



fitter stronger better

The Gym Group plc

INTERIM RESULTS

AUGUST 2018





Forward-Looking Statement Disclaimer

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Overview

- **High quality gym estate**
- **Compelling customer proposition**
- **Technology-led business model**
- **Growing the market**
- **Attractive financial model**



Accelerated profitable growth

- H1 Revenue up 36.1% to £58.3m
- H1 EBITDA up 28.0% to £17.5m
- Organic and acquisition-led expansion – now 147 gyms¹
- H1 2018 openings performing well
- Strong pipeline for H2 2018

Infrastructure in place to grow to a considerable size and scale

1. Includes 13 easyGym sites acquired 4 July 2018. By 29 August 2018 increased to 148.

Operational Headlines

**Fastest growing
low cost gym
operator in UK
market**

**6 strong H1 2018
new site openings**

**Conversion of all
18 Lifestyle sites
to The Gym by
August 2018**

**Acquisition of
13 easyGym sites
in early July**

LIVE IT.
premium product
has increased to
7.6% of proforma
members⁽¹⁾

**Trial of new
Personal Trainer
operating model**

**Launch of new
ERP system
(Workday)**

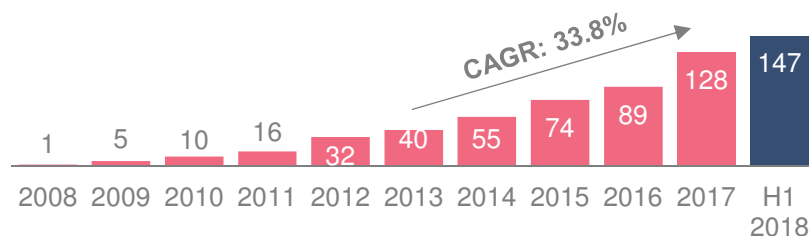
**Renewal of
equipment
supply contract**

¹ Proforma Members represent closing members at 30 June 2018 adjusted for easyGym members acquired at 4 July 2018

Key KPIs and track record

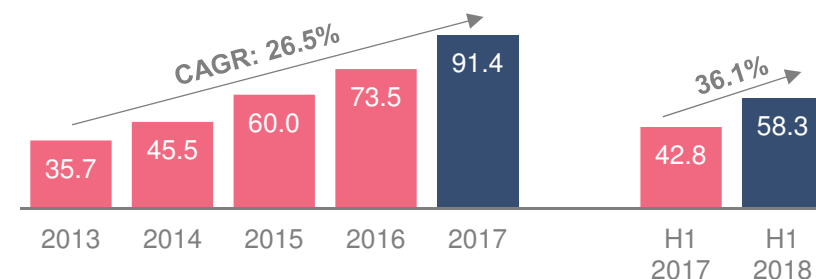
Proforma Gyms (#)

+6 sites open in H1 2018
+13 easyGym sites acquired



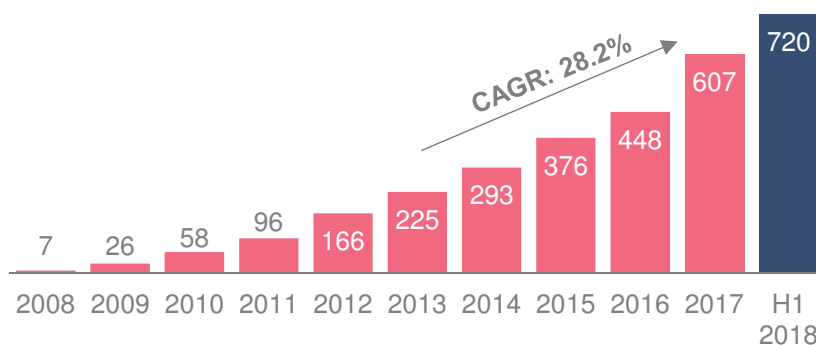
Revenue £'m

£58.3m



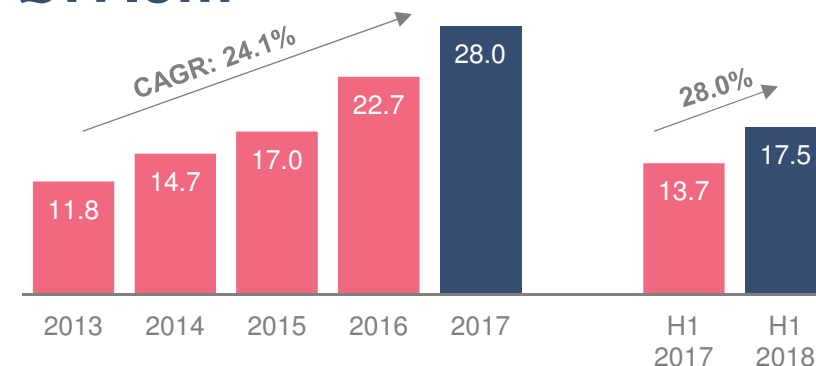
Proforma Members ('000)⁽¹⁾

720k



Group Adjusted EBITDA £'m

£17.5m



¹ Proforma Members represent closing members at 30 June 2018 adjusted for easyGym members acquired at 4 July 2018



FINANCIAL UPDATE

Summary Performance

Proforma Estate⁽¹⁾

147 sites

(H1 2017: 95 sites)

Proforma Members⁽²⁾

720,000

+41.7% vs PY
(H1 2017: 508,000)

664,000

Average Members (+34.1% vs PY)

Revenue

£58.3m

+36.1% vs PY
(H1 2017: £42.8m)

Group Adjusted EBITDA

£17.5m

+28.0% vs PY
(H1 2017: £13.7m)

Adjusted PBT

£7.0m

+8.4% vs PY
(H1 2017: £6.5m)

Adjusted EPS

4.2p

per share
+7.8% vs PY
(H1 2017: 3.9p)

Net Debt

£21.6m

As at June 2018
(31 Dec 2017: £37.5m)

Proposed interim
dividend per share

0.35p

(Interim H1 2017:
0.3p)

¹ Proforma Estate includes 13 sites acquired from easyGym on 4 July 2018

² Proforma Members represent closing members at 30 June 2018 adjusted for easyGym members acquired at 4 July 2018

Group Income Statement

£'m	H1 2018	H1 2017	% Change
Number of sites	134	95	41.1%
Revenue	58.3	42.8	36.1%
Site EBITDA	23.1	17.8	29.7%
Site EBITDA Margin	39.6%	41.5%	-197 bps
Group Adjusted EBITDA	17.5	13.7	28.0%
Group Adjusted EBITDA Margin	30.1%	32.0%	-196 bps
Adjusted PBT	7.0	6.5	8.4%
Adjusted EPS	4.2p	3.9p	7.8%
<i>Group adjusted EBITDA pre - POC</i>	<i>18.4</i>	<i>14.6</i>	<i>25.9%</i>

Reduction in Site EBITDA margin reflecting less mature estate and impact of Lifestyle closure periods

H1 2018

45 sites
open since 2017
(34% of estate)

H1 2017

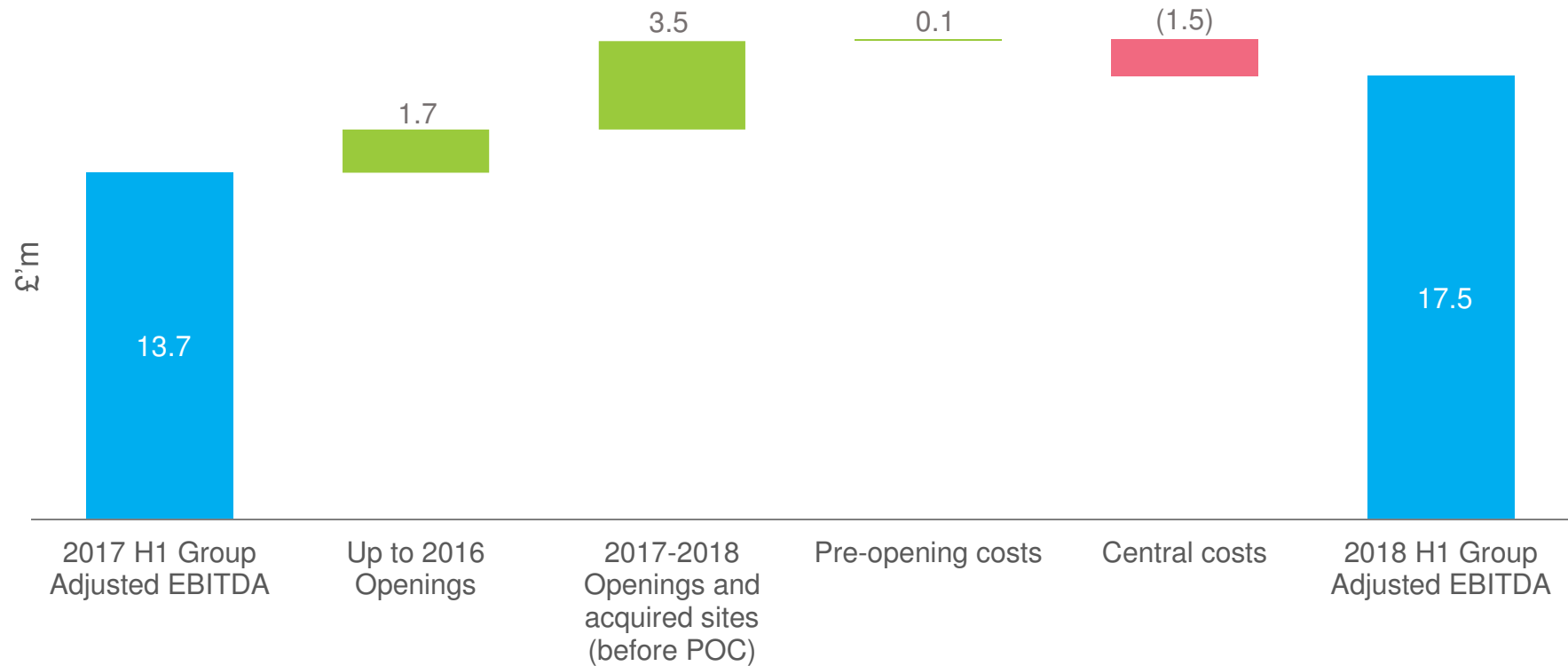
21 sites
open since 2016
(22% of estate)

Central cost investment of £5.6m (H1 2017: £4.1m) - quality teams to support scale and pace of growth

Depreciation as % of Revenue remains stable at 15.4% (H1 2017: 15.0%)

¹ Pre-opening costs (POC) means the costs associated with new site openings, which primarily consists of staff costs, marketing and rent.

Group Adjusted EBITDA Increased 28%



Operational Costs

£'m	H1 2018	H1 2017	% Change
Average Number of Sites	132	92	43.9%
Revenue	58.3	42.8	36.1%
Marketing Costs ⁽¹⁾	2.6	2.0	31.7%
Other Operating Costs ⁽¹⁾	14.8	10.3	43.7%
Operating Costs⁽¹⁾	17.4	12.3	41.7%
Property Costs⁽¹⁾	16.4	11.4	43.9%
<i>Site operating costs excluding pre-opening costs</i>	<i>33.8</i>	<i>23.7</i>	<i>42.8%</i>

Revenue

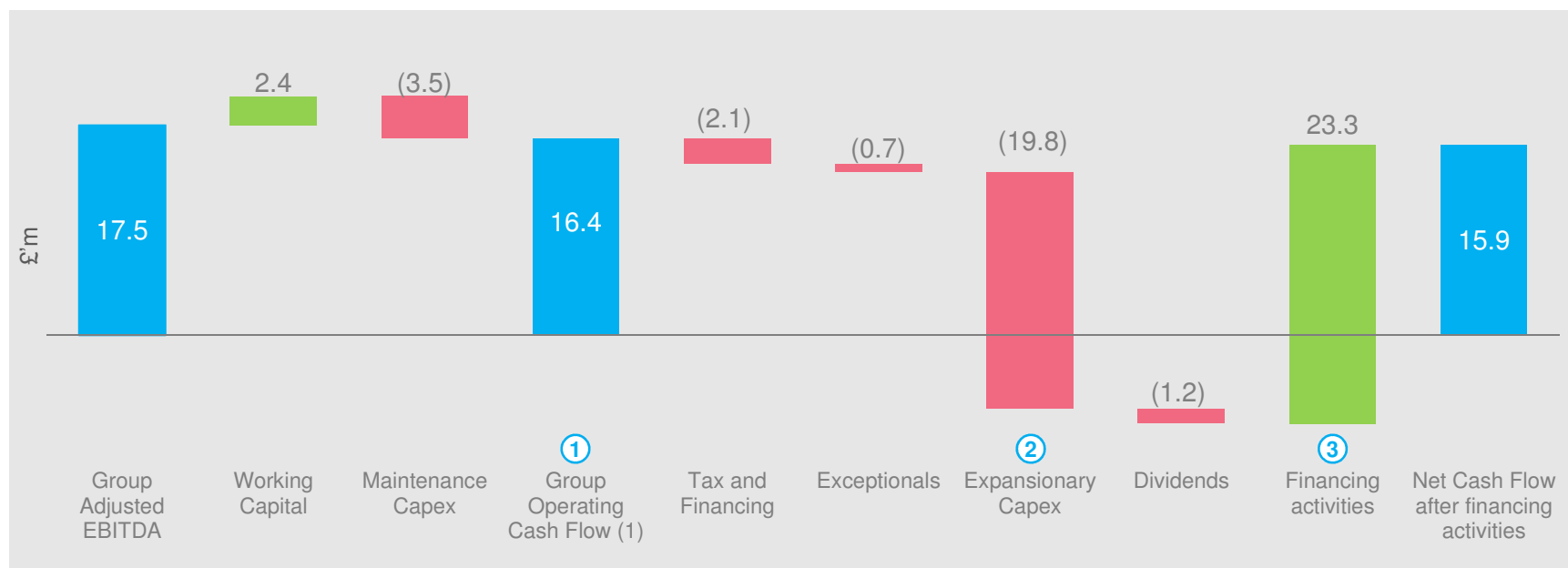
- Revenue reflects build up through maturity phase and Lifestyle closures

Cost Base

- Marketing spend allocated to key trading periods and new products
- Property costs growth in line with increase in estate

¹ Costs excluding pre-opening costs

Group Cash Flow



①

Group Operating Cash Flow Conversion⁽²⁾ of 93.7% - refurbishment programme increasing maintenance capex

②

Expansionary capex reflecting 6 H1 openings in 2018 and the conversion of Lifestyle Fitness sites

③

Financing activities represent share proceeds (net of finance costs) in relation to easyGym acquisition

Free Cash Flow⁽³⁾

£13.6m

(H1 2017: £12.8m)

Net Debt

£21.6m

(31 Dec 2017: £37.5m)

1. Group Operating Cash Flow is calculated as Group Adjusted EBITDA less working capital and less maintenance capital expenditures.
2. Group Operating Cash Flow Conversion is calculated as Group Operating Cash Flow as a percentage of Group Adjusted EBITDA.
3. Free Cash Flow is calculated as Net Cash Flow before dividends, Expansionary capital expenditure and financing activities.

Capital Expenditure

Expansionary⁽¹⁾

- Increase in expansionary capex reflects the conversion of Lifestyle gyms and the Workday ERP implementation
- New gym fit-out cost in 2018 £1.34m per site in line with guidance
- Other expansionary costs include:
 - £4.8m of Lifestyle costs for conversion programme
 - £1.1m for ERP implementation
 - £1.2m on Product enhancement and IT
 - £2.7m for H2 openings

Maintenance⁽²⁾

- 9 sites refurbished H1 2018 at a cost per site of £220k
- Increase in Maintenance Capex as a percentage of Revenue vs H1 2017 (H1 2018: 6.0%, H1 2017: 4.2%) due to timing and volume of refresh programme, in line with refurbishment plan

£'m	H1 2018	H1 2017	% Change
Expansionary Capex	19.8	11.2	76.8%
Maintenance Capex	3.5	1.8	95.6%
Total Capital Expenditure	23.3	13.0	79.4%

1. Expansionary Capex relates to initial site investment, acquisitions, IT projects, product enhancement and movement in capex creditor
 2. Maintenance Capex relates to replacement, 5 year refreshes and refurbishment

STRATEGIC AND OPERATIONAL UPDATE



Strategic and Operational Progress

01

**Market
Opportunity**

02

Infrastructure

03

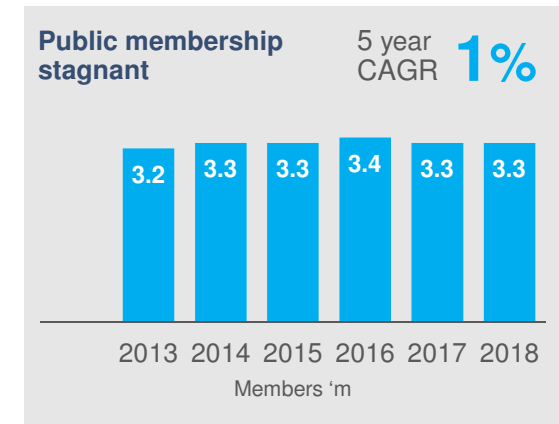
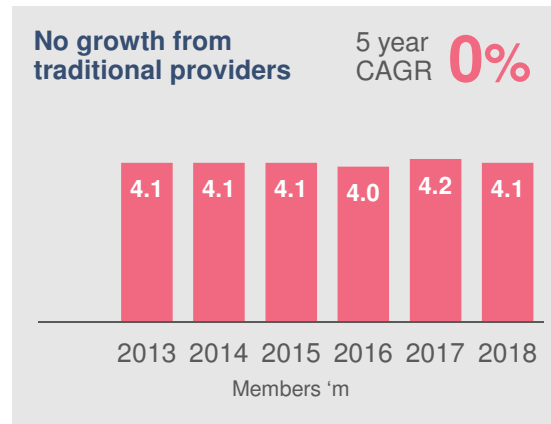
**Accelerated
Growth**

04

**Developing
our business
model**

1. Market Opportunity

Market developing as expected with continued growth of low cost segment

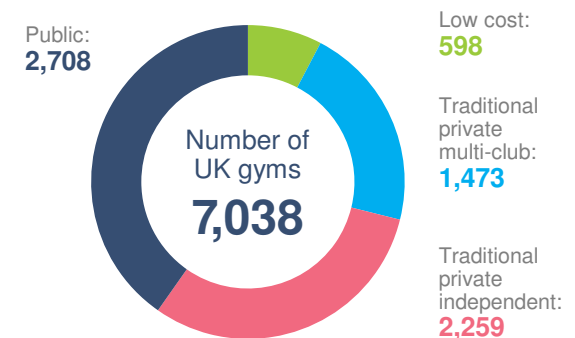


£4.9bn

Total size of UK Health and Fitness market

“The fitness industry is entering a golden period and our 2018 Report shows that the number of sites is at an all time high with the low-cost brands pushing the growth.”

David Minton
Leisure Database Company



Source: Leisure Database Company 2018 State of the UK Fitness Industry Report. As at 31 March 2018.

1. Market Opportunity: The Gym is a market leader

Low Cost Development UK – Top 10
March 18 (Number of clubs and growth rate)

			24/7	Ownership structure ⁽¹⁾
PureGym	174	200 15%	✓	O
The Gym	91	131 44%	✓	O
energie Fitness	58	63 9%	✗	O/F
Xercise4Less	47	49 4%	✗	O
Snap Fitness	27	51 89%	✓	F
Sports Direct Fitness	31	31 0%	✗	O
Easy Gym	15	16 7%	✓	O
JD Gyms	9	17 89%	✗	O
Fitness4Less	13	12 -8%	✗	O
24/7 Fitness	12	12 0%	✓	O

TGG is a leading player with 22% market share

Average Monthly Membership Fee

JD Gyms	£24.11
energie Fitness	£22.13
24/7 Fitness	£20.95
pure gym	£20.62
Fitness4Less	£20.57
TruGym	£20.26
Easy Gym	£19.55
Xercise4Less	£18.99
The Gym	£17.66
Sports Direct Fitness	£16.93

Fastest growing low cost operator in the UK Market

1. O = Owned, F = Franchise

Source: LDC State of the Industry Report March 2018, Snap Fitness not defined as low cost by LDC

2. Infrastructure Development: Technology

2018 H1 Achievements

- Successfully implemented Workday, our new Enterprise Resource Planning (ERP) platform, enabling efficient delivery of back-office processes
 - Market leading technology
 - Smart, intuitive system
 - Reduced administration for managers; greater focus on customers
- Workday is a key enabler for the new Personal Trainer operating model, due to commence rollout in Q4

2018 H2 Priorities

- Launch a member app in Q4 2018, delivering new services and extending our ability to communicate with current and prospective members
- Use our digital environment to create new member experiences and launch new products
- Optimise and extend the digital platform and tools delivered in 2017

Other Key Initiatives

- Yield optimisation through the application of dynamic pricing models
- Adopt advanced data processing to drive operational efficiency
- Implement data modelling and predictive analytics to support decision-making
- Use cognitive data tools and machine learning to improve the customer experience

Building infrastructure to support future growth

2. Infrastructure Development: Member service proposition

Delivering a better member offering and gaining competitive advantage by attracting the best personal trainers

Rationale

- Aim to drive better experience on site with greater consistency of service
- Greater clarity around personal trainer roles and status
- Adapting to changing flexible working economy
- Improved management of PT timetables

Background

- Trial for new operating model started January 2018
- Part time employment offered to some personal trainers for 12 hours per week
- As self-employed personal trainers, these same individuals pay a rent to operate their personal training businesses outside their contracted employment hours
- Some personal trainers pay market rent without undertaking any employed activities

Progress

- Current trial at 13 sites across the estate
- HMRC clearance received on the regulatory workings of the new model
- Intend to start rollout in Q4

Financial Impact

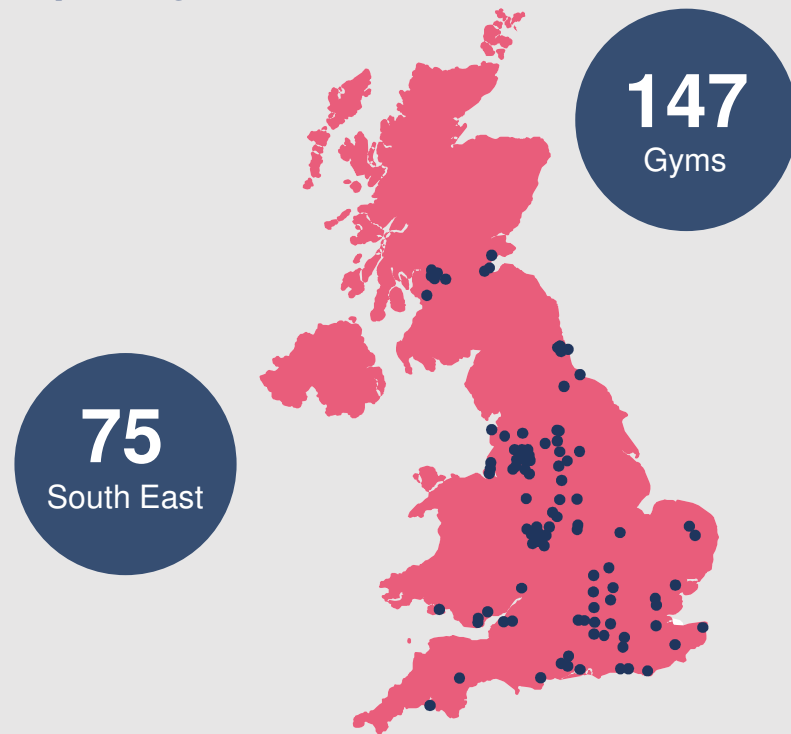
- Financial impact at site level expected to be cost neutral
- Benefit from rental from personal trainers offsetting any incremental employment costs

3. Accelerated Growth: Pipeline Rollout

- 147 gyms opened to date⁽¹⁾
- Proven national proposition
- Multiple geographic locations
- Multiple building types
- Rigorous data-driven appraisal process

**Expect to open between
15-20 new sites in 2018**

H1 2018 Openings



Sutton Coldfield

03 January 2018

17,100 sq. ft.
Retail

Birmingham Perry Barr

19 March 2018

14,500 sq. ft.
Retail Park

Manchester Fallowfields

27 March 2018

20,600 sq. ft.
Mixed Use
Re-development

Stockport

29 March 2018

15,500 sq. ft.
Leisure Complex

Nottingham Sherwood

12 April 2018

14,000 sq. ft.
Retail

London Sutton

29 June 2018

12,300 sq. ft.
New Mixed Use Development

1. Includes 13 easyGym sites acquired on 4 July 2018. By 29 August 2018 increased to 148.

3. Accelerated Growth: Opportunistic acquisitions

	Lifestyle	Easy Gym
Background	<ul style="list-style-type: none"> 18 high quality locations mainly in the Midlands and North increasing geographical footprint Total consideration £20.5m; completed September 2017 Attractive rental deals and longer leases (rent per sq ft below existing TGG rental average) Average sq ft of 19,400 sq ft higher than TGG average 	<ul style="list-style-type: none"> 13 well-invested sites, with 8 located inside the M25 and 5 outside including Birmingham (2), Liverpool, Southampton and Cardiff Initial consideration £20.6m with additional £4.1m conditional on lease extension; acquisition completed July 2018 Attractive multiple with cashflow benefit of acquiring existing sites Average sq ft of 20,750 sq ft higher than TGG average; membership average per site lower than TGG average
Progress to Date and Next steps	<ul style="list-style-type: none"> Conversion of 18 sites to The Gym brand by end of August 2018 and introduced 24/7 ⁽¹⁾ Simplified pricing by removing 12 month contracts across the estate Total cost per conversion of £470k per site One off impact to revenue in H1 2018 due to closure periods 	<ul style="list-style-type: none"> Majority of sites to be converted by end of 2018 13 conversions expected to cost £280k per site Lease assignment process underway

1. Excludes 3 sites where 24/7 has not been introduced

4. Developing our business model: Premium Product LIVE IT.

Progress H1 2018

- Trial across 44 sites in the South East started in November 2017, extended nationwide in H1 2018 and completed in May 2018
- 55,000 members representing 7.6% of proforma members signed up to LIVE IT. as at the end of June 2018 as a result of a successful marketing campaign
- Expect LIVE IT. to contribute to yield growth across the estate
- Majority of sign-ups occur when new members join
- Further opportunities for Lifestyle and easyGym sites post conversion



4. Developing our business model: Scale and efficiency

Equipment supply contract

- Renewal of equipment supply contract
- Two suppliers for equipment and accessories enabling further cost savings

Customer Satisfaction

- Launched new “crunchtime” tool to track customer satisfaction through SMG
- Actions taken to improve service based on more in-depth feedback
- Awarded 2018 Trusted Service Award by Feefo in February 2018



Other H1 Initiatives

- Refurbishment and rebrand programme including introduction of equipment 'zones' and 'members zone' for engagement with PT's
- Rollout of Amazon lockers across the estate



OUTLOOK



Outlook

- Accelerated profitable growth through organic openings and acquisition of 13 sites from easyGym
- Proforma membership increased to 720,000 in H1 2018
- Expect to achieve 15 – 20 new site openings in 2018
- Infrastructure in place and being developed to support further growth
- Expect increased LIVE IT. penetration from conversion of Lifestyle and easyGym sites
- On track to meet market expectations for the full year



APPENDIX



£'m	H1 2018	H1 2017	H1 2016	H1 2015	17-18 % change	YE 2017
Revenue	58.3	42.8	36.1	28.9	36.1%	91.4
Group Adjusted EBITDA	17.5	13.7	11.5	8.5	28.0%	28.0
Group Adjusted EBITDA before POC	18.4	14.6	12.6	9.7	25.9%	30.6
Group Operating Cash Flow	16.4	13.0	13.5	11.8	26.5%	24.7
Group Operating Cash Flow Conversion	93.7%	94.7%	116.9%	139.2%	-1.1%	88.2%
Expansionary Capital Expenditure	19.8	11.2	8.5	12.6	76.8%	52.5
Net Debt	21.6	4.6	2.5	55.7	369.3%	37.5
Operational						
Total gyms in operation ⁽¹⁾	147	95	80	63	54.7%	128
Total number of members ('000) ⁽²⁾	720	508	424	355	41.7%	607
Average number of members ('000) ⁽³⁾	664	495	420	342	34.1%	528
Average revenue per member per month ⁽⁴⁾ (£)	14.65	14.42	14.31	14.08	1.6%	14.41

1. H1 2018 Proforma estate 134 sites branded The Gym and 13 sites currently branded easyGym.

2. H1 2018 proforma members includes easyGym members acquired at 4 July 2018.

3. Average number of members is calculated as the total number of members divided by the number of months in the period, excluding pre-open sites.

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

Financial Model

Technology led operating model with high margins and returns

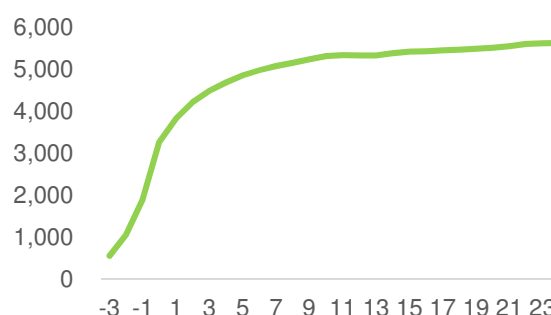
- Low operating costs
- Leases⁽¹⁾ typically fixed rental uplifts
- Fit-out reducing with scale

Financial Model as at 31 Dec 2017

	2017	2016
Revenue	£0.98m	£1.00m
Gross profit	99%	99%
Fixed property costs ⁽³⁾	26%	25%
Other opex ⁽⁴⁾	26%	26%
EBITDA	£0.46m	£0.48m
EBITDA margin	47.0%	47.5%
Average capital cost up to 2014/15	£1.46m	£1.49m
Current capital cost	£1.35m	£1.33m
Mature ROCE	32%	32%

Maturity: Members

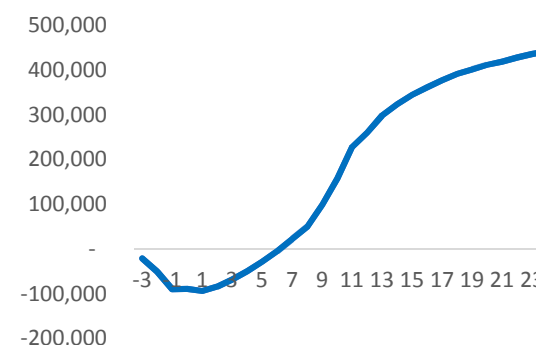
Average Mature Gym Site Members (#)



- Consistent maturity profile with member outcome dependent on sq footage per site
- Strong pre-opening process: open with 3,000 members

Maturity: Site EBITDA

Average estate LTM EBITDA



- Site EBITDA lags number growth
- Initial losses from pre-opening costs

1. Newer leases generally have initial terms of 15 years, with upwards-only rent adjustments every five years, typically either by fixed increases or increases in line with RPI or CPI.
2. Actual Mature gym site metrics in 2017 based off 74 Mature sites open to 31 Dec 2015.
3. Fixed property costs include Rent, Rates, Service Charge and Landlord Insurance.
4. Other Opex includes all other costs below Gross Profit, the principal costs are Marketing, Staff, Utilities, Cleaning, Repairs and Maintenance and Administration costs such as travel.

New site openings – H1 2018 vs H1 2017

2018 H1 Openings	Date	Quarter
Sutton Coldfield	03/01/2018	Q1
Birmingham Perry Barr	19/03/2018	Q1
Manchester Fallowfield	27/03/2018	Q1
Stockport	29/03/2018	Q1
Nottingham Sherwood	12/04/2018	Q2
Sutton	26/06/2018	Q2

2017 H1 Openings	Date	Quarter
Edinburgh Murrayfield	18/03/2017	Q1
Rotherham	22/03/2017	Q1
Altrincham	02/05/2017	Q2
Holborn Circus	08/05/2017	Q2
High Wycombe	18/05/2017	Q2
Bloomsbury	21/06/2017	Q2

New site openings by Quarter

H1 2018 Q1

04

H1 2018 Q2

02

H1 2018 Total

06

H1 2017 Q1

02

H1 2017 Q2

04

H1 2017 Total

06

The Gym Group team



John Treharne
Chief Executive Officer

- Founder and CEO since November 2007
- Previously Managing Director at Crown Sports plc and Founder of Dragons Health Clubs



Richard Darwin
Chief Financial Officer

- CFO since May 2015
- Previously CFO of Essenden plc and Paramount Restaurants



Jonathan Spaven
Property Director

- Property Director since October 2013
- Previously Director of Property at Matalan and agent roles for KwikSave, Iceland Frozen Foods and MFI Hygena

Recent Additions



Ann-marie Murphy
People and Development Director

- Joined The Gym Group in May 2018
- Previous roles include HR Director for New Look, TUI Travel plc
- Currently finishing an Executive Coaching Qualification at Henley Business School



Jasper McIntosh
Chief Information Officer

- IT Director since June 2014, and primary IT & digital consultant to The Gym Group since 2011
- Previously co-founded two technology consultancies and served as a director for three digital agencies



Nick Henwood
Chief Operating Officer

- Joined the team in August 2016
- Previously Operations Director at David Lloyd Leisure, Mothercare and Autoglass



Barney Harrison
Commercial and Marketing Director

- Joined the team in October 2016
- Previously held several Head of Marketing and Acquisition roles at Sky



David Melhuish
Head of Property Development

- Joined The Gym Group in April 2013
- Successfully opened c.100 gyms to date
- Previously Head of Development & Facilities at Central England Co-operative