20 March 2018

The Gym Group plc
('the Company' or 'The Gym')

Full Year Results
Accelerated profitable growth, significant pipeline progress

The Gym Group plc, the fastest growing, nationwide operator of 130 low cost gyms[1], announces its full year results for the year ended 31 December 2017.

Financial Highlights

- Revenue of £91.4 million, an increase of 24.3% (2016: £73.5 million)
- Group Adjusted EBITDA[2] of £28.0 million, an increase of 23.2% (2016: £22.7 million)
- Adjusted earnings per share[3] increased to 7.4p (2016: 5.6p)
- Adjusted profit before tax[4] increased to £12.0 million (2016: £8.7 million)
- Statutory profit before tax of £9.2 million (2016: £6.9 million)
- Proposed final dividend of 0.90p per share, giving a proposed full year dividend of 1.20p per share

Operational Progress

- 21 new gyms opened and 18 acquired from Lifestyle Fitness in 2017, increasing the total estate to 128
- Total year end members at 607,000[5], an increase of 35.5% versus prior year (2016: 448,000); Average member numbers grew by 23.4% to 528,000 (2016: 428,000).
- Launch of LIVE IT., our premium pricing product, with rollout on course to complete by May 2018
- Return on Capital on mature estate maintained at 32% (2016: 32%)
- Average Mature Site EBITDA[6] decreased to £461,000 (2016: £476,000)

Outlook

- The new financial year has started well and current trading is in line with the Board's expectations with 664,000 members at the end of February, an increase of 9.4% since the year end
- Expect to achieve guidance range of 15 to 20 sites openings for 2018.

John Treharne, CEO of The Gym Group, commented:

"We have made considerable progress in 2017 and were the fastest growing low cost fitness operator, substantially increasing our market share and rapidly expanding our estate.

We continue to see potential for substantial growth in 2018 as we plan to open a further 15-20 new gyms and benefit from the profitability of those sites opened in recent years reaching maturity.

We have had a strong start to 2018 and are excited about the future and confident in our team's ability to maximise our opportunity"

An audio webcast of the analyst presentation will be available later today via our website www.tggplc.com

A copy of the Annual Report and Accounts will be available later today via our website.

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1 120 sites branded The Gym and 10 sites currently branded Lifestyle Fitness.
2 Group Adjusted EBITDA is calculated as operating profit before depreciation, amortisation, long term employee incentive costs and exceptional items.
3 Adjusted earnings per share is calculated as the Group's profit for the year before amortisation, exceptional items and the related tax effect, divided by the diluted weighted average number of shares.
4 Adjusted profit before tax is calculated as profit before tax before amortisation, exceptional items.
5 Average members excludes sites not open at the period end.
6 Average Mature Site EBITDA is calculated as Group Adjusted EBITDA contributed by the mature gym portfolio, divided by the number of mature sites. Mature sites are defined as gyms that have been open for 24 months or more measured at the end of the year.

Chairwoman's Statement

This has been a year of significant success for The Gym Group. 2017 will be remembered for the acceleration of number of sites from 89 to 128 as a result of 21 organic openings and the acquisition of 18 sites from Lifestyle Fitness. This is now a significant business with over 600,000 members enjoying millions of gym visits a year. We are reporting strong financial results which has allowed the Board to recommend a final dividend of 0.90p taking the full year dividend to 1.20p, ahead of the 1p declared in the prior year. It was also significant that our share register normalised as our prior Private Equity owners sold their final tranche of shares and we welcome those new investors who have joined the register during the year.

This rate of business growth has required us to mature our capabilities. Our Operations organisational structure has developed and new talent, particularly in Marketing and Technology, gives both enhanced capability and also greater resilience. The Board was impressed that our significant technology investment in our new Member Management System was successfully launched entirely to plan. Work progresses on the next phase of our infrastructure development programme, Enterprise Resource Planning (ERP) system, which is on schedule to be implemented mid-2018. These are fundamental milestones to support our future growth potential.

Our approach to property selection is rigorous. We are building a business with strong capital discipline as a result of a thoroughly researched approach to site selection, utilising the skills and experience of our property team supported by the strength of our covenant. This is an area of significant competitive advantage. When we can accelerate openings such as in 2017 we will, but our expectation is to maintain good discipline as we continue to target 15-20 organic openings a year.

My Board colleagues and I continue to enjoy visiting sites to see first-hand the energy and commitment of our general managers and just how much our members appreciate their gym. We believe the quality and fit out of our new sites and refurbishments are a stand out feature in the market place. This is such an important part of ensuring that going for a work out is an appealing activity for our members. We may be growing quickly, but I can still say I have visited the majority of our gyms! Our work to transform our acquired sites into The Gym Group's branding is particularly impressive and member response has been overwhelmingly positive. Recently, we were delighted to be awarded the prestigious FEEFO Trusted Service Award.

During the course of the year we have been focused on evolving our relationship with the Personal Trainers that operate their businesses out of our sites. It is estimated that 80% plus of qualified Personal Trainers in the health and fitness industry are self-employed; in our model to date Personal Trainers have been wholly self-employed. However, as we wish to further enhance the service we give our members, we think it is timely to move this model on. We have commenced a number of trials that will allow some Personal Trainers to be part time employees, during which time they will be directly managed to deliver services on the gym floor. We hope that this change will benefit all stakeholders. Personal Trainers will have access to an enhanced range of opportunities and relevant benefits and members will benefit from a more reliable and committed programme of activities in the gym. These are important changes that we are trialling to understand the learnings, before a wider implementation during the course of 2018.

Many businesses are having to reflect on a more uncertain economic environment and the potential impact of Brexit. We believe The Gym Group is particularly well positioned, with no material identifiable impacts from Brexit at this time and the ability to thrive even if the economy becomes less buoyant as we offer such good value for money gym membership.

This business has such a positive purpose. To provide affordable access to exercise facilities and expert help to every person who wants to improve their wellbeing, whatever their starting point, whatever their destination.

The impact The Gym Group has had in enabling and encouraging people from all walks of life – we believe several million over the last ten years – to commit to becoming more active is a good news story of which we are incredibly proud because we know that every new gym that opens can be a force for good in its community. We actively seek to establish gyms where there may previously have been no affordable alternatives. We currently have 36 gyms situated in the top 20% "most inactive" local authority areas and

41 gyms (a third of all our gyms) situated in the top 20% “most deprived” local authority areas. The average age of our members is 31 so, if they can get into fitness and staying healthy while relatively young, the benefits for them and for society are clear.

We have an engaged and talented Board and I am grateful to my non-executive colleagues for their willingness to both challenge and support the business; they bring a wealth of relevant insight and experience. But most credit must go to the Management team led by CEO John Treharne and all our colleagues. The Gym Group has a special culture; we look forward to giving many more members their best gym experience yet.

Penny Hughes
Chairwoman
20 March 2018

Chief Executive's Review

Introduction

This has been a very significant year of growth for the business, one where we have substantially increased our market share in the low cost gym sector through a combination of acquisition and organic openings.

During the year we expanded our estate by 39 sites, up from 89 in 2016 to 128 at the end of 2017. 21 of these new sites were as a result of our organic opening programme. In September 2017, the acquisition of 18 additional sites from Lifestyle Fitness gave us a strong set of profitable locations to convert into The Gym brand and develop our geographic footprint.

This expansion substantially grew our membership base with total year end members up 35.5% to 607,000 (2016: 448,000) and average members up 23.4% to 528,000 (2016: 428,000). The impact of this growth is demonstrated by increases in all our key metrics; revenue up 24.3% to £91.4 million (2016: £73.5 million) and Group Adjusted EBITDA up by 23.2% to £28.0 million (2016: £22.7 million). Adjusted Profit before Tax increased by 38.2% to £12.0 million (2016: £8.7 million) and Adjusted Earnings per Share up by 32.1% to 7.4p (2016: 5.6p). Our statutory profit before tax has increased to £9.2 million (2016: £6.9 million).

During the year we put in place foundations that will enable us to support a business of size and substance. A key part of this was the launch of a new Member Management System in July, an infrastructure development that gives us the flexibility and ability to launch new products and react to changes in market conditions through our pricing structure. It is the backbone of our technology architecture. To launch such a major technological change in a 24/7 business without any interruption in member service was an excellent achievement by our team. The development effort will continue in 2018 as we plan the launch of a new Enterprise Resourcing Planning (ERP) platform, a development that gives the finance team the capability to support the increased scale of the business.

The low cost gym market is developing and growing rapidly, and our investment strategy has allowed us to take advantage of these market trends. The Group achieved 2/3rds of the estimated net site growth of the low cost market between March 2017 and December 2017. Overall our market share is up from 17.7% in March 2017 to 22.4% in December 2017. Our model continues to attract new members, including first time gym-goers who are new to the market, as well as taking share from other operators. We have introduced affordable health and fitness provision for those that previously couldn't access it. In doing so, we are positively impacting the nation's collective fitness, a great purpose for a business. Even if the economic environment becomes more difficult, we believe that our core proposition of a quality low cost operation will continue to flourish.

Strategic progress

Delivering performance from gyms

At the year end we had 74 sites that have been operating for more than two years (2016: 55 sites). We continue to drive significant increases in overall profitability as sites mature. Overall Mature Site EBITDA was £34.1 million up 30.3% (2016: £26.2 million). Mature Site EBITDA per site was £461,000 (2016: £476,000). This is in line with our expectation reflecting recent moves to relatively smaller sites built at lower capital cost; these sites can achieve our target returns at lower member numbers than we have historically achieved. Overall we have maintained the return on capital in the mature estate at 32% (2016: 32%). The return on capital for mature sites opened between 2008 and 2013 and for sites opened in 2014 and 2015 is also consistent at 32% overall.

The considerable growth in our estate through our organic roll out and acquisition means that, at the year end 42% of our sites have been open for less than two years (2016: 38%). This means that growth from sites that are still to reach maturity is substantial, and will be a key profit driver over the coming year.

Delivering performance from gyms (continued)

The sites acquired as part of the Lifestyle transaction are a key part of that growth. We acquired 18 sites for a total consideration of £20.5 million. To date we have converted 8 of the sites to The Gym brand, and a further two are planned for conversion. Recently, we decided to convert the remaining 8 Lifestyle sites and expect to conclude the entire programme by September 2018. Total conversion costs to all 18 sites are expected to be £470,000 per site. We target 20% plus return on capital on acquisition opportunities such as Lifestyle. This is lower than for our organic openings, reflecting the acquisition premium incurred on such sites and the faster timeline on which sites with an existing membership base will mature, compared to the organic sites that we open from scratch.

Improving operating efficiencies

Mature EBITDA margin in 2017 was 47.0% (2016: 47.5%), reflecting our continued ability to apply our operating model across a business of growing scale. We continue to operate with disciplined cost control, selecting the right sites and negotiating acceptable levels of rent and other fixed costs (rates and service charges). This is assisted by a stronger covenant with landlords through being a listed company.

Our membership is the beneficiary of the low cost base, as we pass on the positive impact of disciplined cost control to them. This means an average headline price of £17.50 (2016: £17.00) and a membership fee range (excluding LIVEIT.) of £10.99 to £28.99 per month. We do however, endeavor to increase yield wherever the local market allows and pricing decisions are intelligently made through a combination of data analytics and local market intelligence. Average revenue per member per month increased 0.7% across our estate and we expect further progress in 2018 as sites become more established. Revenue progression will be enhanced by the integration of the Lifestyle sites into our operating model and will benefit from the rollout of the LIVE IT., our premium pricing initiative, across the estate.

Achieving our rollout strategy

We organically opened 21 sites in 2017. As in recent years there was a strong London bias, with seven of the sites located within the M25 and a further five within the South East. Our proposition goes from strength to strength, and one recent opening saw our record for the largest number of members on launch (day one) broken. Small scale acquisitions from previous years contributed to the strong organic growth as we converted three sites acquired from Fitness First in 2016. We continue to view the acquisition of existing gyms as an important element of our growth plan, and at the end of 2017 we were able to acquire a site in Aylesbury from another operator.

It is encouraging that the availability of excess space from retailers is increasing. Sites in Edinburgh, Walthamstow and Altrincham have arisen from retailers giving up such space. Other sites we have opened are located in new build developments or were previously used for alternative leisure activities.

Our new sites continue to trade well, in line with our expectations. Encouragingly, our pipeline is strong and expanding rapidly and we entered 2018 with the confidence that we will once again be able to open between 15-20 sites in the coming year.

The strong returns on capital are now benefiting from the savings which have been achieved on multiple stages of the fit-out process, including build costs, gym equipment and fixtures and fittings. During 2017 our average fit-out cost was £1.35 million compared to a historical average on all mature sites of £1.46 million. In the coming year we will once again be tendering our gym equipment supply contract, using our increased scale to benefit capital cost.

Developing the customer proposition

Our latest branding means that sites are modern, well-equipped and well-lit as our members expect. We refurbished 17 sites in 2017 taking advantage of their cyclical five year refurbishment to bring them in line with our latest specification. By the end of 2018 we expect all our sites to have been updated to a common and high quality standard. Our experience is of improved performance levels on the completion of a refurbishment, giving us the ability to relaunch the site to prospective members.

During the year we introduced a new system of tracking Net Promoter Score, which measures customer feedback, enabling us to introduce member satisfaction as a metric within the incentive programme at site level. This system is still in its implementation phase. The previous system, which ran until June 2017, showed an NPS of 63% - a continuation of the high levels achieved in previous years. We continue to see member service as a key differentiating factor in the running of a successful low cost gym and this new system is a key part of improving the already high standards across our estate.

The most significant innovation in 2017 was the launch of LIVEIT. our premium pricing product. The early results from this were promising, allowing us to expand the initial rollout to the whole estate. LIVEIT. gives members four specific benefits; the ability to bring a friend, multi-site access, use of a fitness measurement machine (Fitquest) and affiliate member offers from third parties. The rollout is on course to complete by May 2018. LIVEIT. is just one part of our strategy to drive yield. Price increases for new members are introduced where applicable, and as markets mature a discounted joining fee is used as a key promotional tool to drive volume.

Our people

During the year we announced plans to trial a new operating model within our estate that would enable some of our Personal Trainers to take up part time employment. Outside of the contracted 12 hours, they will continue to run their business on a self-employed basis in our gyms by payment of a rent. The trials are proceeding according to plan and we are in the process of extending the trial, with a full scale rollout currently scheduled in for the summer. The new model is driven by our desire to improve member satisfaction by exercising control over Personal Trainers in their contracted hours. We are confident that this significant change will deliver tangible benefits and importantly retain the competitive advantage that we have that enables us to have the best Personal Trainers operating out of our gyms.

During the year the business has recruited new talent to ensure that our Marketing, Technology and Finance teams have the scope to operate the business at the scale that is required. The benefits of this investment have already been seen in the various value-enhancing projects that have been launched in the year including the new Member Management System, the Lifestyle acquisition and the LIVEIT. launch. Enhancing our quality team and business infrastructure enables us to drive the business forward at pace. Throughout the business our culture remains to drive performance at a local level while providing high quality central support. This is a philosophy that has served the business well in its first 10 years and will, I am sure, continue to do so in the coming years. The commitment of all our people remains key to the success of this business whether it be in supporting new site openings or in the day to day operations. I was delighted that at our employee conference in 2017 we were able to recognise 20 employees who have been with us for more than five years and I hope this number grows exponentially in the coming years.

Our use of technology

With the launch of the new Member Management System now complete, the business can focus on using its technological edge to drive performance. Part of this includes using the newly-created platform to launch functional improvements that enhance the customer journey. We will continue to research ways in which using technology will enhance the customer experience for existing members. We are also seeking to improve conversion levels through our website. Artificial Intelligence that can drive efficiencies in our operating processes, dynamic pricing and the development of an app are also part of the plan. Technology and systems development such as the ERP project will remain fundamental to the delivery of our business model and help to facilitate the low cost environment that we operate in.

2017 was also the year when we started to realise the benefits of past technology investment. This includes use of the email sales platform (Salesforce), the new website and a business intelligence platform that supports the data analytics team. In a data rich business we increasingly see the potential to enhance performance and efficiency by using data gathered on member behavior. We believe this is an area of significant competitive advantage compared to the traditional market.

During the past 12 months, we have celebrated a number of key milestones, not least our 10 year anniversary from when I founded the business. The launch of the 100th gym at Feltham by Jonnie Peacock was a great way to celebrate, and we are well on our way to the next landmark with site numbers having increased to 128 at the year end. We also welcomed our 100 millionth member visit in November. While we celebrate these successes, we remain fiercely ambitious to establish new milestones as we grow the business.

Outlook

The new financial year has started well and current trading is in line with the Board's expectations. Membership numbers at the end of February show an increase to 664,000, a record level, with a 9.4% increase since December 2017. This continued level of member growth helps to underpin our performance for the rest of the year. In 2018 we anticipate opening 15 to 20 sites, with 6 openings expected in the first half of the year. South East openings are more likely to be geared towards the second half of the year. While it remains early days in the rollout of LIVEIT., we expect to continue to see promising levels of take-up as the initiative is launched across the estate. We expect that it will underpin increased yield growth and we will give a further update at the half year once the rollout has been completed.

After a year in which our business has increased in scale more than at any stage in its history, 2018 will see the realisation of the benefits of our recent investments. This will assist in achieving the uplift in profitability built into our plans and in continuing to expand at a rapid rate. It is an exciting time for everyone involved with the Company as we look to extract the inherent value within our business.

John Treharne
Chief Executive Officer
20 March 2018

Financial Review

Summary

We are pleased to have delivered another strong set of financial results with revenue growth of 24.3% and Group Adjusted EBITDA growth of 23.2%.

The growth in Group Adjusted EBITDA has been achieved despite significant pre-opening costs of £2.6 million in the opening of 21 new gyms and investment in central services. Overall we consider that £0.3 million of incremental pre-opening cost that has been incurred in 2017 related to Q1 2018 openings.

Group Operating Cash Flow decreased by 1.1% despite the increase in Group Adjusted EBITDA offset by a 113.7% increase in maintenance capital expenditure due to the refurbishment of 17 (2016: 8) sites under the refurbishment programme.

	2017 £'000	2016 £'000
Total Number of Gyms	128	89
Total Number of Members ('000)	607	448
Revenue	91,377	73,539
Group Adjusted EBITDA[1]	27,963	22,691
Group Adjusted EBITDA before Pre-Opening Costs[2]	30,598	24,888
Statutory Profit before Tax	9,191	6,940
Adjusted Earnings[3]	9,527	7,153
Group Operating Cash Flow[4]	24,677	24,944

[1] Group Adjusted EBITDA is calculated as operating profit before depreciation, amortisation, long term employee incentive costs, and exceptional items.
[2] Group Adjusted EBITDA before Pre-Opening Costs is defined as Group Adjusted EBITDA excluding the costs associated with new site openings.
[3] Adjusted Earnings is calculated as the Group's profit for the year before amortisation, exceptional items, and the related tax effect.
[4] Group Operating Cash Flow is calculated as Group Adjusted EBITDA less working capital less maintenance capital expenditures and is a non-IFRS GAAP measure.

Result for the year

	2017 £'000	2016 £'000
Revenue	91,377	73,539
Cost of sales	(982)	(830)
Gross profit	**90,395**	**72,709**
Administration expenses	(78,015)	(64,153)
Long term employee incentive costs	(774)	(519)
Exceptional costs	(1,664)	(321)
Operating profit	**9,942**	**7,716**
Finance income	12	19
Finance costs	(763)	(795)
Profit before tax	**9,191**	**6,940**
Tax charge	(2,020)	(1,237)
Profit for the year	**7,171**	**5,703**

Tax charge	2,020	1,237
Amortisation of intangible assets	1,175	1,442
Exceptional administration expenses	1,664	321
Adjusted profit before tax	**12,030**	**8,703**
Tax charge	(2,020)	(1,237)
Tax effect of above items	(483)	(313)
Adjusted Earnings	**9,527**	**7,153**

Revenue

The 24.3% increase in revenue is as a result of the growth in Average Member Numbers and a 0.7% increase in the Average Revenue per Member per Month to £14.41 (2016: £14.31).

Member satisfaction is one of our key strategic drivers and our membership numbers reflect the ongoing effectiveness of our proposition. Member Numbers at the year end grew significantly, from 448,000 in 2016 to 607,000 in 2017.

Our average member numbers grew by 23.4% to 528,000 (2016: 428,000), largely due to the opening of 21 sites during the year. Average Revenue per Member per Month increased from £14.31 to £14.41 in 2017 as our pricing continues to mature.

As a result, revenue for the year ended 31 December 2017 increased to £91.4 million (2016: £73.5 million).

Administration expenses

Administration expenses increased by 21.6%, primarily due to the number of gyms increasing from 89 at 31 December 2016 to 128 at 31 December 2017.

The largest cost within administration expenses is property lease rentals. These increased from £13.5 million in 2016 to £17.3 million in 2017 due to the increase in the number of gyms and head office. Staff costs also form a significant part of administration expenses and increased from £9.9 million to £13.2 million, excluding a charge of £0.8 million (2016: £0.5 million) from long term employee incentives. The increase was driven by both gym openings and a scaling up of head office support costs to support future growth.

Head office costs increased from £7.3 million in 2016 to £9.1 million in 2017. This was largely due to the effect of headcount increases in 2017 and staff bonuses associated with improved operating performance.

Depreciation charges increased from £12.7 million in 2016 to £14.4 million in 2017, largely as a result of the increased number of sites. During the year the Group carried out a re-assessment of the estimated useful lives of gym equipment resulting in a £1.3 million decrease in the depreciation charge. Depreciation as a percentage of revenue decreased from 17% in 2016 to 16% in 2017, reflecting the growing maturity of our estate.

Amortisation charges decreased from £1.4 million to £1.2 million due to certain intangible assets recognised on the acquisition of The Gym Limited becoming fully amortised. This is offset by three months of amortisation on new intangibles recognised on the Lifestyle acquisition during the year.

Group Adjusted EBITDA

	2017 £'000	2016 £'000
Operating profit	**9,942**	**7,716**
Depreciation of property, plant and equipment	14,408	12,693
Amortisation of intangible assets	1,175	1,442
Exceptional items	1,664	321
Long term employee incentive costs	774	519
Group Adjusted EBITDA	**27,963**	**22,691**

Group Adjusted EBITDA increased by 23.2% to £28.0 million (2016: £22.7 million), due to an increase in the number of existing sites reaching mature profit levels.

Group Adjusted EBITDA (continued)

Group Adjusted EBITDA is adversely affected by pre-opening costs incurred in the process of opening new sites. Group Adjusted EBITDA before Pre-Opening Costs increased by 22.9% to £30.6 million. Pre-opening costs increased from £2.2 million to £2.6 million, reflecting 21 site openings in 2017 compared to 15 in 2016. In 2017 £0.3 million of the costs related to Q1 2018 openings.

Growth in EBITDA from our mature sites has contributed significantly towards the growth in Group Adjusted EBITDA. Mature Site EBITDA[1] contributed by the 74 mature sites increased by 30.3% to £34.1 million (2016: £26.2 million from 55 sites).

EBITDA from new sites decreased from £3.8 million in 2016, representing 34 sites, to £3.0 million in 2017, with 54 sites at 31 December 2017. This is as a result of the timing of gyms openings in 2017 compared to 2016 and just 3 months contribution from the 18 Lifestyle sites. The new gyms opened in 2016 and 2017 are performing well.

Exceptional items

Exceptional costs have increased significantly year on year from £0.3 million in 2016 to £1.7 million in 2017. In 2017 Exceptional items includes £0.5 million of acquisition costs and £0.6 million of integration costs associated with the acquisition of the Lifestyle Fitness portfolio. A further £0.5 million related to the restructuring costs associated from the restructuring of the operating model associated with the personal trainers used within the business.

Long term employee incentives

During the year the Group granted further Performance Share Plan ('PSP') and Share Incentive Plan ('SIP') shares to certain members of senior management. The Group also introduced Restricted Stock Option granted to certain members of senior management and Long Service Awards granted to employees of the Group. The awards vest in three years providing continuous employment during this period and in the case of the PSP certain performance conditions are attained relating to the earnings per share ("EPS") and Total shareholder returns ("TSR").

The Group continues to operate a matching shares scheme under the SIP, where for every share purchased by an employee the Group will award one matching share, up to a maximum value, which vest in three years subject to continued employment.

The Group recognised a charge of £0.8 million (2016: £0.5 million) in relation to these share based payment arrangements.

Finance costs

Finance costs were unchanged at £0.8 million in 2017 (2016: £0.8 million) despite drawing £28.0 million from our facilities to fund the Lifestyle acquisition, however this occurred in the final quarter of 2017. The Group currently has undrawn facilities of £12.0 million of its five year bullet repayment facility having increased the facility available by £10.0 million during the year.

Taxation

The Group has incurred a tax charge of £2.0 million for the year ended 31 December 2017, which represents an effective tax rate (ETR) on statutory profit before tax of 22.0% (2016: 17.8%). The increase in ETR was driven by the adjustments in respect of prior year depressing the ETR for 2016 in addition to which the Group incurred a greater level of costs in 2017 which were not deductible for tax purposes relating to the Lifestyle acquisition and fit-out and refurbishment costs.

The underlying effective tax rate on adjusted profit before tax, after adjusting for amortisation and exceptional items, is 20.8%.

[1] Mature sites are defined as gyms that have been open for 24 months or more measured at the end of the year. New sites are defined as gyms that have been open for less than 24 months at the end of the year, and includes all 18 Lifestyle sites.

Earnings
The statutory profit before tax increased to £9.2 million (2016: £6.9 million), largely as a result of the increase in Group Adjusted EBITDA, offset by increased depreciation due to increased number of sites and higher exceptional costs. The Group delivered a profit for the year of £7.2 million (2016: £5.7 million) as a result of the factors discussed above.

Basic earnings per share ('EPS') was 5.6p (2016: 4.5p). Adjusted EPS was 7.4p (2016: 5.6p). Adjusted EPS is calculated by excluding amortisation, exceptional items, and the resultant tax effect from earnings.

Dividend
The Board expect to continue to adopt a progressive dividend policy. When making proposals for the payment of dividends, the Board considers the resources available to the Group.

Due to an oversight interim accounts were inadvertently not filed at Companies House prior to payment of dividends in 2017, totalling £1,347,000 and hence these distributions were paid in technical infringement of the Companies Act 2006 ("the Act"). We are undertaking a series of administrative steps in order to rectify this issue and put the Company's shareholders and the Directors, insofar as possible, in the position that was originally intended. At the Annual General Meeting of the Company's shareholders to be held on 4 June 2018, a special resolution is proposed to authorise the appropriation of distributable profits to the payment of the relevant dividends, to waive any rights of the Company to pursue shareholders who received the distributions or past, present or future Directors in respect of payment of the distributions and to approve entering into deeds of release in favour of such shareholders and Directors. Entry into the deeds of release constitutes a smaller related party transaction under Listing Rule 11.1.10 and a related party transaction under IAS 24 "Related party disclosures". The overall effect of the resolution being proposed is to return all parties to the position they would have been in had the relevant dividends been made in full compliance with the Act. The Directors consider it in the best interests of the Company to regularise the position since sufficient distributable reserves were available to make the payment and it was intended that shareholders should receive the dividends.

The Group declared an interim dividend of 0.30p per share. The Board recommends a final dividend of 0.90p per share in respect of the financial year ending 31 December 2017, resulting in a full year dividend of 1.20p per share. Shareholders will be asked to approve the dividend at the AGM on 4 June 2018, for payment on 14 June 2018 to shareholders whose names are on the register on 25 May 2018. This final dividend will be paid by reference to interim accounts, which will demonstrate that the Company has adequate distributable reserves to pay the final dividend, to be filed with Companies House in compliance with the Act.

Cash Flow

	2017 £'000	2016 £'000
Group Adjusted EBITDA	27,963	22,691
Movement in working capital	2,981	5,186
Maintenance capital expenditure[1]	(6,267)	(2,933)
Group Operating Cash Flow	**24,677**	**24,944**
Expansionary capital expenditure[2]	(52,453)	(20,922)
Exceptional items	(1,147)	(944)
Taxation	(1,050)	(243)
Finance costs	(759)	(552)
Dividends paid	(1,347)	(321)
Other net cash flows from financing activity	27,714	-
Net cash flow	**(4,365)**	**1,962**

[1] Maintenance capital expenditure comprises the replacement of gym equipment and premises refurbishment.
[2] Expansionary capital expenditure relates to the Group's investment in the fit-out of new gyms, the acquisition of the Lifestyle portfolio, product enhancements, acquisitions and technology projects. It is stated net of contributions towards landlord building costs.
3 Items 1) & 2) are non-IFRS measures

The Group's increasing Group Adjusted EBITDA and efficient use of working capital continues to deliver strong cash flows. Group Operating Cash Flow has declined marginally by 1.1% from £24.9 million to £24.7 million despite greater cash generation from mature sites as a result of the continuation of the site refurbishment programme: in the current year 17 (2016: 8) sites were refurbished. Total maintenance capital expenditure was £6.3 million (2016: £2.9 million). Given this our Group Operating Cash Flow Conversion has fallen significantly to 88.2% for the year (2016: 109.9%), despite the continuing positive effects of our negative working capital profile.

Expansionary capital expenditure of £52.5 million (2016: £20.9 million) arises as a result of the fit-out of new gyms and the acquisition of the Lifestyle portfolio.

The funding of the Lifestyle acquisition and expansionary capital expenditure has resulted in an increase in Net Debt to £37.5 million (2016: £5.2 million) and the Net Debt:Group Adjusted EBITDA to 1.34x (2016: 0.23x). Target threshold under banking covenants is less than 3.25x.

Balance sheet

	2017 £'000	2016 £'000
Non-current assets	196,253	148,157
Current assets	9,691	10,795
Current liabilities	(44,971)	(34,257)
Non-current liabilities	(40,089)	(10,405)
Net assets	**120,884**	**114,290**

Our business model and strong conversion from revenue to cash results in an uncomplicated balance sheet.

Non-current assets have increased by £48.1 million to £196.3 million (2016: £148.2 million). This is largely as a result of capital expenditure in property, plant and equipment and intangibles totalling £63.3 million, offset by depreciation and amortisation of £15.6 million.

Current assets have decreased due to lower cash balances, as discussed above mitigated by an increase in prepayments as a result of the increase in the number of sites. Current liabilities have increased by £10.7 million as a result of lease incentives associated with new gyms opening in the year, and increases in trade and other payables as the size of our operations increases.

The Group has drawn £38.0 million of its five year bullet repayment facility. £12.0 million of the facility was undrawn at 31 December 2017 and will be utilised to fund new sites, working capital and capital expenditure.

Guidance

We reiterate the guidance that we have made previously:

- We expect 15 to 20 new openings for 2018;
- Depreciation is expected to be 16% of revenue in 2018;
- The charge for long term employee incentives is anticipated as £1.5m in 2018, rising to £1.8m in 2019; and

In addition, in 2018:

- We expect the new sites fit-out costs to continue to be between £1.3 million and £1.4 million per site, with a further £4.0 million to £4.5 million of capital spend on IT, the ERP platform and other expansionary projects;

- The 18 Lifestyle conversions are expected to complete at a total cost in 2017 and 2018 of £470,000 per site. A total of £1.5m was spent in 2017 on the 6 conversions;
- Maintenance capital expenditure is expected to equate to 5.5% of revenue in 2018;
- To support the growth of the business we expect support office costs to be around 8.5% to 9.0% of revenues (2017: 10%).
- The future effective tax rate, after adjusting for amortisation and exceptional items, is estimated to be 23% in 2018 (2017: 20.8%)

Richard Darwin
Chief Financial Officer
20 March 2018

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2017

	Note	31 December 2017 £'000	31 December 2016 £'000
Revenue		91,377	73,539
Cost of sales		(982)	(830)
Gross profit		**90,395**	**72,709**
Administration expenses		(80,453)	(64,993)
Operating profit		**9,942**	**7,716**
Being:			
- Group Adjusted EBITDA[1]		**27,963**	**22,691**
- Depreciation	7	(14,408)	(12,693)
- Amortisation		(1,175)	(1,442)
- Exceptional items	3	(1,664)	(321)
- Long term employee incentive costs	5	(774)	(519)
Finance income		12	19
Finance costs		(763)	(795)
Profit before tax		**9,191**	**6,940**
Tax charge	6	(2,020)	(1,237)
Profit for the year attributable to equity shareholders		**7,171**	**5,703**
Other comprehensive income for the year		-	-
Total comprehensive income attributable to equity shareholders		**7,171**	**5,703**
Earnings per share	4	**pence**	**pence**
Basic		5.6	4.5
Diluted		5.6	4.4

1-Group EBITDA is a non-GAAP metric used internally by management and externally by investors

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	31 December 2017 £'000	31 December 2016 £'000
Non-current assets			
Property, plant and equipment	7	133,356	99,037
Intangible assets		62,066	48,717
Trade and other receivables		515	403
Available-for-sale financial assets		316	-
Total non-current assets		196,253	148,157
Current assets			
Inventories		197	159
Trade and other receivables		9,037	5,814
Cash and cash equivalents		457	4,822
Total current assets		9,691	10,795
Total assets		**205,944**	**158,952**
Current liabilities			
Trade and other payables		43,662	34,123
Provisions		487	-
Income taxes payable		822	134
Total current liabilities		44,971	34,257
Non-current liabilities			
Borrowings	8	37,113	9,178
Other financial liabilities		184	-
Provisions		700	544
Deferred tax liabilities	6	2,092	683
Total non-current liabilities		40,089	10,405
Total liabilities		**85,060**	**44,662**
Net assets		**120,884**	**114,290**
Capital and reserves			
Issued capital		12	12
Own shares held		48	48
Capital redemption reserve		4	4
Share premium		136,280	136,280
Retained deficit		(15,460)	(22,054)
Total equity shareholders' funds		**120,884**	**114,290**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

		Issued Capital £'000	Own shares held £'000	Capital redemption reserve £'000	Share Premium £'000	Retained deficit £'000	Total £'000
At 1 January 2016		12	48	4	136,280	(27,901)	108,443
Profit for the year and total comprehensive income		-	-	-	-	5,703	5,703
Share based payments	5	-	-	-	-	465	465
Dividends paid		-	-	-	-	(321)	(321)
At 31 December 2016		12	48	4	136,280	(22,054)	114,290
Profit for the year and total comprehensive income		-	-	-	-	7,171	7,171
Share based payments	5	-	-	-	-	655	655
Deferred tax on share based payments		-	-	-	-	115	115
Dividends paid		-	-	-	-	(1,347)	(1,347)
At 31 December 2017		**12**	**48**	**4**	**136,280**	**(15,460)**	**120,884**

Consolidated Cash Flow Statement
For the year ended 31 December 2017

	Note	31 December 2017 £'000	31 December 2016 £'000
Cash flows from operating activities			
Operating profit		9,942	7,716
Adjustments for:			
Exceptional items	3	1,664	321
Depreciation of property, plant and equipment	7	14,408	12,693
Amortisation of intangible assets		1,175	1,442
Long term employee incentive costs		774	519
(Profit) / loss on disposal of property, plant and equipment		(5)	30
Increase in inventories		(38)	(37)
Increase in trade and other receivables		(3,334)	(451)
Increase in trade and other payables		6,358	5,622
Cash generated from operations		30,944	27,855
Tax paid		(1,050)	(243)
Interest paid		(771)	(571)
Net cash flows from operating activities before exceptional items		29,123	27,041
Exceptional costs		(1,147)	(944)
Net cash flow from operating activities		**27,976**	**26,097**
Cash flows from investing activities			
Proceeds from disposals of property, plant and equipment		-	22
Purchase of available-for-sale financial assets		(316)	-
Business Combinations		(21,300)	-
Purchase of property, plant and equipment		(35,411)	(22,833)
Purchase of intangible assets		(1,693)	(1,022)
Interest received		12	19
Net cash flows used in investing activities		**(58,708)**	**(23,814)**
Cash flows from financing activities			
Dividends paid		(1,347)	(321)
Drawdown of bank loans		28,000	-
Payment of financing fees		(286)	-
Net cash flows from / (used in) financing activities		**26,367**	**(321)**
Net (decrease) / increase in cash and cash equivalents		(4,365)	1,962
Cash and cash equivalents at 1 January		4,822	2,860
Cash and cash equivalents at 31 December		**457**	**4,822**

Notes

1. General information

The financial information, comprising the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and related notes, has been extracted from the Consolidated Financial Statements of The Gym Group plc ('the Company') for the year ended 31 December 2017, which were approved by the Board of Directors on 20 March 2018.

The financial information set out above does not constitute statutory accounts for the years ended 31 December 2017 or 2016 within the meaning of sections 435(1) and (2) of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of International Financial Reporting Standards ('IFRS'), but is derived from those accounts. An unqualified report on the Consolidated Financial Statements for each of the years ended 31 December 2017 and 2016 has been given by the auditors Ernst & Young LLP. Each year's report did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report 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 2016 have been filed with the Registrar of Companies, and those for 2017 will be delivered in due course subject to their approval by the Company's shareholders at the Company's Annual General Meeting on 4 June 2018.

2. Basis of preparation

The Consolidated Financial Statements for the year ended 31 December 2017, from which the financial information in this announcement is derived, have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the EU, International Financial Reporting Interpretations Committee ('IFRIC') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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 and other financial liabilities at fair value. The Directors have made appropriate enquiries and formed a judgement at the time of approving the Financial Statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the Financial Statements.

3. Exceptional items

	2017	**2016**
	£'000	**£'000**
Acquisition costs	548	-
Integration costs	525	-
Restructuring costs	543	-
Costs related to post IPO reorganisation	-	149
Costs associated with head office relocation	48	172
	1,664	**321**

Acquisition and integration costs relate to the acquisition of the trade and assets from Lifestyle Fitness consisting of 18 sites located in the Midlands, North of England and Scotland on the 29 September 2017. Restructuring costs relate to the cost associated with changing the operating model in relation to the use of Personal Trainers within the business.

4. Earnings per share

Basic earnings per share is calculated by dividing the profit or 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 Share Incentive Plan, The Gym Group plc Performance Share Plan, The Gym Group plc Restricted Stock Plan and The Gym Group plc Long Service Award Plan (see note 5).

	2017	**2016**
Basic weighted average number of shares	128,105,275	128,105,275
Adjustment for share awards	416,773	172,130
Diluted weighted average number of shares	128,522,048	128,277,405
Basic earnings per share (p)	5.6	4.5
Diluted earnings per share (p)	5.6	4.4

Diluted earnings 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 2017, 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 and The Gym Group plc Long Service Award Plan (see note 5).

Adjusted earnings per share is based on profit for the year before exceptional items, amortisation and their associated tax effect.

	2017	**2016**
	£'000	**£'000**
Profit for the year	7,171	5,703
Amortisation of intangible assets	1,175	1,442
Exceptional administration expenses	1,664	321
Tax effect of above items	(483)	(313)
Adjusted earnings	**9,527**	**7,153**
Basic adjusted earnings per share (p)	7.4	5.6
Diluted adjusted earnings per share (p)	7.4	5.6

5. Share based payments

The Group had the following share-based payment arrangements in operation during the year:

a) The Gym Group plc Performance Share Plan
b) The Gym Group plc Share Incentive Plan – Free shares
c) The Gym Group plc Share Incentive Plan – Matching shares
d) The Gym Group plc Restricted Stock Plan
e) The Gym Group plc Long Service Award Plan

In accordance with IFRS 2 Share Based Payments, the value of the awards are measured at fair value at the date of the grant. The fair value is expensed on a straight-line basis over the vesting period, based on management's estimate of the number of shares that will eventually vest.

The Group recognised a total charge of £655,000 (2016: £465,000) in respect of the Group's share based payment arrangements and related employer's national insurance of £119,000 (2016: £54,000).

6. Taxation

The major components of taxation are:

(a) *Tax on profit*

	2017 £'000	2016 £'000
Current income tax		
Current tax on profits for the year	1,712	426
Adjustments in respect of prior years	24	(49)
Total current income tax	1,736	377
Deferred tax		
Origination and reversal of temporary differences	534	1,118
Change in tax rates	(78)	18
Adjustments in respect of prior years	(172)	(276)
Total deferred tax	**284**	**860**
Tax charge in the Consolidated Statement of Comprehensive Income	**2,020**	**1,237**

b) Reconciliation of tax charge

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average rate applicable to profits of the Group as follows:

	2017 £'000	2016 £'000
Profit before tax	9,191	6,940
Tax calculation at standard rate of corporation tax of 19.25% (2016: 20.00%)	1,769	1,388
Expenses not deductible for tax purposes	329	156
Exceptional costs not deductible	148	-
Change in tax rates	(78)	18
Adjustments in respect of prior years	(148)	(325)
	2,020	**1,237**

(c) Deferred tax

During the year the Group recognised the following deferred tax assets and liabilities:

	Accelerated capital allowances £'000	Losses £'000	Intangible assets £'000	Share schemes £'000	Total £'000
At 1 January 2016	(187)	1,006	(642)	-	177
Prior year adjustment	276	-	-	-	276
Recognised in income statement	(564)	(796)	217	25	(1,118)
Change in deferred tax rate	-	(50)	32	-	(18)
At 31 December 2016	(475)	160	(393)	25	(683)
Prior year adjustment	171	-	-	1	172
Acquired in business combination	(921)	-	(319)	-	(1,240)
Recognised in equity	-	-	-	115	115
Recognised in income statement	(777)	(20)	137	126	(534)
Change in deferred tax rate	123	(15)	25	(55)	78
At 31 December 2017	**(1,879)**	**125**	**(550)**	**212**	**(2,092)**

7. Property, plant and equipment

	Assets under Construction	Leasehold improvements	Fixtures, fittings and equipment	Gym and other equipment	Computer equipment	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost						
At 1 January 2016	-	74,027	5,569	34,787	924	115,307
Additions	-	16,729	1,178	8,257	381	26,545
Disposals	-	(100)	-	(244)	-	(344)
At 31 December 2016	-	90,656	6,747	42,800	1,305	141,508
Additions	2,368	21,875	2,505	10,608	647	38,003
Business Combinations	-	5,724	208	4,827	-	10,759
Disposals	-	(180)	(8)	(522)	(2)	(712)
At 31 December 2017	**2,368**	**118,075**	**9,452**	**57,713**	**1,950**	**189,558**
Accumulated						
At 1 January 2016	-	12,309	2,321	14,948	492	30,070
Charge for the year	-	6,422	812	5,205	254	12,693
Disposals	-	(48)	-	(244)	-	(292)
At 31 December 2016	-	18,683	3,133	19,909	746	42,471
Charge for the year	-	7,429	1,034	5,575	370	14,408
Disposals	-	(168)	(4)	(503)	(2)	(677)
At 31 December 2017	**-**	**25,944**	**4,163**	**24,981**	**1,114**	**56,202**
Net book value						
At 31 December 2016	-	71,973	3,614	22,891	559	99,037
At 31 December 2017	**2,368**	**92,131**	**5,289**	**32,732**	**836**	**133,356**

8. Borrowings

	2017	**2016**
	£'000	**£'000**
Non-current		
Facility A	10,000	10,000
Facility B	28,000	-
Loan arrangement fees	(887)	(822)
	37,113	**9,178**

The Group's bank borrowings are secured by way of fixed and floating charges over the Group's assets.

HSBC and Barclays bank facility

On 12 November 2015 the Group entered into a five year bullet repayment facility with HSBC and Barclays. The facility comprises a £10.0 million term loan ('facility A') for the purposes of refinancing the Group's previous finance leases, a £25.0 million term loan ('facility B') to fund acquisitions and capital expenditure, and a £5.0 million revolving credit facility. On 14 September 2017 the Group agreed a facility amendment increasing facility B commitment from £25.0 million to £35.0 million to enable the acquisition of the Lifestyle Portfolio of gyms. Interest is charged at LIBOR plus a 2.5% margin.

9. Business Combinations

On the 29 September 2017 the group acquired the trade and assets of a portfolio of 18 gyms trading under the Lifestyle brand. The property lease agreements in respect of ten of these gyms were transferred to the Group and these gyms are being rebranded to operate under The Gym brand. In respect of the eight other gyms, the property leases were not transferred to the Group and these gyms continue to be operated using the Lifestyle Fitness brand under a concession agreement with the vendor whereby the Group will pay a royalty based upon a percentage of revenue together with a recharge equal to the vendor's lease rentals. The concession agreement also includes an option fee totalling £1.25 million for the Group to terminate the concession agreement in respect of each gym and transfer the leasehold. In early 2018 the Board has taken the decision to terminate the concession agreement and convert all eight gyms to The Gym brand during 2018.

Further on the 24 November 2017 the Group also acquired the trade and assets of a single gym based in the Aylesbury. The consideration for the Aylesbury acquisitions includes an element of contingent consideration which is payable upon the number of members at the site reaching a predetermined level.

The details of both transactions, the purchase consideration, the net assets acquired and goodwill are as follows:

		Fair value	
	Lifestyle	Aylesbury	**Total**
Net assets acquired	£'000	£'000	**£'000**
Intangibles	1,880	72	**1,952**
Property, plant and equipment	10,283	476	**10,759**
Provisions	(295)	-	**(295)**
Deferred tax	(1,242)	-	**(1,242)**
Net Assets	10,626	548	**11,174**
Goodwill	9,874	436	**10,310**
Total consideration	20,500	984	**21,484**
Satisfied by :			
Cash	20,500	800	**21,300**
Contingent consideration	–	184	**184**
Total consideration	20,500	984	**21,484**
Net cash outflow arising on acquisition			
Cash consideration	20,500	800	**21,300**
Net cash outflow	20,500	800	**21,300**

Five year record

	2017	2016	2015	2014	2013[1]
	£'000	£'000	£'000	£'000	£'000
Revenue	91,377	73,539	59,979	45,480	35,734
Group Adjusted EBITDA	27,963	22,691	17,016	14,688	11,752
Group Adjusted EBITDA before Pre-Opening Costs	30,598	24,888	19,681	16,668	12,886
Group Operating Cash Flow	24,677	24,944	18,616	16,514	14,751
Group Operating Cash Flow Conversion	88.2%	109.9%	109.4%	112.4%	125.5%
Expansionary Capital Expenditure	52,453	20,922	28,230	20,335	14,058
Net Debt	37,543	5,178	7,140	49,205	36,743
Net Debt to Group Adjusted EBITDA	1.34x	0.23x	0.42x	3.35x	3.11x
Group Adjusted Earnings	9,527	7,153	(1,107)	(4,452)	(3,551)
Adjusted earnings per share (p)	7.4	5.6	(1.8)	(9.1)	(13.3)
Total Number of Gyms (number)	128	89	74	55	40
Total Number of Members ('000)	607	448	376	293	225
Average Revenue per Member per Month (£)	14.41	14.31	14.08	13.98	14.06
Number of Mature Gyms in Operation (number)	74	55	40	32	16
Mature Gym Site EBITDA	34,082	26,161	18,828	16,244	9,505

[1] The Gym Group plc acquired control of The Gym Limited on 13 June 2013. Before this date the Group did not constitute a single legal group. Prior to the acquisition, combined financial information has been prepared on a basis that aggregates the results, cash flows, assets and liabilities of each the companies constituting the Group.

Responsibilities statement

The following statement will be contained in the 2017 Annual Report and Accounts:

We confirm that to the best of our knowledge:

- the Group Financial Statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and results of the Group; and
- the Strategic Report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

Richard Darwin
Chief Financial Officer and Company Secretary
20 March 2018