PureGym Q1 2020 Results and Investor Presentation

Conference call 10am BST Thursday 28 May April 2020

Humphrey Cobbold (CEO)

Good morning, everybody, thank you for taking the time to join us. We'll be using the presentation we've posted this morning on our website dated 28th May, the results for the quarter ended March 2020. This is our third update in the last three months, so I certainly, hope you feel well informed and up to date with what is going on by the end of this session over this period of quite extraordinary sort of business situation.

I'm going to talk you through the headlines in a moment, and then Alex will drill down into the detail of both our Q1 numbers to the degree that these are still relevant and, perhaps more importantly, the current position as we stand today. And then I'll finish off with a bit of an update and an outlook.

At the headline level, if you were to ask me to summarise how we feel today, I would say that, despite the extreme challenges we face, there remains considerable room for optimism about the future and I'm the most confident that I can be, that the business and the team that I lead is as well prepared and as well positioned for that future as we could be. Well, let's get into things and start on page number three and the Introduction and Overview.

The, COVID-19 update. Switzerland are a state fully opened on the 11th of May. There are 39 gyms there and, broadly speaking, they're performing in line with expectations. I'll cover a little more detail on Switzerland at the end of the presentation. In the UK, current government guidelines indicate opening no earlier than the 4th of July, and I'll cover that as well through the presentation. In Denmark, the latest guidance indicates mid-June to August reopening, and we'll talk further about that in the presentation too.

Our weekly cash burn has been maintained below £4.5 million, and we have £143 million of available liquidity. So, you can see from that that we still have ample liquidity on hand to withstand even an extended closure period.

In terms of the Quarter 1 2020 financial results, we had a very strong January and February. Business was going very well, and that's good because we entered the crisis from a position of real strength in terms of our cash position and business operating position.

Of course, however, the COVID-19 closure will impact the results in the first quarter and the results of the last two weeks in particular and you'll see those in the figures that Alex presents to you.

Briefly, in terms of outlook, we've had a cautiously positive member reaction to the Switzerland reopening, the new protocols that are in place there, which are, we think, very similar to those likely to be required in both Denmark and the UK, working well. And we've got active discussions with the UK and Danish authorities to agree those timings and protocols for reopening.

So, those are the headlines. Let me now hand you over to Alex.

Alex Wood (CFO)

Thank you Humphrey and good morning everyone. I'm going to cover two sections, firstly, an update on the latest COVID-19 position, and then, secondly, I'll provide the update on our Q1 financial results.

So, let me just begin with the update on COVID-19, which starts with cash burn rates on page five. As Humphrey mentioned, this is the third COVID installment we've provided since the lockdown was announced, and I'm very

pleased to say that we continue to maintain the cash cost burn rate to below £4.5 million per week. As a reminder, this is a 50% reduction of the £9 million unmitigated cost burn across the group, and the calculation is predicated on the basis of a 12-week closure scenario to the end of June, which is the duration for which there has been reasonable visibility of the various government mitigation schemes accessible by us.

Approximately £3 million per week of mitigation is being received from the UK and Danish governments combined, and we wanted to give you visibility by category of the constituent parts here. So that's the table I've set out on the right-hand side. As Humphrey headlined in the introduction, many of our sites may not be open until July or even August. And to be clear, we do expect substantial support from governments to continue after June, however, we also expect that the current level of support will lessen to a degree in the second half of the year.

Let me bring that to life with an example. Whilst it's been announced that the job retention scheme in the UK will continue until October, we believe that the level of that support is likely to reduce gradually over time. Of course, we would hope to be open by August, but we wanted to just be really transparent here in any event. It's also worth pointing out where we continue to engage with our landlords to support us with requests for rent for forbearance and our suppliers who we are asking to provide deferred payment opportunities and the extension of credit terms. And I'm actually really pleased to say that, in the round, those conversations continue to be extremely constructive in nature.

So, having covered cash burn, now please let's turn to liquidity over on page six. We're also really pleased with the level of cash preservation we've been able to achieve here. We acted extremely quickly, putting a number of cash management disciplines and preservation initiatives in place, and therefore we still have £143 million worth of cash liquidity on the balance sheet as of the 22nd of May. As a reminder, in April we saw the benefits of our geographical diversification, receiving £14 million worth of revenues from our Denmark business unit, which largely offset the group operational cash burn in that month. And moving forward to May, since we last spoke, we have been very effective at working with suppliers to delay payments into the second half of the financial year to offset some of the operational cash burn. And also the phasing of our interest payments was beneficial in this month.

Okay, so now let's touch on our financial covenant position. Clearly, you should expect an increase in leverage in Q2 and Q3 due to COVID, but this will not cause a covenant issue because we have strong liquidity reserves. The leverage covenant is tested quarterly only if the RCF is more than 40% drawn, and therefore, in effect, we have a liquidity-based leverage test and we have sufficient liquidity for the covenant not to be tested based on our modeling of various forward scenarios. It's also worth highlighting that we have longstanding relationships with our RCF lender group, who continue to be really supportive of us and of the business. To conclude, whilst the UK and Danish lockdown extensions will, of course, deplete our cash reserves, we had planned for and have ample liquidity for this scenario.

So that covers off the present cash and liquidity. Now, let's turn our attention to the historical financial results for the first quarter over on page eight. And as a reminder, this is for the quarter ended 31st March 2020. As I've said before, it is actually very unusual announcing our results with most of the estate closed due to COVID restrictions. On this page, we have included our usual reporting metrics for consistency and for completeness. However, there are two important factors that have a bearing on the first-quarter performance. Firstly, and importantly, club closures due to COVID began across the group from the 12th of March. And secondly, the financial results include Fitness World in 2020 from the 14th of January until the end of the quarter. These two factors make the results actually rather difficult to interpret. So, let me draw out for you a number of key points that I think are relevant and are meaningful in a COVID context.

Firstly, the closing members at the end of Q1 were 1.8 million, reflecting a very strong start to the year and a strong peak promotional campaign and providing comfort that our core product and proposition was resonating really very strongly with members as we went into the crisis. Secondly, I'll draw your attention to the LTM run rate adjusted EBITDA, which was £151 million for the combined group. And for reference, I've also included in the appendix a bridge from the 2019 full year run rate adjusted EBITDA position to the Q1 position shown here. In that bridge, I've also

included an estimate of the impact COVID has had at the back end of this first quarter.

Thirdly, we opened six sites in the quarter across the group and built another eight. These eight sites are all in the UK They are all largely completed and due to open later this year once lockdown restrictions have been lifted. And then finally, on the far right-hand side are the cash flow conversion and leverage, both of which I would like to go in a little more detail now. So, let's start with the first of those, cash flow on page nine.

There has been a lot going on during the first quarter from a cash-flow perspective, and we've included a reasonable amount of detail here on this slide, which we hope is helpful. I won't go through every point on the page but to draw out a couple of highlights. Firstly, our operational cash conversion was 130% due to immediate management action to preserve cash as soon as we sensed COVID was a threat. Secondly, the £11 million worth of expansionary capex relates to expenditure pre-COVID and specifically the development of both the six sites that we opened in the quarter as well as the eight sites that were built but not opened before the lockdown. Thirdly, the bottom of the table shows clearly the cash flows relating to the bridge financing and the acquisition of Fitness World, as well as the £85 million cash inflow in relation to our RCF drawdown. And then just to flag as well for reference that we also included a Sources and Uses table, in relation to the acquisition of Fitness World, in the appendix of the presentation we gave you on the 29th of April.

So now on to leverage, please, if I could direct everybody to page nine. You'll see senior secured net leverage was five times as at the end of March 2020. This is 0.3x higher than when we reported the year-end position on a pro forma basis. And this increase in leverage is due, of course, to the first two weeks of closure biting across the group and that impacting negatively on our LTM EBITDA.

In terms of outlook, the COVID closure is an unprecedented situation, and we should expect leverage to increase further over the second half of the year. As I explained last time when we spoke, we continue to be laser focused as a management team on liquidity, on cash burn, and on the reopening priorities and we have ample liquidity to bridge the latest expected closure period.

So, to conclude this section, I think it is also worth just reiterating that we continue to have excellent ongoing backing from our shareholders, Leonard Green and Partners, and they continue to be highly supportive of us as management, the actions we have taken, the business, and, importantly, our future prospects. And so, with that, I shall now pass you back to Humphrey to talk about the reopening phase and to provide some insights from the reopening of our first fitness unit in Switzerland.

Humphrey Cobbold (CEO)

Thank you very much, Alex. Great job. Let me direct you now towards page 12 in the presentation and just an overview for you and a few brief points on our portfolio and potential re-openings laid out here clearly for you. In the UK, as I said, the first date that we're told we could reopen is July 4th. We're actually, as I will articulate a little later, in pretty constructive ongoing discussions with the UK government, Public Health England and DCMS within UK government. Also in very close partnership and collaboration with UK Active, the industry association and, indeed, working closely with and on behalf of other operators. We're collaborating very closely with The Gym Group, with David Lloyd Leisure, with DW Fitness, with GLL, all the major operators on behalf of the industry, there is a very strong collaborative spirit. And the nature of those discussions is really, as I'll come on to in a moment, about what the protocols for opening will look like and when we may be able to open.

And actually, over the last couple of weeks, I've become fairly positive in outlook on a reopening for our UK business in the first couple of weeks of July, which I think is a good position to be in as we stand, but clearly not nailed on at all. We are absolutely working with and mindful of government's overall responsibilities on this with good, productive discussions.

In Denmark, the gyms were put into phase four of the Danish government's reopening plan, which had an opening date set sometime in August originally. That was about four or five weeks ago. In reality, the Danish situation has progressed much more positively than I think had been anticipated. And much of what was due to be in phase two and three in June and July is actually happening already. There is therefore a live discussion with the Danish government about whether other elements of phase four, including gyms, should be brought forward considerably into a July or June timeframe. Our business, Fitness World, and the team there are doing a tremendous job in working with industry association and with government to explain how reopening could happen safely sooner than the government had originally thought. So, that work is ongoing, and we're hopeful that that will lead to a good outcome.

Switzerland, as we'll come on to in a moment, reopened on the 11th of May, and we have two weeks of trading data from there that we'll share some of shortly. In Poland, we had some good news midday yesterday. Our Polish business, just 17 gyms, but nevertheless it's another step forward, will reopen on June 6th. And it is certain the team will be absolutely ready for that when it comes to pass. So, if that's the situation in our portfolio, let's just take a moment to look at the broader world of what's going on in gyms, turn your attention to page 13.

Here you can see a sense of what is happening across the globe. And I would say there is a progressive easing and opening up of sectors in general and gyms in particular. As we know in Sweden, gyms never closed. In Finland, they have now reopened, and Norway are expected to open in June. Moving across to the top right-hand corner, Germany in early May cleared opening of gym facilities from a federal perspective but have left it to the individual lander to take specific decisions. The largest one of those, North Rhine Westphalia, opened on the 11th of May, Hesse opened on the 15th of May, and others are expected to reopen gradually in May and June. Many facilities in China are now opening except in some sites in Beijing, particularly connected to the presence of the big Communist Party conference there and in northern China, and some studios remaining closed, but most of the other cities we're seeing progressive reopening.

Gyms reopened in New Zealand on the 14th of May, gyms in Australia in the second phase of the easing of lockdown and will be opened by state in June in all probability. Italy and Dubai reopened or were given permission to reopen gyms this week. In Spain, gyms are set for reopening or to start reopening from the 8th of June, with Madrid and Barcelona expected to open by the end of June. And that's worth noting, actually, because Spain, as we all know, had a particularly tough time at a similar sort of period as the UK in the crisis. And they're showing a strong commitment to get gyms reopened for reasons I'll explain later in terms of the value add of gyms to the health and well-being of society.

Finally, to complete the world tour, the USA, as you're probably aware, is opening up state by state. The fitness industry is actually, in the main, showing quite a lot of sense out there, not trying to open too quickly but to learn progressively. We're in close contact with the guys at Planet Fitness, Chris Rondeau and his team there. The indication is that they'll have their own 500 sites open by the end of May across about a dozen or so states in the US And that's about 25% of Planet Fitness's entire estate in the US.

So, I think we can conclude that there is a progressive, careful and considered reopening of gym estates across the world. That's the "when" of opening, onto the "what" of opening? Turning you to page 14, there are new standards and protocols being put in place by the industry. And as I alluded to earlier, this is, I think, a matter of some pride for the industry that there's a high level of collaboration going on, lots of sharing of insights from right across the world, conference calls to China, Singapore, Australia, the USA, a high degree of involvement in sharing of insight. And I think it's fair to say that, working closely with UKactive and other major operators, such as The Gym Group in the UK, we're taking a leading role in the charge to define the objectives for these operating protocols. And we summarise these on the left-hand side of the page.

I don't propose to run through all of them. But you could see the key indications, we reduce overall risk of attending a gym and fitness facility by reducing underlying risks and having clear objectives to have fewer people who are infected visit. Great sanitisation handwashing facilities, limit the overall numbers, reduce the risk of viral transmission

through the air, through social distancing, excellent cleaning facilities so there's much lower probabilities of picking it up off surfaces. Protect vulnerable people. Be ready to react to instances when they occur and close what we describe as the information gap. To explain, train, and ingrain understanding and new behaviors related to COVID-19 into people.

So, a really coherent program and plan is the foundation for what we're doing. That translates pretty simply on the right-hand page into what, for example, the Swiss call their "Security Concepts". And I think simplicity wins in many of these situations. We've laid out what the Swiss required of gym and fitness operators to restrict capacity such that people have at least 10 meters squared and that sets a maximum number you can put into any facility. Minimum separation of two meters between all working out and attendees. Group exercise limitations to five participants, locker rooms and showers managed carefully, extensive cleaning and sanitisation regimes, good air extraction, training and information, a simple set of protocols that deliver on a clear set of objectives. So, that's the "what".

What might we be coming back to in terms of membership? Well, if you turn to page 15, we've repeated and updated here the information that we gave you in the prior presentation at the end of April. And the summary is that across the group, I'm pleased to say our membership base continues to be reasonably resilient in the context in which we're operating. We're expecting as a group, that when we come to reopen, and this has already proved that in Switzerland and soon will be in Poland, to reopen with about 83% to 85% of members in the member base on the day that we start to reopen.

You can see what's happening on the right-hand side of this page illustrated by the UK business, where we have peak leavers, the blue line at the end of March, well above what we've budgeted a forecast. But then as time has gone on, because we've frozen all memberships, most members are happy to leave their membership in a dormant state. And clearly, we'll be sensitive in the way that we turn those back on. It's a good position for us to be with the leaver rate now running at a very low level across the business. And I think that gives us some confidence about the foundation that we'll restart from. So overall, what we're seeing in the business is actually a fairly resilient membership base, clearly below where we'd like it to be. But I think a good foundation for us to start from when we come to reopen.

If that's the sort of base we might come to, what can we learn from the experience we've had to date in Switzerland? Turn to page 16 on this. What we see in Switzerland is that club attendance in the top left-hand corner of this page is around 65 to 70 percent versus the prior year. For the two weeks we have 92,000 visitors and the equivalent two weeks in 2019 like for like clubs had 61,000 in 2020 and that's the estate of 24 clubs that we've taken the like for like group within total clubs of 39. And that's not unexpected for us to see a decline in a visitors after a period of complete closure and the concerns about health and wellbeing.

On the left-hand side of the top left-hand corner, you see the like for like paying members down by 9 percent from 59,000 to 54,000. Again, not unexpected. We haven't had any joiners for nearly three months in Switzerland, so we would expect there to be some leakage of paying members. But overall, not a bad position in the top left-hand corner there.

In the top right-hand corner, just to give you a sense of the mix of visitors our Swiss business tends to be a little bit biased towards men. 70:30 in 2019 in terms of the visits in the equivalent period in the prior year, slightly higher preponderance of men in 2020 versus 2019. So, men are showing themselves to be slightly less risk averse perhaps than women at the current time. And then by age, I don't think there are any big surprises here. We're seeing younger people come back a bit faster than older people, with quite a significant decline in over 44-year-old members. We're fortunate in Switzerland, as we are across the business as a whole, that we have a membership that is quite strongly weighted towards younger people. The average age in the UK, for example, of our membership is about 27-28 years old. So, we're expecting that younger audience to feel somewhat more comfortable in returning to us than an older audience. And that's probably on a relative basis, quite good news for us as a group.

At the bottom left hand corner, a very important point to note, the grey line shows the average visit per hour to an average club in Switzerland in 2019. The dotted blue line shows the limits of capacity set by the Swiss authorities. So, we're well below that, even for 2019. But the key is the blue line. The blue line shows what actual demand looks like in 2020. And there you can see very clearly that the typical evening peak has been substantially suppressed. There are three reasons for this. Firstly, we were very active in communicating with members that they should try and avoid the peak period. Secondly, we provided members with the information that they need through the app to tell them how busy the gym is by hour of the day, so they can look, and they can choose when they go to avoid the likely busier periods. And thirdly, of course, there have been changes within the Swiss environment, as there are everywhere in terms of people's working routines, with typically much more flexibility in terms of hours of traveling to and attending work. And that's allowed people to work habits, such as attending a gym, around working hours with greater flexibility. We think this is what we expected and hoped to see, but is very good news for us in the context of the UK and Denmark, because we've got no real reason to believe that consumers and members in those markets wouldn't behave similarly as we provided them with the information they need and they take sensible decisions to avoid peak times in facilities. And of course, that allows us to spread demand within capacity constraints that will be set more evenly and allows us overall to serve more members and have a stronger, more robust economic model.

Finally, in the bottom right-hand corner, you can see the leaver numbers between 2020 and 2019, with 2019 being the gray line, 2020, the blue line. And it's heartening to see that although we've got slightly fewer members than we used to have, the rate at which they're leaving is typically significantly down this year on last year. So, we've got a reasonably robust membership base from which we can build. And again, we're hoping that that is a picture that will be replicated in the UK and Denmark.

That's a Swiss situation, but how are we getting ready in other areas of the group? Well, I'm pleased to say if we turn to page 17, you can see the visual evidence that work is well underway in resetting sites in the UK and it's equally well underway in Denmark and is more or less complete in Poland. These are UK pictures from one of a number of gyms that we are setting up as “dark sites”, if you like, prototypes to work out how to relay the facilities for a socially distanced COVID-19 world. There you can see in the top left-hand corner the work on entrancing and queuing. We hope we won't have queuing at health facilities, but we need to be ready for that, just as supermarkets had to be ready. In the middle cardio machines, blocking off either one or two cardio machines to provide for safe social separation, we're trying the use of screens shown in one of those pictures to separate cardio devices as well. So, we're trying a number of different things that we'll be discussing with government and with our medical experts at the appropriate time.

Also highlighting here how we segregate space for cable machines and free weights, where we'll create clearly delineated areas, flex training areas, and obviously a high preponderance of cleaning stations and cleaning facilities, so that our staff can do more cleaning, and the members, who we will be expecting to undertake an obligation to wipe down equipment before and after usage. One important thing to mention in this is as we're developing the and resetting our sites, we've appointed an expert advisory panel to the PureGym group. Initially that will be composed of two members: Professor Greg Whyte, who is a UK, I think it's safe to say, world renowned known expert in exercise, medicine, exercise physiology and has been very well connected with a lot of the discussions around exercise related to the COVID-19 virus in particular and viral transmission in general. And Dr. David Lawrence, who's a more general medical practitioner, but also closely involved with the medical infrastructure in the UK and very knowledgeable about numerous elements of viral transmission and protection from that.

We’ve done that because we felt it was important for us, both for our colleagues and staff who we’re going to ask to work in gyms and for our members to make sure we are exposing ourselves to both the challenge and the authority of qualified medical experts as we define the protocols that we think are right and we discuss those with government. While they've been engaged principally or initially to help specifically around re-starting in a COVID-19 virus environment, we'd expect that those relationships will continue beyond then. So, that's another part of what we're doing in preparation as a business. And then the final part, as I’ve alluded to a couple of times, turning to page 18, is shaping the way forward, shaping the narrative about Gym reopening. And we're very clear that we have, and we've

worked closely with, the industry to create collectively a set of plans that allow gyms to be safe places to work and safe places to work out. We've made sure in working with UKactive that this is highlighted at the highest level.

On the right-hand side, you'll see a copy of a letter that was sent to the prime minister by Tanni Grey-Thompson, who's the chair of UKactive, that articulates a simple, but I think very clear rationale for why we believe the government should give really careful consideration to the reopening of gyms. You'll remember a few weeks ago there was some discussion in the papers of gyms possibly not being opened until September or even October in the UK, I think we're in a very different place from that now and I think that's in no small part because we've worked very hard to come up with a set of really good operating protocols that are broadly based across the industry and very strongly bought in across the industry that will limit member numbers, provide for social distancing, and good disinfecting and cleaning regimes.

And I think we've also articulated in this letter and overall, the unique social value add that gyms provide to society. I mean, we're arguably the only leisure entertainment area that has a clear health and wellbeing dividend that directly contributes to people's physical and mental wellbeing. And crucially, to the capability of immune systems to defend individuals against viruses in general and COVID-19 in particular. Those are well understood medical factors. And you'll see in this letter that we were just making sure that sat on the agenda of government in general and the Prime Minister. In particular, of course, it's been helpful that in the last few weeks he's been pretty open about the fact that he thinks getting on with tackling the obesity and other issues that we have in this country are really important. Of course, we've for a long time said that gyms and fitness facilities have a fundamental role to play in that.

So, we aren't looking to force the government hand in any way. I don't think anybody envies the job and the tradeoffs that they have to undertake in making the right decisions about what to reopen, when to reopen and how to reopen. But we have been very active in both the substance and the presentation of the plan for reopening that's been developed off the hard work by pretty much everybody in the sector. And that's entirely appropriate for us as a leading player in the sector to be involved to that, I think.

So, let me move to the conclusions on page 19 and just summarise those. We headed into the pandemic from a position of real strength. I think, as Alex has articulated, we've made really good progress in delivering on the mitigated cash burn rate from the start of pandemic. Indeed, I think it's fair to say we've outperformed the expectations that we set initially. Thirdly, we're pleased that the Swiss estate reopened on the 11th of May and revenues switched back on. It's giving us great opportunities for learning and for the application of those learnings elsewhere. Of course, we were disappointed that the lockdowns were extended a bit in the UK and Denmark, but we're taking advantage of that time to give us further time to prepare ourselves and to discuss the right approach to reopening with governments. And in both those areas, we're progressing very well.

We still have £143 million of available liquidity today to withstand the extended closure period. So, no real issues on that front. But we also benefit from continued strong shareholder support for the management team and business and remain very engaged with us on a weekly basis and very up to speed with everything we're doing and highly supportive of the future of the business. Finally, and perhaps most importantly, we will be very well prepared for reopening when it comes. There is a huge amount of effort that our teams are putting in right across our estate in the UK and Denmark and Poland and Switzerland. And we absolutely will be offering people a safe place to work and a safe place to work at.

So, let me draw to a halt there. Dialing Joshua back in, we're going to move to some questions if there are any.

Question & Answer session

Operator:
The first question on the phonelines comes from Elizabeth Stapleton from PGIM. Elizabeth, your line is now open.

Elizabeth Stapleton:
Hi, thanks very much for the presentation, as always. I have a few questions. Firstly, just on the RCF and your expectations, for not being 40% drawn. I just wondered, firstly, whether you're able to disclose the RCF covenant level. And then secondly, give us a little bit of colour, I think you touched on it in the presentation, about member levels, which are built into that expectation of not breaching that 40% level?

The second question would be on the cost base. I know I asked it on the last call. I know it's a very fluid number. But whether you'd be able to give us any indication of pre-COVID, what your fixed variables splits was, and potentially any color on member break-even point would be helpful?

Finally, just on rent. Are you able to confirm in the £4.5 million weekly, if there is any rents abatement or deferral within that? And I know once again, very fluid, but whether you are just able to update us on the level of discussions there and your confidence in closing those? Thanks very much.

Humphrey Cobbold:
Thanks, Elizabeth. You've actually got, I think, four questions there. So always straight into it. Let me deal with the middle two of them on the member numbers and the cost base. And then I'll ask Alex to deal with the RCF sort of expectation question and what's in the £4.5 million weekly burn in terms of rent.

In terms of member levels, I can't really say much more than we've said in the presentation, which is, to say, around the 80% to 85% of members being in the base when we come to re-open relative to what we expected to be there, and clearly we're working through the details of how we sensitively turn direct debits back on for that group of people, because we recognise that just because they're still in the database and on a frozen membership, we know that some of those will be thinking "I'd like to wait a bit before I come back to the gym, I'm not sure I want to be paying for something right at the moment that I'm not going to use". So, we can be sensitive about that. But I can't really give you any more colour on that because the model in the UK is a bit different from Switzerland so, we're not getting much of a read from there on the specifics of how many people will stay in that base. But actually, the feedback we're getting from members as we presented in April, if you go back to that presentation, was, 70% to 80%, even touching on, 90% of people were saying that they were very willing or willing to come back to the gym. So, I think there's reasonable basis for optimism. But we're going to be careful and cautious. We'll open a number of gyms. We'll be testing the direct debits and then we'll go from there to make sure that we get it right. I can't give you more specific guidance, not because we're being coy about it. We simply are in the land of the unknown on that at the current time. On the question of cost base, and I'm afraid I'm going to sort of disappoint you two months in a row, we're still working through what the operating model is going to look like. We've got very good discussions going on with government in both the UK and in Denmark, the biggest parts of the group but we don't have absolute decisions from them yet. And those will be important in covering parts of the cost base, - how much staff we have to have and how much cleaning etc.

So, again, I'm going to have to ask you to allow me to defer anything clearer on that until we've got more clarity on what we're going to have to do, we can then cost that properly and be clearer about where we stand on costs. And therefore, combining that with the member numbers and the member revenues and potential to pay, what the break-even looks like. But that is something we're having to work without at the at the current time and I apologise that we can't answer the question, more clearly for you.

Alex Wood:
Let me cover the rent peace first, Elizabeth. So, within the £4.5 million of weekly cash burn, we've assumed a rent mitigation of 75% of the full cash weekly burn on rent. So as a reminder, I think it was you asked the question last month, we have a cash rental burn, unmitigated, of about £2 million a week. So we're assuming 75% of that is mitigated either through the government funding being received mainly in Denmark, so a big proportion of fixed overheads as a reminder are underwritten in Denmark, and in the UK through negotiations with landlords that are underway at the moment. So, hopefully that gives clarity over the amount within the £4.5 million and also, just in terms of giving an update on how those negotiations are going, as I said in the presentation, I think generally we are having very constructive dialogue with landlords who are increasingly seeing the merits of providing us forbearance on rents because it's in everybody's interests for the business to be coming out of the lockdown from a position of real strength, just like it went into the lockdown so in general, those conversations are going extremely well.

If I go to the first question you asked about RCF. Yes, I can be explicit about what the 40% draw relates to. So, the total RCF facility that we have available is £95 million, which is the £85 million that we've drawn today, plus another £10 million of overdraft. So, the maximum amount that we can draw and covenants not be tested is £38 million.

So, you can see that we've got plenty of liquidity to ensure that covenants are not tested and I think the second part to your question was can I disclose what the level of the covenant test is? It's a leverage test, and if our liquidity went below that £38 million level, then the leverage cap is 7.7x run rate adjusted EBITDA.

I think the final part of your leverage-related questions sort of led into the point Humphrey was asked about member levels or whether we've worked out the member level break even points that relates to breach. The answer to that piece is no, we haven't worked that through, because I think actually it is far more involved than that, the sensitivity here really lies around the length and duration of closure and the lockdown period in Q2 because that drags the LPTM EBITDA, which is sort of the biggest constituent parts of how that plays into the ratio. So, that piece is probably more relevant than the sort of member level is when we come back out, but as we talked about in the presentation, we think those member levels are holding up pretty well at the moment. So, from our perspective, the sort of bounce back, the reopening piece, at that point the revenues are flowing and cash is flowing, so our main focus has been the duration of the lockout period in relation to those leverage levels and covenants tests. Hopefully, that answers your questions in full Elizabeth.

Humphrey Cobbold:
One further point, is that our historic model was an extremely good margin model, we've got amongst the most profitable businesses in the world in this sector in terms of margin. So, yes, we can certainly be profitable, and well beyond breakeven at 80 percent of members, which are the numbers we're looking at. One advantage of having a model that we've tuned as well as we have around revenue and costs is it gives us much more headroom than the average operator in that regard. So, we aren't been complacent in any way in that regard, but we've got much more headroom to play with than even other good quoted operators in this space.

Elizabeth Stapleton:
Okay, many thanks for the answers, as always. Just finally, to the housekeeping point, I'm not sure whether I have maybe missed it somewhere, but are you able to provide, quarterly results for the old Fitness World business, perhaps on the IR site. That would just be helpful just to have a view.

Humphrey Cobbold:
I'm not sure we're planning to do that, Elizabeth. So, let's take that away and have a look at it.

Operator:
The next question on the phoneline comes from Keval Dattani from Aberdeen Standard Investments. Keval, your line is now open.

Keval Dattani:
Hi, guys. Thank you very much for the presentation. I have another break-even question to start. Appreciate you can't necessarily comment on it in the current situation, but looking historically at the 2019 level, including Fitness World, if you could because that's the bit where we haven't really got visibility, do you know what level of membership would have been your cash break even? You said that 80% was beyond, so just curious as to the number, what it would have been on a back-looking basis?

Secondly, looking at the occupancy cap, you note that there's potentially 10 metre squared per member, I'm curious as to what that translates to up to a maximum number of members in your UK gyms on average and what that maximum number would have been otherwise? i.e. what was the old cap and what is the new cap if you were to incorporate this Swiss security concept to in the UK?

Humphrey Cobbold:
Let me take the second of those questions, first. The 10 meters squared, that works at 10 meters squared or about 100 square feet. The average size of our sites in the UK is about between 15,000 and 17,000 square feet. Remember, the average size of our sites is about five or six tennis court, it's a lot of space. So, that turns into a top down member limit of about 150 to 170/180 members for an average UK site. And actually, that's a lot of members to have on the site at any one time of that size. So, actually, the top down capacity is fine on that basis, if that's what's agreed in the UK. Actually, when you do all the work in the sites as we're doing, what sets the limit is when you have to space exercise spaces by a full two meters. The number is more limited by the numbers that you build up at that level. But we're fine at the level on a top down basis that we think the government will probably set. And we're certainly fine in Switzerland on that basis. There was no cap in the 'old world', if we found clubs were getting very busy we would add in more equipment typically, and of course, what we also used to do was increase price. And of course, we can continue to do that now. We have, I think it's fair to say, the best control over yield and revenue of any operator in the world in this sector. And that allows us to manage volume and yield and revenue quite flexibly. We talk about having fine motor control over revenues. So, as we stand at the moment, we will need to, for our peakiest times, and we showed this, I think in the charts previously, we will have to clip some of the very peakiest times in our busiest gyms and we expect to see some demand movement into less peaky times than we saw in the past. But currently, on the basis that we've laid out probably nearly seven sites now, we'll have 15 or 20 done by the end of next week. We're learning all the time. We think we can be able to manage pretty healthy levels of demand in all those facilities. So, we're not seeing that as a major constraint on the business currently, but it will require us to shift some demand into quieter periods. We're clear about that and we're clear about that in what we said in April.

On the question of breakeven, we haven't focused on breakeven that much in the past specifically because to be quite honest, we've been so far above break-even. Remember, we're in a state that when we were running fully in the UK, we had 269 sites open. We had one site that was loss making and I think one other site that was making less than £50,000 a year or thereabouts. So, this is a business that has not had to worry too much about breakeven. If you were to ask me what I thought that figure was, I would say that we typically break even around 50% to 60% of our old members, that sort of level. But it is very revenue and rent dependent, where you've got much stronger yield and you have higher revenues and that allows you to have effectively more cushion in the break-even and clearly in parts of the country where yield is more suppressed because the economic situation is less good, then you have to have much higher number of members. So, it's not a uniform calculation, but yes, it's certainly 50% to 60% would be about where I think it would probably be.

Alex Wood:
I would just add, it's not just a member volume part of the equation. I think a key part of our model is we have the ability to manage yield, as Humphrey has mentioned. And so, it's the combination of volume and yield together that

give us our revenue. And so if you're making the link between COVID and short term caps on numbers, I think Humphrey has made a couple of points in his presentation, that the spreading of member volume over the day seems, in other geographies, to be working well, which is one element. And the other element, of course, is we have a variable pricing model to move yields where it's appropriate to do so to get the overall blended revenue optimised. So, I think that's also relevant if you were doing your own fact solving and sensitivity analysis.

Keval Dattani:
One follow up on that, you alluded to this COVID social distancing impact, potentially being a short term effect. Is that how you conceptualise it or is this potentially disruptive to the gym industry that could be with us, not necessarily for quite some time, but potentially the new normal of a limited capacity within all of your gyms?

Humphrey Cobbold:
It could be. And yes, we'll have to adapt if that's the case. We're certainly putting in place the steps with a view that they may have to be there for an extended period of time. There's nothing short-term in terms of what we're doing. But we'll only know by finding out. And I don't think anybody knows the answer to that question, Keval. But we will absolutely be ready for it, whatever it throws at us. And as Alex was just articulated, we have by far the most flexible ability in the world to respond on revenue, yield and volume. And I think we're therefore as well-equipped as anybody else to deal with whatever the future throws at us.

Operator:
The next question on the phoneline comes from Luigi Algisi from Wells Fargo. Luigi, your line is now open.

Luigi Algisi:
Good morning. Thanks for the presentation. Referring to slide 15, where you have the forecast member base opening. Taking also the experience from the two-week of reopening I was wondering if you have projected EBITDA margin you could you achieve with that forecast?

Humphrey Cobbold:
Luigi, thanks for the question. Of course, we're working on some kind of prospective scenarios of what EBITDA and EBITDA margin might look like. But I think it would be inappropriate of us to share that for the simple reason that we're working with a very wide envelope of uncertainty. And I think we have to see how that develops over time. So, we're not planning to give any guidance on that front I'm afraid, at the current time.

Luigi Algisi:
Okay, that's fine. And a question on the geographic location of gyms in the UK Obviously, you mentioned that there is a new environment of people working from home and being more flexible in attending gyms. Would you see any issue with location or the spreading of locations of your gyms for that sort of new way of attending the gym and then spreading attendance through the day?

Humphrey Cobbold:
Obviously, we are where we are with our estate of gyms. We're fortunate that we've got a very broadly based estate in terms of location types and sizes. Yes, we've got some in metropolitan areas and in centres of cities that may experience lower demand for a period of time as people work less in offices. But we've got lots in residential locations in suburbs as well, which I think it's reasonable to assume if the former is true, that they will experience some increase in demand. And so, I think we feel that the balance of our estate is well set for the eventualities as they come. Clearly, there'll be some ups and downs across the estate. And again, going back to what we said, we're by far the most flexible business in terms of pricing and volume management because we built the systems, the capability, the technology to be able to do that. So, we feel that we're well equipped to be able to react to these patterns of demand as they unfold with the estate that we have in place. And that's what we'll be looking to do. And finally, of course, we can spread the usage by day and by hour. We run off peak and quiet time memberships and we could use pricing to encourage people to move at different times and manage that as well. So, we've got product levers as well as just

kind of plain price and volume that we can play with. So, as I say, I think we're well equipped to deal with those situations.

Operator:
Unfortunately, this brings us to the end of today's conference. If any of our investors have reached the questions that maybe I was asked questions today, the company would be happy to take any further questions by the investor relations inbox. I will now hand back to Alex and Humphrey.

Humphrey Cobbold:
Thank you very much, everybody. That's it for the show, for the Quarter 1 results. I think our next time to speak with you will be at the end of August when we'll update on Quarter 2 and the first half. We're looking forward to doing that. Thank you very much for your time and attention.

Alex Wood:
Thank you, all.

[end of transcript]