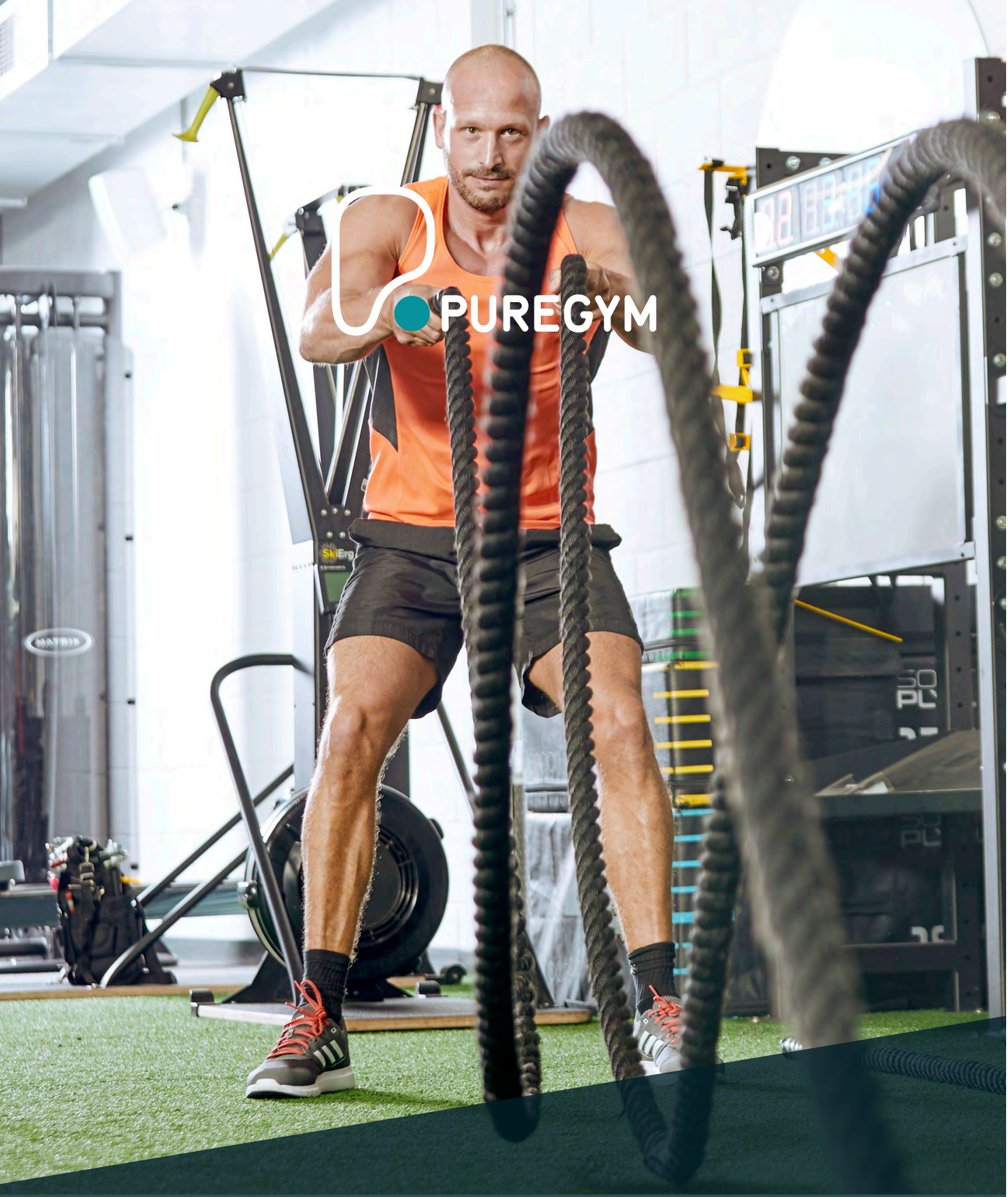


Pinnacle Bidco plc

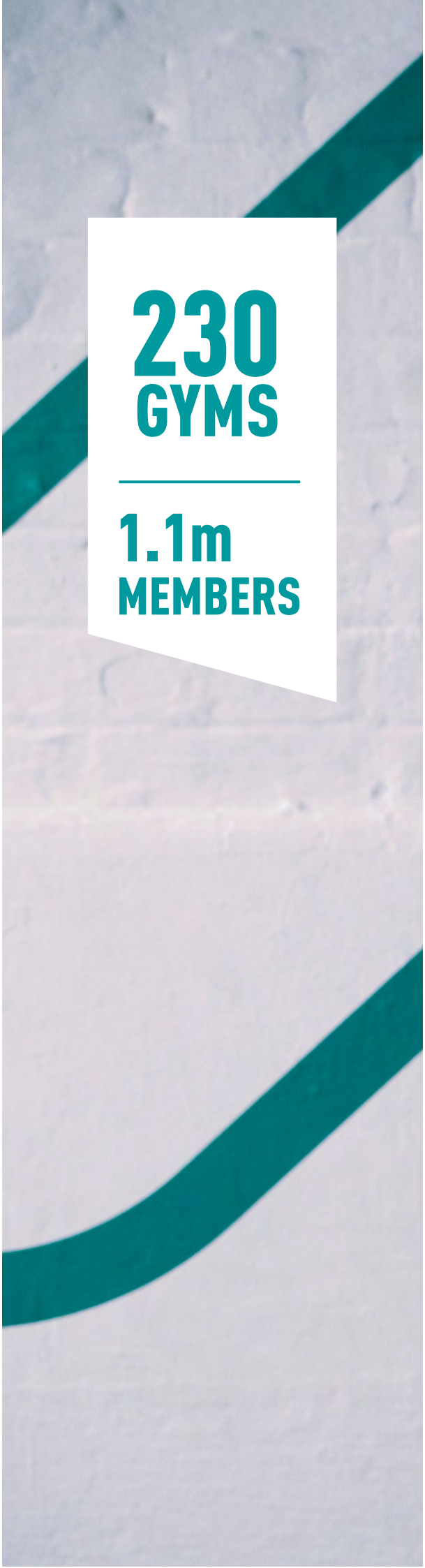
Q1 report as of and for the
three months ended 31 March 2019

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 2019, we operated 230[1] gyms (31 March 2018: 200) across the UK and had 1.1m members (31 March 2018: 1.1m).

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.



1 Excludes 1 Soho Gym closed for refurbishment at 31 March 2019

Presentation of financial information

Unless otherwise indicated, the financial information presented in this report for 2018 and 2019 relates to Pinnacle Bidco plc (the "Issuer") which may differ from previous reports for quarter 1 2018 which presented the results of Gym Topco Limited and its subsidiaries. The historical consolidated financial information for full year 2017, presented in this report, is that of Gym Topco Limited and its subsidiaries.

The Group prepared consolidated financial statements as of and for the 3 months ended 31 March 2019 in accordance with IAS 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board and adopted by the European Union.

Change in lease accounting

The Group transitioned its lease accounting standard from IAS 17 to IFRS 16 on 1 January 2019. In line with the requirements of IFRS 16, prior periods have not been restated.

IFRS 16 is a presentational change only, it has no economic or cashflow impact on the Group.

Funding

On 24 January 2018, the company issued £360 million of 6.375% senior secured notes (the "Senior Secured Notes"), listed on The International Stock Exchange, for which Pinnacle Bidco plc is the Issuer and certain subsidiaries of the group are guarantors. The Senior Secured Notes accrue interest at a rate of 6.375% payable half yearly in February and August and are due to be repaid in full on 15 February 2025.

On 21 June 2018, the Group acquired Ovalhouse Limited (trading as Soho Gyms). The acquisition was initially financed through a £25 million drawing under the Revolving Credit Facility. On 27 July 2018, the Group issued a further £30 million of 6.375% Senior Secured Notes via a private placing, to repay the £25 million drawing made under the Revolving Credit Facility. Senior Secured Notes totaled £390 million at 31 March 2019.

In addition to the notes, the group retains a £60 million revolving credit facility with five international institutions (Barclays Bank PLC, Royal Bank of Canada, Credit Suisse AG, ING Bank N.V. and Lloyds Bank plc, collectively "the Lenders"), repayable on 30 November 2024.

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.

On 17 May 2019, the Group announced that it had secured commitments to issue £40 million of 6.375% Senior Secured Notes via a private placing. On completion of the transaction in due course, the total value of Senior Secured Notes due in 2025 will be £430 million.



Q1 2019 highlights

Financial highlights

- Revenue increased by 11.4% to £61.6 million.
- Average revenue per member per month increased by 3.0% to £18.60.
- Adjusted EBITDA increased by 6.7% to £20.8 million.
- Adjusted EBITDA margin remained strong at 33.8%.
- Operating cashflow conversion of 80.7% of Adjusted EBITDA.

Operational highlights

- 1,127k members as at Q1 2019, with a 7.5% increase in average number of members versus Q1 2018.
- Average number of members per gym of 4,822.
- In line with expectations, theses KPIs are impacted by year on year phasing of promotional activity, new SBFs within the base and 13 immature site openings from the previous quarter.
- Continued rollout of new sites and investment in estate with 230 gyms trading at period end, an increase of 21 organic gyms and 9 gyms successfully converted from the Soho model compared to 31 March 2018.



Results of operations

Quarter 1 2019 compared with Quarter 1 2018

Revenue

Revenue increased by 11.4% to £61.6 million from £55.3 million in 2018. An analysis of revenue by product line is as follows:

	For the quarter ended 31 March			For the year ended 31 December		
£m	2019	2018	% change	2018	2017	% change
Member income	**56.8**	51.3	+10.7%	**210.9**	183.5	+14.9%
Vending income	**1.9**	1.7	+8.3%	**6.3**	5.5	+14.6%
Other income	**2.9**	2.2	+28.9%	**11.2**	9.0	+25.3%
Total	**61.6**	55.3	**+11.4%**	**228.4**	198.0	**+15.3%**

Member income, comprising membership fees and joining fees, grew by 10.7% year on year to £56.8 million. This was primarily a result of the contribution from new gyms opened, the higher proportion of mature gyms in the portfolio compared to 2018 and the increased yield resulting from Extra and Multi products.

Vending income increased 8.3% while other income, which reflects sales of day passes, income from personal trainers and promotional income, grew by 28.9%.

Administrative expenses and Adjusted EBITDA

Administrative expenses before exceptional items of £45.5m decreased by £1.9m compared to Q1 2018 following the implementation of IFRS 16, in which property rental charges are replaced with depreciation of the right of use asset. Excluding the impact of IFRS16, administrative expenses have increased by 9.1%, primarily due to the growth in number of trading gyms from 200 to 230.

Adjusted EBITDA remains a comparable measure pre and post changes in accounting standards and has increased by 6.7% to £20.8 million compared to Q1 2018. Adjusted EBITDA margin remains strong at 33.8%, the slight dilution from 35.3% in Q1 2018 due to new gyms yet to reach maturity and investment in cost base to build scale capability.

Exceptional items

Exceptional items were £0.4 million in Q1 2019 associated with exploration of potential future acquisitions, the integration and transition of Soho gyms and restructuring of the existing business. Exceptional items were £1.7 million in Q1 2018 and related to the acquisition of the PureGym group.

Net finance costs

Net finance costs increased by 18.8% to £21.1 million in Q1 2019 compared to £17.8 million in Q1 2018, following the implementation of IFRS 16, in which a non-cash finance cost of £8.1 million was incurred on the unwind of lease liabilities. Excluding this, finance costs decreased compared to prior year due to one-off costs incurred in Q1 2018 on restructuring of the group's finances.

Tax charge

Our income tax expense for the quarter ended 31 March 2019 was £0.2 million, an increase of £0.2 million compared to an expense of £0.0 million in the quarter ended 31 March 2018.

Cashflow and Liquidity

Summary of cashflow statement £m	As of and for the quarter ended 31 March 2019	 2018	As of and for the year ended 31 December 2018	 2017
Net cash generated from/(used in) operating activities[1]	4.7	11.0	64.0	(9.9)
Net cash used in investing activities	(11.0)	(5.5)	(61.5)	(38.4)
Net cash (used in)/generated from financing activities[1]	(1.6)	(0.2)	25.7	28.9
Net (decrease)/increase in cash and cash equivalents	**(7.8)**	5.3	**28.2**	(19.3)
Cash and cash equivalents on the first day of the period	23.3	(4.8)	(4.8)	14.5
Cash and cash equivalents at end of period	**15.5**	0.5	**23.3**	(4.8)

Net cash generated from operating activities

Net cash generated from operating activities was £4.7 million in Q1 2019, compared to £11.0 million in Q1 2018. Whilst IFRS 16 has no overall cashflow impact, it does have a presentational impact on the cashflow statement and in Q1 2019 cash generated from operating activities increased by £1.3 million (with a corresponding increase of £1.3m in net cash used in financing activities). The remaining decrease in cash flows from operating activities is primarily due to timing of working capital cashflows.

Net cash outflow from investing activities

Net cash outflow from investing activities increased to £11.0 million in Q1 2019, compared to £5.5 million in Q1 2018 reflecting the capital expenditure in the period.

Net cash used in financing activities

Net cash used in financing was £1.6 million in Q1 2019 compared to £0.2 million in Q1 2018, the increase being due to the £1.3 million presentational impact associated with IFRS 16 (see net cash generated from operating activities).

Capital expenditure

The following table shows our capital expenditures for the periods indicated

£m	As of and for the quarter ended 31 March 2019	 2018	As of and for the year ended 31 December 2018	 2017
Expansionary Capital Expenditure	10.0	4.7	32.5	32.0
Maintenance and Refurb Capital Expenditure	1.0	1.0	11.3	7.1
Total Capital Expenditure	**11.0**	5.7	**43.8**	39.1

Estate summary

The Group opened 3 new organic gyms (2 LBF and 1 SBF) and completed 5 Soho conversions in Q1 2019, compared to 8 new organic gyms in Q1 2018.

The Group did not close or relocate any gyms during Q1 2019 and had 230 trading gyms operating as at 31 March 2019 with 1 remaining Soho site closed for conversion.

1 2019 presented in accordance with IFRS 16, prior periods presented in accordance with IAS 17

Key performance indicators

£m	As of and for the quarter ended 31 March 2019	2018	As of and for the year ended 31 December 2018	2017	Last 12 months as of and for the year ended 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[2] (L12M)	n/a	n/a	3.9x	4.4 x	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 2019 presented in accordance with IFRS 16, prior periods presented in accordance with IAS 17

2 Lease liabilities and finance costs arising on the adoption of IFRS 16 have been excluded from net debt and net interest expense in calculating leverage and interest cover ratios

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

£m	For the quarter ended 31 March 2019	For the quarter ended 31 March 2018	For the year ended 31 December 2018	For the year ended 31 December 2017[1]	Last 12 months as of and for the year ended 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 & 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	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 2019 presented in accordance with IFRS 16, prior periods presented in accordance with IAS 17

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 2019 financial year remain substantially the same as those stated on pages 11 to 22 of our Annual Report and Accounts for the period ended 31 December 2018, which is available on our website corporate.puregym.com.

Glossary

"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 IAS17 (less amounts added back as part of Pre-Opening Costs).

Management believes adjusting EBITDA to reflect cash rent is a better reflection of actual earnings. This is because the Group 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, the Group have no cash outlay for the rent-free period.

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

"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.

"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.

"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.

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

"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.

Post 1 January 2019; Cash movements in working capital.

Pinnacle Bidco PLC
Condensed Consolidated Interim Financial Statements
for the 3 months ended 31 March 2019

Contents

Condensed Consolidated Statement of Comprehensive Income 12
Condensed Consolidated Statement of Financial Position 13
Condensed Consolidated Cash Flow Statement 14
Condensed Consolidated Statement of Changes in Equity 15
Notes to the Condensed Consolidated Interim Financial Statements 16

Condensed Consolidated Statement of Comprehensive Income

for the 3 months ended 31 March 2019

	Note	**3 months ended 31 March 2019 (Unaudited) £'000**	3 months ended 31 March 2018 (Unaudited) £'000
Revenue	2	**61,567**	55,280
Other administrative expenses		**(45,532)**	(47,460)
Exceptional administrative expenses	4	**(367)**	(1,655)
Administrative expenses		**(45,899)**	(49,115)
Operating profit	3	**15,668**	6,165
Finance income		**43**	14
Finance costs		**(21,158)**	(17,787)
Loss before income tax		**(5,447)**	(11,608)
Income tax charge	5	**(161)**	(49)
Loss for the period		**(5,608)**	(11,657)
Total comprehensive expense for the period		**(5,608)**	(11,657)

Condensed Consolidated Statement of Financial Position

as at 31 March 2019

	Note	**31 March 2019 (Unaudited) £'000**	31 December 2018 (Audited) £'000
Non-current assets			
Property, plant and equipment	6	**414,611**	196,922
Intangible assets	7	**514,973**	515,706
Deferred tax asset		**13,362**	5,946
		942,946	718,574
Current assets			
Inventories		**1,307**	1,278
Trade and other receivables		**17,434**	17,563
Cash and cash equivalents		**15,472**	23,320
		34,213	42,161
TOTAL ASSETS		**977,159**	760,735
Current liabilities			
Trade and other payables		**(61,107)**	(76,700)
Lease liabilities	14	**(9,853)**	-
Borrowings	8	**-**	(1,006)
		(70,960)	(77,706)
Non-current liabilities			
Deferred tax liability		**(13,787)**	(14,087)
Lease liabilities	14	**(295,964)**	-
Borrowings	8	**(703,070)**	(699,011)
		(1,012,821)	(713,098)
TOTAL LIABILITIES		**(1,083,781)**	(790,804)
NET LIABILITIES		**(106,622)**	(30,069)
Equity			
Share capital	11	**50**	50
Share premium		**3,863**	3,863
Retained earnings		**(110,535)**	(33,982)
TOTAL EQUITY		**(106,622)**	(30,069)

Condensed Consolidated Cash Flow Statement

for the 3 months ended 31 March 2019

	Note	**3 months ended 31 March 2019 (Unaudited) £'000**	3 months ended 31 March 2018 (Unaudited) £'000
Cash flows from operating activities			
Cash generated from operations	12	**26,354**	21,968
Exceptional costs paid		**(367)**	(1,655)
Bank interest and similar charges paid		**(160)**	(6,248)
Bank interest received		**43**	14
Senior secured notes interest paid		**(12,432)**	-
Interest element of lease liability payments		**(8,206)**	-
Interest element of finance lease payments		**-**	(75)
Issue costs from bank borrowings		**-**	(2,250)
UK corporation tax paid		**(548)**	(699)
Net cash generated from operating activities		**4,684**	11,055
Cash flows from investing activities			
Purchase of property, plant & equipment	6	**(10,970)**	(5,668)
Proceeds from disposal of property, plant & equipment		**4**	160
Net cash used in investing activities		**(10,966)**	(5,508)
Cash flows from financing activities			
Issue of senior secured notes	8	**-**	360,000
Capital element of lease liability payments		**(1,568)**	-
Capital element of finance lease payments		**-**	(227)
Repayments of bank borrowings	8	**-**	(360,000)
Proceeds from intercompany borrowings		**2**	-
Net cash used in financing activities		**(1,566)**	(227)
Net (decrease) / increase in cash and cash equivalents		**(7,848)**	5,320
Cash and cash equivalents at beginning of the period		**23,320**	(4,842)
Cash and cash equivalents at end of period		**15,472**	478

Condensed Consolidated Statement of Changes in Equity

for the 3 months ended 31 March 2019

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total Equity £'000
Balance as at 1 January 2018	**50**	**3,863**	**(5,320)**	**(1,407)**
Loss and total comprehensive expense for the period	-	-	(11,657)	(11,657)
Balance as at 31 March 2018	**50**	**3,863**	**(16,977)**	**(13,064)**
Balance as at 31 December 2018	**50**	**3,863**	**(33,982)**	**(30,069)**
Change in accounting policy (note 14)	-	-	(71,012)	(71,012)
Balance as at 1 January 2019	**50**	**3,863**	**(104,994)**	**(101,081)**
Loss and total comprehensive expense for the period	**-**	**-**	(5,608)	(5,608)
Credit to equity for equity settled share-based payments	-	-	67	67
Balance as at 31 March 2019	**50**	**3,863**	**(110,535)**	**(106,622)**

Notes to the Condensed Consolidated Interim Financial Statements

1 General information

Principle Bidco PLC is a Company incorporated in England and Wales under the Companies Act 2006 and is a public limited 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 22 May 2019.

This financial information for the three months ended 31 March 2019, including comparative financial information for the three months ended 31 March 2018, 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 period ended 31 December 2018.

The group has adopted IFRS 16 'Leases' in the current period and the new accounting policies associated with this have been applied from 1 January 2019. The new accounting policies applied and the impact of the transition is explained in note 14.

Except as described in note 14, 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 period ended 31 December 2018.

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 2018 Annual Report

The financial figures for the period ended 31 December 2018, as set out in this report, do not constitute statutory accounts but are derived from the statutory accounts for that financial period.

The statutory accounts for the period ended 31 December 2018 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.

Notes to the Condensed Consolidated Interim Financial Information (continued)

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 2019 (Unaudited) £'000	3 months ended 31 March 2018 (Unaudited) £'000
Member income	**56,822**	51,320
Vending income	**1,895**	1,749
Other income	**2,850**	2,211
	61,567	55,280

PureGym 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.

Member income and the majority of other income is recognised over time to reflect the period over which the customer receives the services provided. Vending income is recognised at a point in time.

3 Operating profit

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

	3 months ended 31 March 2019 (Unaudited) £'000	3 months ended 31 March 2018 (Unaudited) £'000
Operating profit	**15,668**	6,165
Depreciation	**12,596**	7,229
Amortisation	**733**	2,784
Profit on disposal of property, plant and equipment	**(4)**	(160)
Exceptional costs (note 4)	**367**	1,655
Group EBITDA	**29,360**	17,673

4 Exceptional administrative expenses

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 2019 (Unaudited) £'000	3 months ended 31 March 2018 (Unaudited) £'000
Exploration of acquisition opportunities	**90**	-
Integration, transition and restructuring costs	**277**	-
Costs relating to the purchase and sale of the group	**-**	1,655
	367	1,655

In the 3 month period ended 31 March 2019, the group incurred costs of £90,000 in relation to the exploration of acquisition opportunities.

In addition, £277,000 of costs were incurred relating to the transition and integration of Soho Gyms into the PureGym model, and the restructuring of certain operations in the existing business.

In November 2017, the PureGym group was acquired by Leonard Green & Partners and expenses totalling £1,655,000 were incurred in the 3 months ended 31 March 2018 relating to this acquisition.

5 Income tax

	3 months ended 31 March 2019 (Unaudited) £'000	3 months ended 31 March 2018 (Unaudited) £'000
Current tax:		
- UK Corporation tax charge on loss for the period	**64**	281
Total current tax charge	**64**	281
Deferred tax:		
- Origination and reversal of temporary differences	**97**	(232)
Total deferred tax charge / (credit)	**97**	(232)
Total tax charge in the condensed consolidated statement of comprehensive income	**161**	49

The charge for taxation for the 3 months to 31 March 2019 is based on the estimated effective rate of 19% (3 months ended 31 March 2018: 19%).

6 Property, plant and equipment

	Right of Use Assets £'000	Leasehold costs £'000	Leasehold improvem'ts £'000	Fixtures & Fittings £'000	IT equipment £'000	Total £'000
Cost						
On incorporation	-	-	-	-	-	-
Acquisitions	-	6,221	124,550	49,541	2,470	182,782
Additions	-	2,341	29,102	14,413	2,290	48,146
Disposals	-	-	(5,010)	(2,929)	(287)	(8,226)
31 December 2018	**-**	**8,562**	**148,642**	**61,025**	**4,473**	**222,702**
Accumulated depreciation						
On incorporation	-	-	-	-	-	-
Charge for the period	-	614	16,148	13,782	1,818	32,362
Disposals	-	-	(3,699)	(2,598)	(285)	(6,582)
31 December 2018	**-**	**614**	**12,449**	**11,184**	**1,533**	**25,780**
Net book value						
31 December 2018	**-**	**7,948**	**136,193**	**49,841**	**2,940**	**196,922**

	Right of Use Assets £'000	Leasehold costs £'000	Leasehold improvem'ts £'000	Fixtures & Fittings £'000	IT equipment £'000	Total £'000
Cost						
31 December 2018	-	8,562	148,642	61,025	4,473	222,702
Change in accounting policy (note 14)	221,332	-	-	(4,527)	-	216,805
1 January 2019	221,332	8,562	148,642	56,498	4,473	439,507
Additions	1,495	159	7,610	2,310	891	12,465
31 March 2019	**222,827**	**8,721**	**156,252**	**58,808**	**5,364**	**451,972**
Accumulated depreciation						
31 December 2018	-	614	12,449	11,184	1,533	25,780
Change in accounting policy (note 14)	-	-	-	(1,015)	-	(1,015)
1 January 2019	-	614	12,449	10,169	1,533	24,765
Charge for the period	4,892	171	3,986	3,066	481	12,596
31 March 2019	**4,892**	**785**	**16,435**	**13,235**	**2,014**	**37,361**
Net book value						
31 March 2019	**217,935**	**7,936**	**139,817**	**45,573**	**3,350**	**414,611**

7 Intangible assets

	Goodwill £'000	Brands £'000	Customer Lists £'000	Total £'000
Cost				
On incorporation	-	-	-	-
Acquisitions during the period	460,215	58,669	8,204	527,088
31 December 2018	**460,215**	**58,669**	**8,204**	**527,088**
Accumulated amortisation				
On incorporation	-	-	-	-
Charge for the period	-	3,178	8,204	11,382
31 December 2018	**-**	**3,178**	**8,204**	**11,382**
Net book value				
31 December 2018	**460,215**	**55,491**	**-**	**515,706**

	Goodwill £'000	Brands £'000	Customer Lists £'000	Total £'000
Cost				
1 January 2019 & 31 March 2019	460,215	58,669	8,204	527,088
Accumulated amortisation				
1 January 2019	-	3,178	8,204	11,382
Charge for the period	-	733	-	733
31 March 2019	-	3,911	8,204	12,115
Net book value				
31 March 2019	**460,215**	**54,758**	**-**	**514,973**

A full impairment review of goodwill was performed as at 31 December 2018 and there have been no indicators of impairment since that date.

8 Borrowings

Current

	31 March 2019 (Unaudited) £'000	31 December 2018 (Audited) £'000
Finance leases	**-**	1,006

Non-current

	31 March 2019 (Unaudited) £'000	31 December 2018 (Audited) £'000
Senior secured notes	**390,000**	390,000
Capitalised issue costs	**(7,823)**	(8,163)
Senior secured notes net of issue costs	**382,177**	381,837
Finance leases	**-**	2,528
Amounts owed to group undertakings	**320,893**	314,646
	703,070	699,011

Maturity profile (excluding capitalised issue costs)

	31 March 2019 (Unaudited) £'000	31 December 2018 (Audited) £'000
Within 1 year	**-**	1,006
Between 1 and 2 years	**-**	1,077
Between 2 and 5 years	**-**	1,451
After 5 years	**710,893**	704,646
	710,893	708,180

Amounts owed to group undertakings accrue interest at 8% and are repayable on 30 November 2027.

8 Borrowings (continued)

Bank loans and overdrafts

On 24 January 2018, the group issued £360 million of senior secured notes, listed on The International Stock Exchange, to which certain other group undertakings are guarantors. The notes accrue interest at a rate of 6.375% payable half yearly in February and August and are due to be repaid in full on 15 February 2025.

On 21 June 2018, a further £30 million of senior secured notes were issued to fund the acquisition of Soho Gyms, taking the total value of notes in issue to £390 million at the period end.

Capitalised issue costs are amortised over the period to the repayment dates of the notes.

In addition to the notes, the group has access to a £60 million revolving credit facility with five international institutions (Barclays Bank PLC, Royal Bank of Canada, Credit Suisse AG, ING Bank N.V. and Lloyds Bank plc, collectively "the Lenders").

The revolving credit facility is repayable on 30 November 2024, secured by fixed and floating charges over the assets and undertakings of Pinnacle Bidco PLC and certain of its subsidiaries and subject to a financial covenant of net leverage ratio lower than or equal to 7.7 when amounts drawn down on the facility are greater than 40%.

At 31 March 2019, the Group was not drawn down on the facility.

The group has been in compliance with all covenants during the current and previous financial period.

Finance leases

Finance leases recognised up to 31 December 2018 under IAS 17 are secured against the assets to which they relate. From 1 January 2019, leases previously recognised as finance leases are recognised as lease liabilities in accordance with IFRS 16 (see note 14). There is no change in the securities held against the assets to which those leases relate.

9 Financial instruments

	31 March 2019 (Unaudited) £'000	31 December 2018 (Audited) £'000
Financial assets measured at amortised cost		
Trade receivables	**2,270**	**783**
Other debtors	**3,836**	**3,310**
	6,106	**4,093**
Financial liabilities measured at amortised cost		
Trade creditors	**8,151**	**13,705**
Other liabilities	**1,052**	**1,027**
Accruals	**30,293**	**39,897**
Finance leases	**-**	**3,534**
Amounts owed to group undertakings	**320,893**	**314,646**
Senior secured notes	**390,000**	**390,000**
	750,389	**762,809**

Set out below is a comparison of carrying amounts and fair values of all the financial instruments as carried in the financial statements, other than finance leases and those for which the fair value approximates closely with their carrying value. The fair value of senior secured notes is taken from the quoted market price. This is a Level 1 valuation. The fair value of all other borrowings are calculated by discounting the future cash flows at prevailing market interest rates, categorised as a Level 2 valuation.

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 period under review. All liabilities listed below are categorised as Level 2.

9 Financial instruments (continued)

	Carrying Value		Fair Value	
	31 March 2019 (Unaudited) £'000	31 December 2018 (Audited) £'000	**31 March 2019 (Unaudited) £'000**	31 December 2018 (Audited) £'000
Financial liabilities				
Amounts owed to group undertakings	**320,893**	314,646	**328,746**	322,482
Senior secured notes	**390,000**	390,000	**399,867**	384,150

10 Financial risk management objectives and policies

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

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. During the period, the Group's exposure to the risk of changes in market interest rates related primarily to the Group's bank borrowings with floating interest rates.

As at 31 March 2019 and 31 December 2018 the Group had 100% of its borrowings in fixed rate instruments by way of senior secured loan notes, amounts owed to group undertakings, and lease liabilities. The Group has access to a £60m revolving credit facility with floating interest rates but was not drawn down on this facility at the end of the period.

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 summaries the maturity profile of the Group's financial liabilities:

Notes to the Condensed Consolidated Interim Financial Information (continued)

10 Financial risk management objectives and policies (continued)

	31 March 2019 (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	39,496	-	-	-	**39,496**
Borrowings	-	-	-	710,893	**710,893**
Total financial liabilities	**39,496**	**-**	**-**	**710,893**	**750,389**

	31 December 2018 (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	54,629	-	-	-	**54,629**
Borrowings	1,006	1,077	1,451	704,646	**708,180**
Total financial liabilities	**55,635**	**1,077**	**1,451**	**704,646**	**762,809**

Credit risk

The group's principal financial assets are bank balances and cash, and trade receivables. The group's credit risk is low as it has limited trade receivables. The credit risk on liquid funds 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

	31 March 2019 (Unaudited) £'000	**31 March 2019 (Unaudited) No.**	31 December 2018 (Audited) £'000	31 December 2018 (Audited) No.
Allotted, authorised, called up and fully paid				
Ordinary shares of £0.01	**50**	**5,000,002**	50	5,000,002

Each ordinary share entitles the holder to participate in dividends, and to share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held. Each ordinary share entitles the holder to one vote.

12 Reconciliation of loss before tax to cash generated from operations

	31 March 2019 (unaudited) £'000	31 March 2018 (unaudited) £'000
Loss before income tax	**(5,447)**	(11,608)
Adjustments for:		
Net finance cost	**21,115**	17,773
Depreciation	**12,596**	7,229
Amortisation	**733**	2,784
Share based payments	**67**	-
Profit on disposal of property, plant and equipment	**(4)**	(160)
Exceptional costs	**367**	1,655
Changes in working capital		
Inventories	**(29)**	130
Trade and other receivables	**129**	2,222
Trade and other payables	**(3,173)**	1,943
Cash generated from operations	**26,354**	21,968

13 Analysis of net debt

	1 January 2019 (Unaudited) £'000	Cash flow £'000	Non-cash £'000	31 March 2019 (Unaudited) £'000
Cash at bank and in hand	23,320	(7,848)	-	**15,472**
Lease liabilities – property	(302,355)	1,327	(1,495)	**(302,523)**
Lease liabilities – equipment	(3,534)	240	-	**(3,294)**
Senior secured notes	(390,000)	-	-	**(390,000)**
Intercompany loans capital	(288,581)	2	-	**(288,579)**
	(961,150)	**(6,279)**	**(1,495)**	**(968,924)**

	1 January 2018 (Unaudited) £'000	Cash flow £'000	Non-cash £'000	31 March 2018 (Unaudited) £'000
Cash at bank and in hand	(4,842)	5,320	-	**478**
Bank loans	(360,000)	360,000	-	**-**
Finance leases	(4,469)	227	-	**(4,242)**
Senior secured notes	-	(360,000)	-	**(360,000)**
Intercompany loans capital	(288,514)	-	-	**(288,514)**
	(657,825)	**5,547**	**-**	**(652,278)**

14 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

The group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 9.2%.

14 Changes in accounting policies (continued)

	£'000
Operating lease commitments disclosed as at 31 December 2018	522,096
Discounted using the lessee's incremental borrowing rate of at the date of initial application	302,355
Add: finance lease liabilities recognised as at 31 December 2018	3,534
Lease liability recognised as at 1 January 2019	**305,889**
Of which are:	
Current lease liabilities	8,536
Non-current lease liabilities	297,353
	305,889

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	31 March 2019 (Unaudited) £'000	1 January 2019 (Unaudited) £'000
Properties	**214,678**	217,820
Equipment	**3,257**	3,512
Total net book value	**217,935**	221,332

The change in accounting policy increased / (decreased) the following items in the balance sheet on 1 January 2019, resulting in a reduction in reserves at that date of £71,012,000:

	1 January 2019 (Unaudited) £'000
Property, plant and equipment – Right of use assets	221,332
Property, plant and equipment – Fixtures & fittings	(3,513)
Lease liabilities	305,889
Finance lease liabilities	(3,534)
Deferred tax assets	7,813
Trade and other payables	(5,711)

14 Changes in accounting policies (continued)

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Accounting policies for leasing activities

The group leases properties for its gyms and offices, and some of its gym equipment. Lease terms are negotiated on an individual basis for a range of different periods and containing a wide range of different terms and conditions. Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable, and
- variable lease payments that are based on an index or rate.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

15 Events after the end of the reporting period

On 17 May 2019 the Group secured commitment to issue a further £40 million of senior secured notes on the same basis as those already in issue. Completion of the transaction in due course will take total notes in issue to £430 million.

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

