

PUREGYM

# Investor Presentation

## Results for the quarter ended 31 March 2019

23 May 2019

# Disclaimer

## Forward-looking statements

This presentation may include forward-looking statements. All statements other than statements of historical facts included in this presentation, 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 presentation. 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

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# Financial and Operating Review

## Alex Wood, Chief Financial Officer

### Results for the quarter ended 31 March 2019

# Q1 2019 highlights

## Further growth in gyms and members drives increased revenue

**1.1m**
**members**
+7.5% vs avg Q1 2018

**230**
**gyms at end Q1 2019**
8 openings in Q1

**11.4%**
**revenue growth**
vs Q1 2018

## Significant growth in Adjusted and Reported EBITDA

**£20.8m**
**Adjusted EBITDA**
up 6.7% vs Q1 2018

**£29.4m**
**Reported EBITDA[1]**
up vs £25.7m Q1 2018[2]

**£95.7m**
**LTM Run Rate Adjusted EBITDA**
up 7.5% vs Q1 2018

## Adjusted EBITDA Margin remains strong

**33.8%**
**Adjusted EBITDA Margin**
vs. 35.3% Q1 2018

## Continued rollout and investment in estate

**5**
**Soho conversions**
of which 1 is SBF

**3**
**organic gyms opened**
of which 1 is SBF

## Strong cashflow conversion and reduction in leverage

**94.4%**
**LTM Operating Cashflow Conversion**
vs 104.9% Q1 2018

**3.9x**
**Pro Forma Total Net Leverage**
vs 4.1x at Q1 2018

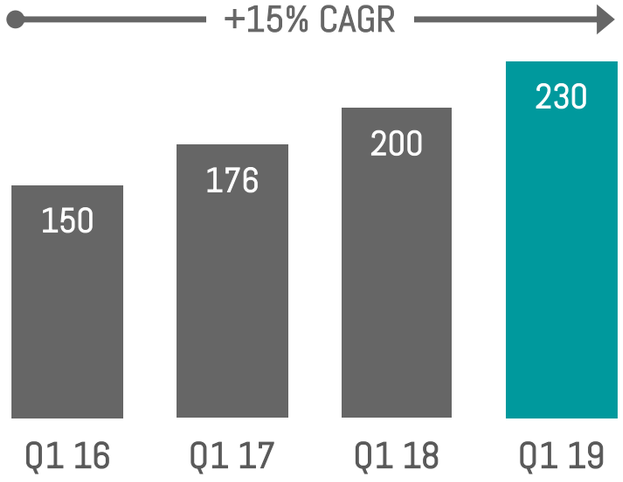
**3.7x**
**Pro Forma Interest Cover**
unchanged vs Q1 2018

1 IFRS 16 implemented from 1 January 2019. Prior periods continue to report under IAS 17 unless otherwise stated. 2 Q1 2018 reported EBITDA adjusted to reflect results had IFRS 16 been applied during this period 3 2018 comparatives restated to reflect the consolidated results of Pinnacle Bidco plc (previously Gym Topco Limited)

# Further growth in gyms and members

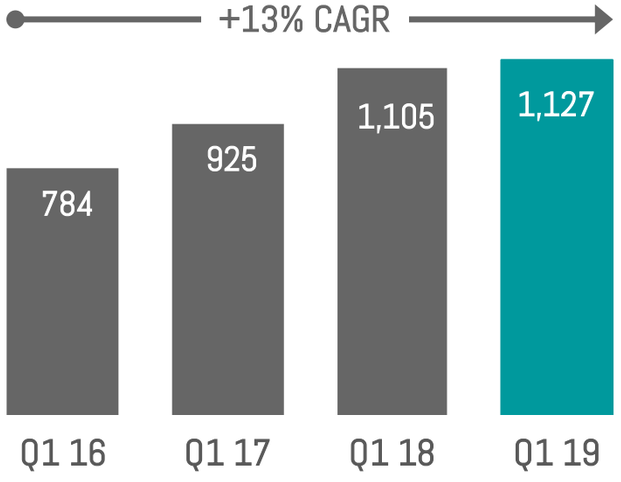
## Gyms **+8 in Q1 2019**

(number)




## Members **+11.4% vs Q4 2018**

('000)

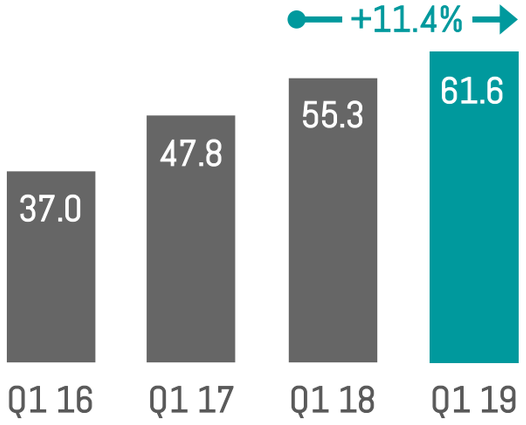



- Average members +7.5% (+2.0% closing) vs Q1 2018
- Average members per gym of 4,822
- In line with expectations, KPIs impacted by year on year phasing of promotional activity, new SBFs within the base and 13 immature new site openings from Q4 2018

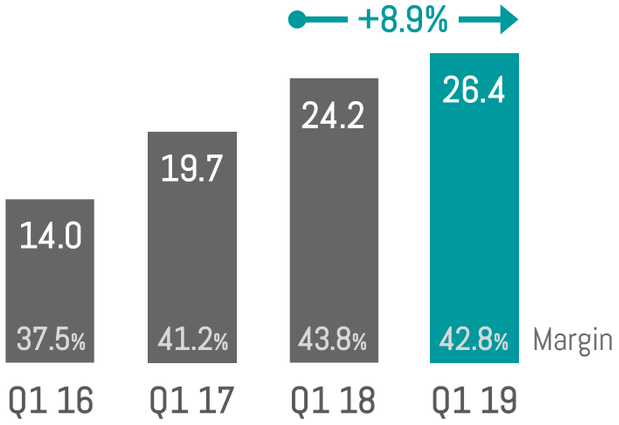


# Significant growth in revenue and adjusted EBITDA

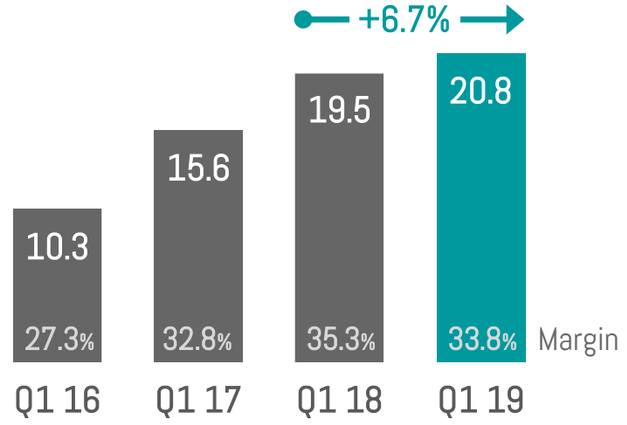
Revenue (£m)




Gym Site Adjusted EBITDA (£m)




Adjusted EBITDA (£m)




- Revenue +11.4% to £61.6m and Adjusted EBITDA +6.7% to £20.8m
  - Driven by increased number of gyms and ARPM (+3.0% vs Q1 2018 to £18.60)
- Adjusted EBITDA margin down slightly by 150 bps to 33.8%
  - Dilution from new gyms yet to reach maturity (inc. Soho acquisition), utility cost inflation and planned investments in central cost base to build scale capabilities
- LTM Adjusted EBITDA increased to £82.6m (Run Rate Adjusted EBITDA of £95.7m)

1 2018 comparatives restated to reflect the consolidated results of Pinnacle Bidco plc (previously Gym Topco Limited)

# Continued investment in estate

**Q1 2019**
**3 new organic sites and 5 conversions**

## Large Box Format

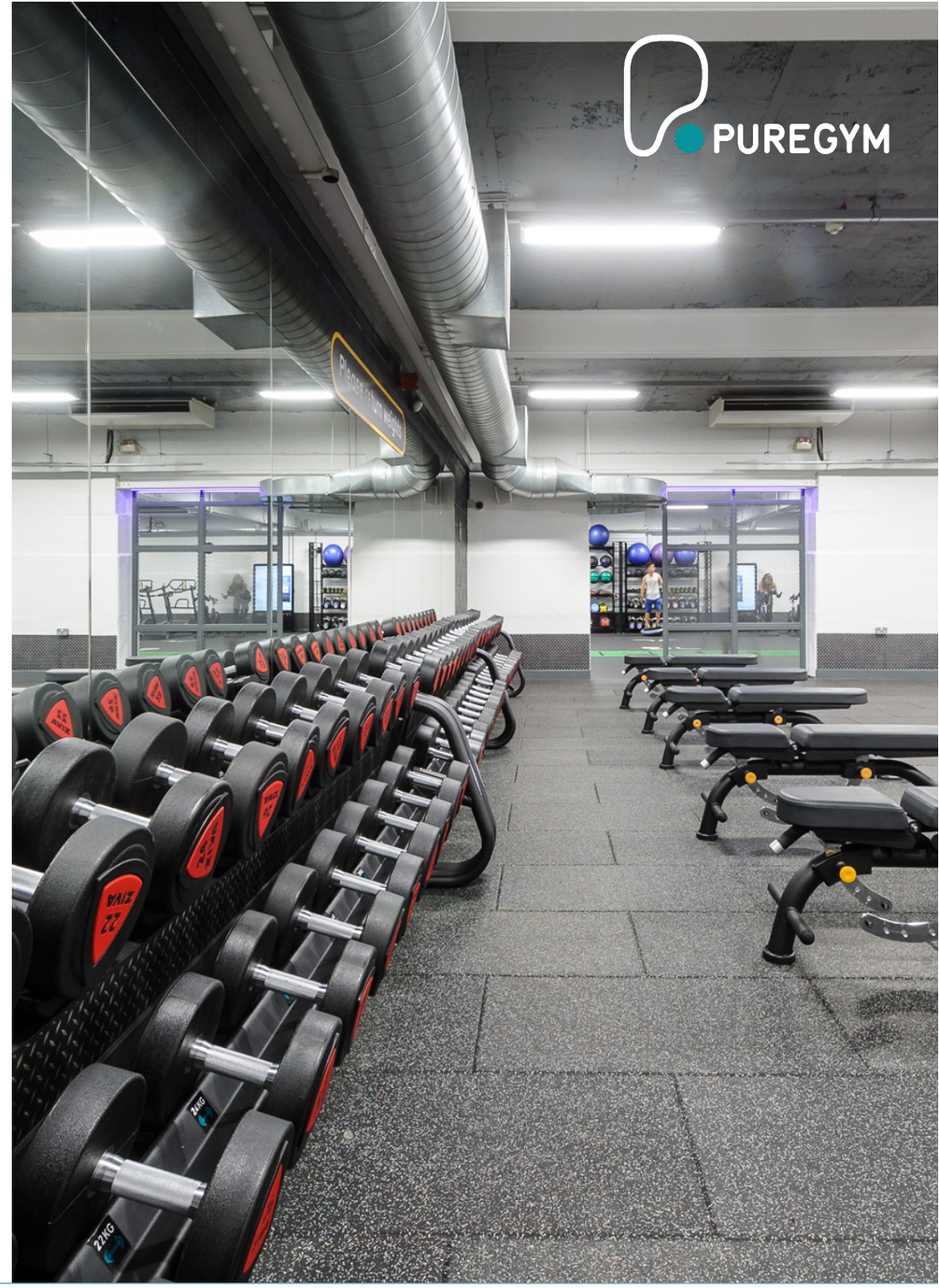
- Southend
- Whitechapel

## Small Box Format

- Hitchin

## Soho Site Conversions

- Bow Wharf (SBF)
- Camden
- Clapham
- Covent Garden
- Farringdon



# Capital expenditure

- £10.0m spent on expansionary capex
- £1.0m spent on maintenance & refurbishment works across estate

| £m | Q1 18 | Q1 19 |
|---|---|---|
| Expansionary capital expenditure | 4.7 | 10.0 |
| Maintenance and refurbishment expenditure | 1.0 | 1.0 |
| **Total capital expenditure** | **5.7** | **11.0** |

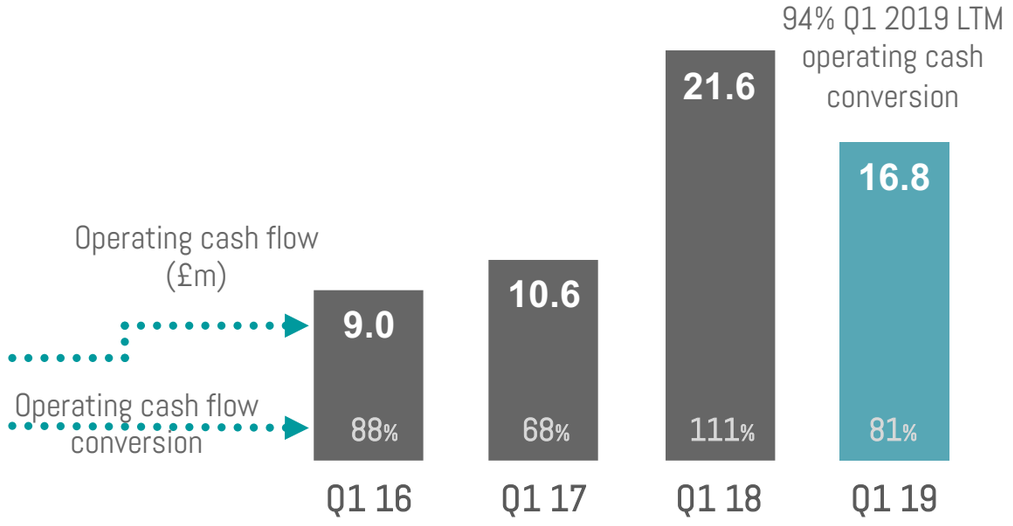


# Strong operating cash flow generation

- Industry-leading operating cashflow conversion
- Supports a strong deleveraging profile with 94.4% cash conversion on LTM basis

## Free Cash Flow Generation & Conversion

| £m | Q1 17 | Q1 18 | Q1 19 |
|---|---|---|---|
| **Group Adj. EBITDA** | **15.6** | **19.5** | **20.8** |
| Working Capital Cash Flow | (4.1) | 3.0 | (3.1) |
| Maintenance and Refurb Capex | (0.9) | (1.0) | (1.0) |
| **Group Operating Cash Flow** | **10.6** | **21.6** | **16.8** |
| *Operating Cash Flow Conversion %* | *68%* | *111%* | *81%* |




1 2018 comparatives restated to reflect the consolidated results of Pinnacle Bidco plc (previously Gym Topco Limited)

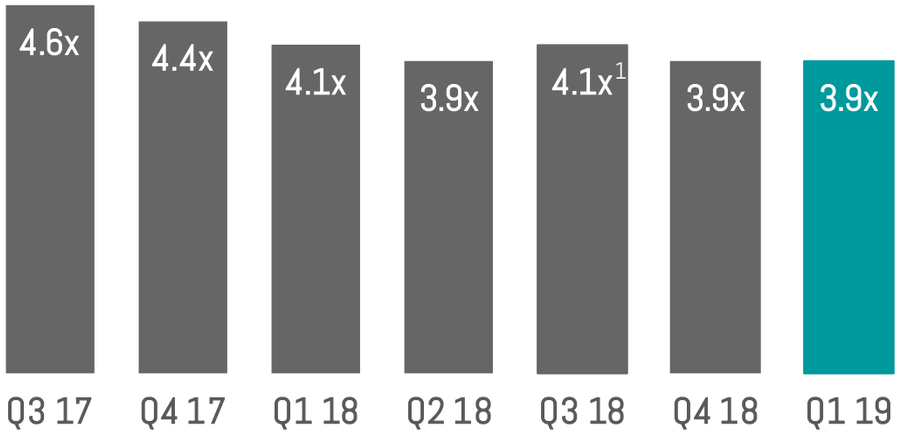
# Sustainable leverage position

- Pro Forma Leverage 3.9x, down on Q1 2018 and unchanged vs Q4 2018
- Pro Forma Interest Cover 3.7x, unchanged vs Q1 and Q4 2018

| At 31 March 2019 (£m) | |
|---|---|
| **Run Rate Adjusted EBITDA** | **95.7** |
| Senior Secured Notes 6.375% | 390.0 |
| Cash | (15.5) |
| Gym Equipment Finance Leases | 3.3 |
| **Net Debt** | **377.8** |
| **Pro forma Leverage** | **3.9x** |

## Leverage (L12M)

(x)



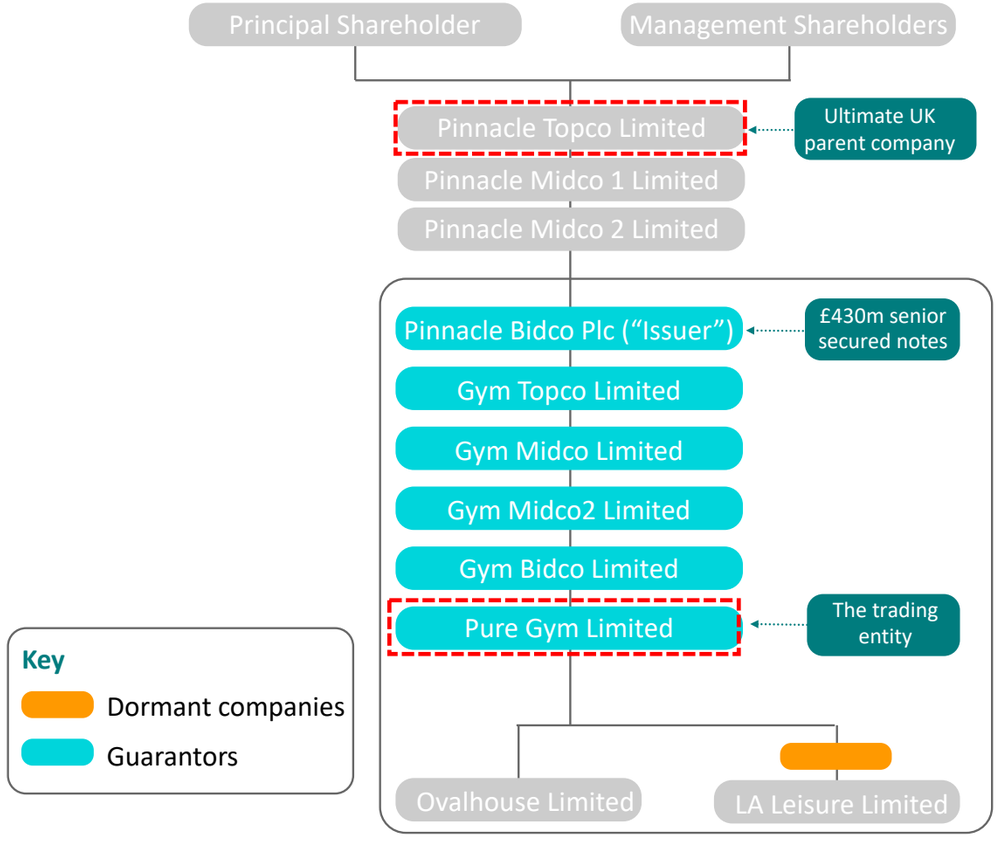

1 Q3 2018 is the first quarter to include Soho Gyms

# Additional funding secured

- Successfully issued £40m of existing 6.375% Senior Secured Notes (due 2025), via a private bond tap on 17 May
- Funds provide flexibility to take advantage of our increasing confidence in the property pipeline
- Supporting new gym openings to further increase scale
- Net Leverage unchanged
- Pro forma interest cover of 3.4x after transaction

| At 31 March 2019 (£m) | Actual | Bond impact | Pro Forma |
|---|---|---|---|
| **Run Rate Adjusted EBITDA** | **95.7** | - | **95.7** |
| Senior Secured Notes 6.375% | 390.0 | 40.0 | 430.0 |
| Cash | (15.5) | (40.0) | (55.5) |
| Gym Equipment Finance Leases | 3.3 | - | 3.3 |
| **Net Debt** | **377.8** | - | **377.8** |
| **Pro Forma Leverage** | **3.9x** | - | **3.9x** |

## Group Structure






# Summary & Outlook

## Results for the quarter ended 31 March 2019

# Summary

- Good start to the year
- Performance in line with expectations
- £20.8m Adjusted EBITDA delivered in Q1 2019
- 8 new site openings, including 5 Soho conversions
- 230 PureGyms operating at 31 March 2019
- SBFs continue to perform well



# Outlook for FY19

- YoY growth expected to be back end weighted
- Encouraging pipeline of new site openings
  - Targeting 30-33 new organic gyms (inc 7 SBFs), H2 weighted
  - Plus 6 Soho conversions (5 already completed in Q1 2019)
  - Plan to refurbish c.20 mature gyms
  - Invest in scale capacity
- Funding secured to take advantage of increasing confidence in the property pipeline





# Appendix

## Results for the quarter ended 31 March 2019

# Reconciliation from Loss to Adjusted EBITDA and Run-Rate Adjusted EBITDA

| £m | Quarter ended 31 March 2019 | Quarter ended 31 March 2018[3] | Year ended 31 December 2018 | Year ended 31 December 2017[1] | Last 12 months to 31 March 2019 |
|---|---|---|---|---|---|
| Loss for the year/period[2] | (5.6) | (11.7) | (28.5) | (18.1) | n/a |
| Income tax[2] | 0.2 | - | 0.5 | 3.6 | n/a |
| Net finance cost[2] | 21.1 | 17.8 | 56.1 | 37.8 | n/a |
| Depreciation of property, plant and equipment[2] | 12.6 | 7.2 | 30.0 | 26.4 | n/a |
| Amortisation of intangible fixed assets | 0.7 | 2.8 | 10.5 | 0.2 | n/a |
| (Profit) / loss on disposal of property, plant and equipment | - | (0.2) | 1.2 | 0.7 | n/a |
| Exceptional administrative expenses | 0.4 | 1.7 | 3.5 | 13.8 | n/a |
| Reported EBITDA[2] | 29.4 | 17.7 | 73.1 | 64.4 | n/a |
| Other extraordinary items | - | - | - | 1.8 | n/a |
| Share based payment charge | 0.1 | - | 0.2 | - | n/a |
| Pre-Opening Costs | 0.9 | 0.6 | 3.5 | 3.6 | n/a |
| Cash Rent Adjustment | (9.5) | 1.3 | 4.4 | 1.7 | n/a |
| Adjusted EBITDA | 20.8 | 19.5 | 81.3 | 71.5 | 82.6 |
| Head office costs | 5.6 | 4.7 | 21.4 | 16.9 | 22.2 |
| Site Adjusted EBITDA | 26.4 | 24.2 | 102.7 | 88.4 | 104.8 |
| Adjusted EBITDA (L12M) | n/a | n/a | 81.3 | 71.5 | 82.6 |
| Run-Rate Adjustment | n/a | n/a | 13.7 | 13.3 | 13.1 |
| Run-Rate Adjusted EBITDA | n/a | n/a | 95.0 | 84.8 | 95.7 |

1 Financial results of Gym Topco Limited. 2 IFRS 16 implemented from 1 January 2019. Prior periods continue to report under IAS 17
3 2018 comparatives restated to reflect the consolidated results of Pinacle Bidco plc (previously Gym Topco Limited)

# KPIs

| £m | Quarter ended 31 March 2019 | Quarter ended 31 March 2018[3] | Year ended 31 December 2018 | Year ended 31 December 2017[4] | Last 12 months to 31 March 2019 |
|---|---|---|---|---|---|
| Total number of PureGyms | 230 | 200 | 222 | 192 | 230 |
| Total number of unconverted Soho gyms | 1 | - | 6 | - | 1 |
| Total number of gyms | 231 | 200 | 228 | 192 | 231 |
| Total number of Mature Gyms | n/a | n/a | 170 | 132 | n/a |
| Total number of members ('000s) | 1,127 | 1,105 | 1,012 | 927 | 1,127 |
| Average number of members per gym | 4,822 | 5,172 | 4,994 | 5,070 | 4,913 |
| Average revenue per member per month | 18.60 | 18.06 | 18.38 | 17.98 | 18.42 |
| Reported EBITDA[1] (£ million) | 29.4 | 17.7 | 73.1 | 64.4 | n/a |
| Adjusted EBITDA (£ million) | 20.8 | 19.5 | 81.3 | 71.5 | 82.6 |
| Adjusted EBITDA margin | 33.8% | 35.3% | 35.6% | 36.1% | 35.2% |
| Gym Site Adjusted EBITDA (£ million) | 26.4 | 24.2 | 102.7 | 88.4 | 104.8 |
| Gym Site Adjusted EBITDA margin | 42.8% | 43.8% | 45.0% | 44.6% | 44.7% |
| Run-Rate Adjusted EBITDA (£ million) | n/a | n/a | 95.0 | 84.8 | 95.7 |
| Operating Cash Flow (£ million) | 16.8 | 21.6 | 82.7 | 67.4 | 77.9 |
| Operating Cash Flow Conversion | 80.7% | 110.6% | 101.8% | 94.4% | 94.4% |
| Pro Forma Net Debt[2] (£ million) | 377.8 | 363.8 | 370.2 | 369.5 | 377.8 |
| Ratio of Pro Forma Net Debt to Group Run-Rate Adjusted EBITDA (L12M)[2] | n/a | n/a | 3.9x | 4.4x | 3.9x |
| Ratio of Run Rate Adjusted EBITDA to Pro Forma Net Interest Expense[2] | n/a | n/a | 3.7x | 3.5x | 3.7x |
| Mature gym EBITDA (£ million) | n/a | n/a | 88.2 | 64.5 | n/a |
| Average mature gym EBITDA (£'000) | n/a | n/a | 519 | 489 | n/a |
| Average mature gym EBITDA margin | n/a | n/a | 45.9% | 44.8% | n/a |
| Average mature gym ROCE | n/a | n/a | 43.6% | 42.8% | n/a |
| Average initial capital investment for mature gyms (£'000) | n/a | n/a | 1,190 | 1,142 | n/a |

**1** IFRS 16 implemented from 1 January 2019. Prior periods continue to report under IAS 17. **2** Lease liabilities and finance costs arising on adoption of IFRS 16 have been excluded from net debt and net interest expense in calculating leverage and interest cover ratios. **3** 2018 comparatives restated to reflect the consolidated results of Pinnacle Bidco plc (previously Gym Topco Limited) **4** Financial results of Gym Topco Limited

# IFRS 16 Lease Accounting

## Implementation of IFRS 16 1 January 2019[1] … operating leases capitalised 'on balance sheet'

- **No economic impact** on the group and no affect on how business run
- **No impact on Adjusted EBITDA** which is reported on a consistent basis[2]
- **No impact on Agency Ratings**
- **Income statement**
  - Rent charge replaced by depreciation of ROU asset and finance charge on unwind of lease liability
  - Q1'19 Reported EBITDA increased by £10.9m and Q1'19 loss before tax increased by £1.9m
- **Balance sheet as at 1 Jan 2019**
  - ROU asset created of £221m, being the discounted future cashflows at inception less depreciation to 31 Dec 2018
  - Present Value of lease payments, net of deferred rent creditor resulted in lease liability of £300m on implementation, split between current and non-current
  - Reduction in net assets of £71m

1 Modified retrospective application with right of use ('ROU') asset measured using the retrospective method
2 See definitions in Glossary which are updated to reflect differences pre and post IFRS 16 implementation

# Strong group balance sheet

- The Group maintained its strong financial position in the quarter
- £214.3m net assets before preference shares
- In compliance with all covenants and expected to remain so
- Maintained solid credit rating
- Continued good liquidity and £60m RCF facility remains undrawn

## Pinnacle Topco Ltd Consolidated balance sheet

| At 31 March 2019, £m | Pre-IFRS 16 | IFRS 16 adjustment | Post-IFRS 16 |
|---|---|---|---|
| Non-Current assets | 714.9 | 214.7 | 929.6 |
| Current assets | 34.2 | - | 34.2 |
| Total assets | 749.1 | 214.7 | 963.8 |
| | | | |
| Publicly traded bond debt | (390.0) | - | (390.0) |
| Capitalised finance costs | 7.8 | - | 7.8 |
| Lease liabilities | (3.3) | (302.5) | (305.8) |
| Net deferred tax liability | (8.1) | 7.7 | (0.4) |
| Working capital liabilities | (68.8) | 7.7 | (61.1) |
| Total liabilities exc preference shares | (462.4) | (287.1) | (749.5) |
| | | | |
| **Net assets exc preference shares** | **286.7** | **(72.4)** | **214.3** |
| | | | |
| **Reconciliation to IFRS balance sheet:** | | | |
| Net assets exc preference shares | 286.7 | (72.4) | 214.3 |
| Less preference shares* | (319.1) | - | (319.1) |
| Net liabilities | (32.3) | (72.4) | (104.8) |

* Preference shares are a form of equity issued to the Group's shareholders which are accounted for as debt in the statutory accounts (under International Financial Reporting Standards, IFRS). The shares accumulate interest at 8% per annum. The order of preference for repayment of debt is:

1) Bondholders and RCF lenders.
2 ) Third party creditors including landlords
3 ) Preference share holders (including accumulated interest)

# Credit Ratings

| | Long-Term Rating | Outlook |
|---|---|---|
| Moody's | B3 | Stable |
| S&P | B | Stable |
| Fitch | B | Stable |

- Unchanged by:
  - Transition to IFRS 16 on 1 January 2019
  - Bond tap in May 2019

# Glossary

| Term | Definition |
|---|---|
| **Adjusted EBITDA** | Reported EBITDA adjusting for; other extraordinary items, Pre-Opening Costs, share-based payment charges and the Cash Rent Adjustment. |
| **Adjusted EBITDA margin** | Adjusted EBITDA for that period divided by revenue for that period. |
| **Average Number of Members** | The average of the number of members as at the beginning of the first month and the end of every month in that period. |
| **Average Revenue per Member (ARPM) 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. Unless stated otherwise, Planned LAF Disposals and unconverted Soho sites are excluded from the Average Revenue per Member per Month figures. |
| **Cash Rent Adjustment** | Pre-1 January 2019; add back the non-cash rent expense charged to the income statement in the period under IAS 17 (less amounts added back as part of Pre-Opening Costs).<br>Management believes adjusting EBITDA to reflect cash rent is a better reflection of 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 IAS 17, 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.<br>Post 1 January 2019; deducting the cash rent payable during the period as this is not reflected in Reported EBITDA under IFRS 16. |
| **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. |
| **Large Box Format (LBF)** | Large Box Format (LBF) gyms are gyms that are typically 15,000-20,000 square feet in size. |
| **Maintenance and corporate capital expenditures** | The total capital expenditure incurred in a period less Expansionary Capital Expenditure incurred in that period. |
| **Mature Gyms** | Group's gyms that have been open as PureGyms for 24 months or more as of the end of the relevant reporting period. |

# Glossary continued

| Term | Definition |
|---|---|
| **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 Cash Rent Adjustment or adjustments for Pre-Opening Costs, share-based payment charges or other extraordinary items that were added back to Group Adjusted EBITDA and Gym Site Adjusted EBITDA. |
| **Net Debt** | Total senior indebtedness of the Group less cash and cash equivalents. |
| **New Gyms** | Gyms that have been open as PureGyms for less than 24 months as of the end of the relevant reporting period. |
| **Number of gyms** | The total number of gyms that are open and trading under the PureGym, Soho Gyms and the LA Fitness Group brands but excluding the total number of all Planned LAF Disposals, 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 Soho Gyms and prior to our completing the conversion or disposition of all LA Fitness and Soho 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. Unless stated otherwise, Planned LAF Disposals are excluded from the number of members figures shown. |
| **Operating Cash Flow** | Group Adjusted EBITDA plus Working Capital Cash Flow 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. |
| **Planned LAF Disposals** | Defined as 12 LA Fitness branded gyms that were acquired as part of Pure Gym's acquisition of the LA Fitness Group on 28 May 2015 but subsequently identified for disposal. In the year ended 31 December 2015, the Group sold or closed eight Planned LAF Disposals and had four remaining for sale or closure. In 2016, the Group sold or closed those remaining disposal sites. Unless stated otherwise, Planned LAF Disposals are not included in any of the calculations of the number of gyms, number of members and Average Revenue per Member per Month figures shown in this presentation. |
| **Pre-opening Costs** | Total of all gym site operating costs incurred during the pre-opening periods of gyms in that period. From 1 January 2019, Pre-Opening Costs primarily consist of staff and marketing. Pre-1 January 2019, these costs also included rent expenses reported under IAS 17. |

# Glossary continued

| Term | Definition |
|---|---|
| Pro Forma | Giving pro forma effect to the issuance of the Senior Secured Notes as if they were issued at the beginning of the period. |
| 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 and all cash dividends or other cash distributions paid on preferred and disqualified stock during the most recently ended four consecutive fiscal quarters. |
| 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. |
| Pro Forma Total Net Leverage | The ratio of total debt outstanding on the date of determination (excluding property lease liabilities recognised under IFRS 16) 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. |
| PureGyms | The combined New Gym and Mature Gym portfolios. |
| Reported 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 and exceptional administrative expenses. |
| 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. |
| Run-Rate Adjusted EBITDA | Group Adjusted EBITDA including Run-Rate Adjustments. |
| ROCE | EBITDA divided by Initial Capital Investment and refers to return on capital employed. |
| Small Box Format (SBF) | Small Box Format (SBF) gyms are gyms that are typically 5,000-8,000 square feet in size. |
| Soho Gyms | The trading name of Ovalhouse Limited. |
| Working Capital Cash Flow | Pre-1 January 2019; Cash movements in working capital less the Cash Rent Adjustment.<br>Post 1 January 2019; Cash movements in working capital. |

# Investor Contact Details

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