PureGym COVID-19 Update

Conference call 4pm GMT Tuesday 24 March 2020

Humphrey Cobbold (CEO)

Good morning everyone and thank you for joining the call.

Our apologies first that it has taken a little time to arrange this call, we have been dealing with a few challenges over the past few weeks and thought it was important to wait until there was some clarity about going forward which I think we can provide you with today.

We would like to update you on the recent COVID-19 situation, how it is affecting our business and how we are responding to it most importantly. We are not opening up the line for Q&A today, we received many questions from our bondholders recently, which I hope we can deal with at least the main headline ones today.

As we go through this update, Alex and I will be referring you to the company presentation that we published to the website today around 3pm this afternoon, titled COVID-19 update.

Let's turn to page 3, an overview of contents of what we are going to cover and the agenda we will run through. I'll give you the headline overview on the key numbers that you most want to know and the general status of our markets, in the context of COVID-19. Then Alex will give you more detail on the numbers and our financial discipline, then I'll finish with a few concluding remarks.

So, let's turn onto page 4 of the presentation and the key numbers you want to know. Firstly, the on hand available liquidity at the end of March is £150 million, that is the net liquidity position. Secondly, our estimated cash burn rate which we believe will come down swiftly from around £9 million per week to under £6 million per week and we are targeting £4.5 - £5.5 million per week. Down from the current level of £9 million, a reduction of 40-50%, to save you doing the math. This gives you an indication of how long we can last without seeking further capital or financial measures while we are in a world of effectively zero revenue. That is between 27 weeks and 33 weeks.

A couple of other points here to. Firstly, there is another really important number to focus on and that is 1.8 million. This is the number of members across the group whom have frozen memberships, ready to start paying us again. There are many loyal members to whom we will be marketing new products which have been in the pipeline for some time but now are accelerating rapidly. We also think these will be essential to when we come to restart the business, with the best possible kick off.

Second point to note, we enter the crisis from a position of real strength, ironically we were on a real roll across the business in the first couple of months of this year and that gives us very high confidence that our product and our offer are absolutely bang on in all the territories in which we operate in. This is not a business that was struggling before and is now struggling even more, on the contrary this is a very strong business, having to deal with unprecedented issues.

Finally, don't underestimate this as being important to you and to our company, the response of our people, not just management but across our entire business, has been absolutely magnificent. Inspiring in fact. Don't think for a moment that anyone in the business is not fighting hard for us, for you and for our members, they really are.

Moving onto page number 5, to give you a summary of the COVID-19 status.

On the left-hand side is the structure of the group. The UK business is 269 gyms and accounted for 67% of Group EBITDA in January. Denmark 186 gyms and 28%. Switzerland 39 gyms and 5%, Poland is 17 gyms and did not contribute to Group EBITDA in January.

Logically, therefore today, you are going to hear a lot about the UK and Denmark and not very much about Switzerland and Poland.

In terms of what has happened in the centre so that everybody has a level of understanding:

- In the UK: we were asked by the PM to close all of our gyms at 5pm on Friday night. We were ready for this and had protocols and plans in place. This was all done and completed by 8am on Saturday, March 21st. All 1.25 million members were placed on a "free freeze" so effectively all revenue ceased at that point. Our current frozen membership base is just 3% below our maximum membership base earlier this year, so that is the total losses we have suffered through the process which I think again is testament to our business that we still hold 97% of members.
- In Denmark: the Danish PM announced lockdown a week ago last Wednesday and all our gyms were closed down by 8am the following morning, March 12th. Once again, 0.5 million members we placed on free freeze at this point and those are being held in place.
- Switzerland and Poland were both closed on Monday March 16th. One slightly different nuance is that the Swiss model has over 80% of members buying prepaid 12 or 24 month memberships so we hold a much higher deferred revenue balance there and memberships will be extended by the time the gyms remain closed.

Being quite open, I don't think anyone knows for how long the closures will remain in effect. The UK government suggests it will review guidance in a month; the initial Danish closure extended to 14th April and Switzerland is closed to April 19th. Our primary planning scenario is for a 12-week closure period and Alex will explain to you a little bit more how we are thinking beyond that on our core planning scenarios.

Moving onto the right-hand side of this page. The Government support packages are a very significant factor in the outlook. This is still evolving; Alex will give you a bit more detail but to give you some headlines:

- In the UK: many of you will be pretty familiar with these by now. The most relevant for us are the Job Retention Scheme, the Rates Holiday and the Tax payment deferrals. Remembering that the job retention scheme covers 80% of salary up to a certain level of £2,500.
- Denmark: the government has provided significant support for wages for people who have been laid off and also for operating expenditure support for businesses who have suffered over 40% revenue decline. Those are important contributors to us.
- In Switzerland and Poland: details are still be worked out but there is compensation support in both markets and further plans are being developed.

Before I hand over to Alex to give you a few more details on the numbers, let me close this context section with a couple of other comments.

- First about focus: we had the entire team in the UK and in Denmark and elsewhere, absolutely focusing on this for the last 3 weeks. We are on top of this, watching every single aspect of everything that we could reasonably be on top of. Why is this valuable? Because it helps us see what is coming down the track, for example we knew, while we were still open, when the right time was to move to "free freeze" which meant we were able to convert many members who might otherwise have left us and be valuable for us in the future. We are on top of all the details.
- Second point to make is about influence: we have worked very closely with UK Active and with our fellow industry leaders to make sure we were "on point" in influencing what goes on. The same is true for Denmark where our team are hugely influential in the industry by virtue of their scale. This is important because it makes sure we have a really good dialogue with Governments and we can help shape the guidelines around our industry, and that is important in this context.
- Thirdly, just a moment again on management and commitment: I just want to make the point that the team that is running this business across the whole of Europe, which you are an investors in and I am an investor in as well, have been extraordinary. The last two weeks have been without a doubt, the toughest in any of our business careers but this is being made manageable by the phenomenal efforts of colleagues across the entire estate. And in terms of commitment, I lead a management team in the UK that has volunteered – and I genuinely mean volunteered – to take salary cuts of over 70% for the next

3 months. And please remember this situation is not in any way, shape or form their fault. I think that speaks volumes for them and for our culture in our business and in our group.

So, with those comments, let me pass over to Alex.

Alex Wood (CFO)

Thankyou Humphrey, and good afternoon everyone.

So, let me start with Group liquidity please, I'll direct you to slide 6.

Humphrey has already given you the headline number of £150 million. Now, let me provide you with some more details on that.

As soon as we deemed the threat serious enough, we pressed the button on a number of measures to make sure that we had as much liquidity as possible and at the same time we put in place mitigation measures to protect this position which I will talk about in a bit more detail in a moment. These two elements combined provide us the maximum flexibility to deal with the unexpected.

So, the £150 million available liquidity, what does that comprise? We had £70 million of existing cash reserves on the balance sheet, then in addition we drew down the full extent of our revolving credit facility which brought in a further £85 million. This coupled with our undrawn £10 million overdraft facility provides us with a total of £165 million of liquidity as we stand here today. We have just £15 million of capital commitments, which is mainly finishing of sites which are part way through being built. That leaves us with the £150 million net position.

In addition, over the last 2-3 weeks as you would expect, we have:

- Firstly, postponed all new site capital expenditure for the foreseeable future.
- Secondly, pulled back on all discretionary expenditure.
- Thirdly, implemented mitigation measures across Denmark, Switzerland and Poland during the last two-week closure period.

Finally, on a related subject, we have had a number of investor enquiries relating to the status of the €445 million bridge facility that we put in place earlier this year to acquire the Fitness World business on the 14th January.

The headline here is, we don't have any concerns. To give you a few more details. The bridge loan is with a syndicate of banks we know extremely well, Barclays, Jefferies, RBC, Credit Suisse, ING and Danske. Clearly, it goes without saying that this is not the right time to refinance that bridge facility at the moment and we made that judgement a while back. If we don't refinance the bridge by January 2021, the documentation provides for it to convert to a term loan with the maturity matching that of the current fixed rate notes, so that's not due until 2025. So importantly, there is no "cliff edge" in respect to the bridging loan and the interest rate we are paying on that bridging loan, is less than that of our sterling senior secured notes.

Having dealt with liquidity then, let me now move the audience onto slide 7 please, to give you the headlines on cash burn and mitigations.

Humphrey has already headlined that we are focused on bringing our cash burn down swiftly from around £9m, based on all budget costs plus interest across the whole Group, to certainly below £6 million and we believe we can take that burn rate down to between £4.5 and £5.5 million per week. This is of course caveated by the Government mitigations announced on Friday in the UK last week and our latest assessments of levers available to us which have been worked on at the moment. Of course, there are materials uncertainties, but overall, we have good belief in our target of this level of cash burn and possibly better.

When comparing this reduced burn rate to our liquidity resources, this equates to between 27 and 33 weeks of available cash as Humphrey mentioned at the beginning. Over recent weeks, as you would expect we have modelled a number of scenarios, including the position we now find ourselves in. The base case full Group closure scenario, they key modelling assumptions which underpin this scenario comprise:

- Firstly, no revenue. No cash at all coming into the businesses because all memberships are frozen or suspended.
- A pause to all new site capex, this is of course one of our most powerful and flexible cash levers, we are able to pause and re-start projects as required. As I said earlier, we have only £15 million of capital commitments across the entire Group.

So now let me walk you through this analysis step by step on slide 8 please. Before I go into the details, this analysis folds in the mitigations which have been announced and applied to the next three months for the business, so this is quarter 2 and there is the inherent assumption that if a full lock down lasts more than 3 months then the mitigation measures announced by Government's would be extended accordingly to match that lockdown.

Ok, so starting with the Government Announced Mitigation on the left-hand side. Both the UK and Danish Governments have announced underwrites of staff salaries, which underpins £0.9 million per week for the combined Group. Clearly there are some fine details to be announced by the UK government about how this will work in practice and how to qualify etc, but this estimate is based on the announcements so far. Again, to be clear, this mitigation of salaries relates just to that provided by the Governments in each of our jurisdictions. Secondly, the Danish Government has underwritten a substantial element of fixed costs for the Fitness World business, worth £0.6m per week of compensation to the Group. Thirdly, the UK Government has announced a rates 'holiday' for the next 12 months. Business rates, as I'm sure you are all aware is a major outgoing for our business and this saves £0.4m per week for the Group. Finally, on the Government mitigation side at least. Both UK and Danish Governments have announced deferment of taxes and specifically VAT for 3 months, this provides us £6m of cash flow benefit in the second quarter. This equates to approximately £0.5m of mitigation per week. This is of course a benefit that is "one off" in nature so would not repeat in subsequent quarters.

For complete clarity, the big headline that the Government has announced to the UK, the £330 billion support package, this does not apply to a business in the mid-market such as ours as it is only applicable to investment grade, i.e. very large corporates. Clearly, we feel like there is a gap in support here.

Moving then onto the right-hand side of the page and the business mitigation levers. Firstly, we believe we can achieve operational cost savings associated with closing our sites, we estimate at between £0.5 million and £1 million per week across the Group. We are on with executing the delivery of these savings, for example:

- Marketing expenditure can be reduced/eliminated because we are not recruiting members while the sites are closed, and we don't have material commitments to buy media.
- Utilities consumption, again while we are hibernating clubs, we are making significant efforts to reduce consumption.
- Similarly, cleaning which would ordinarily be a decent outlay for the business. Again we are reducing to an absolute minimum while the clubs are closed.

Secondly, across our Group, and in line with almost the entire leisure sector, we have formally asked our Landlords to stand "shoulder to shoulder" with us at this difficult time and to support us by "sharing in the pain." Clearly there are then a raft of other mitigation activities which we are working through right now in addition to the above, and to mention a couple, clearly, we are working on working capital management. Secondly, salary compromise.

As Humphrey has already said at the beginning, the UK Senior Management team have taken significant salary reductions already. We will continue to work relentlessly on mitigation measures and this activity will not stop.

Turning now onto slide 9, let me make a few points about the disciplines and control we have shown over the last 4 weeks. So, I think we have remained realistic about the threat as matters have escalated. Whilst it has been an utterly intensive period, I think we have remained calm and measured throughout. From an early stage we have been prepared and from a financial and data perspective this has comprised:

- Firstly, early scenario analysis and modelling for the Group, so we could quickly assess the impact under a range of scenarios and develop responses for each that's both financial and operational.
- Secondly, we have introduced cost and cash mitigation workstreams. Both planning and work ups over the last weeks so we are poised for implementation.
- Thirdly, a 13-week group wide forecast discipline to inform central decisions on a day to day basis so that we can be nimble. We will manage the group on a tight control basis, zeroing in on weekly cash a management so we have the fine control necessary for times like this.
- And of course, this has all been overlaid onto a very solid base of existing disciplines: cost, cash, leverage and covenant management are at the heart of our financial processes as it is.

And we are therefore, set up quickly to respond to a range of scenarios as the COVID crisis evolves. Not only three month, but six month and twelve month outlooks are all being considered and we are modelling through full, partial and intermittent closedown scenarios by geography, so we can be as prepared as we possibly can be for all eventualities.

I trust that you appreciate the transparency we have tried to provide in what is a very fast pace and evolving situation, with that now let me hand back over to Humphrey for concluding remarks to sum up.

Humphrey Cobbold (CEO)

Thank you very much Alex. Now if I can just turn you to the final page, number 10 in the deck. The slide on conclusions, the final six key points to make here.

We have an outstanding team working on this, you really see what you have got when the chips are down and you as investors should be completely reassured on the point of how much effort is being put in and the calibre of the effort being put in by people across the entire business. UK, Switzerland, Denmark and Poland.

Secondly, there is no doubt we face real challenges. We entered the crisis from a position of real strength with over £150 million of liquidity on hand today.

Thirdly, Governments have stepped up and implemented really substantial support packages which is very good news and very important in this case.

Four, we have multiple levers at our disposal to reduce the cash burn rate significantly from the £9 million to £4.5 to £5.5 million. We can therefore withstand a pretty significant period of full Group closure before we have to seek further capital or financial measures.

I do ask you to remember at these difficult times that the core assets in the business, large supportive membership base, world class systems, great people and culture remain absolutely firmly intact. They were there before and are there now although hidden from view, and they will be there in the future.

Now finally, three points to finish with. We believe we are better equipped than most operators to weather the storm. This remains a massively fragmented industry, where most of the assets are in much smaller groups with less capable management, poor control systems and a lack of access to resources and capital. Events like this have a harsh effect on businesses in this sector, the strong will survive. If we are finding it tough, then others will be finding it much more so. And finally, when some degree of normality returns, we will find ourselves in a tough economic environment. Put simply, we will have the right model for that environment. We will hold onto our existing customers, benefit across the Europe from the millions of people who want to go to the gym but can no longer afford to pay higher prices in the marketplace.

So, thank you for your time and patience. We are acutely aware that this is a tough time for all of you as well as it is for us. We appreciate your support; we know it has been a difficult period and we will be in touch again at the end of April as planned.

That concludes the presentation.