

16 March 2023

The Gym Group plc
(‘The Gym Group’, ‘the Group’ or ‘the Company’)
2022 Full Year Results

The Gym Group, the nationwide operator of 230¹ low cost, high quality, 24/7 no contract gyms, announces its full year results for the year ended 31 December 2022.

Key financial metrics²

	Year ended 31 December 2022	Year ended 31 December 2021	Movement %/£m
Revenue (£m)	172.9	106.0	+63%
Group Adjusted EBITDA (£m)	71.3	35.4	+101%
Group Adjusted EBITDA Less Normalised Rent (£m)	38.0	5.7	+32.3
Adjusted Loss for the year (£m)	(6.9)	(28.5)	+21.6
Basic and Diluted Adjusted Loss per share (p)	(3.9)	(16.7)	+12.8
Statutory Loss after tax (£m)	(19.3)	(35.4)	+16.1
Basic and Diluted Statutory Loss per share (p)	(10.9)	(20.7)	+9.8
Free cash flow (£m)	16.6	2.0	+14.6
Non-Property Net Debt (£m)	(76.1)	(44.1)	-32.0

Financial highlights

- Membership ended the year at 821,000, an increase of 14.3% from the end of the previous year (Dec 2021: 718,000)
- Yield continued to strengthen with average price of a standard DO IT membership increasing to £21.49 at 31 December 2022 (Dec 2021: £19.27) and LIVE IT penetration growing to 29.6% of total membership (Dec 2021: 27.1%)
- Revenue and EBITDA Less Normalised Rent both significantly ahead of the prior year reflecting the higher number of trading days and post Covid-19 recovery; statutory loss after tax reduced significantly
- Free cash flow generation of £16.6m partially funds the site rollout programme and investment in technology
- Non-Property Net Debt increased to £76.1m (Dec 2021: £44.1m) to fund the remainder of the site rollout programme and acquisition of three sites from Fitness First

Strategic and operational highlights

- 28¹ new site openings in 2022 – highest number in a single year
- Successful delivery of the new technology platform and brand relaunch
- Our high margin, low cost model has demonstrated its ability to drive strong financial returns
- Visit frequency and satisfaction scores remain materially higher than pre Covid-19 scores
- Focus on sustainability continues with £3.3m of social value³ per gym created in 2022; UK's first carbon neutral gym chain

Outlook and current trading

- Uneven start to 2023 vs Board expectations, with membership at the end of February of 890,000, up 8.4% from the end of 2022 (2022: 14.9%)
- Revenue after two months up 18.7% year on year, reflecting membership growth of 8% and yield growth (ARPM) of 10%; LFL revenue for the two months reached 97% of the pre Covid-19 level, driven by increases in ARPM whilst remaining the lowest cost nationwide gym chain
- As previously disclosed, energy costs anticipated to be c.£10m higher in 2023 compared to 2022; 96% hedged for FY23

¹ As at 15 March 2023 – includes two openings and one closure in January 2023; 229 sites as at 31 December 2022 – 25 organic openings in the year plus three sites acquired from Fitness First and one closure (31 Dec 2021: 202).

² For a summary of KPI definitions used in the table see the ‘Definition of non-statutory measures’ section.

³ A measure of the value we are creating through regular exercise in the communities in which we operate. It is derived using a model created by Sheffield Hallam University and used extensively by Sport England, local authorities and the UK Government. £756m total value created in 2022 divided by 229 sites open at year end.

- Expect current difficult macroeconomic environment and its impact on consumer demand to continue throughout the year; therefore now anticipate full year revenue increases from yield improvements and new site openings to be broadly offset by cost increases
- As previously indicated, intend to take a more measured approach to new site openings in 2023; anticipate opening up to 12 sites, with all openings being self-financed
- Leverage⁴ expected to remain within the range of 1.5 to 2.0x

John Treharne, Chair of The Gym Group, commented:

“This time last year, we reflected on emerging from the pandemic and indicated that we hoped 2022 would see a return to a more normal trading environment. It is now clear that it will take a longer time to return to pre Covid-19 levels as a result of both the changes to customers’ everyday lives and lifestyles and the macroeconomic headwinds that we are all facing. Therefore, it is right to manage the business tightly in 2023 and to focus on providing low cost, high quality, 24/7 gyms to our members. Against that backdrop I am proud of the progress TGG has made through the year successfully completing our biggest ever site opening programme, growing member numbers and yield, and delivering on a number of key projects.

Richard was instrumental in delivering this programme and leaves the business in robust order. We thank him for his contribution over many years and wish him well. We are making good progress in the search for our new CEO and we will update the market at the appropriate time.”

A live audio webcast of the analyst presentation will be available at 9:00 a.m. today via the following link: https://brrmedia.news/The_Gym_Group_FYResults.

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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.

Market abuse regulation information

The information contained in this announcement is deemed by the Company to constitute inside information as stipulated under the UK version of the Market Abuse Regulation (EU) No. 596/2014 as it forms part of UK law by virtue of the European Union (Withdrawal) Act 2018. Upon the publication of this announcement, this inside information is now considered to be in the public domain. Katy Tucker, Company Secretary, is responsible for the release of this announcement for the purposes of such regulation.

⁴ Calculated as Non-Property Net Debt : Group Adjusted EBITDA Less Normalised Rent.

Chair of the Board's Statement

2022 was the first year in three that we have been fully open, as we moved into the post-pandemic trading environment, and we are proud to have delivered on several major projects, including opening our highest ever number of sites in a year. 2022 brought its own challenges with the war in Ukraine and macroeconomic pressures on consumers. These pressures have encouraged us to focus on what we do best and play to our strengths as we move into 2023.

Despite cost-of-living pressures for UK consumers, we see that many still regard their gym membership as essential, whilst seeking value for money. We are well placed to provide this low cost, high value gym experience to customers, which is reflected in high member satisfaction scores and in maintaining our position as the lowest cost nationwide 24/7 gym.

As we saw in 2008-2009, we expect the low cost gym sector to be more resilient to a challenging macroeconomic environment as UK consumers prioritise value and seek lower cost alternatives for their gym memberships. At the end of 2022, we achieved like-for-like revenue at 90% of pre Covid-19 levels, with 821,000 members and 229 open gyms.

Industry and market trends

What seems evident from looking at the sector, both in the UK and across Europe, is that value remains a key purchase decision driver. The pandemic shone a light on the importance of health and wellbeing for people's physical and mental health, which is why fitness remains a protected category of spend. As energy costs put pressure on operators' facilities and opening times, providing 24/7 access and flexible, no contract, low cost memberships will be most appealing to consumers when considering changing their gym provider.

Strategic progress

As we emerged from the Covid-19 pandemic in 2022, we saw an opportunity to invest to support our strategic ambitions. We opened 28 new gyms in the year and implemented a number of yield optimisation initiatives. Our brand transformation launched in August 2022 and brand awareness metrics are encouraging, positioning us well across all channels. Our new consumer-facing website launched in April 2022, which is a step change in our technology investment, and ongoing technology improvements mean we can support our inclusive product and great member experience.

We will continue to be sector leaders for sustainability, delivering on our founding mission to break down barriers to fitness with a welcoming, accessible experience. We will also continue to implement pioneering environmental, social and governance ('ESG') initiatives to support our people, our members and the environment. In 2022, we announced that we were the UK's first carbon neutral gym chain. The pandemic has heightened focus on the UK's health, and fitness facilities have an increasingly important role to play in the communities around them. ESG metrics now form part of our key performance indicators ('KPIs') so that all areas of the business are engaged in achieving our sustainability objectives.

Our work as a Board

Over 2022 and to date, there have been several changes to our Board. I am pleased to say that the values of the organisation continue to be reflected by every Board Director – realness, friendliness, taking the first step and challenging our limits – and I take this opportunity to thank those Directors who left us in the year, Mark George, Rio Ferdinand and Penny Hughes, for their service and contribution.

Executive changes

In April 2022, Ann-marie Murphy was promoted to the plc Board as Chief Operating Officer ('COO'), and in her first year as an Executive Director has focused on driving operational performance. Luke Tait joined us as Chief Financial Officer ('CFO') in October 2022, joining us from casual dining brand Nandos. Even though Luke has only been with us a short time, he has shown commitment and diligence through the budget and financial year end process.

I wish to express my thanks to Richard Darwin for more than seven years of leadership of the Gym Group, both as Chief Executive Officer ('CEO') since 2018 and formerly CFO since our IPO in 2015. Richard has overseen our growth from 63 to 230 sites today, navigating the challenges of the Covid-19 pandemic. He continues to support the transition and will leave The Gym Group in due course. We are making good progress in the search for our new CEO and we will update the market at the appropriate time.

We have strengthened our Executive Committee with two new members, Emily Kortlang and Nick Shelmerdine, adding marketing and strategy leadership to the discussions. I have taken the role of Executive Chair to support with the transition to a new CEO.

Board changes

In July 2022, Penny Hughes stepped down after six years as The Gym Group Chair, and I thank Penny for her extraordinary leadership. Penny was integral to helping The Gym Group scale successfully and develop the capabilities we rely on today; and I was delighted to take the helm as Chair.

In August 2022, we welcomed two new Non-Executive Directors ('NEDs'), Elaine O'Donnell and Richard Stables, to our Board. Elaine is a chartered accountant and an experienced Audit Committee and Board Chair who draws on her expertise at a broad range of businesses, and as a former partner at EY, to strengthen our Committees' and Board's debates. Richard is an expert corporate financier with over 30 years' experience in the City and brings his market insight and knowledge to

our Board strategy and planning. Rio Ferdinand stepped down in August owing to his increasing external commitments and I also want to thank Rio for his significant contribution and wish him well.

On 6 February 2023, we appointed a new NED – Simon Jones, Managing Director for Premier Inn and Restaurants, UK and Global Commercial Director at Whitbread – who will be a valuable addition to our first class Board team, bringing his vast experience from such a leading UK hospitality brand, which similarly delivers great value with high quality for their customers.

Looking forward

This time last year, we reflected on emerging from the pandemic and indicated that we hoped 2022 would see a return to a more normal trading environment. As the trading environment has normalised, it is now clear that it will take longer to return to pre Covid-19 levels as a result of both the changes to consumers' everyday lives and lifestyles and the macroeconomic headwinds that we are facing. As we look to the future, we will continue to identify opportunities to attract new members, optimise yield and maximise operational efficiency as has always been fundamental to our low cost model, to mitigate the economic pressures going into 2023. We are confident that we remain well placed to face these challenges and take advantage of the significant long term sector growth ahead.

Chief Executive's Review

The Gym Group is in a strong position going into 2023 despite the difficult economic environment which has caused challenges for all consumer businesses. Looking back to the start of 2021, we were commencing the third of the Covid-19 lockdowns and our recovery trajectory was uncertain. However, by the end of 2022, we were operating from 229 sites across the UK and generated revenue in the year that was 13% higher than in 2019. Our business also returned to generating free cash flow in the year. Our operating environment has changed post Covid-19, but through this period of transition, The Gym Group is one of the leading operators in our sector.

Membership grew during the year from 718,000 at the end of December 2021 to 821,000 at the end of December 2022, assisted by some further post Covid-19 membership recovery, yield optimisation and the strongest site opening programme in our history. Also in the year, we delivered on two transformational initiatives – the relaunch of the brand and the new technology infrastructure. Both initiatives will enable the business to trade more effectively over the coming years. The relaunch of the brand under The Gym Group name means we have a distinctive and memorable brand and visual identity that will build brand awareness in a crowded consumer market. The launch of our new technology infrastructure means that we have a modern, sophisticated website and app that will enable us to deliver highly effective levels of member acquisition.

It is now apparent that some members have not come back to in-gym workouts post Covid-19; therefore our work to recover pre Covid-19 levels of profitability is continuing. For sites open in 2018, the like-for-like revenue recovery (vs 2019) is 90%, reflecting membership volume recovery of c.81% of 2019 levels, with yield at c.110%. Some of the members have been displaced because they have not fully returned to office working - just 16 sites out of our 154 sites that were open pre Covid-19 are significantly workforce-dependent and the rest are located in residential areas or have a strong student membership. We believe that there is further membership recovery to come in the medium term but this has been slowed in the short term by the cost-of-living pressures which are having an impact on underlying demand.

Despite these trends, the market dynamics for our business are very strong and we are growing our share within the market. The Gym Group's share of the low cost gym market by number of sites is currently 29.3%, up from 16.7% in 2016. The demand for health and fitness is expected to continue to increase because of the health shock that the pandemic has given so many people; and within health and fitness, low cost gyms were the part of the market that grew most rapidly pre Covid-19. We also continue to see a good supply of sites in the locations that are most suitable for us.

As a result of our year of recovery, the business has resumed generating free cash flow to invest into our site expansion. 2022 has been a year of significant investment with 28 new sites and the additional spend on the technology infrastructure and brand relaunch. At the end of 2022, our Non-Property Net Debt was £76.1m including £11.5m of finance leases. In 2022, because of the timing of recovery, part of this growth was funded from our debt facilities. However, as we move into 2023, we plan to revert to self-financing our growth from free cash flow generation.

Our confidence about the future growth potential of this business comes from having a high quality offer for members at an affordable price. This means that, with high levels of satisfaction, members will rejoin a number of times throughout their lifetime. Rejoiner rates are currently around 42% of new member acquisition, reflecting our success in driving multiple join events. Our member satisfaction ('OSAT') scores are at an all-time high post Covid-19 and our members are visiting the gyms on average 12% more often than they were in 2019. All this ensures we are in a strong position to trade through the current economic difficulties and expand into the future. At this time, our low price model is more relevant than ever.

The financial results for 2022 reflect the year of recovery. Revenue was £172.9m (2021: £106.0m) up 63%, and Group Adjusted EBITDA Less Normalised Rent was £38.0m compared with £5.7m in 2021. The Adjusted Loss for the year was £6.9m (2021: loss of £28.5m) and the Statutory Loss was £19.3m (2021: loss of £35.4m).

Strategic priorities

Our business has a clear set of strategic priorities that were articulated at the Capital Markets Day in May 2022. Significant progress has been made against these strategic priorities with the successful delivery of two transformational initiatives in the year, yield optimisation and the scale of the organic rollout. Whilst the short term economic situation is expected to remain challenging through 2023, the longer term market opportunity will only be enhanced by the current economic conditions and its impact on weaker competitors; we expect to continue to grow market share as a result.

i) Market opportunity and organic rollout

Our positioning in the market as a high quality, affordable gym priced at an average headline price of £21.49 per month is compelling and puts us in a strong position to continue to grow rapidly over the coming years. At the end of December 2022, our market share was 29.3% of the low cost market by number of sites (total market estimated at 781 sites across the UK). We believe that the UK low cost gym market has the potential to continue to grow strongly over the coming years and, as one of the few operators expanding, we expect our market share to also grow.

Our ability to expand rapidly and take advantage of the market opportunity is partly driven by our ability to identify the right locations and build the appropriate format for that location and open sites ranging from 7,000 to 21,000 sq. ft. This means that we can expand in smaller locations, as we have done in 2022 in towns such as Leyland, Lancashire and Glenrothes, Scotland (each around 8,000 sq. ft), as well as in larger sites such as the conversion of an existing gym in Paddington (21,000 sq. ft). This flexibility of gym format enables us to access more catchments across the country and increases our

addressable market. Given the economic environment, we intend to be selective in terms of the sites that we open in the next year and continue to choose sites that will trade well at affordable rents. Our disciplined approach to rents continues the approach we have adopted successfully throughout our history and is reflected in a favourable rent profile in our estate.

We are pleased with the quality of our site rollout in 2022, and the 28 sites that we have opened in the year are performing according to our expectations. Five of the 28 sites are in residential areas of London and include the three sites that we acquired from Fitness First in March 2022 – these sites in Romford, Leyton and Harringay have already doubled their number of members compared to the member numbers pre-acquisition and will be strong sites over the coming years for our business.

ii) Optimising yield and profitability through a new price product architecture

Having the formats, the brand and the technology platform in place gives us opportunity to concentrate our next set of technology developments on more member-facing initiatives that will drive our yield and hence our profitability. These developments are being made on the back of extensive research with members and non-members, as well as detailed analysis in partnership with a well known industry consultant. The research we undertook confirmed what we already knew - that the value of the offering that we deliver and the quality of our proposition are very strong. As a result, we are implementing a well thought out strategy on yield to improve our profitability.

The first step taken during 2022 was to increase average headline price by approximately £2 per month on average for new members, and also to implement some repricing of the existing membership. Despite these increases, we remain the lowest priced 24/7 nationwide gym operator, ensuring that we provide excellent value for money at a time of squeezed discretionary incomes. Secondly, we recently introduced a new pay up front product on the back of this research – this is a very cost-effective product that will demonstrate the value of our offering versus the higher price competitors, whilst also giving us the benefit of increased tenure from those that take it up. Thirdly, in the Summer of 2023, we are planning to introduce a three tier price architecture that will give more choice to members and will include a lower entry price as well as an upper end premium product. This premium product will build on the already successful LIVE IT product that is currently taken up by around 30% of our membership base but with more product elements within it. This new price product architecture will require trialling and so is not expected to have initial yield uplift, but we expect it to increase the commercial flexibility of our trading and further increase our yields in the coming years.

iii) Developing the technology platform

The first of our transformational initiatives in 2022 was the launch of our new technology infrastructure. This project delivered an enhanced technology platform with mobile-centric developments for the website and the members area and further enhancements to the app. The rationale for this significant piece of development was to ensure improvements in site speed, gain search engine optimisation ('SEO') benefits and increase conversion rates. This project was implemented successfully and has already given us the ability to identify and make material improvements to our member acquisition journey.

I am also pleased with the progress that we have made with our app. Our app score rating is 4.7 on Apple and 4.6 on Android, among the highest in the industry and with well-used features such as site capacity, workout recording and class booking. We have also incorporated over 200 new Fiit videos into the app for our members to use and the technology platform has also enabled the integration of the Fiit offer into our LIVE IT product.

iv) Rolling out the new brand

The brand transformation was the second transformational project of the year with a successful relaunch in August 2022. The rationale for this initiative was to enhance our brand awareness and marketing effectiveness which had been held back by our previous generic brand. A unique brand name also gives us considerable SEO benefits by being able to drive more organic traffic to our site, particularly important as the cost of buying search terms through the big technology platforms continues to increase ahead of inflation. There were two significant parts to the project – designing and launching a new visual identity and then developing the new creative platform that was part of the first marketing campaign. I am confident that the new visual identity will serve this business well over the coming years – all sites have now been externally rebranded and other assets in use throughout the business have been updated. The new 'Gym Face' advertising campaign was rolled out in September and October. The same creative campaign was used for the important January and February peak trading period in 2023.

Our latest brand awareness metrics are encouraging with a 5.6 percentage points increase in prompted awareness in the 12 months since February 2022 - positioning 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 memberships. One aim is to increase the percentage of members visiting our gyms at least four times per month and we are delighted that, through our initiatives, we have seen a 12% increase in member usage of our gyms in 2022.

We are proud to be the first carbon neutral gym chain in the UK and during the year, our work on carbon reduction and the net zero commitment to the Science Based Target initiative ('SBTi') has intensified. We are now working on verification by SBTi, whilst at the same time implementing energy saving programmes like our recent '20 is Plenty' campaign which has

seen us increasing the temperature in our gyms during the summer months from 19°C to 20°C. Our commitment to net zero is now for us to reach this target by 2045 but we plan to have decarbonised our own business by 2035.

One of the key strengths of The Gym Group is our unique team and culture, and we were delighted to have retained high levels of engagement in our annual employee survey and to be recognised by Glassdoor in 2022 as number 25 in their list of the Best Places to Work in the UK (the only leisure business placed in the top 50). We also retained our Investors in People Gold award during the year.

Summary

The tough trading environment and economic circumstances over the past few months have made 2022 a challenging year for all and I am grateful for the support of our teams across our whole business. The commitment of our teams to ensuring great member service is also enabling us to achieve record OSAT scores and is another reason for our confidence about how we expect to trade well through the difficult economy.

Our business is as well positioned as any in our sector to flourish as the economy emerges from the dual impact of the cost-of-living crisis and the pandemic. We have a clear set of strategic priorities to improve this business and continue to add greater capability to trade effectively. This is my last report as CEO after nearly eight years with the business, but my confidence about the quality of the estate we have built and the foundations we have put in place is stronger than ever. The January and February 2023 trading period has demonstrated our ability to drive revenue growth to offset energy and other cost pressures that we are having to absorb. With increases in both membership and yield despite the economic headwinds, we are taking advantage of the strong market position that we have built within the wider health and fitness sector. I have confidence that the business will continue to grow strongly in future years.

Financial Review

Presentation of results

This Financial Review uses a combination of statutory and non-statutory measures to discuss performance in the year. The definitions of the non-statutory key performance indicators can be found in the 'Definition of non-statutory measures' section. To assist stakeholders in understanding the financial performance of the Group, aid comparability between years and provide a clearer link between the Financial Review and the consolidated financial statements, we have also adopted a three-column format 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, remeasurement gains or losses on borrowings, and refinancing costs. Further details on non-underlying items are provided later in this report.

Summary

	Year ended 31 December 2022	Year ended 31 December 2021	Movement %/£m
Total number of gyms at year end	229	202	+27
Total number of members at year end ('000)	821	718	+14%
Revenue (£m)	172.9	106.0	+63%
Group Adjusted EBITDA (£m)	71.3	35.4	+101%
Group Adjusted EBITDA Less Normalised Rent (£m)	38.0	5.7	+32.3
Adjusted Loss before tax (£m)	(5.5)	(36.8)	+31.3
Adjusted Loss for the year (£m)	(6.9)	(28.5)	+21.6
Statutory Loss before tax (£m)	(19.4)	(44.2)	+24.8
Statutory Loss for the year (£m)	(19.3)	(35.4)	+16.1
Net cash inflow from operating activities (£m)	65.4	38.9	+26.5
Free cash flow (£m)	16.6	2.0	+14.6
Non-Property Net Debt (£m)	(76.1)	(44.1)	-32.0

Results for the year

	<u>Year ended 31 December 2022</u>			<u>Year ended 31 December 2021</u>		
	Underlying result £m	Non-underlying items £m	Total £m	Underlying result £m	Non-underlying items £m	Total £m
Revenue	172.9	-	172.9	106.0	-	106.0
Cost of sales	(2.0)	-	(2.0)	(1.7)	-	(1.7)
Gross profit	170.9	-	170.9	104.3	-	104.3
Other income	0.8	-	0.8	7.3	-	7.3
Operating expenses before depreciation, amortisation and impairment	(101.8)	(4.4)	(106.2)	(79.1)	(2.3)	(81.4)
Depreciation, amortisation and impairment	(59.3)	(8.5)	(67.8)	(52.7)	(4.2)	(56.9)
Operating profit/(loss)	10.6	(12.9)	(2.3)	(20.2)	(6.5)	(26.7)
Finance costs	(16.1)	(1.0)	(17.1)	(16.6)	(0.9)	(17.5)
Loss before tax	(5.5)	(13.9)	(19.4)	(36.8)	(7.4)	(44.2)
Tax (charge)/credit	(1.4)	1.5	0.1	8.3	0.5	8.8
Loss for the year attributable to shareholders	(6.9)	(12.4)	(19.3)	(28.5)	(6.9)	(35.4)
Loss per share						
Basic and diluted (p)	(3.9)		(10.9)	(16.7)		(20.7)

Revenue

Revenue in the year increased to £172.9m (2021: £106.0m), reflecting a full year of open trading days compared with 72% in the prior year and a return to more normal seasonal trading patterns. However, changes in customer behaviour as a result of the structural shift in working patterns and the difficult macroeconomic environment, meant that like-for-like revenue in the gyms that were open up to the end of 2018 only reached 90% of 2019 revenue.

Average membership numbers in the 12 months to 31 December 2022 were 808,000 compared with 681,000 in 2021; and we closed the year with 821,000 members, up 14% on 31 December 2021.

The average headline price of a standard DO IT membership increased to £21.49 per month in December 2022 compared with £19.27 in December 2021, reflecting the yield optimisation initiatives we put in place during the year to increase the price for new members by approximately £2 per month across the majority of our sites and to reprice some of the existing membership base. As a result of these increases, Average Revenue Per Member Per Month ('ARPM') in the second half of the year was £18.30 compared with £17.60 in the second half of 2021⁵. Despite the increases implemented, we remain the lowest priced low cost gym operator in the UK.

Demand for our premium membership product continued to grow during the year such that in December 2022, the proportion of members taking our LIVE IT membership was 29.6% compared with 27.1% in December 2021.

Cost of sales

Cost of sales, which includes the costs associated with the generation of ancillary income as well as call centre costs and payment processing costs, were £2.0m (2021: £1.7m) reflecting 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 year amounted to £0.8m (2021: £7.3m). The prior year income consists largely of income received under the various Covid-19 related Government grant schemes. As all gyms were open throughout the current year, no grants have been received in 2022.

⁵ Due to the Government-enforced closures in the first 3.5 months of 2021, the full year ARPM for 2021 is distorted and does not provide a meaningful year on year comparator.

Underlying operating expenses before depreciation, amortisation and impairment

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

	Year ended 31 December 2022	Year ended 31 December 2021
	£m	£m
Site costs before Normalised Rent	85.0	60.2
Site Normalised Rent	32.9	29.3
Site costs including Normalised Rent	117.9	89.5
Central support office costs	15.4	16.0
Central support office Normalised Rent	0.4	0.4
Central support office costs including Normalised Rent	15.8	16.4
Share based payments	1.4	2.9
	135.1	108.8
Less: Normalised Rent	(33.3)	(29.7)
Underlying operating expenses before depreciation, amortisation and impairment	101.8	79.1

Site costs including Normalised Rent

Site costs including Normalised Rent in 2022 increased to £117.9m (2021: £89.5m) as we returned to more normal operating conditions, with sites open for the whole year. Utilities costs were £2.8m higher year on year, reflecting not only the increased number of trading days but also the significant increases in wholesale gas and electricity prices as a result of geopolitical events. As a result of the Group's utilities hedging, the impact of the price increases was contained to Q4 2022. However, as previously indicated, we expect utility costs to increase by a further £10m in 2023. Business rates also increased year on year as Covid-19 related Government support was removed. Staff and cleaning cost increases reflected the rise in the National Living Wage as well as the return to normal trading and removal of the furlough scheme. New openings in 2021 and 2022 also contributed to site cost increases year on year.

Site Normalised Rent costs, which are defined as the contractual rents that would have been paid in normal circumstances without any agreed deferrals, recognised in the monthly period to which they relate, amounted to £32.9m in the year (2021: £29.3m). The increase year on year largely reflects the growing gym portfolio.

Central support office costs including Normalised Rent

Central support office costs in the year were broadly in line with the prior year at £15.8m (2021: £16.4m).

Share based payments

Share based payment costs in the year amounted to £1.4m (2021: £2.9m). The reduction year on year reflects the impact of leavers in the year as well as share price movements.

Underlying depreciation and amortisation

Underlying depreciation and amortisation charges in the year amounted to £59.3m (2021: £52.7m). 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 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 loss as follows:

	Year ended 31 December 2022	Year ended 31 December 2021
	£m	£m
Operating loss	(2.3)	(26.7)
Non-underlying operating items	12.9	6.5
Share based payments	1.4	2.9
Underlying depreciation and amortisation	59.3	52.7
Group Adjusted EBITDA	71.3	35.4
Normalised Rent	(33.3)	(29.7)
Group Adjusted EBITDA Less Normalised Rent	38.0	5.7

Group Adjusted EBITDA Less Normalised Rent was £38.0m (2021: £5.7m) and reflects the increased site profitability as a result of revenue recovery and the higher proportion of open trading days.

Underlying finance costs

Underlying finance costs amounted to £16.1m (2021: £16.6m). The implied interest relating to our property and capital leases was £13.3m (2021: £14.0m). Finance costs associated with our bank borrowing facilities were £2.8m (2021: £2.6m) comprising interest costs and fee amortisation.

In May 2022, the Group made certain changes to its revolving credit facility ('RCF'). 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.

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Affecting operating expenses before depreciation, amortisation and impairment		
Costs of major strategic projects and investments	4.6	1.8
Restructuring and reorganisation (income)/costs (including site closures)	(0.2)	0.5
	4.4	2.3
Affecting depreciation, amortisation and impairment		
Impairment of property, plant and equipment, right-of-use assets and intangible assets	8.3	4.0
Amortisation of business combination intangible assets	0.2	0.2
	8.5	4.2
Affecting finance costs		
Remeasurement of borrowings	0.9	0.8
Refinancing costs	0.1	0.1
	1.0	0.9
Total all non-underlying items before tax	13.9	7.4
Tax credit on non-underlying items	(1.5)	(0.5)
Total all non-underlying items	12.4	6.9

Non-underlying items affecting operating expenses before depreciation, amortisation and impairment in the year amounted to £4.4m (2021: £2.3m).

The costs of major strategic projects and investments of £4.6m (2021: £1.8m) includes £4.0m (2021: £0.5m) in relation to the Group's brand transformation. The total costs incurred in the year in respect of this project were £6.5m of which £4.0m is reflected in the income statement and relates to the relaunch of the brand and creation of the Group's visual identity and marketing assets, and £2.5m is included in property, plant and equipment and relates predominantly to new site signage. The remainder of the costs included in other strategic initiatives in the year largely relate to the integration of the three sites acquired from Fitness First in March 2022.

The credit in restructuring and reorganisation costs in the year reflects lease surrender income and costs associated with the closure of a small number of gyms, together with the profit on remeasurement of one of the Group's leases. Also included here are the costs associated with the various Board changes that occurred during the year.

Non-underlying costs affecting depreciation, amortisation and impairment in the year amounted to £8.5m (2021: £4.2m), of which £8.2m (2021: £4.0m) relates to the impairment of 13 sites where slower recovery from Covid-19 and changes in hybrid working patterns have impacted on performance. Also included here is the amortisation of business combination intangibles acquired as part of the Lifestyle, easyGym and Fitness First acquisitions.

Non-underlying items affecting finance costs amounted to £1.0m (2021: £0.9m) and largely reflect the remeasurement of the Group's RCF following the changes agreed with the lenders.

Taxation

The tax credit for the year was £0.1m (2021: credit of £8.8m), representing an effective tax rate of 0.5% (2021: 19.9%). The trading losses incurred as a result of the Covid-19 pandemic, together with the introduction in March 2021 of the temporary enhanced capital allowances regime ('super-deduction tax break'), have resulted in significant tax losses to carry forward which are not anticipated to be fully utilised during the three years covered by the Group's financial plan. Losses for which

no deferred tax asset is recognised equate to £20.2m, resulting in an unrecognised deferred tax asset of £5.1m using a 25% tax rate. There is no time limit for utilising trade losses in the UK.

Earnings

As a result of the factors discussed above, the statutory loss before tax was £19.4m (2021: loss of £44.2m) and the statutory loss after tax was £19.3m (2021: loss of £35.4m).

Adjusted loss before tax is calculated by taking the statutory loss before tax and adding back the non-underlying items. Adjusted loss before tax was £5.5m (2021: loss of £36.8m). Adjusted loss after tax was £6.9m (2021: loss of £28.5m).

The basic and diluted loss per share was 10.9p (2021: loss of 20.7p), and the basic and diluted adjusted loss per share was 3.9p (2021: loss of 16.7p).

Dividend

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

Acquisition of sites operating under the Fitness First brand

On 22 March 2022, the Group 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. The gyms were converted to The Gym Group format in late 2022. A transitional services agreement ('TSA') was in place during the period between acquisition and conversion.

A valuation has been performed on the tangible and intangible assets acquired in the transaction, resulting in goodwill of £4.1m. Further information is included in note 8 to the consolidated financial Information.

Cash flow

	Year ended 31 December 2022	Year ended 31 December 2021
	£m	£m
Group Adjusted EBITDA Less Normalised Rent	38.0	5.7
Rent working capital	(2.1)	(2.9)
Movement in other working capital	(3.2)	7.4
Maintenance capital expenditure	(8.7)	(3.9)
Group operating cash flow	24.0	6.3
Non-underlying items	(5.3)	(2.2)
Interest paid	(2.9)	(2.0)
Taxation	0.8	(0.1)
Free cash flow	16.6	2.0
Expansionary capital expenditure funded by leases	(8.0)	(7.2)
Expansionary capital expenditure funded by other sources	(35.0)	(21.8)
Refinancing fees	(0.7)	(0.1)
Proceeds from disposal of equipment	0.4	-
Net consideration paid on acquisition	(5.4)	-
Net proceeds from issue of Ordinary shares	0.1	30.3
Cash flow before movement in debt	(32.0)	3.2
Net increase in finance lease indebtedness	5.1	6.4
Net drawdown of borrowings	25.0	(6.0)
Net cash flow	(1.9)	3.6

The Group operating cash inflow in the year was £24.0m (2021: inflow of £6.3m) as the improved EBITDA Less Normalised Rent was partially offset by working capital outflows and higher maintenance capital expenditure.

The outflow on rent working capital of £2.1m in the year (2021: outflow of £2.9m), reflects the continued unwind of deferred rents from 2020 and 2021. As at 31 December 2022, only £0.1m of rent deferrals remained outstanding (31 December 2021: £2.1m). The net outflow on working capital (excluding rent) in the year was £3.2m (2021: inflow of £7.4m) and reflects a return to more normal trading patterns.

Fixed asset additions in respect of maintenance capital expenditure in the year amounted to £11.9m (2021: £4.7m) 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 £8.7m (2021: £3.9m).

Fixed asset additions in respect of expansionary capital expenditure in the year amounted to £46.5m (2021: £29.4m) and relate to the Group's investment in the fit-out of new gyms and investment in our technology and brand transformation projects. The fit-out costs are stated net of landlord contributions towards building costs. During the year, we opened 28 new gyms and substantially completed work on a further two sites which were opened in January 2023, spending a total of £35.2m, of which £8.0m was funded by finance leases (2021: £7.2m). The investment in technology in the year of £8.8m relates largely to enhancements made to the member experience, including improvements to the Group's website and new functionality in the app. £2.5m was spent on the brand transformation, largely in respect of new site signage. Adjusting for the movement in capital creditors, the cash flow from expansionary capital expenditure was £43.0m (2021: £29.0m), including the amount funded by finance leases.

The net consideration paid on acquisition of £5.4m relates to the acquisition of three sites from Fitness First in March 2022. Included within the expansionary capital expenditure above was £2.1m of conversion costs.

Balance sheet

	As at 31 December 2022	As at 31 December 2021
	£m	£m
Non-current assets	580.4	549.9
Current assets	15.2	14.8
Current liabilities	(64.7)	(57.4)
Non-current liabilities	(396.9)	(355.2)
Net assets	134.0	152.1

Non-current assets increased in the year by £30.5m to £580.4m. £9.5m of the increase relates to the fair value accounting in relation to the acquisition of the three sites from Fitness First and a further £2.1m relates to the conversion of those sites to The Gym Group format and brand. Full details of the fair values of all assets acquired as part of the Fitness First transaction are set out in note 8 to the consolidated financial information. Right-of-use assets and Property, plant and equipment also increased as a result of opening 25 organic sites in the year, but this increase was partially offset by the impairment charge discussed under Non-underlying items earlier in this report. As noted in the Taxation section, the Group has an unrecognised deferred tax asset of £5.1m at 31 December 2022.

Non-current liabilities increased by £41.7m in the year, to £396.9m partly reflecting the increased lease liabilities from the new and acquired sites. Drawings under the RCF also increased by £25.0m in the year to fund both the acquisition of the sites from Fitness First and part of the organic site rollout.

As at 31 December 2022, the Group had Non-Property Net Debt of £76.1m (31 December 2021: £44.1m) comprising drawn facilities of £70.0m and finance leases of £11.5m, less cash of £5.4m.

Going concern

The Board has reviewed the financial plan and downside scenarios of the Group and has a reasonable expectation that the Group has adequate resources to continue in operational existence for the period to 30 June 2024. As a result, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements. In making this assessment, consideration has been given to the current and future expected trading performance; the Group's current and forecast liquidity position and the support received to date from our lenders and shareholders; and the mitigating actions that can be deployed in the event of reasonable downside scenarios. Further detail is provided in note 2 of the consolidated financial information.

Trading update and outlook

The business has had an uneven start to the new financial year when compared with Board expectations, with membership at the end of February 2023 of 890,000, up 8.4% from the end of 2022 (2022: 14.9%). Revenue after two months has grown 18.7% year on year, reflecting membership growth of 8% and yield growth (ARPMM) of 10%. Like-for-like revenue for the two months reached 97% of the pre Covid-19 level, driven by increases in ARPMM whilst remaining the lowest cost nationwide gym chain.

We continue to expect energy costs to be c.£10m higher in 2023 compared to 2022 and are now 96% hedged for FY23. We also expect that the current difficult macroeconomic environment and its impact on consumer demand will continue throughout the year. Therefore, we now anticipate the full year revenue increases from yield improvements and new site openings to be broadly offset by cost increases.

We intend to take a more measured approach to our new site openings in 2023 and anticipate opening up to 12 new sites, with all openings being self-financed. As a result, leverage (calculated as Non-Property Net Debt : Group Adjusted EBITDA Less Normalised Rent) is expected to remain within the range of 1.5 to 2.0x.

Definition of non-statutory measures

- *Group Adjusted EBITDA* – operating profit/loss before depreciation, amortisation, share based payment costs and non-underlying items.
- *Normalised Rent* – the contractual rent that would have been paid in normal circumstances without any agreed deferrals, 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 year ended 31 December 2022

	Year ended 31 December 2022			Year ended 31 December 2021			
	Note	Underlying £m	Non- underlying (note 5) £m	Total £m	Underlying £m	Non- underlying (note 5) £m	Total £m
Revenue	4	172.9	-	172.9	106.0	-	106.0
Cost of sales		(2.0)	-	(2.0)	(1.7)	-	(1.7)
Gross profit		170.9	-	170.9	104.3	-	104.3
Other income		0.8	-	0.8	7.3	-	7.3
Operating expenses before depreciation, amortisation and impairment		(101.8)	(4.4)	(106.2)	(79.1)	(2.3)	(81.4)
Depreciation, amortisation and impairment		(59.3)	(8.5)	(67.8)	(52.7)	(4.2)	(56.9)
Operating profit/(loss)		10.6	(12.9)	(2.3)	(20.2)	(6.5)	(26.7)
Finance costs		(16.1)	(1.0)	(17.1)	(16.6)	(0.9)	(17.5)
Loss before tax		(5.5)	(13.9)	(19.4)	(36.8)	(7.4)	(44.2)
Tax (charge)/credit	6	(1.4)	1.5	0.1	8.3	0.5	8.8
Loss for the year attributable to equity shareholders		(6.9)	(12.4)	(19.3)	(28.5)	(6.9)	(35.4)
Other comprehensive income for the year							
<i>Items that may be reclassified to profit or loss</i>							
Changes in the fair value of derivative financial instruments		(0.1)	-	(0.1)	0.1	-	0.1
Total comprehensive expense attributable to equity shareholders		(7.0)	(12.4)	(19.4)	(28.4)	(6.9)	(35.3)
Loss per share (p)	7						
Basic and diluted		(3.9)		(10.9)	(16.7)		(20.7)

Reconciliation of Operating Loss to Group Adjusted EBITDA Less Normalised Rent¹

	Note	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m
Operating loss		(2.3)	(26.7)
Add back: Non-underlying operating items	5	12.9	6.5
Share based payments (included in Operating expenses)	14	1.4	2.9
Underlying depreciation and amortisation	9,10	59.3	52.7
Group Adjusted EBITDA		71.3	35.4
Less: Normalised Rent ²		(33.3)	(29.7)
Group Adjusted EBITDA Less Normalised Rent¹		38.0	5.7

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

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

Consolidated Statement of Financial Position

As at 31 December 2022

		31 December 2022	31 December 2021
	Note	£m	£m
Non-current assets			
Intangible assets	8	92.7	86.0
Property, plant and equipment	9	181.0	165.6
Right-of-use assets	10	289.4	281.2
Investments in financial assets	12	1.0	1.0
Deferred tax assets	6	16.3	16.1
Total non-current assets		580.4	549.9
Current assets			
Inventories		0.9	0.3
Trade and other receivables		8.9	6.3
Income taxes receivable		-	0.9
Cash and cash equivalents		5.4	7.3
Total current assets		15.2	14.8
Total assets		595.6	564.7
Current liabilities			
Trade and other payables		38.8	30.4
Lease liabilities	10	25.3	27.0
Provisions		0.6	-
Total current liabilities		64.7	57.4
Non-current liabilities			
Borrowings	11	70.0	44.3
Lease liabilities	10	325.1	309.3
Provisions		1.8	1.6
Total non-current liabilities		396.9	355.2
Total liabilities		461.6	412.6
Net assets		134.0	152.1
Capital and reserves			
Own shares held		0.1	0.1
Share premium		189.8	189.7
Hedging reserve		-	(0.1)
Merger reserve		39.9	39.9
Retained deficit		(95.8)	(77.5)
Total equity shareholders' funds		134.0	152.1

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Own shares held	Share premium	Hedging reserve	Merger reserve	Retained deficit	Total
Note	£m	£m	£m	£m	£m	£m
At 1 January 2021	0.1	159.5	(0.2)	39.9	(44.9)	154.4
Loss for the year	-	-	-	-	(35.3)	(35.3)
Other comprehensive income for the year	-	-	0.1	-	-	0.1
Total comprehensive expense	-	-	0.1	-	(35.3)	(35.2)
Issue of Ordinary share capital	-	30.2	-	-	-	30.2
Share based payments	-	-	-	-	2.4	2.4
Deferred tax on share based payments	-	-	-	-	0.3	0.3
At 31 December 2021	0.1	189.7	(0.1)	39.9	(77.5)	152.1
Loss for the year	-	-	-	-	(19.4)	(19.4)
Other comprehensive income for the year	-	-	0.1	-	-	0.1
Total comprehensive expense	-	-	0.1	-	(19.4)	(19.3)
Issue of Ordinary share capital	-	0.1	-	-	-	0.1
Share based payments	-	-	-	-	1.7	1.7
Deferred tax on share based payments	-	-	-	-	(0.6)	(0.6)
At 31 December 2022	0.1	189.8	-	39.9	(95.8)	134.0

Consolidated Cash Flow Statement

For the year ended 31 December 2022

		Year ended 31 December 2022	Year ended 31 December 2021
	Note	£m	£m
Cash flows from operating activities			
Loss before tax		(19.4)	(44.2)
<i>Adjustments for:</i>			
Finance costs		17.1	17.5
Non-underlying operating items		12.9	6.5
Underlying depreciation of property, plant and equipment	9	26.4	23.6
Underlying depreciation of right-of-use assets	10	28.1	23.5
Underlying amortisation of intangible assets		4.8	5.4
Share based payments	14	1.4	2.9
Rent concessions	10	(0.5)	(1.6)
(Profit)/loss on disposal of property, plant & equipment and right-of-use assets		(0.4)	0.4
Increase in inventories		(0.6)	-
Increase in trade and other receivables		(3.1)	(0.3)
Increase in trade and other payables		3.2	10.1
Payment of deferred consideration		-	(2.6)
Cash generated from operations		69.9	41.2
Tax received/(paid)		0.8	(0.1)
Net cash inflow from operating activities before non-underlying items		70.7	41.1
Non-underlying items		(5.3)	(2.2)
Net cash inflow from operating activities		65.4	38.9
Cash flows from investing activities			
Business combinations	8	(5.4)	-
Purchase of property, plant & equipment	9	(36.5)	(20.5)
Purchase of intangible assets		(7.2)	(5.2)
Proceeds from disposal of property, plant & equipment		0.4	-
Net cash outflow used in investing activities		(48.7)	(25.7)
Cash flows from financing activities			
Repayment of lease liability principal		(27.4)	(17.7)
Lease interest paid		(13.3)	(14.2)
Bank interest paid		(2.3)	(1.8)
Payment of financing fees		(0.7)	(0.2)
Drawdown of bank loans		30.5	30.0
Repayment of bank loans		(5.5)	(36.0)
Proceeds of issue of Ordinary shares		0.1	31.2
Costs associated with share issue		-	(0.9)
Net cash outflow used in financing activities		(18.6)	(9.6)
Net (decrease)/increase in cash and cash equivalents		(1.9)	3.6
Cash and cash equivalents at the start of the year		7.3	3.7
Cash and cash equivalents at the end of the year		5.4	7.3

Notes to the Consolidated Financial Information

1. General information

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

The financial information set out above does not constitute statutory accounts for the years ended 31 December 2022 or 2021 within the meaning of sections 435(1) and (2) of the Companies Act 2006 nor does it contain sufficient information to comply with the disclosure requirements of International Financial Reporting Standards.

An unqualified report on the consolidated financial statements for each of the years ended 31 December 2022 and 2021 has been given by the Group's auditor, Ernst & Young LLP. Each year's report did not include a modified opinion and did not contain any statement under section 498(2) or (3) of the Companies Act 2006.

The consolidated financial statements for the year ended 31 December 2021 have been filed with the Registrar of Companies, and those for 2022 will be delivered in due course subject to their approval by the Company's shareholders at the Company's Annual General Meeting on 11 May 2023.

2. Basis of preparation

The financial statements have been prepared in accordance with the Listing Rules and the Disclosure Guidance and Transparency Rules of the United Kingdom Financial Conduct Authority (where applicable) and United Kingdom adopted international accounting standards. The accounting policies applied are consistent with those described in the Annual Report and Accounts of the Group for the year ended 31 December 2021. The functional currency of each entity in the Group is pounds sterling. The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest one hundred thousand pounds, except where otherwise indicated.

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

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

Going concern

In assessing the going concern position of the Group for the year ended 31 December 2022, the Directors have considered the following:

- the Group's trading performance in FY22 and throughout the traditional January and February 2023 peak period;
- future expected trading performance to June 2024 (the going concern period), including membership levels and behaviours in light of the current difficult macro-economic environment; and
- the Group's financing arrangements and relationship with its lenders and shareholders.

2022 was a year of significant recovery and growth for The Gym Group, with membership at the end of December 2022 reaching 821,000, an increase of 14.3% from the end of December 2021. Average Revenue per Member per Month for the year ('ARPM') was £17.82 and for the second half of the year was £18.30, up 4.5% on the second half of the prior year. LIVE IT, the premium price product, ended the year at 29.6% of total membership compared with 27.1% in December 2021. As a result, revenue and Group Adjusted EBITDA both increased significantly. The Group also reported strong cash generation, with free cash flow of £16.6m being generated and used to part-fund the 25 new organic site openings as well as our investment in the new technology and brand. The remaining organic site openings and the acquisition of the three sites previously trading under the Fitness First brand were funded through an increase in the Group's borrowings. All sites opened in the year are performing in line with our expectations.

In May 2022, the Group agreed with its lenders certain changes to the Group's Revolving Credit Facility ('RCF'). As a result, the Group now has access to a combined £80m facility which matures in October 2024. The Group also currently has access to £13m of finance lease facilities (£15m permitted under the RCF). As at 31 December 2022, the Group had Non-Property Net Debt (including finance leases) of £76.1m, with £15.4m of headroom (calculated off bank debt less cash) under the RCF. The RCF is subject to quarterly financial covenant tests on leverage (Net Debt to Group Adjusted EBITDA Less Normalised Rent), fixed charge cover (Adjusted EBITDAR to Net Finance Charges and Normalised Rent) and minimum liquidity. Whilst the going concern assessment covers the period to the end of June 2024, the Directors have considered the fact that the Group's RCF facility is currently expected to expire in October 2024 and concluded that there is a realistic prospect that this will be extended or refinanced before that time.

2. Basis of preparation (continued)

Going concern (continued)

Following the January and February 2023 peak trading period, closing membership at 28 February 2023 was 890,000, an increase of 8.4% on the position at 31 December 2022. However, demand has been impacted by the cost-of-living pressures felt by many; and the Directors expect the current difficult macroeconomic environment and consumer behaviour to continue. As a result, we have taken a cautious approach to preparing the three year financial plan that underpins the going concern review.

The base case forecast for the period to 30 June 2024 anticipates continued growth in yields across the whole estate as a result of pricing actions that have already been taken. However, modest increases in membership levels are driven largely by the sites opened in 2022 and not by growth in the mature estate. In addition, the Directors have taken a more measured approach to new site openings throughout the plan period, with all new sites assumed to be self-financed. Under this scenario, all financial covenants are passed with a reasonable level of headroom and the Group can operate within its financing facilities.

The Directors have considered a downside scenario which anticipates a more significant cost-of-living downturn throughout the period under review. Under this scenario, membership numbers in the mature estate start to deviate from the base case from March 2023 such that they are approximately 10% lower by the end of 2023. Yields do continue to increase but at a much lower level than under the base case. Under this scenario, the number of new site openings is reduced and discretionary performance-related bonuses removed to ensure that all financial covenants continue to be passed and the Group continues to operate within its financing facilities.

The Directors have also considered a reverse stress test scenario to ascertain the extent of the downturn in trading that would be required to breach the Group's banking covenants or liquidity requirements. Mitigating actions assumed in this scenario include moving to a minimum level of maintenance and IT capital expenditure; reducing controllable operating costs and marketing expenditure; and pausing the new site opening programme in order to preserve cash. In this scenario, the number of new members each month would have to decline by 16.5% compared to the base case (the equivalent of membership reducing to 73% of the February 2023 closing membership number) before the leverage covenant would be breached in June 2024. However, the Group would remain within its liquidity limits.

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

Conclusion

The Board has reviewed the financial plan and downside scenarios of the Group and has a reasonable expectation that the Group has adequate resources to continue in operational existence for the period to 30 June 2024. As a result, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements. In making this assessment, consideration has been given to the current and future expected trading performance; the Group's current and forecast liquidity position and the support received to date from our lenders and shareholders; and the mitigating actions that can be deployed in the event of reasonable downside scenarios.

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

There were no new standards or amendments to standards in the year that had a material impact on the Group's consolidated financial statements for the year ended 31 December 2022.

4. Revenue

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

	Year ended 31 December 2022	Year ended 31 December 2021
	£m	£m
Major products/service lines		
Membership income	162.5	100.8
Rental income from personal trainers	7.8	4.0
Ancillary income	2.6	1.2
	172.9	106.0
Timing of revenue recognition		
Products transferred at a point in time	3.1	1.8
Products and services transferred over time	169.8	104.2
	172.9	106.0

Contract liabilities at 31 December 2022 amounted to £11.0m (2021: £8.4m).

5. Non-underlying items

	Year ended 31 December 2022	Year ended 31 December 2021
	£m	£m
Affecting operating expenses before depreciation, amortisation and impairment		
Costs of major strategic projects and investments	4.6	1.8
Restructuring and reorganisation (income)/costs (including site closures)	(0.2)	0.5
Total affecting operating expenses before depreciation, amortisation and impairment	4.4	2.3
Affecting depreciation, amortisation and impairment		
Impairment of property, plant & equipment, right-of-use assets and intangibles	8.3	4.0
Amortisation of business combination intangible assets	0.2	0.2
Total affecting depreciation, amortisation and impairment	8.5	4.2
Total affecting operating expenses	12.9	6.5
Affecting finance costs		
Remeasurement of borrowings	0.9	0.8
Refinancing costs	0.1	0.1
Total affecting finance costs	1.0	0.9
Total all non-underlying items before tax	13.9	7.4
Tax on non-underlying items	(1.5)	(0.5)
Total non-underlying charge in income statement	12.4	6.9

In addition to the £4.4m of non-underlying items affecting operating expenses before depreciation, amortisation and impairment, there was £0.9m of cash outflow in the year in relation to prior year creditors, bringing the total amount of cash flow on non-underlying operating items to £5.3m. Depreciation, amortisation and impairment and remeasurement of borrowings are non-cash items.

The costs of major strategic projects and investments of £4.6m (2021: £1.8m) includes £4.0m (2021: £0.5m) in relation to the Group's brand transformation. The total costs incurred in the year in respect of this project were £6.5m of which £4.0m is reflected in the income statement and relates to the relaunch of the brand and creation of the Group's visual identity and marketing assets, and £2.5m is included in property, plant and equipment and relates predominantly to new site signage. The remainder of the costs included in other strategic initiatives in the year largely relate to the integration of the three sites acquired from Fitness First in March 2022.

The credit in restructuring and reorganisation costs in the year reflects lease surrender income and costs associated with the closure of a small number of gyms, together with the profit on remeasurement of one of the Group's leases. Also included here are the costs associated with the various Board changes that occurred during the year.

Non-underlying costs affecting depreciation, amortisation and impairment in the year amounted to £8.5m (2021: £4.2m), of which £8.2m (2021: £4.0m) relates to the impairment of 13 sites where slower recovery from Covid-19 and changes in hybrid working patterns are impacting performance. Also included here is the amortisation of business combination intangibles acquired as part of the Lifestyle, easyGym and Fitness First acquisitions.

Non-underlying items affecting finance costs amounted to £1.0m (2021: £0.9m) and largely reflect the remeasurement of the Group's RCF following the changes agreed with the lenders.

6. Taxation

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

	Year ended 31 December 2022	Year ended 31 December 2021
	£m	£m
Current income tax		
Current tax on profits for the year	(0.1)	0.3
Adjustments in respect of prior years	-	0.3
Total current income tax	(0.1)	0.6
Deferred tax		
Origination and reversal of temporary differences	(0.3)	7.7
Change in tax rates	0.5	3.0
Adjustments in respect of prior years	-	(2.5)
Total deferred tax	0.2	8.2
Tax credit	0.1	8.8

The tax credit for the year was £0.1m (2021: credit of £8.8m), representing an effective tax rate of 0.5% (2021: 19.9%).

The net deferred tax asset recognised at 31 December 2022 was £16.3m (2021: £16.1m). This comprised deferred tax assets in respect of tax losses and other temporary differences where the Directors believe it is probable that these will be recovered within a reasonable period. Short term timing differences are generally recognised ahead of losses on the basis that they are likely to reverse more quickly. In assessing the probability of recovery, the Directors have reviewed the Group's three year financial plan that underpins both the Going concern and Viability assessments, and the goodwill, property, plant and equipment impairment testing. The use of a three year period is also consistent with that used to assess the longer term viability of the Group. The Directors believe this detailed plan provides convincing evidence to recognise the amount of deferred tax assets that are forecast to be recovered over this three year period. In particular, this plan anticipates continued growth in yields across the whole estate and additional members from new site openings over the next three years.

The trading losses incurred as a result of the Covid-19 pandemic, together with the introduction in March 2021 of the temporary enhanced capital allowances regime ('super-deduction tax break'), have resulted in significant tax losses to carry forward which are not anticipated to be fully utilised during the three years covered by the Group's financial plan. Losses for which no deferred tax asset is recognised equate to £20.2m, resulting in an unrecognised deferred tax asset of £5.1m using a 25% tax rate. There is no time limit for utilising trade losses in the UK.

7. Loss per share

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

Diluted loss per share is calculated by adjusting the weighted average number of Ordinary shares outstanding to assume conversion of all dilutive potential Ordinary shares. During the year ended 31 December 2022, the Group had potentially dilutive shares in the form of share options and unvested shares issued pursuant to The Gym Group plc's share based long term incentive schemes. As the Group is in a loss-making position, all potential dilutive share options will not be dilutive.

	Year ended 31 December 2022	Year ended 31 December 2021
Loss (£m)		
Loss for the year attributable to equity shareholders	(19.3)	(35.4)
Adjustment for non-underlying items	12.4	6.9
Adjusted loss for the year attributable to equity shareholders	(6.9)	(28.5)
Weighted average number of shares		
Basic and diluted weighted average number of shares	177,251,348	171,060,028
Earnings per share (p)		
Basic and diluted loss per share	(10.9)	(20.7)
Adjusted basic and diluted loss per share	(3.9)	(16.7)

At 31 December 2022, 6,804,605 share awards (2021: 5,260,315) were excluded from the diluted weighted average number of Ordinary shares calculation because their effect would be anti-dilutive.

8. Business combinations

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 have been transferred to the Group and the gyms have been rebranded to operate under The Gym Group brand. The details of the transaction, the purchase consideration, the net assets acquired, and the goodwill arising are as follows:

	Fair value recognised on acquisition £m
Assets	
Intangible assets	0.3
Property, plant and equipment	1.2
Right-of-use assets	3.3
Deferred tax assets	0.6
	5.4
Liabilities	
Trade and other payables	(0.6)
Lease liabilities	(3.3)
Provisions	(0.2)
	(4.1)
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)

A reconciliation of the carrying amount of goodwill at the beginning and end of the year 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 31 December 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 £1.3m and net loss of £0.1m to the Group's results for the period from 22 March 2022 to 31 December 2022. The additional revenue that would have been recognised if the sites had been acquired on 1 January 2022 is £0.4m. No additional net profit or losses would have been recognised.

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 2022.

9. 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	2.0	31.9	0.5	7.4	1.3	43.1
Business combinations	-	1.1	-	0.1	-	1.2
Disposals	-	(2.6)	(0.4)	(4.2)	-	(7.2)
Transfers	(1.8)	1.7	-	0.1	-	-
At 31 December 2022	2.3	240.8	11.6	90.0	5.6	350.3
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 year	-	(16.4)	(0.9)	(8.5)	(0.6)	(26.4)
Impairment	-	(2.2)	-	(0.3)	-	(2.5)
Disposals	-	2.6	0.4	4.2	-	7.2
At 31 December 2022	-	(95.2)	(9.6)	(60.5)	(4.0)	(169.3)
Net book value						
At 31 December 2021	2.1	129.5	2.4	30.7	0.9	165.6
At 31 December 2022	2.3	145.6	2.0	29.5	1.6	181.0

Included within additions for the year is £0.2m of capitalised interest (2021: £nil) and £6.2m of accrued capital expenditure (2021: £2.2m). In the prior year, there was also £0.1m of capital contributions from landlords not yet received.

Outstanding capital commitments at 31 December 2022 totalled £0.8m (2021: £2.9m).

During the year a total impairment loss of £8.2m was recognised relating to 13 sites which have been particularly hard hit by the Covid-19 pandemic and where recovery is slower than in the rest of estate. Of the total impairment charge recognised in the year of £8.2m, £2.5m was allocated against property, plant and equipment and £5.7m was allocated against right-of-use assets. The total recoverable amount of the affected CGUs was £7.7m.

10. 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 £m	Non-property leases £m	Total £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	33.5	8.1	41.6
Business combinations	3.3	-	3.3
Disposals	(4.5)	-	(4.5)
At 31 December 2022	420.5	15.3	435.8
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 year	(26.5)	(1.6)	(28.1)
Impairment	(5.7)	-	(5.7)
Disposals	1.8	-	1.8
Transfers	(0.2)	-	(0.2)
At 31 December 2022	(144.6)	(1.8)	(146.4)
Net book value			
At 31 December 2021	274.2	7.0	281.2
At 31 December 2022	275.9	13.5	289.4

See note 9 for information on the impairment charge.

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

	31 December 2022 £m	31 December 2021 £m
Current	25.3	27.0
Non-current	325.1	309.3
Total Lease liabilities	350.4	336.3

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

The maturity analysis of lease liabilities is as follows:

	31 December 2022	31 December 2021
	£m	£m
Within one year	40.4	39.1
Greater than one year but less than two years	43.4	37.8
Greater than two years but less than three years	40.5	37.8
Greater than three years but less than four years	38.6	35.4
Greater than four years but less than five years	38.7	35.5
Five years or more	246.0	242.7
	447.6	428.3
Less: unearned interest	(97.2)	(92.0)
Total Lease liabilities	350.4	336.3

During the year, 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 facilities to £12.5m (2021: £9.5m). As at 31 December 2022, the amount outstanding on these facilities was £11.5m (2021: £6.4m).

11. Borrowings

The carrying value of the Group's bank borrowings at 31 December 2022 was £70.0m (2021: £44.3m).

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 £100m of available facilities under the RCF and it was due to mature in 2023. In May 2022, the Group agreed changes to its RCF facility with its lenders which 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.

The funds drawn under the RCF bear interest at a minimum annual rate of 2.85% (2021: 2.60%) above the Sterling Overnight Index Average ('SONIA') plus a credit adjustment spread. The average interest rate paid in the year on drawn funds was 4.46% (2021: 2.67%). Undrawn funds bear interest at a minimum annual rate of 1.14% (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 adjusted leverage, fixed charge cover and minimum liquidity.

At 31 December 2022, the Group had drawn down £70.0m under the RCF (2021: £45.0m), leaving £10.0m (2021: £55.0m) undrawn and available. The £70.0m is repayable in October 2024.

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

	31 December 2022	31 December 2021
	£m	£m
Bank borrowings	70.0	45.0
Less: Cash and cash equivalents	(5.4)	(7.3)
Non-Property Net Debt excluding non-property leases	64.6	37.7
Non-property leases (note 10)	11.5	6.4
Non-Property Net Debt	76.1	44.1

12. 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: quoted prices in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable market data)

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 and fair value of borrowings at 31 December 2022 was £70.0m (2021: carrying value of £44.3m; fair value of £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 31 December 2022 was £1.0m (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 31 December 2022 to reasonably possible changes in the assumptions used is not considered to be material.

13. Issued capital

The total number of shares in issue as at 31 December 2022 was 178,039,002 (2021: 177,519,174).

14. Share based payments

The Group operates share based compensation arrangements under The Gym Group plc Share Incentive Plan (SIP), The Gym Group plc Performance Share Plan (PSP), The Gym Group plc Restricted Stock Plan (RSP), The Gym Group plc Long Service Award Plan and The Gym Group plc Save as You Earn Plan (SAYE). During the year, a total of 3,453,795 shares were granted under the PSP, the RSP, the SIP and SAYE. These grants and their vesting criteria are similar in nature to those awarded during 2021.

For the year ended 31 December 2022, the Group recognised a total charge of £1.4m (2021: £2.9m) in respect of the Group's share based payment arrangements and related employer's national insurance.