4 August 2022

The Gym Group plc
(‘The Gym Group’, ‘the Group’ or ‘the Company’)

2022 Interim Results

Strong recovery continues; good progress with growth strategy

The Gym Group, the nationwide operator of 215[1] low cost, high quality, 24/7 no contract gyms, announces its interim results for the six month period ended 30 June 2022.

Key financial metrics[2]

	Six months ended 30 June 2022	Six months ended 30 June 2021	Movement
Revenue (£m)	84.2	29.3	187%
Group Adjusted EBITDA (£m)	33.5	6.7	400%
Group Adjusted EBITDA Less Normalised Rent (£m)	17.0	(8.1)	n/a
Adjusted Loss before tax (£m)	(4.7)	(27.4)	83%
Basic and Diluted Adjusted Loss per share (p)	(0.8)	(12.6)	94%
Statutory Loss after tax (£m)	(4.4)	(21.8)	80%
Basic and Diluted Statutory Loss per share (p)	(2.6)	(13.1)	80%
Free cash flow (£m)	6.9	(4.4)	n/a
Non-Property Net Debt (£m) (as at period end)	(57.6)	(60.4)	5%

Financial highlights

- **Strong financial recovery** with Group Adjusted EBITDA Less Normalised Rent of £17.0m for H1 2022 (H1 2021: loss of £8.1m) up £25.1m vs H1 2021; last 12 months (LTM) Group Adjusted EBITDA Less Normalised Rent of £30.8m at June 2022
- **Member numbers building well** and in line with seasonal norms**;** 790,000 members at 30 June 2022, up 10% from December 2021 (Dec 2021: 718,000); like-for-like revenue in June 2022 of 90%[3] versus June 2019
- **Free cash flow of £6.9m in H1**; leverage ratio[4] reduced to 1.9x at June 2022 (March 2022: 2.2x)
- **Yield strengthened** while still remaining the lowest priced UK low cost gym operator; average price of a standard DO IT membership in June 2022 was £20.89 (Dec 2021: £19.27); premium LIVE IT penetration was 28.7% (Dec 2021: 27.1%)

Strategic highlights

- **Growth strategy for FY25 launched at the Capital Markets Day** with key targets of 300+ sites, £95-105m Group Adjusted EBITDA Less Normalised Rent, and £40-50m Profit before Tax
- **Site expansion plan on track** with seven sites opened in the first half of the year and four opened since period end; will deliver 28 in the year, including the conversion of acquired sites
- **Strong operational performance** with continuing record member satisfaction scores and high staff engagement
- **New technology platform launched in April 2022** already driving higher website traffic and conversion
- **Brand transformation in Q3** including rebranding of estate and website, and launch of creative platform

Outlook

- **Trading in July** continued to be in line with our expectations
- **September and October 2022** is next key period of membership growth as students return to in-person education and working patterns continue to normalise
- **Site pipeline building well** with at least 25-30 openings targeted for 2023 and 2024

[1] As at 3 August 2022 - number stated net of one closure; 212 sites as at 30 June 2022 including three acquired Fitness First sites (31 December 2021: 202; 30 June 2021: 190)
[2] For a summary of KPI definitions used in the table see the ‘Definition of non-statutory measures’ section
[3] 151 sites open at December 2018 excluding four London city centre sites
[4] Leverage ratio is defined as the ratio of Non-Property Net Debt to Group Adjusted EBITDA Less Normalised Rent for the last 12 months

Richard Darwin, CEO of The Gym Group, commented:

"We are pleased with our financial and operational performance during the first half of 2022, demonstrating the resilience of our business. People across the country rely on our gyms for their physical and mental health, and demand for our affordable, high quality fitness experience is recovering well. As we expand, we welcome more members in communities across the UK, and we are making further progress with our ambitious growth plan, with 28 new gym openings scheduled for 2022. The future is bright for The Gym Group – our new technology platform, combined with our brand relaunch later this month, positions us well to capture the demand for affordable fitness and take advantage of this once in a generation opportunity for growth."

A live audio webcast of the analyst presentation will be available at 9:30 a.m. today via the following link:

https://stream.brrmedia.co.uk/broadcast/62c6a2101c26317a5ff3f236

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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.

Chief Executive's Review

Our sites have now been open for just over a year since the lockdowns of early 2021 and trading is recovering well, in line with our expectations. We have made good progress with our new gym rollout plan to take advantage of the demand for high quality, affordable gyms. We now have 215[5] sites open, with further openings scheduled for the coming months, and we remain on track for our target of 28 in the year.

Our key operational metrics are stronger than ever, with member satisfaction at an all-time high of 58.5% and rejoiner rates at 45%, demonstrating the willingness of members to come back quickly following a positive experience. Our upgraded technology platform is in place, enabling us to attract and convert new joiners and facilitate further growth. This is a business that is well-placed to capitalise on the market opportunity.

Recovering membership and revenue
At the end of June, our membership number had increased to 790,000 up 10% versus the start of year position of 718,000. Average members were 810,000, reflecting a 10% increase versus Q4 of 2021. Like-for-like revenues in June (for the 151 sites open at the end of 2018 excluding four London city centre sites) was 90% of the pre-COVID level. This level of performance is in line with our expectations and seasonal norms.

The member recovery is reflected in the improved financial performance. Group Adjusted EBITDA Less Normalised Rent was £17.0m in the first half, up £25.1m compared to H1 2021 when gyms were closed for three and a half months of the period. In the second quarter, the Group Adjusted EBITDA Less Normalised Rent was £11.5m, equivalent to an annualised run rate of £46m, which gives us confidence in delivering in line with our expectations for the full year. The performance in the first half of the year does not yet translate into profit overall, with an adjusted loss before tax of £4.7m (H1 2021: loss of £27.4m) and a statutory loss after tax of £4.4m (H1 2021: loss of £21.8m).

We expect further recovery in membership and revenue in the second half of the year, as working environments continue to normalise, and as we benefit from the operational investments and yield management improvements we have made in the first half. We are excited about the campaigns in place for our next key member recruitment season in September and October which focuses predominantly on students returning to universities.

Balance sheet strength
Our leverage position is strong with Non-Property Net Debt at 30 June 2022 of £57.6m (31 December 2021: £44.1m; 30 June 2021: £60.4m). In line with the financial targets set out at the recent Capital Markets Day, we are aiming to operate within a leverage ratio of 1.5x – 2.0x Non-Property Net Debt : Group Adjusted EBITDA Less Normalised Rent. On a last 12 months (LTM) Group Adjusted EBITDA Less Normalised Rent basis, our leverage ratio at 30 June 2022 was 1.9x, down from 2.2x at 31 March 2022[6] (31 December 2021: 7.7x). Our strong recovery means that we have quickly returned to within our target range, albeit we expect to remain towards the top end of the range in H2 as we incur expansionary capital expenditure as a result of our rollout. We expect, with continued recovery and growth, that the ratio will continue to fall which will give us future flexibility in our capital allocation. The £57.6m of Non-Property Net Debt gives us good levels of liquidity against our current committed facilities of £92.5m (including finance leases).

Growth strategy and progress towards FY25 targets
At the Capital Markets Day on 19 May 2022, we set out our growth strategy and key FY25 targets, and outlined our four key strategic priorities, the enablers of growth and the significant work completed over the past two years that will allow us to take advantage of what we see as the most exciting growth opportunity in the Group's history. We are encouraged by the progress we are making to deliver our key FY25 targets which include:

- 300+ sites
- £95-105m Group Adjusted EBITDA Less Normalised Rent
- £40-50m Profit before Tax.

The materials presented are available on the website (tggplc.com) and are a detailed examination of the opportunity for our business over the next few years.

Attractive market opportunity
We believe the UK low cost gym market has the potential to reach 1,700-1,900 sites by 2030, albeit this growth will partly depend on the continuing availability of supply of suitable premises. In the near term, we continue to see significant opportunity as our pipeline for 2023 and 2024 is building well.

The recently published Leisure Database Company (LDC) report on the market estimated that The Gym Group's market share at March 2022 was 27.5%, up from 23.5% in March 2019. LDC estimated that the total low cost market at March 2022 was 741 sites (up from 683 in 2019), with increases from The Gym Group and other established operators being partly offset

[5] As at 3 August 2022 - number stated net of one closure; 212 sites as at 30 June 2022 including three acquired Fitness First sites (31 December 2021: 202; 30 June 2020: 190)
[6] Unaudited; extracted from Management Information

by some operators moving out of low cost (having moved their pricing above the LDC definition of low cost), and partly by site closures of some franchise and smaller operators. Since the report was released, we have further increased market share to 28.0% at the end of June 2022.

Our positioning in the market as a high quality, affordable gym product priced at an average headline price of £20.89 is compelling and will enable us to continue to grow market share over the coming years.

Site rollout and new gym format
We are pleased with the speed and quality of our site rollout, having opened seven new gyms across the country in the first half of the year, including sites in East Glasgow, Norbury and Basildon, as well as taking on three Fitness First sites in London. We have opened a further four gyms in July 2022, bringing the total number of open sites to 215[7]. We have a further seven openings scheduled for the remainder of the third quarter and are on track for our target of 28 in the year and over 300 by FY25. The new gyms opened in the first half are performing well.

Our ability to expand rapidly is partly driven by our ability to optimise formats and open sites of anything between 7,000 and 21,000 sq. ft. This increased flexibility of gym format enables us to access more catchments across the country. The current property market has also been very beneficial for us, with a good level of supply of high quality locations available at affordable rents. We expect that around 60% of our sites opening in 2022, including two of the three Fitness First sites that we acquired in March 2022, will be on retail parks where our gyms have a track record of performing well.

Developing the technology platform
In the first half, we launched our new technology platform with mobile-centric developments of the website and the members area and further enhancements to the app. The immediate transition to the new platform has been very successful, with the team achieving all its post-launch goals and maintaining strong levels of web traffic and Google rankings. Improvements in site speed and the ability to identify and remove areas of friction during the join journey are already driving SEO benefits and increased conversion rates. Around one in ten visits now converts to a new joiner. We expect to continue to see the benefits of this investment over the coming months, particularly during our more active marketing periods. Our app score rating is 4.7 on Apple and 4.5 on android, among the highest in the industry.

Optimising yield
During the period, we conducted extensive research with members and non-members, as well as detailed analysis in partnership with a well-known industry consultant. The research indicated that the perceived value of what we deliver and the quality of our proposition are seen as greater than the cost charged. In short, the value perception of our product suggested that we had an opportunity to improve yield. As a result, in the first half of the year, we put through an average headline price increase of £1.62 for new members across the majority of our sites, as well as some selective repricing of the base membership. The effect of these rises takes a while to filter through which is why we expect like-for-like revenue to rebound more strongly in H2. Despite the increases, we remain the lowest priced low cost gym operator in the UK, ensuring that we provide excellent value for money.

Rolling out the new brand
The brand transformation work is well underway and our members are responding positively to the changes. All new sites are now being opened with the new visual identity, and we have commenced the task of rebranding the existing estate. The new creative platform work with our agencies will be launched as part of our September and October marketing campaign, with further creative campaigns planned for the important January and February peak trading period. We are excited about the opportunities available to us under our modern, vibrant and inclusive brand and visual identity, and I am confident that this brand transformation will result in greater awareness and position us to trade very well across all channels and ultimately drive revenue growth.

Sustainability
We are very proud of our sustainability work centred around our purpose of breaking down barriers to fitness for all. The Gym Group is dedicated to increasing the social value it generates while helping members to get great value from their gym membership through motivational initiatives to drive the percentage of members visiting our gyms at least four times per month. Initial results are encouraging and in the first six months of 2022, we have seen an uplift in the percentage of members exceeding the four times per month threshold.

We are pleased to be the first carbon neutral gym chain in the UK and, following our carbon reduction and net-zero commitment to SBTi, we are now developing our pathway for verification by SBTi, whilst at the same time implementing energy saving programmes like our recent '20º is Plenty' campaign which has seen us increasing the temperature in our gyms during the summer months from 19ºC to 20ºC.

People
Maintaining our inclusive, supportive culture is key to the success of our gyms and our future growth. We have been pleased to receive several awards in recognition of this, particularly from our own employees: we were voted in the Top 25 for engagement by Glassdoor and also the Top 25 for Senior Leadership through the pandemic. Our engagement scores are

[7] As at 3 August 2022 - number stated net of one closure; 212 sites as at 30 June 2022 including three acquired Fitness First sites (31 December 2021: 202; 30 June 2020: 190)

as high as they have ever been. I would like to thank all our employees for their tremendous work in setting up our business for sustained success over the next few years.

On 1 July 2022, Mark George our CFO left to join Wickes Group plc. Mark made a tremendous impact on our business over nearly four years – I am very grateful for his tireless efforts during the COVID disruptions to shore up our finances and ensure we were in a position to prosper once the pandemic was over. Luke Tait will take over in mid-October – Luke brings a wealth of commercial experience from SSP plc and Nando's and will, I am sure, build on the exceptionally strong foundations in Finance that Mark has established.

On 25 July 2022, Penny Hughes retired from the Board and has been succeeded by Founder Director, John Treharne. Penny joined The Gym Group just after the IPO in 2015 and has been an inspirational leader of the Board, helping the business to scale successfully and build a team capable of delivering long term growth. John naturally brings to the role a tremendous amount of fitness industry insight and experience, and I look forward to working closely with him to implement our growth strategy.

Outlook

We saw a compelling market opportunity as soon as it was clear that there was a strong route out of the pandemic via the vaccine programme; and we have acted swiftly to capitalise on this opportunity. This has meant not only expanding our site portfolio, but also putting in place the necessary infrastructure improvements, such as the technology platform and the re-branding, that will enable us to deliver on our growth ambitions in the coming years. I have never been more confident about the quality and impact of the work we are doing and the results that it will deliver. With a high margin model and value price point, we are in a strong position to withstand the cost of living pressures impacting all UK consumers and, as a result, we will continue to expand rapidly and offer affordable fitness to thousands more members across the country over the coming months and years.

Richard Darwin
Chief Executive Officer
4 August 2022

Financial Review

Presentation of results

This financial review uses a combination of statutory and non-statutory measures to discuss performance in the period. 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 periods and provide a clearer link between the Financial Review and the Condensed Consolidated Financial Statements, we have also adopted a three-column format to 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 that are not considered to be incurred in the normal course of business. These are classified as non-underlying items on the face of the Group Income Statement within their relevant category. Non-underlying items include restructuring and reorganisation costs (including site closure costs), costs of major strategic projects and investments, impairment of assets, amortisation and impairment of business combination intangibles, profit/loss on disposal of assets and businesses, revaluation gains or losses on borrowings, and refinancing costs. Further details on non-underlying items are provided later in this report.

Summary

The first half of 2022 has been a period of strong recovery for The Gym Group with member numbers growing from 718,000 at 31 December 2021 to 790,000 at 30 June 2022, up 10%. Our gyms have been open for the full six month period (closed for three and a half months of the prior year period), although trading in the early part of the year was adversely impacted by the ongoing COVID pandemic and in particular the prevalence of the Omicron variant at that time. The extensive closure period in the prior year means that the year on year comparison is not always representative.

We opened seven new gyms in the first half of 2022 and acquired a further three from Fitness First, taking our total estate to 212 gyms as at 30 June 2022. A further four gyms have been opened since 30 June 2022 and we remain on track to deliver 28 new sites in total in 2022. The gyms that we have opened to date are performing well.

	Six months ended 30 June 2022	Six months ended 30 June 2021	Movement
Total number of gyms at period end	212	187	13%
Total number of members at end of period ('000)	790	730	8%
Revenue (£m)	84.2	29.3	187%
Group Adjusted EBITDA (£m)	33.5	6.7	400%
Group Adjusted EBITDA Less Normalised Rent (£m)	17.0	(8.1)	n/a
Adjusted Loss before Tax (£m)	(4.7)	(27.4)	83%
Adjusted Loss for the period (£m)	(1.5)	(20.9)	93%
Statutory Loss before Tax (£m)	(8.6)	(28.5)	70%
Statutory Loss for the period (£m)	(4.4)	(21.8)	80%
Group Operating Cash Flow (£m)	9.4	(3.4)	n/a
Free Cash Flow (£m)	6.9	(4.4)	n/a
Non-Property Net Debt (£m)	(57.6)	(60.4)	5%

Results for the period

	Six months ended 30 June 2022			Six months ended 30 June 2021		
	Underlying result £m	**Non-underlying items £m**	**Total £m**	**Underlying result £m**	**Non-underlying items £m**	**Total £m**
Revenue	84.2	-	84.2	29.3	-	29.3
Cost of sales	(0.8)	-	(0.8)	(0.5)	-	(0.5)
Gross profit	**83.4**	**-**	**83.4**	**28.8**	**-**	**28.8**
Other income	0.3	-	0.3	6.5	-	6.5
Operating expenses before depreciation, amortisation and impairment	(50.8)	(1.2)	(52.0)	(30.2)	(0.1)	(30.3)
Depreciation, amortisation and impairment	(29.4)	(0.1)	(29.5)	(24.4)	-	(24.4)
Operating profit/(loss)	**3.5**	**(1.3)**	**2.2**	**(19.3)**	**(0.1)**	**(19.4)**
Finance costs	(8.2)	(2.6)	(10.8)	(8.1)	(1.0)	(9.1)
Loss before tax	**(4.7)**	**(3.9)**	**(8.6)**	**(27.4)**	**(1.1)**	**(28.5)**
Tax credit	3.2	1.0	4.2	6.5	0.2	6.7
Loss for the period attributable to shareholders	**(1.5)**	**(2.9)**	**(4.4)**	**(20.9)**	**(0.9)**	**(21.8)**
Loss per share						
Basic and diluted (p)	**(0.8)**		**(2.6)**	**(12.6)**		**(13.1)**

Revenue

Revenue in the period increased to £84.2m (H1 2021: £29.3m), reflecting the increased number of open trading days compared to the prior year when gyms were closed for three and a half months, as well as higher average membership numbers throughout the period and increased yields. Average membership numbers in the six months to 30 June 2022 were 810,000. We closed the period with 790,000 members, up 10% on 31 December 2021 and in line with seasonal norms.

Revenue recovered well in the first half of the year despite ongoing uncertainty around the Omicron variant in the early peak trading period. The average headline price of a standard DO IT membership increased to £20.89 in June 2022 compared with £19.11 in June 2021 and £19.27 in December 2021, largely as a result of the price increases for new members that we put through in April across the majority of our sites, as well as some selective repricing of the base membership. Despite the increases implemented, we remain the lowest priced low cost gym operator in the UK.

In June 2022, the proportion of members taking our premium LIVE IT membership was 28.7% compared with 24.7% and 27.1% in June 2021 and December 2021 respectively. Average Revenue Per Member Per Month (ARPMM) in the first half of 2022 was £17.36 compared with £17.60 in the second half of 2021, with the reduction reflecting a greater level of promotional activity undertaken in the first quarter to support peak season trading. ARPMM in the second quarter of 2022 was £18.09.

Cost of sales

Cost of sales increased to £0.8m in H1 2022, (H1 2021: £0.5m) as a result of the revenue recovery and increased trading days. However, the year on year increase was lower than expected as a result of improved stock management.

Other income

Other income in the period amounted to £0.3m (H1 2021: £6.5m). The prior period income consists largely of income received under the various COVID-related Government grant schemes. As all gyms were open throughout the current period, no grants have been received in H1 2022.

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

	Six months ended 30 June 2022 £m	Six months ended 30 June 2021 £m
Site costs before Normalised Rent	41.8	21.5
Add: Normalised Rent	16.5	14.8
Site costs including Normalised Rent	**58.3**	**36.3**
Central support office costs	8.4	7.1
Long-term employee incentive costs	0.6	1.6
	67.3	45.0
Less: Normalised Rent	(16.5)	(14.8)
Underlying operating expenses before depreciation, amortisation and impairment	**50.8**	**30.2**

Site costs including Normalised Rent
Site costs including Normalised Rent in H1 2022 increased to £58.3m (H1 2021: £36.3m). Variable costs, in particular in respect of cleaning, marketing, utilities and repairs and maintenance increased as a result of the return to more normal operating conditions, with sites open for the whole period. Staff costs, business rates and administration expenses also increased year on year as COVID-related Government support and rent concessions from landlords were removed. New openings in 2021 and 2022 also contributed to some site cost increases year on year.

Normalised Rent costs, which are defined as the contractual rents that would have been paid in normal circumstances without any agreed deferments, recognised in the monthly period to which they relate, amounted to £16.5m in the period (H1 2021: £14.8m). The increase year on year reflects the growing gym portfolio and return to more normal trading conditions.

Central support office costs
Central support office costs increased in the six months to 30 June 2022 to £8.4m (H1 2021: £7.1m) reflecting the continued investment in people and technology in the second half of 2021 and the first half of 2022 to ensure we are set up to achieve our growth ambitions.

Long-term employee incentive costs
Long-term employee incentive costs in the period amounted to £0.6m (H1 2021: £1.6m). The reduction year on year reflects a number of leavers from the scheme and share price movements.

Underlying depreciation and amortisation
Underlying depreciation and amortisation charges in the period amounted to £29.4m (H1 2021: £24.4m). The increase year on year reflects the increased gym portfolio as well as accelerated depreciation and amortisation on a number of assets that have been, or are being, 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 statutory operating profit/(loss) as follows:

	Six months ended 30 June 2022 £m	Six months ended 30 June 2021 £m
Operating profit/(loss)	**2.2**	**(19.4)**
Non-underlying operating items	1.3	0.1
Long-term employee incentive costs	0.6	1.6
Underlying depreciation and amortisation	29.4	24.4
Group Adjusted EBITDA	**33.5**	**6.7**
Normalised Rent	(16.5)	(14.8)
Group Adjusted EBITDA Less Normalised Rent	**17.0**	**(8.1)**

Group Adjusted EBITDA Less Normalised Rent was £17.0m in the period (H1 2021: loss of £8.1m) and reflects the increased site profitability as a result of the higher proportion of open trading days, partially offset by an increase in support function costs.

Underlying finance costs

Underlying finance costs in the period amounted to £8.2m (H1 2021: £8.1m). The implied interest relating to the lease liability was £6.9m (H1 2021: £6.6m). Finance costs associated with our bank borrowing facilities were £1.3m (H1 2021: £1.5m) comprising interest costs and fee amortisation.

In May 2022, the Group made certain changes to its RCF facility. These included a one-year extension of Facility A (£70m) to October 2024; the cancellation in full of the temporary Facility B (£30m) and replacement with a new £10m facility to October 2024; and further relaxation of finance lease restrictions. Funds borrowed under the RCF now bear interest at a minimum rate of 2.85% (previously 2.60% whilst Facility B was in place).

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.

	Six months ended 30 June 2022 £m	Six months ended 30 June 2021 £m
Affecting operating expenses before depreciation, amortisation and impairment		
Costs of major strategic projects and investments	1.3	-
Restructuring and reorganisation costs (including site closures)	(0.1)	0.1
	1.2	**0.1**
Affecting depreciation, amortisation and impairment		
Amortisation of business combination intangible assets	0.1	-
	0.1	**-**
Affecting finance costs		
Remeasurement of borrowings	2.6	1.0
	2.6	**1.0**
Total all non-underlying items before tax	**3.9**	**1.1**
Tax credit on non-underlying items	(1.0)	(0.2)
Total all non-underlying items	**2.9**	**0.9**

Non-underlying items affecting operating expenses before depreciation, amortisation and impairment amounted to £1.2m in the period (H1 2021: £0.1m).

The costs of major strategic projects and investments in the period of £1.3m relate predominantly to the brand transformation project which is progressing to plan. We expect the total costs in 2022 to be in the region of £7m, the majority of which will be capital expenditure for site signage.
Restructuring and reorganisation costs in the period include the costs of restructuring the Group's marketing department, together with the costs and lease surrender income associated with the closure of a small number of gyms.

Non-underlying costs affecting depreciation, amortisation and impairment in the period amounted to £0.1m (2021: £nil) and relate to the amortisation of business combination intangibles acquired as part of the Lifestyle and easyGym acquisitions.

Non-underlying items affecting finance costs amounted to £2.6m in the period (H1 2021: £1.0m) and reflect the remeasurement of the Group's Revolving Credit Facility (RCF) following the changes agreed with the lenders in the period.

Taxation

The tax credit in the period was £4.2m (H1 2021: credit of £6.7m), representing an effective tax rate 48.8% (H1 2021: 23.5%). The increase in effective rate is driven predominantly by the temporary enhanced capital allowances regime that was announced in the March 2021 Budget (the super-deduction tax break).

Earnings

As a result of the factors discussed above, the statutory loss before tax for the period was £8.6m (H1 2021: loss of £28.5m) and the statutory loss after tax for the period was £4.4m (H1 2021: loss of £21.8m).

Adjusted loss before tax is calculated by taking the statutory loss before tax and adding back the non-underlying items. Adjusted loss before tax in the period was £4.7m (H1 2021: loss of £27.4m). Adjusted loss after tax was £1.5m (H1 2021: loss of £20.9m).

The basic and diluted loss per share was 2.6p (H1 2021: loss of 13.1p), and the basic and diluted adjusted loss per share was 0.8p (H1 2021: loss of 12.6p).

Dividend
It is a condition of the new £10m additional RCF Facility that the Company shall not declare or pay a dividend. Although this facility currently remains undrawn, the Directors would like to continue to have access to it as necessary and, as a result, the Directors are not proposing an interim dividend in respect of 2022.

Acquisition of sites operating under the Fitness First brand
On 22 March 2022, we acquired three sites operating under the Fitness First brand for cash consideration of £5.4m. The sites are located in residential areas of East London, where we have traditionally been very successful. They are expected to be converted to The Gym Group format in September and October 2022. A Transitional Service Agreement (TSA) is in place during the period between acquisition and conversion.

A preliminary valuation has been performed on the tangible and intangible assets acquired in the transaction, resulting in preliminary goodwill of £4.1m. Further information is included in note 7 to the Condensed Consolidated Financial Information.

Cash flow

	Six months ended 30 June 2022	Six months ended 30 June 2021
	£m	£m
Group Adjusted EBITDA Less Normalised Rent	**17.0**	**(8.1)**
Rent working capital	(1.6)	1.2
Movement in other working capital	(3.2)	4.8
Maintenance capital expenditure	(2.8)	(1.3)
Group operating cash flow	**9.4**	**(3.4)**
Non-underlying items	(1.1)	-
Bank interest paid (including refinancing fees)	(1.9)	(1.0)
Taxation	0.5	-
Free cash flow	**6.9**	**(4.4)**
Expansionary capital expenditure funded by leases	(1.8)	(1.5)
Expansionary capital expenditure funded by other sources	(13.2)	(7.2)
Net consideration paid on acquisition	(5.4)	-
Cash flow before movement in debt	**(13.5)**	**(13.1)**
Net increase in finance lease indebtedness	0.6	1.4
Net drawdown of borrowings	12.5	14.0
Net cash flow	**(0.4)**	**2.3**

The Group operating cash inflow in the period was £9.4m (H1 2021: outflow of £3.4m), reflecting the Group's return to profitability at the Group Adjusted EBITDA Less Normalised Rent level.

There was a net outflow on rent working capital of £1.6m in the period (H1 2021: inflow of £1.2m), reflecting the unwind of deferred rents from 2020 and 2021 and a general return to more normal rental payment patterns. As at 30 June 2022, £0.8m of rent deferrals remained outstanding (31 December 2021: £2.1m; 30 June 2021: £5.5m).

The net outflow on working capital (excluding rent) in the period was £3.2m (H1 2021: inflow of £4.8m) which reflects the recovery and growth of the business and a return to more normal patterns of working capital.

Fixed asset additions in respect of maintenance capital expenditure in the period amounted to £2.8m (H1 2021: £1.5m) as we returned to more typical levels of maintenance to mirror the return to regular operations. Adjusting for the movement in capital creditors, the cash flow from maintenance capital expenditure was £2.8m (H1 2021: £1.3m).

Fixed asset additions in respect of expansionary capital expenditure in the period amounted to £14.7m (H1 2021: £7.3m) and relate to the Group's investment in the fit-out of new gyms and technology projects. The fit-out costs are stated net of contributions towards landlord building costs. During the period, we opened seven new sites and completed work on a further four sites which were opened in July 2022, spending a total of £10.7m. The investment in technology in the period of £4.0m relates largely to enhancements made to the member experience, including improvements to the Group's website and new functionality in the app. Adjusting for the movement in capital creditors, the cash flow from expansionary capital expenditure was £15.0m (H1 2021: £8.7m), including £1.8m funded by finance leases (H1 2021: £1.5m).

The net consideration paid on acquisition of £5.4m relates to the acquisition of three sites from Fitness First.

Balance sheet

	30 June 2022	30 June 2021	31 December 2021
	£m	£m	£m
Non-current assets	569.3	527.9	549.9
Current assets	16.1	11.0	14.8
Current liabilities	(56.8)	(51.3)	(57.4)
Non-current liabilities	(380.5)	(353.4)	(355.2)
Net assets	**148.1**	**134.2**	**152.1**

Non-current assets increased in the period by £19.4m to £569.3m. £9.7m of the increase relates to the preliminary fair value accounting in relation to the acquisition of the Fitness First sites. Right-of-use assets and Property, plant and equipment also increased as a result of the opening of a further seven organic sites in the period; and deferred tax assets also increased as a result of the impact on losses carried forward of the temporary enhanced capital allowances regime that was announced in the March 2021 Budget (the super-deduction tax break).

Full details of the preliminary fair values of all assets acquired as part of the Fitness First transaction are set out in note 7 to the Condensed Consolidated Financial Information.

Leasing liabilities increased by £8.8m in the period since 31 December 2021 reflecting the new site openings and the acquisition of the three sites from Fitness First. Drawings under the RCF increased by £12.5m in the period to fund both of these.

At 30 June 2022, the Group had Non-Property Net Debt of £57.6m (31 December 2021: £44.1m; 30 June 2021: £60.4m) comprising drawn facilities of £57.5m and finance leases of £7.0m, less cash of £6.9m.

Going concern

The Board has reviewed the financial forecasts and downside scenario of the Group and has a reasonable expectation that the Group has adequate resources to continue in operational existence for the period to 31 December 2023. As a result, the Directors continue to adopt the going concern basis in preparing the Interim 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; 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 of the Interim Financial Statements.

Trading update and outlook

Trading in July has continued to be in line with our expectations and membership levels over the summer months reflect normal seasonal trends. We expect September and October 2022 to be the next key period of membership growth as students return to in-person education and working patterns continue to normalise. We are confident that we will deliver 28 new sites in 2022 and the longer term pipeline is building well with 25-30 openings targeted for 2023 and 2024.

Principal risks and uncertainties
A summary of the principal risks and uncertainties that the Group faces is set out below. Further detail about each of the risks can be found on pages 64 to 68 of the Annual Report and Accounts 2021, published on 16 March 2022.

- Significant business interruption
- Operational gearing
- Member experience
- Trading environment
- Our people
- IT dependency
- Scale of change
- Data protection
- Reputation, brand and trust

The Directors have reviewed the principal risks and uncertainties and believe they remain valid at the date of this report.

Responsibility statement
The Directors of the Company are listed on pages 72 and 73 of the Annual Report and Accounts 2021. On 1 July 2022, Mark George, Chief Financial Officer, resigned from the Board and left the Group. Luke Tait will assume the role of Chief Financial Officer in October 2022. On 25 July 2022, Penny Hughes retired from the Board and has been succeeded as Chair by John Treharne.

The Directors confirm that, to the best of their knowledge:

- the Interim Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting;
- the Interim Management Report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the Interim Management Report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

On behalf of the Board

Richard Darwin
Chief Executive Officer
4 August 2022

Definition of non-statutory measures

- *Group Adjusted EBITDA* – operating profit/loss before depreciation, amortisation, long-term employee incentive costs and non-underlying items.
- *Normalised Rent* – the contractual rent that would have been paid in normal circumstances without any agreed deferments, recognised in the monthly period to which it relates.
- *Adjusted Loss/Profit before Tax* – loss/profit before tax before non-underlying items.
- *Adjusted Earnings* – loss/profit for the period before non-underlying items and the related tax effect.
- *Basic Adjusted EPS* – Adjusted Earnings divided by the basic weighted average number of shares.
- *Group Operating Cash Flow* – Group Adjusted EBITDA Less Normalised Rent, movement in working capital and maintenance capital expenditure.
- *Free Cash Flow* – Group Operating Cash Flow less cash non-underlying items, bank and non-property lease interest and tax.
- *Non-Property Net Debt* – bank and non-property lease debt less cash and cash equivalents.
- *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 towards landlord building costs.

Consolidated Statement of Comprehensive Income

For the period ended 30 June 2022

		6 months ended 30 June 2022			6 months ended 30 June 2021 (Re-presented*)		
		Unaudited			Unaudited		
		Underlying	Non-underlying (note 4)	Total	Underlying	Non-underlying (note 4)	Total
	Note	£m	£m	£m	£m	£m	£m
Revenue	3	84.2	-	84.2	29.3	-	29.3
Cost of sales		(0.8)	-	(0.8)	(0.5)	-	(0.5)
Gross profit		**83.4**	**-**	**83.4**	**28.8**	**-**	**28.8**
Other income		0.3	-	0.3	6.5	-	6.5
Operating expenses before depreciation, amortisation and impairment		(50.8)	(1.2)	(52.0)	(30.2)	(0.1)	(30.3)
Depreciation, amortisation and impairment		(29.4)	(0.1)	(29.5)	(24.4)	-	(24.4)
Operating profit/(loss)		**3.5**	**(1.3)**	**2.2**	**(19.3)**	**(0.1)**	**(19.4)**
Finance costs		(8.2)	(2.6)	(10.8)	(8.1)	(1.0)	(9.1)
Loss before tax		**(4.7)**	**(3.9)**	**(8.6)**	**(27.4)**	**(1.1)**	**(28.5)**
Tax credit	5	3.2	1.0	4.2	6.5	0.2	6.7
Loss for the period attributable to equity shareholders		**(1.5)**	**(2.9)**	**(4.4)**	**(20.9)**	**(0.9)**	**(21.8)**
Other comprehensive income for the period *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		**(1.4)**	**(2.9)**	**(4.3)**	**(20.9)**	**(0.9)**	**(21.8)**
Loss per share (p)	6						
Basic and diluted		**(0.8)**		**(2.6)**	**(12.6)**		**(13.1)**

* During the prior year, the Directors agreed to change the way they present the consolidated income statement and adopt a columnar format because they believe this provides the reader with supplemental data relating to the financial condition and results of operations. See note 2 for further details.

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

			6 months ended 30 June 2022	6 months ended 30 June 2021
			Unaudited	Unaudited
		Note	£m	£m
Operating profit/(loss)			**2.2**	**(19.4)**
Add:	Non-underlying operating items	4	1.3	0.1
	Long-term employee incentive costs (included in Operating expenses)	13	0.6	1.6
	Underlying depreciation and amortisation		29.4	24.4
Group Adjusted EBITDA			**33.5**	**6.7**
Normalised Rent[2]			(16.5)	(14.8)
Group Adjusted EBITDA less Normalised Rent[1]			**17.0**	**(8.1)**

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, long term employee incentive costs and non-underlying items, and after deducting Normalised Rent

2 Normalised Rent is the contractual rent that would have been paid in normal circumstances without any agreed deferments, recognised in the monthly period to which it relates.

Consolidated Statement of Financial Position

As at 30 June 2022

	Note	30 June 2022 Unaudited £m	30 June 2021 Unaudited £m	31 December 2021 Audited £m
Non-current assets				
Intangible assets		91.8	85.8	86.0
Property, plant and equipment	8	166.8	167.4	165.6
Right-of-use assets	9	289.3	259.0	281.2
Investments in financial assets	11	1.0	1.0	1.0
Deferred tax assets	5	20.4	14.7	16.1
Total non-current assets		**569.3**	**527.9**	**549.9**
Current assets				
Inventories		0.7	0.2	0.3
Trade and other receivables		8.1	4.7	6.3
Income taxes receivable		0.4	0.1	0.9
Cash and cash equivalents		6.9	6.0	7.3
Total current assets		**16.1**	**11.0**	**14.8**
Total assets		**585.4**	**538.9**	**564.7**
Current liabilities				
Trade and other payables		31.1	24.3	30.4
Lease liabilities	9	25.1	25.8	27.0
Other financial liabilities		-	1.2	-
Provisions		0.6	-	-
Total current liabilities		**56.8**	**51.3**	**57.4**
Non-current liabilities				
Borrowings	10	58.7	64.3	44.3
Lease liabilities	9	320.0	287.8	309.3
Provisions		1.8	1.3	1.6
Total non-current liabilities		**380.5**	**353.4**	**355.2**
Total liabilities		**437.3**	**404.7**	**412.6**
Net assets		**148.1**	**134.2**	**152.1**
Capital and reserves				
Own shares held		0.1	0.1	0.1
Share premium		189.7	159.5	189.7
Hedging reserve		-	(0.2)	(0.1)
Merger reserve		39.9	39.9	39.9
Retained deficit		(81.6)	(65.1)	(77.5)
Total equity shareholders' funds		**148.1**	**134.2**	**152.1**

Consolidated Statement of Changes in Equity

For the period ended 30 June 2022

	Note	Own shares held	Share premium	Hedging reserve	Merger reserve	Retained deficit	Total
		£m	£m	£m	£m	£m	£m
At 1 January 2021 (Audited)		**0.1**	**159.5**	**(0.2)**	**39.9**	**(44.9)**	**154.4**
Loss for the period and total comprehensive expense		-	-	-	-	(21.8)	(21.8)
Share-based payments	13	-	-	-	-	1.2	1.2
Deferred tax on share-based payments		-	-	-	-	0.4	0.4
At 30 June 2021 (Unaudited)		**0.1**	**159.5**	**(0.2)**	**39.9**	**(65.1)**	**134.2**
Loss for the period		-	-	-	-	(13.5)	**(13.5)**
Other comprehensive income for the period		-	-	0.1	-	-	**0.1**
Total comprehensive expense		-	-	0.1	-	(13.5)	(13.4)
Issue of ordinary share capital		-	30.2	-	-	-	30.2
Share-based payments	13	-	-	-	-	1.2	1.2
Deferred tax on share-based payments		-	-	-	-	(0.1)	(0.1)
At 31 December 2021 (Audited)		**0.1**	**189.7**	**(0.1)**	**39.9**	**(77.5)**	**152.1**
Loss for the period		-	-	-	-	(4.4)	**(4.4)**
Other comprehensive income for the period		-	-	0.1	-	-	**0.1**
Total comprehensive expense		-	-	0.1	-	(4.4)	**(4.3)**
Share-based payments	13	-	-	-	-	0.6	**0.6**
Deferred tax on share-based payments		-	-	-	-	(0.3)	**(0.3)**
At 30 June 2022 (Unaudited)		**0.1**	**189.7**	**-**	**39.9**	**(81.6)**	**148.1**

Consolidated Cash Flow Statement

For the period ended 30 June 2022

	Note	6 months ended 30 June 2022 Unaudited £m	6 months ended 30 June 2021 Unaudited £m
Cash flows from operating activities			
Loss before tax		(8.6)	(28.5)
Adjustments for:			
Finance costs		10.8	9.1
Non-underlying operating items		1.3	0.1
Underlying depreciation of property, plant and equipment	8	13.5	11.4
Underlying depreciation of right-of-use assets	9	13.4	11.2
Underlying amortisation of intangible assets		2.5	1.8
Long-term employee incentive costs	13	0.6	1.6
Rent concessions	9	(0.1)	(1.1)
Loss on disposal of property, plant & equipment and right-of-use assets		-	0.1
Increase in inventories		(0.4)	-
(Increase)/decrease in trade and other receivables		(1.4)	1.5
(Decrease)/increase in trade and other payables		(1.4)	4.4
Payment of deferred consideration		-	(1.4)
Cash generated from operations		**30.2**	**10.2**
Tax received		0.5	-
Net cash inflow from operating activities before non-underlying items		**30.7**	**10.2**
Non-underlying items		(1.1)	-
Net cash inflow from operating activities		**29.6**	**10.2**
Cash flows from investing activities			
Business combinations	7	(5.4)	-
Purchase of property, plant & equipment	8	(13.1)	(7.3)
Purchase of intangible assets		(2.9)	(1.2)
Net cash outflow used in investing activities		**(21.4)**	**(8.5)**
Cash flows from financing activities			
Repayment of lease liability principal		(12.6)	(5.9)
Lease interest paid		(6.8)	(6.6)
Bank interest paid		(1.1)	(0.9)
Payment of financing fees		(0.6)	-
Drawdown of bank loans		18.0	19.0
Repayment of bank loans		(5.5)	(5.0)
Net cash flow (used in)/from financing activities		**(8.6)**	**0.6**
Net (decrease)/increase in cash and cash equivalents		**(0.4)**	**2.3**
Cash and cash equivalents at the start of the period		7.3	3.7
Cash and cash equivalents at the end of the period		**6.9**	**6.0**

Notes to the Consolidated Financial Information

1. General information

The Directors of The Gym Group plc (the Company) and its subsidiaries (the Group) present their interim report and unaudited condensed consolidated financial statements (Interim Financial Statements) for the six months ended 30 June 2022. The Group operates 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 Interim Financial Statements were approved by the Board of Directors on 4 August 2022. They have not been audited or formally reviewed by the auditors. The financial information shown for the half year periods ended 30 June 2022 and 30 June 2021 does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006. The information shown for the year ended 31 December 2021 has been extracted from the Group's Annual Report and Accounts for the year ended 31 December 2021 and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

The Interim Financial Statements should be read in conjunction with the Annual Report and Accounts for the year ended 31 December 2021. The Consolidated Financial Statements for the year ended 31 December 2021 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Accounts for 2021 was unqualified and did not contain a statement under 498(2) or (3) of the Companies Act 2006.

Further copies of the Interim Financial Statements and Annual Report and Accounts may be obtained from the address above.

2. Basis of preparation

The Interim 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), international accounting standards in conformity with the requirements of the Companies Act 2006, and United Kingdom adopted international accounting standards, including IAS 34. The accounting policies applied are consistent with those described in the Annual Report and Accounts for the year ended 31 December 2021 of the Group. The Group has not early-adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The functional currency of each entity in the Group is pounds sterling. The Interim Financial Statements are presented in pounds sterling and all values are rounded to the nearest one hundred thousand pounds, except where otherwise indicated.

The Interim 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 Interim Financial Statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in Financial Statements.

During the prior year, the Directors decided to change the way they present the consolidated income statement to provide the reader with supplemental data relating to the financial condition and results of operations. The principal changes that have been adopted are:

- Presentation of the profits/losses in a three-column format showing 'Underlying', 'Non-underlying' and 'Total' numbers. Items of income and expense that are material by their size and/or nature and are not considered to be incurred in the normal course of business, are classified as non-underlying items on the face of the income statement within their relevant category. Further details are provided in note 4.
- Presentation of 'Operating expenses before depreciation, amortisation and impairment' and 'Depreciation, amortisation and impairment' separately on the face of the consolidated income statement; previously both were summed together and shown as 'Administration expenses'. As a result of this change, expenses are now presented on the face of the income statement as a mixture of by nature and by function.

The Group presents profits/losses for the period before non-underlying items as the Directors believe that this shows more clearly the trends in the Group's business and gives an indication of the Group's ongoing sustainable performance. The Directors believe the changes above also provide the reader with additional and relevant information as well as providing better linkage with the numbers discussed in the Financial Review by simplifying the reconciliation to Group Adjusted EBITDA Less Normalised Rent.

2. Basis of preparation (continued)

Going concern

In assessing the going concern position of the Group for the period ended 30 June 2022, the Directors have considered the following:

- the Group's trading performance in the first half of 2022;
- future expected trading performance to December 2023 (the going concern period), including membership levels and behaviours;
- the Group's site rollout programme; and
- the Group's financing arrangements and relationship with its lenders and shareholders

The first half of 2022 has been a period of strong recovery for The Gym Group with member numbers growing from 718,000 at 31 December 2021 to 790,000 at 30 June 2022, up 10%. We opened seven new gyms in the first half of 2022, all of which are performing well; and we remain on track to open a further 21 in the second half of the year, including the conversion of the three sites trading under the Fitness First brand that were acquired in March 2022. All new sites are expected to meet the Group's 30%+ return on invested capital (ROIC) threshold on maturity.

To facilitate the accelerated growth, in March 2022, we agreed revised terms on our banking facility from our lending banks. These amendments provide the Group with greater flexibility around capital expenditure and finance lease arrangements.

As at 30 June 2022, the Group had Non-Property Net Debt of £57.6m (including finance leases) and £34.9m of headroom under its £92.5m total lending facilities (£80m Revolving Credit Facility (RCF) and £12.5m finance leases). The RCF is subject to quarterly financial covenant tests on leverage (Non-Property Net Debt : Group Adjusted EBITDA Less Normalised Rent) and fixed charge cover. In addition, the Group is subject to a minimum liquidity covenant.

The Group's base case forecast for the period to 31 December 2023 anticipates continued recovery of membership and growth in yields, together with the successful execution of the new site rollout plan. Under this scenario, all financial covenants are passed and the Group can operate within its financing facilities.

The Directors have also considered a downside scenario which anticipates a significant reduction in membership growth throughout the period (resulting in 16% lower closing membership at the end of 2023 compared to the base case), and a reduced new site rollout programme. Under this scenario, all financial covenants continue to be passed and the Group continues to operate within its financing facilities.

In the event that trading deteriorated further than assumed in the downside scenario, mitigating actions that the Directors would introduce include (i) further slowing down of the Group's new site rollout plan; (ii) reducing discretionary and controllable operating costs, marketing and maintenance capital expenditure; (iii) careful management of supplier payments; (iv) discussions with lenders to secure additional debt facilities and/or covenant waivers; and (v) the potential to raise additional funds from third parties.

Conclusion

The Board has reviewed the financial forecasts and downside scenario of the Group and has a reasonable expectation that the Group has adequate resources to continue in operational existence for the period to 31 December 2023. As a result, the Directors continue to adopt the going concern basis in preparing these Interim 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; 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.

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

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018, without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments had no material impact on the Interim Financial Statements of the Group.

2. Basis of preparation (continued)

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

This amendment had no material impact on the Interim Financial Statements of the Group.

Other standards and amendments that became effective in the period, but that do not apply to the Interim Financial Statements of the Group are:

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- IAS 41 Agriculture – Taxation in fair value measurements.

3. 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 customers 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.

	6 months ended 30 June 2022 Unaudited £m	6 months ended 30 June 2021 Unaudited £m
Major products/service lines		
Membership income	79.1	28.6
Rental income from personal trainers	3.9	0.4
Ancillary income	1.2	0.3
	84.2	**29.3**
Timing of revenue recognition		
Products transferred at a point in time	1.6	0.5
Products and services transferred over time	82.6	28.8
	84.2	**29.3**

Contract liabilities at 30 June 2022 amounted to £8.3m (H1 2021: £7.5m).

The Group operates in a market that experiences a small degree of seasonality. The majority of members join during the first quarter of the year as a result of a post-Christmas drive to improve fitness levels and general health. A second wave of new joiners is experienced in September and October as students return to university, with quieter periods experienced during the school holidays. Marketing expenditure is phased towards peak joining periods, particularly the January/February campaign.

4. Non-underlying items

	6 months ended 30 June 2022 Unaudited £m	6 months ended 30 June 2021 Unaudited £m
Affecting operating expenses before depreciation, amortisation and impairment		
Costs of major strategic projects and investments	**1.3**	-
Restructuring and reorganisation (income)/costs (including site closures)	**(0.1)**	0.1
Total affecting operating expenses before depreciation, amortisation and impairment	**1.2**	0.1
Affecting depreciation, amortisation and impairment		
Amortisation of business combination intangible assets	**0.1**	-
Total affecting depreciation, amortisation and impairment	**0.1**	-
Total affecting operating expenses[2]	**1.3**	0.1
Affecting finance costs		
Remeasurement of borrowings	**2.6**	1.0
Total affecting finance costs	**2.6**	1.0
Total all non-underlying items before tax	**3.9**	1.1
Tax on non-underlying items	**(1.0)**	(0.2)
Total non-underlying charge in income statement	**2.9**	0.9

[2] Depreciation, amortisation and impairment are non-cash items. Of the other items affecting operating expenses, £1.1m are cash outflows (H1 2021: cash outflow of £nil).

The costs of major strategic projects and investments in the period of £1.3m relate predominantly to the brand transformation project which is progressing to plan. We expect the total costs in 2022 to be in the region of £7m, the majority of which will be capital expenditure for site signage.

Restructuring and reorganisation costs in the period include the costs of restructuring the Group's marketing department, together with the costs and lease surrender income associated with the closure of a small number of gyms.

Non-underlying costs affecting depreciation, amortisation and impairment in the period amounted to £0.1m (2021: £nil) and relate to the amortisation of business combination intangibles acquired as part of the Lifestyle and easyGym acquisitions.

Non-underlying items affecting finance costs amounted to £2.6m in the period (2021: £1.0m) and reflect the remeasurement of the Group's Revolving Credit Facility (RCF) following the changes agreed with the lenders in the period.

The tax credit arising on the Group's non-underlying items is calculated at the tax rate expected to be in place when the losses are utilised.

5. Taxation

The tax credit in the Consolidated Statement of Comprehensive Income of £4.2m (H1 21: credit of £6.7m) has been calculated based on management's best estimate of the annual income tax rate expected for the full financial year, applied to the loss before tax for the half year ended 30 June 2022.

The effective tax rate on the statutory loss before tax for the period ended 30 June 2022 was 48.8% (H1 2021: 23.5%).

The net deferred tax asset recognised at 30 June 2022 was £20.4m (31 December 2021: £16.1m; 30 June 2021: £14.7m). This comprised deferred tax assets in respect of all tax losses and other timing differences where the Directors believe it is probable that these will be recovered within reasonable future periods. At each of 30 June 2022, 31 December 2021 and 30 June 2021, there were no unrecognised deferred tax assets relating to unrecognised tax losses.

6. 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 period, excluding unvested shares held pursuant to The Gym Group plc Share Incentive Plan, The Gym Group plc Performance Share Plan, The Gym Group plc Restricted Stock Plan, The Gym Group plc Long Service Award Plan and The Gym Group plc Save as You Earn Plan.

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 period ended 30 June 2022, the Group had potentially dilutive shares in the form of share options and unvested shares issued pursuant to The Gym Group plc Share Incentive Plan, The Gym Group plc Performance Share Plan, The Gym Group plc Restricted Stock Plan, The Gym Group plc Long Service Award Plan and The Gym Group plc Save as You Earn Plan. As the Group is in a loss-making position, all potential dilutive share options will not be dilutive.

	6 months ended 30 June 2022 **Unaudited**	**6 months ended 30 June 2021** **Unaudited**
Loss (£m)		
Loss for the period attributable to equity shareholders	**(4.4)**	(21.8)
Adjustment for non-underlying items	**2.9**	0.9
Adjusted loss for the period attributable to equity shareholders	**(1.5)**	(20.9)
Weighted average number of shares		
Basic and diluted weighted average number of shares	**176,618,656**	165,857,174
Earnings per share (p)		
Basic and diluted loss per share	**(2.6)**	(13.1)
Adjusted basic and diluted loss per share	**(0.8)**	(12.6)

At 30 June 2022, 7,443,898 share awards (H1 2021: 6,593,345) were excluded from the diluted weighted average number of ordinary shares calculation because their effect would be anti-dilutive.

7. Acquisition of three sites trading under the Fitness First brand

On 22 March 2022, the Group acquired the trade and assets of three sites trading under the Fitness First brand. The property lease agreements in respect of these gyms are being transferred to the Group and the gyms will be rebranded to operate under The Gym Group brand. The details of the transaction, the purchase consideration, the net assets acquired, and the preliminary goodwill arising are as follows:

	Fair value recognised on acquisition £m
Assets	
Intangible assets	0.3
Property, plant and equipment	1.1
Right-of-use assets	3.6
Deferred tax assets	0.6
	5.6
Liabilities	
Trade and other payables	(0.5)
Provisions	(0.4)
Lease liabilities	(3.4)
	(4.3)
Total identifiable net assets at fair value	**1.3**
Goodwill arising on acquisition	4.1
Purchase consideration paid – satisfied by cash	**5.4**
Net cash flow arising on acquisition	
Cash consideration	(5.4)
Net cash outflow	**(5.4)**

The fair values of assets acquired are provisional and will be finalised within 12 months of the acquisition date.

A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period is presented below:

	Goodwill £m
Gross and net carrying amount	
At 1 January 2022	77.7
Acquisition of sites trading under the Fitness First brand	4.1
At 30 June 2022	**81.8**

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities.

The sites contributed revenues of £0.6m and net loss of £0.1m to the Group's results for the period from 22 March 2022 to 30 June 2022. The revenues and net loss that would have been recorded had the sites been acquired on 1 January 2022 have not been disclosed as the relevant information is not available.

The goodwill recognised is primarily attributed to the synergies and economies of scale expected from combining each gym within the Group's operations, the premium associated with advantageous site locations, potential growth opportunities offered by each gym and the assembled workforce. It will not be deductible for tax purposes.

Acquisition-related costs of £1.3m were incurred during the second half of 2021 and were treated as non-underlying items in the financial statements. No additional costs have been recognised in H1 2022.

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 2021	2.3	191.9	11.3	84.5	3.6	293.6
Additions	1.9	16.4	0.2	2.5	0.7	21.7
Disposals	(0.1)	(1.5)	-	(0.5)	-	(2.1)
Transfers	(2.0)	1.9	-	0.1	-	-
At 31 December 2021	**2.1**	**208.7**	**11.5**	**86.6**	**4.3**	**313.2**
Additions	5.1	7.1	0.1	0.8	0.4	13.5
Business combinations	-	1.1	-	0.1	-	1.2
Transfers	(1.2)	1.1	-	0.1	-	-
At 30 June 2022	**6.0**	**218.0**	**11.6**	**87.6**	**4.7**	**327.9**
Accumulated depreciation						
At 1 January 2021	-	(63.0)	(8.0)	(48.4)	(2.9)	(122.3)
Charge for the year	-	(14.6)	(1.1)	(7.4)	(0.5)	(23.6)
Impairment	-	(2.8)	-	(0.4)	-	(3.2)
Disposals	-	1.2	-	0.3	-	1.5
At 31 December 2021	-	**(79.2)**	**(9.1)**	**(55.9)**	**(3.4)**	**(147.6)**
Charge for the period	-	(7.9)	(0.4)	(4.9)	(0.3)	(13.5)
At 30 June 2022	-	**(87.1)**	**(9.5)**	**(60.8)**	**(3.7)**	**(161.1)**
Net book value						
At 31 December 2021	2.1	129.5	2.4	30.7	0.9	165.6
At 30 June 2022	**6.0**	**130.9**	**2.1**	**26.8**	**1.0**	**166.8**

Business combinations includes £0.1m of SDLT payable in relation to the leasehold improvements acquired.

Included within additions for the period are £0.4m of capital contributions from landlords not yet received (31 December 2021: £0.1m) and £1.2m of accrued capital expenditure (31 December 2021: £2.2m).

Outstanding capital commitments at 30 June 2022 totalled £8.6m (31 December 2021: £2.9m).

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 2021	345.4	-	345.4
Additions	42.8	7.2	50.0
At 31 December 2021	**388.2**	**7.2**	**395.4**
Additions	16.8	1.8	18.6
Business combinations	3.6	-	3.6
Disposals	(0.8)	-	(0.8)
At 30 June 2022	**407.8**	**9.0**	**416.8**
Accumulated depreciation			
At 1 January 2021	(89.8)	-	(89.8)
Charge for the year	(23.3)	(0.2)	(23.5)
Impairment	(0.9)	-	(0.9)
At 31 December 2021	**(114.0)**	**(0.2)**	**(114.2)**
Charge for the period	(12.6)	(0.7)	(13.3)
At 30 June 2022	**(126.6)**	**(0.9)**	**(127.5)**
Net book value			
At 31 December 2021	274.2	7.0	281.2
At 30 June 2022	**281.2**	**8.1**	**289.3**

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

	30 June 2022	30 June 2021	31 December 2021
	Unaudited	Unaudited	Audited
	£m	£m	£m
Current	25.1	25.8	27.0
Non-current	320.0	287.8	309.3
Total Lease liabilities	**345.1**	**313.6**	**336.3**

9. Right-of-Use Assets and Leases (continued)

The maturity analysis of lease liabilities is as follows:

	30 June 2022 Unaudited £m	30 June 2021 Unaudited £m	31 December 2021 Audited £m
Within one year	41.1	39.5	39.1
Greater than one year but less than two years	40.4	33.7	37.8
Greater than two years but less than three years	38.8	33.7	37.8
Greater than three years but less than four years	37.3	33.5	35.4
Greater than four years but less than five years	37.4	33.0	35.5
Five years or more	245.3	227.8	242.7
	440.3	**401.2**	**428.3**
Less: unearned interest	(95.2)	(87.6)	(92.0)
Total Lease liabilities	**345.1**	**313.6**	**336.3**

During the period, the Group entered into additional leasing arrangements with a total available facility of £3.0m to finance the fit-out of new gyms, increasing the total available facilities to £12.5m (31 December 2021: £9.5m; 30 June 2021: £4.0m). As at 30 June 2022, the amount outstanding on these facilities was £7.0m (31 December 2021: £6.4m; 30 June 2021: £1.4m).

The Group has benefited from unconditional waivers of lease payments and additional rent-free benefits on one property (H1 2021: six properties) in exchange for the removal of break clauses without modification to the original lease contract. The waiver of lease payments of £0.1m (H1 2021: £1.1m) has been included as a credit within underlying operating expenses and a reduction in the lease liability, in line with the IASB practical expedient for COVID-19-related rent concessions in relation to IFRS 16 Leases.

10. Borrowings

	30 June 2022 Unaudited £m	30 June 2021 Unaudited £m	31 December 2021 Audited £m
Revolving credit facility	57.5	65.0	45.0
Remeasurement adjustment & unamortised loan arrangement fees	1.2	(0.7)	(0.7)
	58.7	**64.3**	**44.3**

The Group has in place a Revolving Credit Facility (RCF) which is syndicated to a three-lender panel of NatWest, HSBC and Banco de Sabadell. Until May 2022, the Group had £100.0m of available facilities under the RCF and it was due to mature in 2023.

In May 2022, the Group made changes to its RCF facility. These included a one-year extension of Facility A (£70.0m) to October 2024; the cancellation in full of the temporary Facility B (£30m) and replacement with a new £10.0m Facility to October 2024; and further relaxation of finance lease restrictions.

The funds borrowed under the RCF bear interest at a minimum annual rate of 2.85% (H1 2021: 2.60%) above the Sterling Overnight Index Average (SONIA) plus a credit adjustment spread.

The average interest rate paid in the period on drawn funds was 3.23% (H1 2021: 2.64%). Following the changes made in May 2022 to the facility, undrawn funds currently bear interest at a minimum annual rate of 1.54% (H1 2021: 0.91%).

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, 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 financial covenants relating to leverage, fixed charge cover and liquidity.

10. Borrowings (continued)

The proportion of the RCF that was undrawn and available at 30 June 2022 was £22.5m (31 December 2021: £55.0m; 30 June 2021: £35.0m).

Non-Property Net Debt at the period end was as follows:

	30 June 2022 Unaudited £m	30 June 2021 Unaudited £m	31 December 2021 Audited £m
Borrowings	57.5	65.0	45.0
Less: Cash and cash equivalents	(6.9)	(6.0)	(7.3)
Non-Property Net Debt excluding non-property leases	50.6	59.0	37.7
Non-property leases (note 9)	7.0	1.4	6.4
Non-Property Net Debt	**57.6**	**60.4**	**44.1**

11. Financial instruments and investments in financial assets

IFRS 7 requires fair value measurements to be recognised using a fair value hierarchy that reflects the significance of the inputs used in the value measurements:

- Level 1: inputs are quoted prices in active markets
- Level 2: a valuation that uses observable inputs for the asset or liability other than quoted prices in active markets
- Level 3: a valuation using unobservable inputs i.e. a valuation technique

There were no transfers between levels throughout the periods under review.

With the exception of the Group's borrowings, the carrying value of financial assets and liabilities equal their fair value. The carrying value of borrowings of £58.7m (June 2021: £64.3m; December 2021: £44.3m) have a fair value of £57.5m (June 2021: £65.0m; December 2021: £45.0m). The fair values of financial derivatives and borrowings have been calculated by discounting the future cash flows at prevailing market interest rates. Other than the fair value of financial assets at fair value through profit and loss that are categorised as Level 3, the fair value of all other financial assets and liabilities are categorised as Level 2.

In February 2020, the Group purchased convertible loan notes in Fiit Limited for cash consideration of £1.0m. These notes are measured at fair value through profit and loss and the carrying value at 30 June 2022 was £1.0m (31 December 2021 and 30 June 2021: £1.0m). This is a level 3 valuation under the fair value hierarchy and was determined based on the performance of the business post-acquisition against the business plan produced at the time of the investment. The range of sensitivity in the valuation of 30 June 2022 to reasonably possible changes in the assumptions used is not considered to be material.

12. Issued capital

The total number of shares in issue as at 30 June 2022 was 177,942,272 (31 December 2021: 177,519,174).

13. Long-term employee incentive costs

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. During the period, a total of 1,517,061 shares were granted under the PSP, the RSP and the SIP. These grants and their vesting criteria are similar in nature to those awarded during 2021.

For the period ended 30 June 2022, the Group recognised a total charge of £0.6m (H1 2021: £1.6m) in respect of the Group's share based long-term incentive plans and related employer's national insurance.