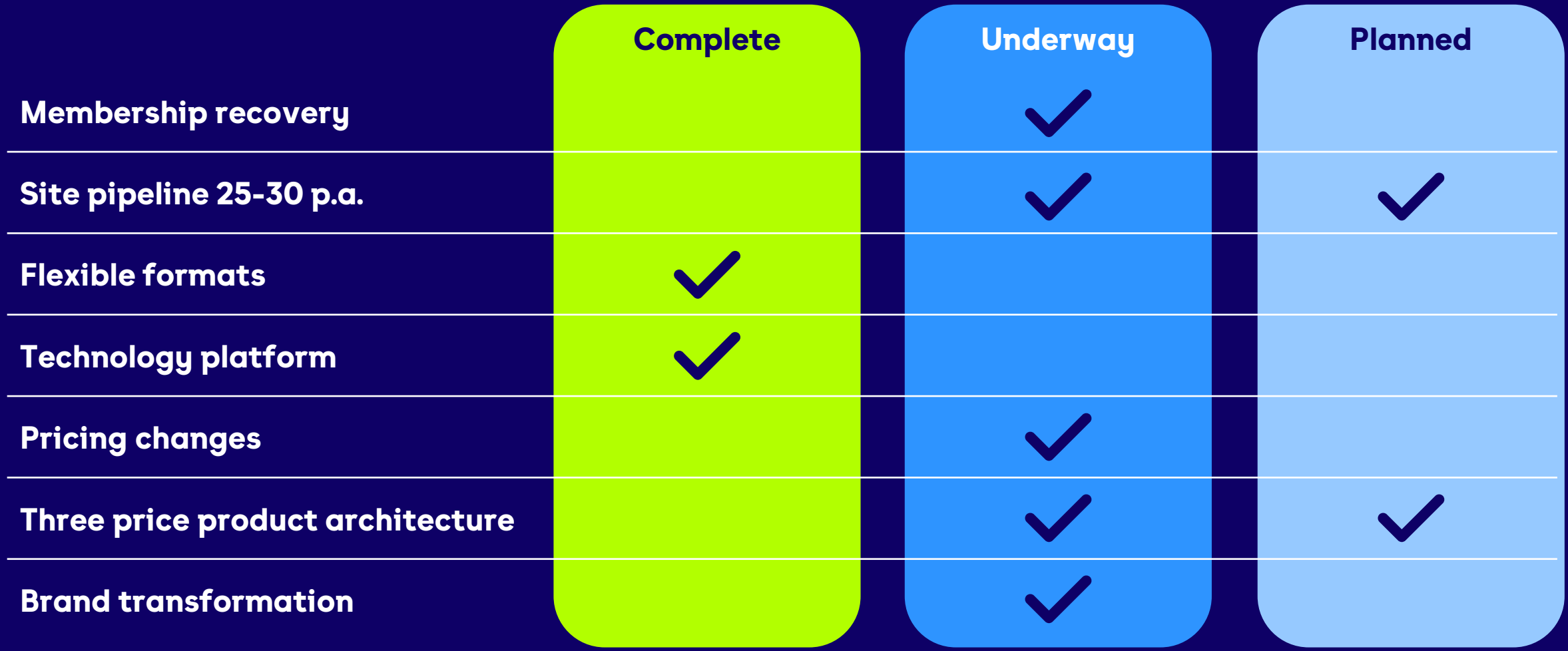

**Leverage will drop below 1.5x EBITDA in the next 12 months, presenting an opportunity for potential cash returns to shareholders in 2023**

1) "EBITDA" here refers to EBITDA less Normalised Rent
2) "Net debt" here refers to Non-Property Net Debt, which excludes the IFRS16 liabilities associated with property leases

# Closing remarks

**Richard Darwin,**
**Chief Executive Officer**

# A clear plan to achieve c. £100m EBITDA[1] in 2025




1) "EBITDA" here refers to EBITDA less Normalised Rent. "c.£100m" target based on £95-105m range

# Summary

**01**

Resilient business well-positioned in low cost gym market and recovering well

**02**

Maximise site growth potential from market opportunity

**03**

Immediate opportunity around yield

**04**

Brand and tech are key enablers to running a successful low cost business

**05**

Route to £40-50m PBT and £95-105m EBITDA in 2025

**06**

Capital allocation principles clearly defined with excess cash returned to shareholders

the gym group

# Q&A

# Capital Markets Day

Thank you