

PRINCIPAL RISKS AND UNCERTAINTIES

OUR ROBUST RISK MANAGEMENT PROCESS ENSURES RISKS ARE IDENTIFIED, EVALUATED, MONITORED AND CONTROLLED BY OUR MANAGEMENT TEAM WITH OVERSIGHT BY THE BOARD.

Risk management

In order to gain an understanding of the risk exposure of the Group, we review each area of our business annually and use a methodology that will assist the Group in measuring, evaluating, documenting and monitoring its risks within all areas of its operations.

We use our risk management process as described to identify, monitor, evaluate and escalate risks as they emerge, enabling management to take appropriate action wherever possible in order to control them and also enabling the Board to keep risk management under review.

Principal risks

The risk factors addressed below are those which we believe to be the most material to our business model, which could adversely affect the operations, revenue, profit, cash flow or assets of the Group and which may prevent us from achieving the Group's strategic objectives. Additional risks and uncertainties currently unknown to us, or which we currently believe are immaterial, may also have an adverse effect on the Group.

Responsibility for risk

The Board is ultimately responsible for ensuring that a robust risk management process is in place and effectively operated. The relevant roles and responsibilities in monitoring and operating the system of risk management are as follows:

THE BOARD

- Provides strategic direction on the appropriate balance between risk and reward.
- Sets the 'tone' and culture for managing risk and embedding risk management.
- Ensures the most significant risks facing the organisation are properly managed.
- Evaluates the risk implications of planned investments.
- Plans for how the business would manage a crisis.

THE AUDIT AND RISK COMMITTEE

- Monitors and reviews the Group's system of internal control and risk management.
- Makes recommendations to the Board for improvements or developments.
- Reviews the Group's risk appetite.
- Reviews the Group's risk management framework.

EXECUTIVE COMMITTEE

- Promotes and supports the embedding of risk management throughout the business.
- Ensures there is active management of identified and emerging risks.
- Formally reviews the risk register on a regular basis.
- Reports to the Audit and Risk Committee on the internal control environment.

Principal risk	Definition	Impact	Mitigation
COMPETITION AND MARKET SATURATION	The Group may face increased competition and pressure from competitor pricing decisions. This will become more significant if the low cost gym market becomes saturated.	The ability of the Group to hold or increase prices and therefore achieve performance targets could be affected.	<ul style="list-style-type: none"> • A recent PwC report indicates significant headroom in the low cost gym market. • Maintain price discipline and leadership. • Maintain focus on choosing the best sites in a geographical area. • Continue to invest in the member proposition.
ORGANIC ROLLOUT	Site scarcity may affect the delivery of our rollout plan.	Delays to our rollout plan may have an adverse impact on growth targets and operational returns.	<ul style="list-style-type: none"> • Our highly experienced property team are focussed on site selection and sourcing the best deals.
MEMBER EXPERIENCE	<p>Failure to provide members with a high quality product and service would damage the Group's reputation.</p> <p>The Group also relies on third parties to provide high quality equipment and services.</p>	Reductions in actual or perceived member service could result in a decrease in membership numbers and revenue generation.	<ul style="list-style-type: none"> • Monitor utilisation and member satisfaction scores. • Enhance monitoring and feedback processes. • Ongoing review of equipment usage to ensure we meet member requirements. • Explore further innovations to improve the member experience. • Service level agreements and monitoring of service levels for key suppliers.
STAFF RETENTION	Loss of key staff through retention policy and failure to manage succession.	A lack of experienced and motivated staff will have a detrimental impact on all areas of the business, from operations to central functions.	<p>The Group uses a variety of techniques to attract, retain and motivate staff at all levels across the business. These techniques include:</p> <ul style="list-style-type: none"> • competitive remuneration packages; • opportunities to own shares in the Company; • opportunities for training and progression; • short, clear reporting lines; and • succession planning.

PRINCIPAL RISKS AND UNCERTAINTIES

CONTINUED

Principal risk	Definition	Impact	Mitigation
ECONOMIC CONDITIONS	The result of Brexit could cause significant disruption to business conditions.	Incoming equipment and materials could increase in cost due to currency movement and additional import costs.	<ul style="list-style-type: none"> As part of our Brexit planning we have stockpiled the capital requirements needed to be imported from Europe to ensure we can continue to meet our rollout target in the first six months.
INFORMATION TECHNOLOGY DEPENDENCY	Our ability to enrol members, carry out online marketing activity, process payments and control gym access is dependent on the performance of our IT systems.	Disruption in critical IT systems could have a negative impact on our reputation and our ability to collect revenue.	<ul style="list-style-type: none"> Our primary data systems are hosted by fully qualified organisations in suitable data centres. Our primary IT infrastructure is fully managed by specialist IT companies who provide best-practice architecture and support. All membership and business information is backed up using third party locations. Robust disaster recovery and business continuity plans are in place.
DATA PROTECTION	The Group holds business critical and confidential information electronically. A breach of security or data protection rules is a key risk.	Unauthorised access, loss or disclosure of this information may lead to legal claims, regulatory penalties, disruption of operations and reputational damage.	<ul style="list-style-type: none"> The Group's networks and systems are protected by firewalls, security software and secure passwords. All sensitive data is captured and presented using SSL encryption. Our transactional website is scanned quarterly to ensure PCI compliance. Access to central member data systems requires 2-Factor authentication. All customer payment data is stored externally on systems that are PCI-DSS and/or BACS certified. A third party data security audit took place in 2018.
OPERATIONAL GEARING	High operational gearing from the fixed cost base.	A limited number of corrective options in the cost base could be made to correct any underperformance in membership numbers, which could have an adverse impact on profitability.	<ul style="list-style-type: none"> Monthly monitoring and re-forecasting of business performance at site level. Active yield management on a gym-by-gym basis. Regular financial management by Executive Committee and Board.

Principal risk	Definition	Impact	Mitigation
REGULATORY	Failure to adhere to regulatory requirements such as the Listing Rules, taxation, the Data Protection Act, employment law, health and safety requirements, planning regulations, noise abatement and advertising and marketing regulations.	Potential reputational damage and penalties.	<ul style="list-style-type: none"> • The Board has oversight of the management of regulatory risk and compliance, and delegates specific responsibilities to senior management. • Expert opinion sought where relevant. • Legal advice taken to ensure systems, processes and documentation conform with the Data Protection Act. • Third party health and safety risk assessments and audits carried out. Staff conduct periodic health and safety assessments. • Employment and continuous training and development of appropriately qualified staff.

Going concern

In assessing the going concern position of the Group, the Directors have considered the Group's cash flows, liquidity and business activities. At 31 December 2018, the Group had cash balances of £3.0 million and undrawn financing facilities of £11.0 million which are available to fund new sites, working capital and capital expenditure.

Based on the Group's forecasts, the Directors have adopted the going concern basis in preparing the Financial Statements. The Directors have made this assessment after consideration of the Group's budgeted cash flows and related assumptions and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting 2014 published by the UK Financial Reporting Council.

Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2016, the Directors have assessed the viability of the Group taking into account the Group's current position and the potential impact of the principal risks documented above that would threaten its business model, future performance, solvency or liquidity. Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2021.

The Directors have determined that the three-year period to 31 December 2021 is an appropriate period over which to assess its viability statement as this aligns with the period covered by the Group's Board-approved strategic plan and covers the maturity period of sites opened in 2018 and those planned to be opened in 2019. The strategic planning process occurs annually on a rolling basis. The strategic plan includes the 158 sites open at the end of 2018, as well as the expansion of the Group through its rollout strategy.

The Board also carried out a robust assessment of the principal risks facing the Group, including those that would threaten its growth drivers, future performance, solvency or liquidity. The outputs from these reviews are then used to perform liquidity and debt covenant headroom analysis on the strategic plan, including the downside sensitivity review based on principal risks.

While the review has considered all the principal risks identified by the Group, severe but plausible events were focussed on for enhanced stress testing. These included membership numbers, pricing, transitioning to the new Personal Trainer model, changes to return on capital and changes to the rollout programme. Both individual and aggregated scenarios were tested, as well as a reverse stress testing exercise. Scenarios with mitigating actions were then modelled. Mitigating actions included modifications to the rollout plan and cost control measures.

The principal risks detailed above which have the greatest effect on financial results are considered to be competition, member experience and staff retention.