

# Gym Topco Limited

Q1 report as of and for the
three months ended 31 March 2018

# Business overview and strategy

PureGym is the largest operator of gyms in the United Kingdom, both by number of gyms and members. As of 31 March 2018, we operated 200 gyms (31 March 2017: 176) across the UK and had 1.1m members (31 March 2017: 0.9m).

PureGym has a powerful and highly disruptive customer proposition that is differentiated from traditional UK gym operators and appeals to a broad range of consumers. The key elements of the proposition include affordable membership fees, no fixed term contracts, and "24x7x365" access to high quality gyms. The proposition is underpinned by PureGym's differentiated low cost, capital efficient, and technology-enabled gym operating model, which enables our gyms to support high levels of membership, operate on low costs, and generate strong unit economics, cash flow conversion, and ROCE.

The group's strategy is to continue to roll out new gyms with high returns on capital, as well as driving the operational and financial performance of its existing gym estate.



## Presentation of financial information

Unless otherwise indicated, the financial information presented in this report is the historical consolidated financial information of Gym Topco Limited and its subsidiaries (the "Group"). The report does not include any historical financial information relating to Pinnacle Bidco plc (the "Issuer") due to the limited amount of historical information available in relation to the Issuer, as it was incorporated on 30 October 2017.

We prepared consolidated financial statements as of and for the 3 months ended 31 March 2018 in accordance with IAS 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board and adopted by the European Union.

## Ownership and funding

On 30 November 2017 Gym Topco Limited and subsidiaries ("the Company") were acquired by the group of companies known as Leonard Green & Partners LP ("LGP", collectively "the Group"). LGP restructured the Group's finances such that as at 31 December 2017, the Company was party to a £420 million financing facility with five international institutions (Barclays Bank PLC, Jefferies Finance LLC, Royal Bank of Canada, Credit Suisse AG and ING Bank N.V.), collectively "the Lenders" consisting of a £360 million bridging loan and a £60 million revolving credit facility agreement.

On 24 January 2018, the bridging loan was replaced with £360 million of 6.375% senior secured notes for which Gym Topco Limited and certain subsidiaries are guarantors.

The Group's facilities provide additional headroom both for its working capital requirements and for the roll out of new gyms in line with its strategy.



# Q1 2018 highlights

## Financial highlights

- Revenue increased by 15.8% to £55.3 million.
- Average revenue per member per month increased by 1.4% to £18.06.
- Adjusted EBITDA increased by 26.2% to £19.8 million.
- Adjusted EBITDA margin of 35.7% in Q1 2018 compared to 32.8% in 2017.
- Operating cashflow conversion increased to 113.6% of Adjusted EBITDA, compared to 67.8% in 2017.

## Operational highlights

- Number of members increased by 19.5% to 1,105k as at 31 March 2018.
- Average number of members per gym increased by 0.4% to 5,172.
- Continued rollout of new sites and investment in estate with 200 gyms trading at period end, an increase of 24 compared to 31 March 2017.
- First small box format gym opened.



# Results of operations

## Quarter 1 2018 compared with Quarter 1 2017

### Revenue

Revenue increased by 15.8% to £55.3 million from £47.8 million in 2017. An analysis of revenue by product line is as follows:

| | For the quarter ended 31 March | | | For the year ended 31 December | | |
|---|---|---|---|---|---|---|
| £m | 2018 | 2017 | % change | 2017 | 2016 | % change |
| **Member income** | **51.3** | 44.3 | +15.8% | **183.5** | 147.5 | +24.4% |
| **Vending income** | **1.7** | 1.6 | +11.5% | **5.5** | 4.6 | +19.5% |
| **Other income** | **2.2** | 1.9 | +17.9% | **9.0** | 7.9 | +14.0% |
| **Total** | 55.3 | 47.8 | **+15.8%** | 198.0 | 159.9 | **+23.8%** |

Member income, comprising membership fees and joining fees, grew by 15.8% to £51.3 million in Q1. This was primarily a result of the contribution from new gyms opened during the quarter, the higher proportion of mature gyms in the portfolio compared to 2017 and the increased yield resulting from Extra and Multi products.

Vending income increased 11.5% while other income, which reflects sales of day passes, income from personal trainers and promotional income, grew by 17.9%.

### Administrative expenses before exceptional items

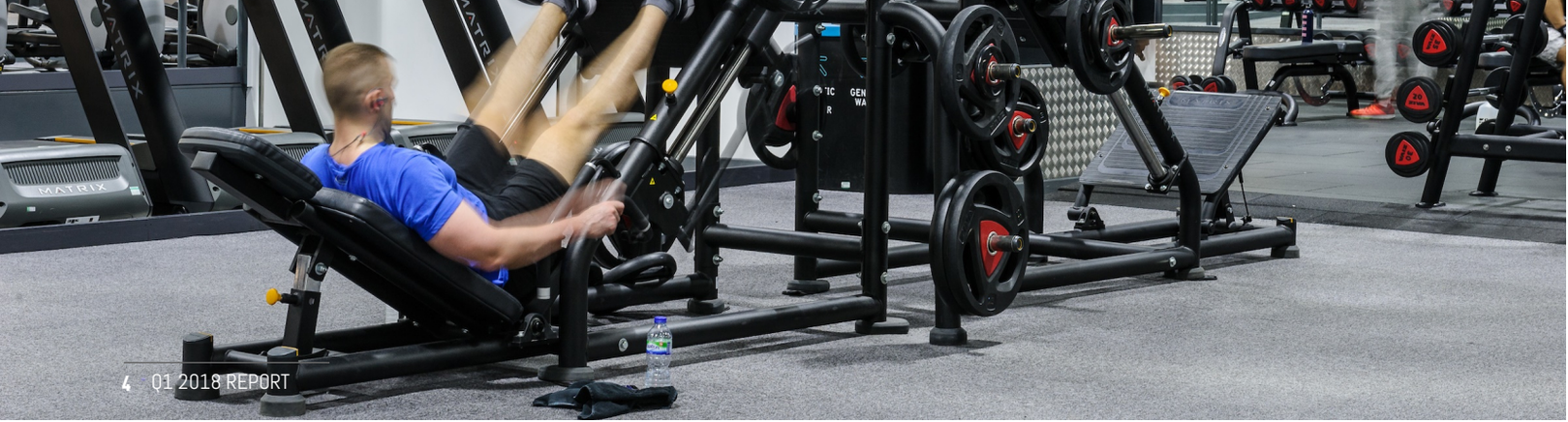
Administrative expenses before exceptional items increased 11.5% to £43.9 million in Q1 2018 from £39.4 million in Q1 2017. The increase is primarily a result of the growth in the number of trading gyms from 176 to 200. There were no exceptional items in the quarter.

### Net finance costs

Net finance costs decreased by 18.0% to £6.7 million in 2018 compared to £8.2 million in 2017, following the restructure of the Group's financing.

### Tax charge

Our income tax expense for the quarter ended 31 March 2018 was £0.7 million, a decrease of £0.1 million compared to an expense of £0.8 million in the quarter ended 31 March 2017.



# Cashflow and Liquidity

| Summary of cashflow statement<br>£m | As of and for the quarter ended 31 March<br>2018 | <br>2017 | As of and for the year ended 31 December<br>2017 | <br>2016 |
|---|---|---|---|---|
| Net cash (used in)/generated from operating activities | 21.3 | 3.9 | (9.9) | 19.6 |
| Net cash used in investing activities | (5.5) | (5.3) | (38.4) | (52.0) |
| Net cash (used in)/generated from financing activities | (10.5) | 2.9 | 28.9 | 39.2 |
| **Net increase/(decrease) in cash and cash equivalents** | **5.3** | **1.5** | **(19.3)** | **6.8** |
| Cash and cash equivalents on the first day of the period | (4.8) | 14.5 | 14.5 | 7.7 |
| **Cash and cash equivalents at end of period** | **0.5** | 16.0 | **(4.8)** | 14.5 |

## Net cash outflow from operating activities

Net cash generated from operating activities was £21.3 million in 2018, compared to £3.9 million cash generated from operating activities in 2017. The improvement versus 2017 relates to the increase in EBITDA and positive working capital inflows of £4.4 million (Q1 2017: outflows of £4.0 million). The Group's working capital cash flow is typically positive, largely because membership fees are paid by members one month in advance whilst suppliers are typically paid in arrears.

## Net cash outflow from investing activities

Net cash outflow from investing activities was broadly stable at £5.5 million in 2018, compared to £5.3 million in 2017 reflecting the capital expenditure in the period.

## Net cash generated from financing

Net cash used in financing was £10.5 million in 2018 due to repayment of intergroup borrowings, compared to £2.9 million generated in 2017 which related to proceeds from finance lease borrowings.

# Capital expenditure

The following table shows our capital expenditures for the periods indicated

| £m | As of and for the quarter ended 31 March<br>2018 | <br>2017 | As of and for the year ended 31 December<br>2017 | <br>2016 |
|---|---|---|---|---|
| Expansionary Capital Expenditure | 4.7 | 4.8 | 32.0 | 45.5 |
| Maintenance and Corporate Capital Expenditure | 1.0 | 0.9 | 7.1 | 9.5 |
| **Total Capital Expenditure** | 5.7 | 5.7 | 39.1 | 55.0 |

# Estate summary

We opened 8 new gyms in Q1 2018 and 20 in Full Year 2017, compared to 4 new gyms in Q1 2017 and 20 in Full Year 2016.

We did not close or relocate any gyms during Q1 2018 and we had 200 trading gyms operating as at 31 March 2018.

# Key performance indicators

| £m | As of and for the quarter ended 31 March 2018 | 2017 | As of and for the year ended 31 December 2017 | 2016 | Last 12 months as of and for the year ended 31 March 2018 |
|---|---|---|---|---|---|
| Total number of gyms | 200 | 176 | 192 | 172 | 200 |
| Total number of Mature Gyms | n/a | n/a | 132 | 84 | n/a |
| Total number of members ('000s) | 1,105 | 925 | 927 | 822 | 1,105 |
| Average number of members per gym | 5,172 | 5,153 | 5,070 | 4,937 | 5,129 |
| Average revenue per member per month (£) | 18.06 | 17.81 | 17.98 | 16.59 | 17.91 |
| Adjusted EBITDA (£ million) | 19.8 | 15.6 | 71.5 | 46.2 | 75.6 |
| Adjusted EBITDA margin | 35.7% | 32.8% | 36.1% | 28.9% | 36.8% |
| Gym Site Adjusted EBITDA (£ million) | 24.3 | 19.7 | 88.4 | 60.1 | 93.0 |
| Gym Site Adjusted EBITDA margin | 43.9% | 41.2% | 44.6% | 37.6% | 45.2% |
| Run-Rate Adjusted EBITDA (£ million) | n/a | n/a | 84.8 | n/a | 89.1 |
| Operating Cash Flow (£ million) | 22.4 | 10.6 | 67.4 | 37.0 | 79.3 |
| Operating Cash Flow Conversion | 113.6% | 67.8% | 94.4% | 78.3% | 104.9% |
| Pro Forma Net Debt (£ million) | 363.8 | n/a | 369.5 | n/a | 363.8 |
| Ratio of Pro Forma Net Debt to Group Run-Rate Adjusted EBITDA (L12M) | n/a | n/a | 4.4 x | n/a | 4.1x |
| Ratio of Run Rate Adjusted EBITDA to Pro Forma Net Interest Expense | n/a | n/a | 3.5x | n/a | 3.7x |
| Mature gym EBITDA (£ million) | n/a | n/a | 64.5 | 39.0 | n/a |
| Average mature gym EBITDA (£'000) | n/a | n/a | 489 | 464 | n/a |
| Average mature gym EBITDA margin | n/a | n/a | 44.8% | 43.6% | n/a |
| Average mature gym ROCE | n/a | n/a | 42.8% | 42.6% | n/a |
| Average initial capital investment for mature gyms (£'000) | n/a | n/a | 1,142 | 1,089 | n/a |

# Reconciliation from Profit/(Loss) to Adjusted EBITDA and Run-Rate Adjusted EBITDA

| £m | For the quarter ended 31 March 2018 | For the quarter ended 31 March 2017 | For the year ended 31 December 2017 | For the year ended 31 December 2016 | Last 12 months as of and for the year ended 31 March 2018 |
|---|---|---|---|---|---|
| Profit / (Loss) for the year/period | 4.0 | (0.6) | (18.1) | (19.8) | (13.5) |
| Income tax | 0.7 | 0.8 | 3.6 | (8.0) | 3.4 |
| Net finance cost | 6.7 | 8.2 | 37.8 | 30.5 | 36.3 |
| Depreciation of property, plant and equipment | 7.2 | 6.3 | 26.4 | 23.7 | 27.3 |
| Amortisation of intangible fixed assets | 0.0 | 0.2 | 0.2 | 1.1 | 0.0 |
| (Profit) / loss on disposal of property, plant & equipment | (0.2) | (0.4) | 0.7 | (0.7) | 1.0 |
| Exceptional administrative expenses | 0.0 | 0.0 | 13.8 | 12.7 | 13.8 |
| Other extraordinary items | 0.0 | 0.7 | 1.8 | 0.3 | 1.1 |
| Pre-Opening Costs | 0.6 | 0.4 | 3.6 | 4.4 | 3.7 |
| Non-Cash Rent Adjustment | 0.7 | 0.1 | 1.7 | 2.0 | 2.3 |
| Adjusted EBITDA | 19.8 | 15.6 | 71.5 | 46.2 | 75.6 |
| Head office costs | 4.5 | 4.0 | 16.9 | 13.8 | 17.4 |
| Site Adjusted EBITDA | 24.3 | 19.7 | 88.4 | 60.1 | 93.0 |
| Adjusted EBITDA | n/a | n/a | 71.5 | n/a | 75.6 |
| Run-Rate Adjustment | n/a | n/a | 13.3 | n/a | 13.5 |
| Run-Rate Adjusted EBITDA | n/a | n/a | 84.8 | n/a | 89.1 |

# Further information for noteholders

This report was prepared in accordance with the indenture dated 24 January 2018 among Pinnacle Bidco plc, as issuer, the guarantors named therein, Deutsche Trustee Company Limited, as trustee, Deutsche Bank AG, London Branch, as paying agent and security agent and Deutsche Bank Luxembourg SA as transfer agent and registrar.

This report may include forward-looking statements. All statements other than statements of historical facts included in this report, including those regarding the Group's financial position, business and acquisition strategy, plans and objectives of management for future operations are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Many factors could cause the Group's actual results, performance or achievements to differ materially from those in the forward-looking statements. Forward-looking statements should, therefore, be construed in light of such risk factors and undue reliance should not be placed on forward-looking statements. These forward-looking statements speak only as of the date of this report. The Group expressly disclaims any obligations or undertaking, except as required by applicable law and applicable regulations to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Group's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

# Use of non-IFRS financial information

Certain parts of this report contain non-IFRS measures and ratios. We believe that these measures are useful indicators of our ability to incur and service our indebtedness and can assist certain investors, security analysts and other interested parties in evaluating us. Because all companies do not calculate these measures on a consistent basis, our presentation of these measures may not be comparable to measures under the same or similar names used by other companies. Accordingly, undue reliance should not be placed on these measures in this report. In particular, Adjusted EBITDA and Run Rate Adjusted EBITDA are not measures of our financial performance or liquidity under IFRS and should not be considered as an alternative to (a) net income/(loss) for the period as a measure of our operating performance, (b) cash flows from operating, investing and financing activities as a measure of our ability to meet our cash needs or (c) any other measures of performance under IFRS. We define our non-IFRS measures as set forth on page 9.

# Risks

The Directors are responsible for the Company's risk management and monitor risks on an on-going basis to ensure these are being appropriately mitigated in line with its risk appetite. The Directors consider that the principal risks and uncertainties which could have a material impact on the Group's performance over the 2018 financial year remain substantially the same as those stated on pages 10 to 21 of our Annual Report and Accounts for the 52 weeks ended 31 December 2017, which is available on our website corporate.puregym.com.

# Director/Officer Change

Adam Bellamy is stepping down from his role as an Executive Director of the Group after six successful years with PureGym. The Group has a well developed succession plan in place and Adam will remain in his role as Chief Financial Officer until a longer-term successor is found, after which he will remain with PureGym as a Non-Executive Director until at least 2019. A further update will be provided in due course.

# Glossary

**"Average Revenue per Member per Month"**
revenue for that period divided by the number of months in that period and further divided by the average number of members during that period. The average number of members during that period is calculated as the average of the number of members as of the beginning of the first month and the end of every month in that period. Unless stated otherwise, LAF Disposals are excluded from the Average Revenue per Member per Month figures shown for 2016.

**"Adjusted EBITDA"**
the Group's profit or loss for a certain period before income tax expense, net finance cost, depreciation of property, plant and equipment, amortisation of intangible fixed assets, profit/loss on disposal of property, plant and equipment, exceptional administrative expenses, and other extraordinary items, after adding back Pre-Opening Costs and the Non-Cash Rent Adjustment.

**"Adjusted EBITDA margin"**
Adjusted EBITDA for that period divided by revenue for that period.

**"Expansionary Capital Expenditure"**
the Initial Capital Investment and the capital costs of expanding gym sites incurred in that period.

**"Gym Site Adjusted EBITDA":**
Adjusted EBITDA for that period, excluding Head Office Costs.

**"Head Office Costs":**
all non-gym specific costs, other than depreciation and amortisation, related to the operation of head office functions in a given period.

**"Initial Capital Investment":**
the capital cost of bringing a new gym into operation, including expenditures on site fit out, fixtures, fittings and equipment.

**"Maintenance and Corporate Capital Expenditures":**
the total capital expenditure incurred in a period less Expansionary Capital Expenditure incurred in that period.

**"Mature Gym EBITDA":**
profit for a certain period before income tax expense, net finance cost, depreciation of property, plant and equipment, amortisation of intangible fixed assets, profit/loss on disposal of property, plant and equipment, exceptional administrative expenses and Head Office Costs for Mature Gyms. Mature Gym EBITDA does not include the Non-Cash Rent Adjustment or adjustments for Pre-Opening Costs or other extraordinary items that were added back to Group Adjusted EBITDA and Gym Site Adjusted EBITDA.

**"Mature gyms":**
the Group's gyms that have been open as PureGyms for 24 months or more as of the end of the relevant reporting period.

**"Net Debt":**
as total senior indebtedness of the Group less cash and cash equivalents.

**"New gyms":**
the Group's gyms that have been open as Pure Gyms for less than 24 months as of the end of the relevant reporting period.

**"Non-Cash Rent Adjustment":**
adding back the non-cash rent expense charged to the income statement in the period (less amounts added back as part of Pre-Opening Costs), as management believes that this is a better reflection of our actual earnings. This is because we typically receive a rent-free period of one year or more as an incentive from developers or property owners to lease space in their buildings. Under IFRS, the benefit of this rent-free period is spread out over the life of the lease (as a deduction in the rent payable over the entire lease period), even though on a cash basis, we have no cash outlay for the rent-free period.

**"Number of gyms":**
the total number of gyms that are open and trading under both the PureGym and the LA Fitness Group brands as well as the total number of LA Fitness gyms that are closed and in the process of being converted to PureGyms, as of the specified date or the end date of the relevant period.

**"Number of members":**
the total number of active members, including the total number of members who have suspended ("freeze" or "frozen") their memberships, of PureGym and (for the period subsequent to our acquisition of LA Fitness and prior to our completing the conversion or disposition of all LA Fitness branded gyms) LA Fitness branded gyms, but excluding the total number of members who have cancelled their memberships and the total number of pre-opening members of organic gyms that have yet to open, as of a specified date or the end date of the relevant period.

**"Operating Cash Flow"**
Group Adjusted EBITDA plus Working Capital Cash Flow (as adjusted for the non-cash Rent Adjustment) and less Maintenance and Corporate Capital Expenditures for that period.

**"Operating Cash Flow Conversion":**
Group Operating Cash Flow for that period divided by Group Adjusted EBITDA for that period.

**"Run-Rate Adjusted EBITDA":**
Group Adjusted EBITDA including Run-Rate Adjustments.

**"Pre-Opening Costs":**
the total of all gym site operating costs incurred during the pre-opening periods of gyms in that period. Pre-Opening Costs primarily consist of staff, marketing and rent expenses.

**"Pro-forma":**
giving pro forma effect to the issuance of the Senior Secured Notes as if they were issued on 1 January 2017.

**"Pro-forma interest cover":**
The ratio of Run-Rate Adjusted EBITDA for the most recently ended four consecutive fiscal quarters, in each case on a Pro Forma basis to the sum of consolidated interest expense during the most recently ended four consecutive fiscal quarters.

**"Pro-forma total net leverage":**
The ratio of total debt outstanding on the date of determination minus an aggregate amount of cash and cash equivalents included in the consolidated balance sheet to Run-Rate Adjusted EBITDA for the most recently ended four consecutive fiscal quarters, in each case on a Pro Forma basis.

**"Pro forma net interest expense":**
represents the net of interest payable/receivable for the twelve months ended on the reporting date after giving pro forma effect to the recent refinancing and the application of the proceeds therefrom as if the refinancing occurred on 1 January 2017.

**"PureGyms":**
the combined New Gym and Mature Gym portfolios.

**"ROCE":**
EBITDA divided by Initial Capital Investment and refers to return on capital employed.

**"Run-Rate Adjustment":**
the adjustment made to those gyms which are less than three years old at the end of the reporting period. These adjustments replace the Adjusted EBITDA earned by these sites in the last twelve month period with the projected Adjusted EBITDA for their third year of operation.

**"Working Capital Cash Flow":**
cash movements in working capital less the Non-Cash Rent Adjustment.

# Gym Topco Limited

# Condensed Consolidated Interim Financial Statements

for the 3 months ended

31 March 2018

# Contents

Condensed Consolidated Statement of Comprehensive Income ..... 13
Condensed Consolidated Statement of Financial Position ..... 14
Condensed Consolidated Cash Flow Statement ..... 15
Condensed Consolidated Statement of Changes in Equity ..... 16
Notes to the Condensed Consolidated Interim Financial Statements ..... 17

# Condensed Consolidated Statement of Comprehensive Income

## for the 3 months ended 31 March 2018

| | Note | **3 months ended 31 March 2018 (Unaudited) £'000** | 3 months ended 31 March 2017 (Unaudited) £'000 |
|---|---|---|---|
| **Revenue** | 2 | **55,280** | 47,752 |
| Other administrative expenses | | **(43,897)** | (39,380) |
| Exceptional administrative expenses | 4 | **-** | (7) |
| Administrative expenses | | **(43,897)** | (39,387) |
| **Operating profit** | 3 | **11,383** | 8,365 |
| Finance income | | **133** | 7 |
| Finance costs | | **(6,827)** | (8,173) |
| **Profit before income tax** | | **4,689** | 199 |
| Income tax charge | 5 | **(720)** | (824) |
| **Profit/(Loss) for the period** | | **3,969** | (625) |
| **Total comprehensive income/(expense) for the period** | | **3,969** | (625) |

# Condensed Consolidated Statement of Financial Position

## as at 31 March 2018

| | Note | 31 March 2018 (Unaudited) £'000 | 31 December 2017 (Audited) £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | **177,655** | 179,216 |
| Intangible assets | 7 | **170,695** | 170,695 |
| Deferred tax asset | | **7,721** | 8,160 |
| | | **356,071** | 358,071 |
| **Current assets** | | | |
| Inventories | | **1,030** | 1,160 |
| Trade and other receivables | | **13,674** | 15,477 |
| Cash and cash equivalents | | **483** | 173 |
| | | **15,187** | 16,810 |
| **TOTAL ASSETS** | | **371,258** | 374,881 |
| **Current liabilities** | | | |
| Trade and other payables | | **(71,736)** | (70,391) |
| Borrowings | 8 | **(956)** | (5,949) |
| | | **(72,692)** | (76,340) |
| **Non-current liabilities** | | | |
| Borrowings | 8 | **(332,904)** | (336,848) |
| | | **(332,904)** | (336,848) |
| **TOTAL LIABILITIES** | | **(405,596)** | (413,188) |
| **NET LIABILITIES** | | **(34,338)** | (38,307) |
| **Equity** | | | |
| Share Capital | 11 | **16** | 16 |
| Share premium account | | **48,882** | 34,376 |
| Capital contribution reserve | | **-** | 14,506 |
| Merger reserve | | **922** | 922 |
| Retained earnings | | **(84,158)** | (88,127) |
| **TOTAL EQUITY** | | **(34,338)** | (38,307) |

# Condensed Consolidated Cash Flow Statement

## for the 3 months ended 31 March 2018

| | Note | 3 months ended 31 March 2018 (Unaudited) £'000 | 3 months ended 31 March 2017 (Unaudited) £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 12 | **22,832** | 10,452 |
| Exceptional costs paid | | **-** | (678) |
| Bank interest and similar charges paid | | **(85)** | (4,325) |
| Bank interest received | | **14** | 7 |
| Loan note interest paid | | **(686)** | - |
| Interest element of finance lease payments | | **(75)** | (52) |
| Issue costs from bank borrowings | | **-** | (1,500) |
| UK corporation tax | | **(700)** | - |
| **Net cash generated from operating activities** | | **21,300** | 3,904 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant & equipment | 6 | **(5,665)** | (5,688) |
| Proceeds from disposal of property, plant & equipment | | **160** | 415 |
| **Net cash used in investing activities** | | **(5,505)** | (5,273) |
| **Cash flows from financing activities** | | | |
| Issue of share capital | 11 | **-** | 12 |
| Proceeds from borrowings | 13 | **-** | 3,162 |
| Capital element of finance lease payments | 13 | **(227)** | (305) |
| Repayment of intercompany borrowings | | **(10,247)** | - |
| **Net cash (used in)/generated from financing activities** | | **(10,474)** | 2,869 |
| Net increase in cash and cash equivalents | 13 | **5,321** | 1,500 |
| Cash and cash equivalents at beginning of the period | | **(4,842)** | 14,486 |
| **Cash and cash equivalents at end of period** | 13 | **479** | 15,986 |

## Condensed Consolidated Statement of Changes in Equity

for the 3 months ended 31 March 2018

| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Capital Contribution reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2017** | **12** | **71** | **922** | **-** | **(70,077)** | **(69,072)** |
| Loss and total comprehensive expense for the period | - | - | - | - | (709) | (709) |
| Proceeds from shares issued | - | 12 | - | - | - | 12 |
| **Balance as at 31 March 2017** | **12** | **83** | **922** | **-** | **(70,786)** | **(69,769)** |
| | | | | | | |
| **Balance as at 1 January 2018** | **16** | **34,376** | **922** | **14,506** | **(88,127)** | **(38,307)** |
| Profit and total comprehensive income for the period | **-** | **-** | **-** | **-** | **3,969** | **3,969** |
| Proceeds from shares issued | - | 14,506 | - | (14,506) | - | - |
| **Balance as at 31 March 2018** | **16** | **48,882** | **922** | **-** | **(84,158)** | **(34,338)** |

# Notes to the Condensed Consolidated Interim Financial Statements

## 1 General information

Gym Topco Limited is a Company incorporated in England and Wales under the Companies Act 2006 and is a private company. The address of the company's registered office is Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY. The condensed financial statements are unaudited and were approved by the Board of Directors on 29 May 2018.

This financial information for the three months ended 31 March 2018, including comparative financial information, has been prepared on the basis of the accounting policies set out in the last annual report and accounts (with the exception of new standards applied in the period as noted below) and in accordance with IAS 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board and adopted by the European Union. This report does not include all the notes of the type normally included in an annual financial report and accordingly should be read in conjunction with the annual report for the year ended 31 December 2017.

In preparing the condensed interim financial statements, the significant judgements made by management in applying the group's accounting policies and key sources of estimation uncertainty were the same, in all material respects, as those applied to the consolidated financial statements for the year ended 31 December 2017.

Certain new accounting standards and amendments were issued during the period but have not been applied in preparing this report as they have not yet come into effect:

- *IFRS 16 Leases* will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The standard will affect primarily the accounting for the group's property leases. As at the reporting date, the group has non-cancellable operating lease commitments of £484,487,000 (note 14). The group is currently in the process of reviewing its leases against the guidance but has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows. The standard is mandatory for reporting periods beginning on or after 1 January 2019 and at this stage, the group does not intend to adopt the standard before its effective date.

On the 1 January 2018 IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* became mandatory standards. Management have performed an assessment for the potential impact of these new standards and concluded that they have not resulted in any changes to existing accounting policies or treatment.

### Going concern assumption

The group meets its day to day working capital requirements through its cash reserves and borrowing facilities (as detailed in note 8). The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within its existing facilities. The Directors have a reasonable expectation that the group has adequate resources to continue to remain a going concern for the foreseeable future and therefore continues to adopt the going concern basis in preparing its financial statements.

### Information extracted from 2017 Annual Report

The financial figures for the year ended 31 December 2017, as set out in this report, do not constitute statutory accounts but are derived from the statutory accounts for that financial year.

The statutory accounts for the year ended 31 December 2017 were prepared under IFRS and have been delivered to the Registrar of Companies. The audit report was unqualified, did not draw attention to any matters by way of emphasis and did not include a statement under Section 498(2) or 498(3) of the Companies Act 2006.

## 2 Revenue

Revenue relates wholly to sales in the United Kingdom and is analysed by service or product as follows:

| | **3 months ended 31 March 2018 (Unaudited) £'000** | 3 months ended 31 March 2017 (Unaudited) £'000 |
|---|---|---|
| Member income | **51,320** | 44,308 |
| Vending income | **1,749** | 1,568 |
| Other income | **2,211** | 1,876 |
| | **55,280** | 47,752 |

Pure Gym experiences a small degree of seasonality. The majority of members join in January, February and March, and joiner rates also increase in September and October. Seasonality is generally positively driven by consumers' desire to improve their fitness at the start of the year and the start of new university and school terms, and is negatively driven by Christmas and summer holidays. Marketing expenditure is generally focused around peak joining periods, particularly the January/February period.

## 3 Operating profit

A reconciliation from operating profit to Group EBITDA is as follows:

| | 3 months ended 31 March 2018 (Unaudited) £'000 | 3 months ended 31 March 2017 (Unaudited) £'000 |
|---|---|---|
| **Operating profit** | **11,383** | 8,365 |
| Depreciation | **7,226** | 6,306 |
| Amortisation | **-** | 172 |
| Profit on disposal of property, plant and equipment | **(160)** | (415) |
| Exceptional costs (note 4) | **-** | 7 |
| **Group EBITDA** | **18,449** | 14,435 |

## 4 Exceptional items

Items that are material either because of their size or their nature, and that are non-recurring are considered as exceptional items and are presented within the line items to which they best relate. These items are analysed further below:

| | 3 months ended 31 March 2018 (Unaudited) £'000 | 3 months ended 31 March 2017 (Unaudited) £'000 |
|---|---|---|
| Integration and transition costs | **-** | 7 |
| | **-** | 7 |

The group purchased the LA Fitness Group in May 2015 and in doing so incurred residual, non-recurring costs associated with the transition and integration of LA Fitness into the Pure Gym model of £nil (3 months ended 31 March 2017: £7,000).

## 5 Income tax

| | 3 months ended 31 March 2018 (Unaudited) £'000 | 3 months ended 31 March 2017 (Unaudited) £'000 |
|---|---|---|
| Current tax: | | |
| - UK Corporation tax charge on profit for the period | **281** | 188 |
| Total current tax charge | **281** | 188 |
| Deferred tax: | | |
| - Origination and reversal of temporary differences | **439** | 682 |
| - Adjustments in respect of prior periods | **-** | (46) |
| Total deferred tax charge | **439** | 636 |
| Total tax charge in the condensed consolidated statement of comprehensive income | **720** | 824 |

The charge for taxation for the 3 months to 31 March 2018 is based on the estimated effective rate of 19% (3 months ended 31 March 2017: 19.25%).

## 6 Property, plant and equipment

| | Leasehold costs £'000 | Leasehold improvements £'000 | Fixtures & Fittings £'000 | IT equipment £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| 1 January 2017 | 6,863 | 140,318 | 78,365 | 4,592 | 230,138 |
| Additions | 1,091 | 25,206 | 11,238 | 1,588 | 39,123 |
| Disposals | (20) | (2,482) | (997) | (168) | (3,667) |
| **31 December 2017** | **7,934** | **163,042** | **88,606** | **6,012** | **265,594** |
| | | | | | |
| 1 January 2017 | 1,419 | 28,683 | 29,865 | 2,207 | 62,174 |
| Charge for the period | 496 | 12,826 | 11,796 | 1,264 | 26,382 |
| Disposals | (18) | (1,338) | (755) | (67) | (2,178) |
| **31 December 2017** | **1,897** | **40,171** | **40,906** | **3,404** | **86,378** |
| **Net book value** | | | | | |
| **31 December 2017** | **6,037** | **122,871** | **47,700** | **2,608** | **179,216** |

| | Leasehold costs £'000 | Leasehold improvements £'000 | Fixtures & Fittings £'000 | IT equipment £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| 1 January 2018 | 7,934 | 163,042 | 88,606 | 6,012 | 265,594 |
| Additions | 68 | 3,861 | 1,361 | 375 | 5,665 |
| Disposals | - | - | - | - | - |
| **31 March 2018** | **8,002** | **166,903** | **89,967** | **6,387** | **271,259** |
| | | | | | |
| 1 January 2018 | 1,897 | 40,171 | 40,906 | 3,404 | 86,378 |
| Charge for the period | 136 | 3,519 | 3,179 | 392 | 7,226 |
| Disposals | - | - | - | - | - |
| **31 March 2018** | **2,033** | **43,690** | **44,085** | **3,796** | **93,604** |
| **Net book value** | | | | | |
| **31 March 2018** | **5,969** | **123,213** | **45,882** | **2,591** | **177,655** |

## 7 Intangible assets

| | Goodwill £'000 | Brands £'000 | Customer Lists £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| 1 January 2017 & 31 December 2017 | 170,695 | 1,217 | 1,375 | 173,287 |
| **Accumulated amortisation** | | | | |
| 1 January 2017 | - | 1,217 | 1,146 | 2,363 |
| Charge for the period | - | - | 229 | 229 |
| 31 December 2017 | - | 1,217 | 1,375 | 2,592 |
| **Net book value** | | | | |
| **31 December 2017** | **170,695** | **-** | **-** | **170,695** |

| | Goodwill £'000 | Brands £'000 | Customer Lists £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| 1 January 2018 & 31 March 2018 | 170,695 | 1,217 | 1,375 | 173,287 |
| **Accumulated amortisation** | | | | |
| 1 January 2018 & 31 March 2018 | - | 1,217 | 1,375 | 2,592 |
| **Net book value** | | | | |
| **31 March 2018** | **170,695** | **-** | **-** | **170,695** |

A full impairment review of goodwill was performed as at 31 December 2017 and there have been no indicators of impairment since that date.

## 8 Borrowings

*Current*

| | 31 March 2018 (Unaudited) £'000 | 31 December 2017 (Audited) £'000 |
|---|---|---|
| Finance leases | **952** | 934 |
| Bank overdraft | **4** | 5,015 |
| | **956** | 5,949 |

*Non-current*

| | 31 March 2018 (Unaudited) £'000 | 31 December 2017 (Audited) £'000 |
|---|---|---|
| Finance leases | **3,290** | 3,535 |
| Amounts owed to group undertakings | **329,614** | 333,313 |
| | **332,904** | 336,848 |

*Maturity profile (excluding borrowing costs)*

| | 31 March 2018 (Unaudited) £'000 | 31 December 2017 (Audited) £'000 |
|---|---|---|
| Within 1 year | **956** | 5,949 |
| Between 1 and 2 years | **1,024** | 934 |
| Between 2 and 5 years | **2,266** | 2,601 |
| After 5 years | **329,614** | 333,313 |
| | **333,860** | 342,797 |

## 8 Borrowings (continued)

### Bank loans and overdrafts

On 30 November 2017 the Gym Topco group restructured its financing and in doing so repaid its bank loans in full and became party to a £420 million group bridging facility with five international institutions (Barclays Bank PLC, Royal Bank of Canada, Credit Suisse AG, ING Bank N.V. and Jefferies Finance LLC, collectively "the Lenders"), consisting of a £360 million bridging loan repayable in full on 30 November 2018 and a £60 million revolving credit facility agreement repayable on 30 November 2024, held by parent company, Pinnacle Bidco plc.

Both facilities were secured by fixed and floating charges over the assets and undertakings of certain subsidiaries of the Gym Topco group.

On 24 January 2018 the £360 million bridging loan was repaid and replaced with a £360 million Senior Secured Notes issue for which Gym Topco Limited and certain of its subsidiaries are guarantors. The notes are held by parent company Pinnacle Bidco plc, accrue interest at a rate of 6.375% payable half yearly in February and August, commencing August 2018 and are due to be repaid in full on 24 January 2025.

The £60 million revolving facility remains in place and will be subject to quarterly covenant testing of its adjusted leverage ratio from September 2018 onwards.

Prior to the refinancing, the group was party to a £240 million committed financing facility with four international banks (Ares Management, Barclays Bank, Goldman Sachs and Haymarket Financial, collectively "the Lenders"). This facility consisted of a £150 million term loan, a £75 million capex facility and a £15 million overdraft facility and was subject to quarterly covenant testing of the following ratios: fixed charge cover, adjusted leverage and maximum levels of capital expenditure. All outstanding amounts under this facility were repaid in full on 30 November 2017.

The group has been in compliance with all covenants during the current and prior financial years.

### Finance leases

Finance leases are secured against the assets to which they relate.

### Loan notes

During the year ended 31 December 2017 the group had £90,969,506 unsecured, non-convertible loan notes in issue accruing interest at a fixed rate of 9.4% (2016: £90,969,506), with principal and interest repayable in full on 23 May 2021, or earlier on sale of the business. On completion of the sale of the Group to the Leonard Green group on 30 November 2017, the loan notes and related interest were repaid in full.

### Preference shares

During the year ended 31 December 2017 the group had Preferred A Ordinary shares accruing fixed interest at 9.4% of the issue price. On completion of the sale of the group to the Leonard Green group on 30 November 2017, the preference shares were converted to ordinary share capital and the cumulative accrued interest of £14,822,505 was converted to an amount payable to the new parent company (Pinnacle Bidco plc) and then subsequently waived, creating a capital contribution reserve.

## 9 Financial instruments

The Group has entered into an interest rate cap which restricts the LIBOR element of interest payable on £100 million of its drawn borrowings at a rate not higher than 1.75%. In accordance with IFRS 9, the cap is considered to be closely related to the debt instrument and has therefore not been recognised separately as an embedded derivative. The premium payable to acquire the cap is amortised to the consolidated statement of comprehensive income over the term of the debt. The Group does not enter into derivative contracts for speculative purposes.

All of the group's financial instruments are classified as loans and receivables. Set out below is a comparison by category of carrying amounts and fair values of all of the financial instruments as carried in the financial statements. The fair values of financial derivatives and borrowings are calculated by discounting the future cash flows at prevailing market interest rates, categorised as a Level 2 valuation, as detailed below:

*Fair value hierarchy*

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

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

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

The fair values of the other financial instruments approximates closely with their carrying values.

| | **Carrying Value** | | **Fair Value** | |
|---|---|---|---|---|
| | **31 March 2018 (Unaudited) £'000** | 31 December 2017 (Audited) £'000 | **31 March 2018 (Unaudited) £'000** | 31 December 2017 (Audited) £'000 |
| **Financial assets** | | | | |
| Trade and other receivables | **2,791** | 3,526 | **2,791** | 3,526 |
| Cash and cash equivalents | **483** | 173 | **483** | 173 |
| **Financial liabilities** | | | | |
| Trade and other payables | **28,379** | 31,317 | **28,379** | 31,317 |
| Finance leases | **4,242** | 4,469 | **4,242** | 3,005 |
| Bank loans | **-** | 360,000 | **-** | 360,000 |
| Bank overdrafts | **4** | 5,015 | **4** | 5,015 |

## 10 Financial risk management objectives and policies

The Group has exposure to the following risks from its use of financial instruments: market risk, interest rate risk, liquidity risk and credit risk.

This note presents information about the Group's exposure to each of the above risks and the Group's objectives, policies and procedures for measuring and managing risk. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

*Market risk*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The key market risk affecting the group is interest rate risk. Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments.

*Interest rate risk*

As at 31 December 2017 Pinnacle Bidco plc had a temporary bridging facility in place and therefore only 1% of the group's borrowings were in fixed rate instruments and after taking into account the effect of interest rate caps and finance leases, 29% of the group's borrowings were at fixed rates of interest.

On 24 January 2018, the temporary bridging facility was exchanged for £360 million of senior notes at a fixed rate of 6.375% thereby limiting the Group's exposure to interest rate risk going forwards to that on the £60 million revolving credit facility only. As at 31 March 2018, 100% of the group's external borrowings were therefore in fixed rate instruments.

The annual impact of a notional 0.5% interest rate movement on its drawn debt as at 31 March 2018 is limited to its overdraft and equates to £nil (31 December 2017: £25,000). This sensitivity analysis relates to the position as at 31 March 2018 and 31 December 2017. The analysis has been prepared on the basis that the amount of net debt and the ratio of fixed to floating interest rates of the debt and derivatives are all constant at the amount at those dates.

*Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, matching the maturity profiles of financial assets and operational liabilities and by maintaining adequate cash reserves. The table below summarises the maturity profile of the Group's financial liabilities:

## 10 Financial risk management objectives and policies (continued)

| | 31 March 2018 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Within 1 year £'000 | Between 1-2 years £'000 | Between 2-5 years £'000 | More than 5 years £'000 | Total £'000 |
| Trade and other payables | 28,379 | - | - | - | 28,379 |
| Borrowings | 1,212 | 1,207 | 2,418 | 329,614 | 334,451 |
| Total financial liabilities | **29,591** | **1,207** | **2,418** | **329,614** | **362,830** |

| | 31 December 2017 (Audited) | | | | |
|---|---|---|---|---|---|
| | Within 1 year £'000 | Between 1-2 years £'000 | Between 2-5 years £'000 | More than 5 years £'000 | Total £'000 |
| Trade and other payables | 31,317 | - | - | - | **31,317** |
| Borrowings | 6,348 | 1,207 | 2,720 | 333,313 | **343,588** |
| Total financial liabilities | **37,665** | **1,207** | **2,720** | **333,313** | **374,905** |

*Credit risk*

The group's principal financial assets are bank balances and cash, trade and other receivables and investments. The group's credit risk is low as it has limited trade receivables. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

## 11 Share capital and premium

| | 31 March 2018 (Unaudited) £'000 | 31 March 2018 (Unaudited) No. | 31 December 2017 (Audited) £'000 | 31 December 2017 (Audited) No. |
|---|---|---|---|---|
| **Allotted** | | | | |
| Ordinary shares of £0.0001 | **16** | **156,311,179** | 16 | 156,311,177 |

On 30 January 2018, Gym Topco allotted 2 ordinary shares of £0.0001 each to its sole shareholder Pinnacle Bidco plc, for a total of £14,505,822 satisfied by utilising the capital contribution reserve of the same amount.

## 12 Reconciliation of profit before tax to cash generated from operations

| | 31 March 2018 (Unaudited) £'000 | 31 March 2017 (Unaudited) £'000 |
|---|---|---|
| **Profit before income tax** | **4,689** | 199 |
| *Adjustments for:* | | |
| Net finance cost | **6,694** | 8,166 |
| Depreciation | **7,226** | 6,306 |
| Amortisation | **-** | 172 |
| (Profit) on disposal of property, plant and equipment | **(160)** | (415) |
| Exceptional costs | **-** | 7 |
| Changes in working capital | | |
| Decrease in inventories | **130** | 158 |
| Decrease in trade and other receivables | **2,222** | 1,816 |
| Increase/(decrease) in trade and other payables | **2,031** | (5,957) |
| **Cash generated from operations** | **22,832** | 10,452 |

## 13 Analysis of net debt

| | 1 January 2018 (Audited) £'000 | Cash flow £'000 | Non-cash £'000 | 31 March 2018 (Unaudited) £'000 |
|---|---|---|---|---|
| Cash at bank and in hand | 173 | 310 | - | **483** |
| Bank overdrafts | (5,015) | 5,011 | - | **(4)** |
| Finance leases | (4,469) | 227 | - | **(4,242)** |
| Loan note interest | (686) | 686 | - | **-** |
| | **(9,997)** | **6,234** | **-** | **(3,763)** |

| | 1 January 2017 (Audited) £'000 | Cash flow £'000 | Non-cash £'000 | 31 March 2017 (Unaudited) £'000 |
|---|---|---|---|---|
| Cash at bank and in hand | 14,486 | 1,514 | - | **16,000** |
| Bank overdrafts | - | (14) | - | **(14)** |
| Bank loans | (215,000) | - | - | **(215,000)** |
| Finance leases | (669) | (2,857) | - | **(3,526)** |
| Preference share capital | (34,297) | - | - | **(34,297)** |
| Preference share interest | (11,556) | - | (795) | **(12,351)** |
| Loan note capital | (90,970) | - | - | **(90,970)** |
| Loan note interest | (34,702) | - | (2,755) | **(37,457)** |
| | **(372,708)** | **(1,357)** | **(3,550)** | **(377,615)** |

## 14 Capital and other commitments

The group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

| | 31 March 2018 (Unaudited) £'000 | 31 December 2017 (Audited) £'000 |
|---|---|---|
| Not later than one year | **34,267** | 33,518 |
| Later than one year and not later than five years | **145,731** | 143,025 |
| Later than five years | **304,489** | 306,575 |
| | **484,487** | 483,118 |

PureGym
Town Centre House
Merrion Centre
Leeds
LS2 8LY
United Kingdom

