PureGym Q2 2020 Results and Investor Presentation

Conference call 10am BST Thursday 27 August 2020

Humphrey Cobbold (CEO):

Thank you, Gemma. Good morning, everybody. Thank you for joining us. We will be using the presentation posted this morning on our Web site, dated 27th August and titled COVID-19 update and results for the quarter ended 30th June 2020.

This is our fourth update in the last five months. So, I certainly hope you feel well-informed and up to date with what is going on by the end of this session. You are crucial providers of capital to our business and given the environment we are operating in and the environment you are having to invest in, we are committed to being very open and clear about how we see things, both in terms of the specifics of performance and more generally in terms of strategic direction and development.

As usual, I'm going to talk you through the headlines. Alex will update you on liquidity and will outline quarter two numbers. And then I will finish off with an update on the more strategic elements and the outlook. At a headline level, if you were to ask me to summarize how we feel today, I would say that despite the challenges of the last few months -- and it has been an enormously challenging period -- we are very positive about the group's current position and we feel considerable optimism about the future. And I'm very confident that the business and the team that I have the privilege to lead is as well-prepared and positioned for that future as we could be.

But let's get into things and start on page three with the summary. First, we worked very hard in quarter two to limit cash burn and preserve liquidity. And Alex and the whole team did a really outstanding job to limit net cash burn to just £18 million during the 14 weeks of lock down. And that leaves us at the end of the quarter with good liquidity position. Second, clearly our quarter two results were severely impacted by the fact that most of the business was closed for most of the quarter.

However, as Alex will explain, two business units returned to profit in the latter part of the quarter and the group as a whole will be profitable in August. Third, looking at the current situation, we will be 100 percent open as of Monday when Scotland reopens. The trajectory of performance is positive. Our COVID safe protocols are finding great favor with members and with the authorities, in fact, and there is no evidence to suggest material levels of transmission in our facilities or indeed in gyms in general across the U.K. or Europe. Finally, we remain very positive about our medium to longer term strategic position and opportunities, and we've continued, indeed, we have increased our investments in the key areas such as systems, technology, data, B.I, digital, and online fitness and overall business development during Q2. And I think that's a clear statement of the confidence we have in our prospects.

Turning quickly onto page four for a view of openings by territory, just so we're all on the same page with respect to the situation. You can see here, we've split down the U.K. into England, Scotland, Northern Ireland, and Wales because of the different opening times and you can see we'll be 100 percent open by next Monday, with the small exception of a small number of gyms in England, where we have four gyms in localized lockdowns in Bradford and in Leciester, and we have a couple of facilities undergoing major renovation and refit works. But otherwise, it's great to see us in a position of 505 gyms open out of 512 in the portfolio. So with that summary, let me turn you over to Alex.

Alex Wood (CFO):

Thank you, Humphrey. And good morning, everyone. I shall be taking you through the next two sections. So, the first one on actual cash flow and liquidity performance during lockdown and the second our financial results for the

quarter.

let's start with the first of those sections. And please, could I point you to page six of the presentation? On this page, I've summarized the actual results for the 14 complete weeks from the 23rd of March until the 26th of June, at which point our total liquidity position was 147 million. Our actual liquidity, therefore, only reduced by 18 million throughout this period of closure. And I expect many of you would have modelled a cash burn that was much higher than this, about 60 million higher than this, I imagine.

So now let me provide you with a little more detail on how we've been able to achieve this cash preservation performance on page seven. Looking at the table on the right hand side, there are essentially two key constituent parts of the 18 million cash outflow. Firstly, £11 million of payments in relation to Capex. And these were projects completed prior to the lockdown period. Secondly, £7 million worth of interest paid when due. And just to be clear, we've not avoided any interest here. The average amount of interest we pay across a year is £1 million a week. But the big payments, the big 6 monthly installments are in February and August. So it's been slightly lower than average during lockdown simply due to the phasing of those payment dates.

When you take that 18 million cash outflow into account, that means that we have effectively managed to reduce, defer, or offset all of our operating cash cost burden. Now, that's not all permanent, let me be really clear on that, but we've achieved it by pulling really every lever at our disposal.

As we've explained during the previous updates through the lockdown period on top of interest, the unmitigated operational costs across the group would normally run at about £8 million per week. So, over the whole of this 14-week period, that's £112 million worth of cash cost burden, which we've managed to hang on to.

So let me break that down a bit further for you. Half of it, about £56 million over the 14 week period, about £4 million a week in weekly equivalents, has been saved through a combination of reducing operating costs, landlord forbearance and mitigation monies received from the governments in the geographies in which we operate. That government money has been across a few areas, across furlough moneys, fixed overhead compensation and rates relief.

In addition to that, we've deferred another £28m million over the 14 week period, about £2 million a week, which we, of course, need to settle in the second half of 2020. And finally, the final tranche of the remaining £28 million, about £2 million a week, of that underlying operational cash burn, we've managed to offset them through various revenue and other cash collection activities.

So overall, I think we are more than satisfied with how we've handled the challenges of lockdown and a rapid switch from growth to rigorous cash management and a skeleton crew team, as we called them, that didn't get furloughed across the group, did a tremendous job in this regard and has materially protected the value of your investments. So I think it's only right that I specifically call them out on this call. And I'd like to sincerely thank our team for all of their efforts.

So now let's move on to our financial results for the quarter, which references the quarter ended 30th of June 2020, page 9. As expected -- and Humphrey mentioned at the beginning -- the results for the quarter were significantly impacted by the imposed COVID-19 lockdown, which reduced our revenue by over 85% versus the prior year. And this created a loss of £21 million. That's an adjusted EBITDA level for the quarter when we would have normally expected a profit of about £37 million.

Against this context, I don't think our usual review through KPIs is particularly useful or necessarily relevant for you, but of course, we've provided all of that normal data in the appendix in the accompanying financial report for completeness; so it's there for you to look at. Instead, what I thought would be very useful to share is the shape of performance by months so that you can see the positive recovery that has started even before the end of the quarter,

with both Denmark and Switzerland back into profit in June. This, of course, is the advantage of a membership model which allows our revenue to essentially be turned back on and the advantage of having a young member base.

Looking to the right of the page, the two charts show adjusted EBITDA by months from January this year until June, by geography at the top, and in total for the group at the bottom. The top chart shows that Denmark and Switzerland, the black and the orange lines were the first to have their revenues closed off, but these two geographies have been the first to reopen and they've actually bounced back very quickly, both being profitable in June. The U.K., which is the green line, was, of course, completely closed down throughout the quarter and therefore loss making through Q2 but running steadily and in a controlled way.

As we get to the bottom chart, which shows the overall group position now -- and the first thing I should point out and highlight is the strength of the performance going into lockdown. We were nearly £10 million of adjusted EBITDA in January, nearly £13 million of adjusted EBITDA in February; so for reference, this was nearly £3.5 million ahead of the prior year after just two months. And we were well over a million pounds ahead of budget. So really going into lock down from a position of some tremendous strength.

Secondly, the benefit of our geographical diversification that we've talked about a few times now is, again, evidence. And I think it illustrates how our overall group EBITDA trajectory has already turned. That can clearly be seen even before the end of the quarter. So I think this gives clear visibility of the path to a rapid return back into the black for the entire group from an EBITDA perspective in the third quarter.

Now can I please move on to page 10 where I have set up the group's leverage position at the 30th of June. As Humphrey headlined at the beginning, there were no financial covenant breaches anticipated because of our solid liquidity position. So let me explain why that is in a little more detail now. On the right hand side, at the top, I've shown a breakdown of our total liquidity position. We've got a £95 million revolving credit facility, which includes a £10 million overdraft. And you'll recall, that at the beginning of lockdown we drew £85 million of the RCF as a precaution. Well, in June, we repaid £48 million of that's RCF to bring our drawn RCF percentage to below 40%, the threshold for testing covenants. So this means that so long as we have sufficient liquidity and we don't draw more than 40% for RCF at the quarter ends, there are no covenant tests and we will, therefore, remain in full compliance with all of our financial obligations.

Now to cover leverage at the bottom of the page. Senior secured net leverage was 7.7x at the end of the period. And as I'm sure everyone on the call will be familiar, the impact of this dead quarter in Q2 on the traditional LTM EBITDA measure will not annualize out now until Q3 2021. And this will of course impact all businesses that have been forced to close during lockdown. The good news for us is that because we will bounce back rapidly after lockdown and EBITDA profile post reopening should quickly be established, stakeholders should be able to look through the traditional leverage measure to objectively assess our underlying position.

Now, let's turn to page 11, please, where I'd like to provide some comment on the impact of COVID on the unit economic model going forward. This is also positive news. We believe that our unit economic model will remain robust in the future. For reference, pre-COVID-19 EBITDA margin was 46% in the U.K. and about 38% across the group. So it was a very strong starting point, and we believe it is best in class across our industry. We do expect an increase in cleaning costs and operating payroll of between £20 - 30,000 per club per year over the long run. But in the immediate term, these costs are going to be more than offset by the U.K. rates holiday until April 2021, and that rates holiday will offset those increased costs for the whole group.

Indeed, the rates holiday will actually also help to insulate from a volume shortfall perspective as the business rebuilds its member base through the second half of 2020 and into the peak in Q1 2021. By the Q2 2021, we'd expect to make progress with initiatives to offset any enduring additional operating costs, for example, through systemization of cleaning processes and materials procurement, through operating model improvements, some of which have already started, through energy efficiency processes, which again have been started pre-COVID-19 and other cost saving

initiatives. And also, I think we should bear in mind that we expect there to be a gradual rebasing of property costs as the property market resets to a new normal post- COVID-19. And I think finally let's remember that we have the ability to maximize revenues reflecting price at a local level according to demands and capacity. And this is going to be especially relevant as demand recovers and some supply exits the market. And as we've explained in prior updates, we believe we've got the most sophisticated capability in revenue and yield management in our industry. And I think Humphrey will outline a little more on how we're aiming to further improve our capability in this crucial area in a moment.

So now to the bottom of the page, please. Let me provide some brief guidance on site numbers. We will open around 10 additional new gyms in the second half of this year and between 15 and 30 further organic sites across the group in 2021. Clearly, new site Cap Ex continues to be a very flexible lever for us, which we can pull back on if we need to preserve cash or indeed accelerate if the outlook is positive and capital allows. And in this latter case, creating more EBITDA to deleverage the business.

And on that forward looking note, I shall now pass you back to Humphrey to update on the latest reopening position of the group and to explain why, as we look forward to the future, we believe that there are many reasons to be positive. Over to you, Humphrey.

Humphrey Cobbold (CEO):

Thank you very much, Alex. Great summary, as usual. And actually, Alex has been very humble in what he said there in terms of what's been achieved through Q2. He personally, as well as his team, have done a quite outstanding job in managing the finances of our company through, as I said, an extraordinary difficult period. I think we all owe him personally, but his team as well as he said, a tremendous debt of gratitude for that.

Let me turn you from there onto page 13 and a bit of a broader update in terms of what's going on and current trading. Starting on page 13, on the left hand side of this page, we repeat a picture many of you seen before. We actually published this eight objectives framework work for COVID-19 safe operation as long ago as back in May. It is still the cornerstone of the protocols we are applying across the whole group. The key thing is that the protocols are working and working well. Cleaning and sanitization regimes are going well. Social distancing is being adhered to. Gym capacity restrictions are being managed and they're not causing too much disruption. We've had over 90 visits from the authorities and more literally every day and no significant issues have been raised at any time.

Our control is excellent so that when we are asked to provide track and trace data by authorities, if an infected person has visited one of our facilities, we can do so pretty much instantly. And there are no confirmed cases of transmission taking place in our facilities yet, despite around 7 million visits taking place.

It is not just the authorities who seem satisfied with our protocols. If I ask you to turn to page 14, we summarize here that our members are pretty happy with what we have done as well. Here we share some of the headline scores on key elements of feedback from members. And it is not just the scores, but the amount of feedback that we've received. Over 140,000 reviews submitted in the U.K. since reopening. This is an order of magnitude greater than reviews that we were getting prior to COVID-19, or the number of reviews. And the reason for that is that we've put a lot of effort into strengthening our feedback, capturing channels and our ability to report and monitor feedback as a group. This is part of the investments that we were making during lockdown such that we would be better prepared for the post lockdown period.

Well why is positive member feedback and the support of the authorities so important? Turning to page 15, it is because without this we would not be seeing the positive performance and trends we are seeing across the business. So I want to directly link the actions that we've taken and how we've approached reopening with the performance that we're describing on page 15. Let me talk you through these facts and figures. Overall, it's gone very well. Total membership is in line with this time last year at about 1.7 million, although, of course, we have more sites open. But in the top right hand graph, you can see that like for like paying membership is already around 90% of prior levels in

Denmark and Switzerland after 11 and 15 weeks open, respectively. The U.K. is already up to a highly credible 80% to prior year, after an average of four weeks open across the different countries that make up the U.K. And I'd ask you to note that we're using a very clear and I think very honest definition of paying members here. The data we are describing here excludes members choosing to freeze currently and any members who have canceled their direct debit but are still using up credit with us. So this is a very clean number. This is the number that drives revenue. It's the number we look at most closely. And we thought it was appropriate that it would be the number that we should report to you.

And to give you a sense of things, we've got about 6% of members, for example, in the U.K. currently on freeze. The vast majority of whom are not paying us. And therefore, we've excluded them from this total and the 80% you see there in week 4.

As important as paying numbers, in a practical sense, is member visits or swipes, as they are often called in the industry. We've illustrated this at the bottom of this page. And here again, you can see some really good performance. This is members voting with their feet, if you like, in favor of what we are offering them. In Switzerland and Denmark, visits are bouncing around the same level as the prior year, with week on week fluctuations caused mainly by weather and timing of return to work arrangements, etc. In the U.K., we're already up to 75 % in terms of visits relative to last year. And actually, if we look at an hours adjusted figure, we're currently opening in the U.K. for fewer hours than last year. We're actually around the 85% visits relative to prior year. So on a good trajectory and pretty much where we expect it to be in the U.K.

We're helped by the fact across all our businesses that we have a relatively young demographic. And that's particularly true in the U.K., where the average or the median age, which is the more relevant measure of average in this case, is 28, 30 in Denmark, and 31 in Switzerland. As we know, young people are less affected by this virus and feel more confident about returning to some of their normal routines and regimens.

So that is all about the existing sites, a really good restart and we're continuing to manage that very carefully. Turning to page 16, I thought it was worth just making a comment on the good news in new sites. We have four new openings since the end of lockdown in the U.K. and their performance versus feasibility is described in the top right hand graph. And over Birmingham, Longbridge, Canterbury, and Colchester all 4 have outperformed the feasibilities that we set in January or February of this year. So there is still latent demand in the market and we're seeing response and seeing that latent demand come out when we open new sites.

At the bottom of the page, the single new site in Denmark is performing very well, and the site that we opened just before lockdown in Switzerland has continued to progress well, too. Why is this important? Well, because we have a full and strong pipeline of sites, some of which we are formally committed to and others of which are in the final stages in negotiation. And on balance, overall, we feel pretty optimistic about the outlook for them.

Turning then to page 17 and just to summarize the current management situation, as you will remember, we completed the acquisition of Fitness World in January and we were just getting underway with integration work when lockdown happened. We had to pause that, of course, but we decided over time, we needed to keep pushing forward on this. And we've already moved, as you can see from this page, to create a single group leadership team. We have appointed leaders and have set out a clear set of group functions, they're well-established and working effectively. Of course, there is more to do here. Much more to do here. But we have to structure in place. Performance management processes and disciplines have been established and we're actually working very well together. In short, we have a very robust foundation that combines the best of two good organizations on which to build for the future.

So talking of that future, let's move forward again to page 19. As we have stated before, we believe that the Global Premier League of budget fitness operators is beginning to emerge. Interestingly, this was articulated very clearly in a recent Citigroup equity analyst's note. And in general, I'd agree with their headline assessment summarized on the right hand side that large scale budget operators have business model and structural advantages that will play out

positively over the coming years as we continue to work through, and in time, recover from the COVID-19 pandemic.

Indeed, if we turned to page 20 and think about from this macro view, the reasons to be positive over the medium to longer term. On the left hand side, on the demand front, it is hard to believe that demand for fitness, activity, and well-being will not rise over time. And faced with economic challenges, people will turn to high quality, well invested budget operators like ourselves for reasons of economic necessity and a desire to look after themselves better. Supply is going to be at least somewhat constrained. We can already see that in the U.K., U.S. and other European markets where competitors are exiting the market, having failed as businesses. And again, Citi produced a note just this week actually suggesting a potential 10-20% supply contraction in the industry. And, of course, nobody quite knows, but that feels about right from what we are seeing around our various markets at the current time.

On the right hand side of this page, we make a couple of other key points. Our estate overall in the U.K. and in Denmark and Switzerland is pretty defensive. Yes, we have gyms in central London and yes, they are quiet. They are very quiet at the moment. Many of you, I assume, are sitting at home rather than sitting in your offices in the West End or the city, for example. But we mostly have gyms over 85%, away from those central metro areas, and these are doing really well. In fact, members of those central London gyms and Central Manchester and Leeds and places like that are just switching or expanding membership to allow gyms near their homes. In effect, we are seeing demand displacement, not demand loss.

So finally, this has been a Darwinian event and the strong will survive and get stronger and we will face less competition for opportunities than in the past. We and other strong players will, we believe, open new sites and we'll have the financial capacity to upgrade and refurbish existing sites and we can see opportunities domestically and internationally for both direct investing. And as we look on the international framework in particular for franchising that we think are very, very exciting in the future.

Now, in terms of that future, one particularly important area I want to update you on has been the approach that we've taken to technology. So if we turn to page 21, I've tried to summarize this complicated area on one slide. Technology is not a peripheral service to our business. It is absolutely core to what we're about. That is why you will note on the organization chart I showed earlier technology reports directly to me. And that is why we took the decision in the middle of lockdown not to cut back on tech expenditure, but to double down and actually increase expenditure on technology. We now have over 70 IT professionals and numerous others in core data BI and digital roles driving this agenda for us within the group. And if we include committed third party contract resource and our more technical product team members headcount is probably over 100 in total.

You'll have two questions. What are they doing and why are they doing it? Well, to that I tried to summarize in this page. First, we are driving the convergence of our technology base to a single common platform that will be built around a single in-house member management system that was actually already 70% completed by Fitness World. But we're now scaling up for the group as a whole. This will be a big step forward for us. And although, of course, it will bring its challenges, it will deliver both lower costs and higher performance for us as a group.

Second, we are further increasing our investment in data analytics, business insight, performance measurement and reporting. This will help us make better and better decisions across the group over time in all sorts of areas, and not least yield management and pricing, which Alex referred to. And third, we are continuing to leverage our scale and up our investment in all elements of digital platforms content, at home and out of the gym as well as in-gym applications. We are long term believers, and this is a complement to our core business and the experience of lockdown when we were serving up literally hundreds of thousands of exercise classes and activities online and through our app have come to confirm this to us.

We can already see that our investment in this technology smart suite, as we call it, pays dividends in terms of our core business with respect to margins, yield management, our market analysis, and consumer engagement, but we intend to go further. Our aspiration is that we should be demonstrably up with the very best in the world in the

development and application of technology to our business in the budget fitness arena. That is a high aspiration, but it's one that we fully intend to deliver on.

And our approach, to be clear, is not just about the bits and bytes and the wires and cloud capacity and all that kind of technical stuff, but it's on practical business critical tools and capabilities. One novel example of this is on page 22, where we show the COVID-19 tracking tools that we have built for the U.K. and Denmark, our two main markets. Let me take a moment to explain this. On the graphs on the right hand side, the vertical axis shows the new cases per day per 100,000 people of population. This is the number that the U.K. government is now routinely referring to and it sets benchmarks on for things such as whether there is a need to quarantine from overseas.

The x-axis is the locally calculated R value and each dot on these graphs is a gym. At the top of the page in the U.K. and the bottom of the page in Denmark. And you can see very clearly gyms that are red, amber, or green. Why have we done this? Well, COVID-19 risk is the biggest risk we face. So we thought we should apply our data analysis skills to helping us manage this. We typically do this from publicly available and published data on a weekly basis and more frequently around particular facilities if we need to, because the ONS in the U.K. and the equivalent government organization in Denmark updates test data providing local information on a daily basis. We typically see issues two to five days ahead of the location being flagged officially by government as a potential problem. And that means we can double down on our efforts to enforce protocols, manage our colleagues, and encourage them to take greater care of themselves and or have discussions with local authorities about situations that are beginning to emerge. It puts us in a position of a degree of control and insight and understanding that times like this, in my experience, that's very valuable.

The other thing we've done in this regard, which we highlight at the bottom left hand side of this page, is we have led an effort to collect data across the whole industry to show what is happening in gyms from a risk infection and transmission point of view. We believe that this data driven objective approach will be crucial in interfacing with and helping governments, large and small, national and local, to make the right decisions about gyms remaining open in the future. The first official release of this data was made by U.K. Active, our industry association, on Tuesday of this week, and this highlighted one reported case of a COVID-19 positive individual attending a gym for every 500,000 visits to gyms across a broad set of about 1,300 facilities and over 3 million gym visits, and practically no evidence of transmission in gyms as yet. Though, of course, we're very alive to the fact that those will happen at some stage from time to time.

So, I hope that gives you a feeling, a little snapshot of the attention, not only we are placing on using data and analytics, but specifically managing the risks that our busines, and the business that you are investors in, face in the future.

So let me conclude on page 24. We entered the crisis with a stronger platform of performance as we could possibly have hoped for. We've mitigated the financial impact of the crisis very successful by any measure. I think, thanks to the huge efforts of our teams, we've reopened well and have a very clear path to profitability, and I want to stress it's not just by accident that we're trading well and we're progressing well, it's because of the efforts that people put in place in lockdown when we took the decision to keep more people off furlough and keep working to be ready for reopening, frustrating, though, that was at the time. The protocols in place are working well and offer a safe place to work and a safe place to work out. We're in a strong position from the point of view of current liquidity, and we will meet all our financial and covenant obligations. We continue to enjoy strong support from our shareholders and the evidence of the commitment and the uptick, significant uptick, in investment in technology is very clear evidence of that, I think. And our focus is super clearly on the twin goals of driving recovery and performance to pre-COVID-19 levels and continuing our ambitious growth strategy into the future.

Let me pause there. Thank you for your time and attention, and I think we're very happy to take some questions.

Question & Answer session

Operator:
We have a question from Eleanor Price from Kames Capital. Eleanor, please go ahead.

Eleanor Price:
Oh, hi there. Yes, just one question. Obviously, we're approaching the end of furlough in the U.K. and I just wondered if you've done any analysis of your membership base as to what proportion of your current membership might be affected by this.

Humphrey Cobbold:
Hi, Eleanor, thank you for your question. That question, I'm being completely open, we haven't done analysis to look at that particular aspect. I have to confess, we've been so focused on getting open and get it going that we were planning to commence that sort of assessment of the membership group once it settles a little bit in September and October. There's always a timing effect to these things. You need to get people back into a bit of a routine before you ask a whole set of questions of them. We've decided to use our interaction with them mainly to check and gain understanding of their comfort of the protocols, the cleaning, the arrangement and the controls than we've got in place rather than broader surveying. But I'm sure that's something that we'll be doing at some time in the future.

Eleanor Price:
Okay.

Operator:
Thank you, Eleanor. Our next question is from Vicki, from PIMCO. Vicki, please go ahead with your question.

Vicki Gedge:
Hi. Thanks very much for the presentation and all the extra information you've given today. I've got quite a few questions. Maybe if I run through the first batch and then come back with more, if I may. But just on the costs, the £28 million that's deferred. Are you able to give any guidance on what the pace of paying that? You know, will it be spread throughout the second half or is it all sort of backloaded to Q4? And then just on the £20-30K cost per gym, can you break out how much of that is cleaning and how much is personnel? And I think previously you've operated your cleaning through third party contracts. Is that cost to employ cleaners directly or is that just increased visits of the cleaners you're already using? And then finally, just on the U.K. rent negotiations, I think on the last call you said you hadn't completed those yet. I just wondered if you can give any guidance on the rent expense for the rest of this year and if you've had any conversations about next year. Thanks.

Humphrey Cobbold:
Okay, Vicki, let me deal with a couple of the general points there, and I think Alex will then probably come through with a few more specifics. Let me start at the end on the U.K. rent negotiations. To be honest, those are still ongoing. We're still discussing how Q3 rent, for example, with landlords will play through. So it is a bit of a moving feast. We've got a whole series of different arrangements in place around some rent abatements and lease extensions, deferrals and various degrees. Every landlord is different, and we've got about 260 of them in the U.K. And I'm sure Alex can give a little bit more color on that.

On the cost split between £20-30K. I think Alex may be able to help you on the specifics of that to some degree. The big increase in cost isn't actually a personnel cost. We have cleaners going in to do cleaning. It's actually the sheer amount of spray and blue tissue paper that people are using. When I say people, I mean our members. One of the great things that has happened here is members have come to the party to play their role in helping us keep our facilities safe and are being, in the main, extraordinarily observant: 90-95% plus of our request. And these are the requirement of them to wipe down before and after using a shared kit with proper viral sprays. And I think that's one of the reasons why we're not seeing transmission in our facilities. People are observing that very well. Of course, it's

in their own self-interest to do so. But, you know, when you've got 900,000 people visiting a week and all of them wiping down with tissue and sprays using a fair amount, so quite a chunk of that cost is that. And then in terms of this other cost guidance and how deferral costs will play through, again, I think, Alex, if you can give a little bit more color on that?

Alex Wood:
Yes, sure. Thanks, Humphrey. Hi, Vicky. On the £20–30k a year on average, that would split down £15k relating to cleaning. And as Humphrey mentioned, it's almost all an increase in the material costs and, you know, cleaning materials are at a premium at the moment. So we would hope that that cost comes down over time with the key being that we become more systemized. And on the personnel side, that's the remaining £10k, a function of extra cleaning activity and also some operating model refinements that we've made.

And then on the £28 million deferments, this is an ongoing process, which I think is a key point to get across. Whilst lockdown has now finished, the U.K. was closed into the third quarter so those discussions are ongoing. So the £28 million I referred to in relation to Q2, I would guide as being spread relatively evenly over the back half of the year. But there is also deferment, particularly in the area of rent, over into 2021 as well. So there's probably another £15 million of deferment of rents into the whole of the year of 2021 across the group.

And then in terms of those rent negotiations, I think Humphrey covered this point off when he spoke. Again, it's influenced by the fact that many of those negotiations are continuing. So my best guidance would be that we've got the second quarter and third quarter negotiations coming to a head now and then things should return to normal from a rent cost perspective going forward beyond quarter three.

Vicki Gedge:
That was very helpful. Thank you. And if I could just ask on the membership numbers. So in the U.K. initially you were at 75% of last year and that has increased to 80%. So was that new members joining in that period or was it people who'd cancel their membership during lockdown and then resigned up? And then just on the usage of the 75%, how have visits have been spread through the day, are you close to reaching your capacity limits at peak time? And whether members are booking or are they just checking to see how busy the gym before their visit. Thanks.

Humphrey Cobbold:
Okay, let me deal with both those. Vicki, in terms of the new joiner's, the net new joiners that we've seen, to be honest, it's a mix across all elements. We're seeing people join who've never been a member of a gym before, let alone of PureGym. We've seen old members come back, some of whom cancelled during lockdown but come back, and we've seen people from other gyms join us because they like the protocols that we're putting in place more than the protocols that they're seeing elsewhere. So no particularly strong patterns on that. A good, broad base of joiners coming back into the business, which is, I think, good to see.

In terms of usage and the growth in usage, as you referred to, the peaks have been substantially reduced, but there are still peaks at times, typically, Monday, Tuesday, and Wednesday evenings. In general, we're doing a good job of managing that, as you may know from the app, which we encourage all members to have, not least of all, because you've got non-contact QR code access available on the App now, another piece of technology that we built and built into the whole facilities in lockdown. On the App, you can see the business of any individual gym that you're thinking of attending at the current time. And you can also see how busy it might be later in the day this week or indeed any day during the week. So you can make decisions to try and avoid the busiest times, which people want to do. The members are doing a pretty good job of doing that, but they aren't completely unconstrained. We have the capability for members to book slots during busy periods. In general, we are not requiring people to book because there's plenty of capacity. However, in busier gyms or at busier times of day in busier gyms, we are and as we go into September we think there'll be more of this, obviously, as people come back from vacation. We will be requiring people to book for those busy gyms at busy times of day.

The response from members in general to that has been pretty positive. Initially, they're a bit put out, but then they actually realize that booking a slot is better than being stood outside, not able to come in and is the lesser of two evils, essentially. The technology works very well. We can monitor it very closely. So we're fortunate again, because we've invested quite heavily in the technology specifically to be able to do this, that we're able to provide plenty of control and we can still provide all our normal class bookings and other elements of the experience that people are used to. And so, again, we're getting pretty positive feedback from people on that because they don't want unfettered access. They want to know that we're in control of the number of people in the facility and that we can provide for that appropriately. So that's working well, of course, as things increase, as we hope they will in September, we'll have to become more vigilant on that. We're actually increasing capacity in some gyms by putting in more equipment where we can do so in a socially distanced manner. We can also tell people which gyms close to them are less busy than the gym they might be thinking of going to. So all of that capability is in place and growing. And I think that will help us continue to advance visits over time.

Vicki Gedge:
Thank you, that's very helpful. And just as you said, obviously, there's still some busy times. Have you seen people just attend at [different] times -- as people work from home still and haven't all gone back to offices? Are you seeing it being busier during the day than it might traditionally have been? Is that what people are doing?

Humphrey Cobbold:
Yes. So part of what I referred to as demand displacement is also there is a degree of demand by geography. You know, I'm going to a different club now because it's more convenient. I'm not in the center of London or Manchester. We're also seeing time-based displacement. People are able to go out to the gym at 10:30 or 11:00 on a Thursday morning where perhaps previously they couldn't be seen leaving the office to do so for an hour and a half and choosing to take their lunch break early when things are a little bit less busy. So we're seeing that and we're seeing demand a bit more spread through the day, which is a good thing. It's what we hoped for and expected. It's what we saw early on in Switzerland and Denmark. And we're seeing a good amount of it in the U.K. now as well.

Vicki Gedge:
Thank you. That's really helpful. If I could just ask one last question. Sorry, I'm taking a lot of the time. But just on the COVID-19 tracker that you talked about, and obviously you're able to monitor potential risk areas and increase protocol. How have your conversations with the governments been about how they view gyms? Obviously, in the U.K. you reopened last, after pubs and restaurants. If we do face local lockdown, do you feel confident that you would be left open if pubs and restaurants do close or is there a particular view that you think governments take of gyms? I mean, obviously, this data is helpful, but do you think they've changed their views at all?

Humphrey Cobbold:
Well, I'm an optimist on this front, Vicki. We definitely started from a position where -- and we had to acknowledge this in May -- that we were seen as a bit of a bad boy and that gyms were seen as being a problem. And the first minister of Scotland, for example, described with no factual evidence at all when we asked her for it, that gyms were recognized as a hotbed of infection for the virus. We didn't believe that was true. We didn't believe there was evidence for that. And she certainly wasn't able to provide any to us. And similarly, Boris Johnson, when he announced in parliament, put us in the naughty box, I think he called us a close proximity venue needing special attention. And, you know, we had to respond to that. I entertained members of SAGE, including the deputy chief medical officer, Jonathan Van-Tam, to one of our facilities to explain the protocols that we were putting in place. And that is why we've invested the time and effort, not just in the COVID tracker, but keeping track on things, but also building our own data set and the industry data set to develop a proper data set that confirms our belief that actually the risk of infection in gyms, the risk of transmission is relatively low compared to other things that are going on, and that data grows every day. And, of course, there are some infections that will happen. There've been cases of that. But relative to the number of visits and attendance, it is a very, very small number. And I'm optimistic that as we share that information, as U.K. Active started to do this week as Europe Active, which I used to be a board member of, will do in the near future as well, that there is a growing understanding within government that what they thought was a problem that was

perfectly reasonable for them to think it was a problem is not a problem. And actually, the health benefits of what is now millions of people going to the gym every week very significantly outweigh the societal costs of any marginal increases. And it is marginal in transmission that may occur.

The same simply cannot be said of pubs and restaurants, I'm afraid. I'm not against pubs and restaurants at all, but on a relative basis I think we have the evidence and the proof that we're in a much better position than they are. And of course, because we're membership organizations, we can also provide much more accurate track and trace than those sorts of venues can as well. So on both fronts, we're quietly making the case to government such that when there may be difficult tradeoffs, as I said in the presentation, that they do the right thing, closed down venues that are causing the problem of transmission and keep open venues that are contributing to people's health and wellbeing and are not contributing to the problem of transmission. And we think that gyms will clearly sit in that latter category.

Vicki Gedge:
Thank you very much. That's very helpful.

Operator:
Thank you, Vicki. Our next question is from Luigi from Wells Fargo. Luigi, please go ahead.

Luigi Algisi:
Good morning. Thanks for the presentation. Just two quick follow ups. One on the 6 percent member that's been on free freeze in the U.K., I was wondering how long they'll be able to remain on this free freeze mode. And secondly, on just £28 million cost you highlighted deferred costs for each two. Is it possible to have a breakdown on those costs?

Humphrey Cobbold:
Okay, Luigi. Thanks for the questions. Let me deal with the first of those and I'll hand the cost breakdown question across to Alex. The six percent on freeze, it's a mix of one month and three months. To be honest, at the moment we're taking a pretty adaptive approach to this. We'd much rather somebody remains a frozen member than cancels their membership. So if a member comes back to us, as some are, at the end of one month saying, I'm still not quite comfortable, can I stay on freeze, then we're allowing them to do that. I don't think we've set a hard deadline to that. The way our systems work you sort of have to have an end date to a freeze. But when people come back, we're actually pretty open to it. It's much better for us to do that. But as you can see from our data, we're not trying to kid ourselves or you or anybody else that these are members who are paying. As far as we're concerned, they're not into paying base, so we're clear on that. And just to give you a comparison that's up from under one percent last year. So it's a significant increase over last year. Let me hand across to Alex on the question of breakdown of any cost deferral that he's comfortable to give.

Alex Wood:
Yes, sure. Luigi it covers the main buckets of rents, PAYE, VAT and creditor negotiations, so sort of a general supply of payments stretch. I haven't got the specific granular breakdown for you on this call, but is across those four key brackets. So hopefully that's helpful.

Luigi Algisi:
Thanks, that's helpful. Thinking about the rent component and with regards to the negotiations you are having at the moment. Do you think there is a possibility that rent for Q2 and possibly some of Q3 will be postponed to next fiscal year or maybe H2?

Alex Wood:
Yes. Luigi, look that's correct. As I mentioned in answer to one of Vicki's questions, there's ongoing dialog with landlords in relation to Q2 and Q3 rents, particularly in the U.K. And yes, there is a whole range of deals being reached

and agreed with landlords that involves deferment, some into 2021 and some further beyond that. So, yes, it's fair to assume that there is a deferment of £28 million, a decent chunk being rent, deferred into the back half of this year. But there is also another £15 million of deferred payments that will need to be settled across 2021, of which a fair chunk of that relates to rents as well.

Luigi Algisi:
Thank you very much.

Operator:
Our next question is from Edward Santos from Dynamo. Edward, please go ahead.

Eduardo Santos:
Hello. Good morning, Humphrey and Alex, and congratulations on how you managed the crisis and the reopening. Quite well done. I have two questions. The first one is on the competition landscape. You mention, and I think in many industries that those -- the strongest are going to become stronger. The weakest will become weaker, and you have a massive advantage in terms of scale technologies, etc. Can you talk about -- and I've seen two transactions in the past month with Sports Direct buying the D.W. gyms and JD buying Exercise for Less -- So can you talk a little bit about how this changes the competitive landscape? If that's a statement that these players want to become bigger in this market, if there are any changes, possible changes in pricing or improving the product and expanding from there. And if you can also talk about the proximity, the relative proximity of these gyms compared to yours across the U.K.

And the second question is about pricing. I think you mentioned during the presentation more opportunities to price according to demand and supply dynamics locally. Is that something you've already done or is this something more for the future? And if you can be a bit more specific on that, if possible, to understand? Thank you very much.

Humphrey Cobbold:
Okay. Hi, Eduardo. Good to hear from you. Let me deal with both those, second one first in terms of pricing. We have not moved any prices yet in the U.K. nor I think in Denmark and Switzerland, where we have relatively less local pricing flexibility. We took a decision that would keep pricing fixed. So it is more a prospective view that when we see how demand and supply plays out in local markets and we've got some hard line constraints on our own capacity now, we will review pricing in that context. Typically, as you know, we only increase pricing on new members. We don't increase existing members, although we do have the facility to do so. So that is something, as Alex referred to it, that remains an option for us in the future, but we haven't done any of that as yet.

On your first question on competitive landscape, yes, you're absolutely right. The two transactions you referred to: DW being sold into Sports Direct and JD into the overall landscape. That's consolidation that we pretty much fully expected to happen at some time. COVID-19 just accelerated that. And to be quite honest, Exercise for Less has been bust for a while. They just hadn't acknowledged it, really. And DW was a challenged business. We recognized that, too. So no surprises there. And there are no particular concerns in terms of proximity to us. You know, Exercise for Less, when JD comes to convert some of those sites, they're still close to us -- well they're close to us in a half a dozen or a dozen places. So we're not expecting any material change in competitive landscape from either of those effects. We looked at both sets of assets, as you might imagine, in quite a lot of detail. Neither were right for us, even in good times, let alone in difficult times like this.

And this landscape of a bit of consolidation is what we expected to happen. The DW deal, actually, there are 30 sites that are closing entirely and already -- or they certainly were. I think those are all still closing. In those sites, we've already seen significant member pickups in sites where we close to a closed former DW site, which is what we'd expect to see. What you probably haven't seen from a competitive landscape is about 20 to 30% of U.K. leisure center, public sector facilities have not reopened yet. Some of them will reopen in the future, but some of them will not. So it's further capacity coming out there. But we're monitoring the situation very carefully. We're not unduly concerned by that. We're focused on our pipeline of opportunities, much cleaner than buying large portfolios of sites like these in

locations across the country. We're much more targeted in deploying our capital in that.

Eduardo Santos:
Okay. Thank you.

Operator:
Our final question from Ronan Clark from Deutsche Bank. Vernon, please go ahead. Hello, Ronan, your line is open, please go ahead.

Ronan Clark:
I have a couple of follow up questions on memberships, please. So if I look at the 80% in the U.K., like for like and 14 percent, I guess, are dormant or have left. Do you still have access to them or can you keep their details and, you know, keep them in contact? I don't know if GDP Europe plays any restrictions, but can you maintain contact and keep offering them rejoining offers, for example?

And then on capacity, I'm not sure if you covered this, but in the U.K. of 75%, how high could you potentially go? I mean, could you get to the 90s like Switzerland or where would you hit the kind of capacity roof at the moment for social distancing? Thanks.

Humphrey Cobbold:
Okay, let me deal with both those. Those members who've left us, to be honest, Ronan, it varies depending, as we all know, when you join somewhere and log on you're asked about marketing preferences and we have to adhere to those within the context of GDPR. But in general, we have a pretty good set of rights to contact people. We try not to overdo it. We're not inveterate sort of spammers, but yes, a fair proportion of those we can contact. From memory, in the U.K., we've got over a million non-members who we have rights to contact. So a pretty healthy base on that. But we try hard to respect people's wishes and GDPR, obviously, we're constrained as they leave the business. But a good number that we can continue to market opportunities to.

In terms of capacity, the answer to your question really depends on two things: how flexible our members are and whether they're willing to move the time of day when they can attend and whether they're able to do that given working regimes. Reality is there's plenty of capacity, even at the capped levels that the government has asked us to adhere to for everybody to be able to go and work out with member numbers back up to 100%. It's just a question of times of day.

And so that demand displacement by hour, by time, as I referred to, is the important thing. We're trying to encourage that. We have some membership to encourage that and we have off peak memberships that encourage people financially to work out in quieter times as well, essentially reward them for doing so. So there's that aspect to it.

The second aspect is we have constrained ourselves at the moment. We're not generally operating 24/7 at the moment. Indeed, you know, weekends we're often operating only 8:00 a.m. to 4:00 p.m. as we manage and control things very carefully. As we're learning how to do that, we are opening up more hours of access for longer days. A number of clubs are opening at 4:00 a.m. rather than 6:00 a.m. now, and we're beginning to put some clubs into 24/4 or even 24/7 opening and longer weekend hours. So we will be expanding capacity and we'll be working with members to try and manage that hours based displacement over time such that we can safely, and the emphasis on safely, serve as many members as we can. I'm confident we can get up towards between 90 and 100% of capacity with help on both those fronts.

Ronan Clark:
Okay. That's helpful. Thank you.

Operator:

We have no further questions. So this ends the Q-and-A. Back to you, Humphrey.

Humphrey Cobbold:
Thank you very much, everybody, for listening. Thank you also for your support and forbearance, which through what has been, I think, for all of us, a quite extraordinary time. We understand and we recognize that it has been no easier for you than it has been for us. But we're very grateful for your forbearance and support. And I hope we've given you a good view of where we stand and a firm view on where we're heading towards as well. And if you've detected us feeling positive in a considered and well-judged way, then I hope that's exactly the impression we'd like to leave you.

Thank you very much. And we'll be updating you again in about three months.

[end of transcript]