

Pinnacle Bidco PLC

Interim Financial Report for the six months ended 30 June 2021

PUREGYM

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Business Overview

Pinnacle Bidco PLC and its subsidiaries form the PureGym Group ("the Group"), the second largest gym and fitness operator in Europe (by number of sites). At its pre COVID-19 peak in February 2020, the combined business had approximately 1.9 million members across circa 500 gyms.

The Group provides high quality, low cost, flexible physical fitness facilities and has market leading positions across the UK, Denmark and Switzerland operating under the PureGym, Fitness World and Basefit brands respectively.

In line with the whole industry, the Group's operations have been adversely impacted by the COVID-19 crisis over the past 18 months, but the business is emerging in a strong position having made significant strategic progress despite the wider challenges.

Swift, focused management actions and supportive stakeholders have provided a robust financial platform, with available liquidity of £221 million as at the end of Q2 and no leverage or interest cover covenant tests until August 2024.

This financial platform supports strong operational processes and control which, when combined with solid member dynamics, has allowed the business to not only efficiently and effectively manage the various closures but also quickly bounce back to profitability following the re-opening of gyms.

All 506 gyms are open[2] as at 30 June 2021, with the majority of operational restrictions slowly lifting.

Strategy and business model

The core vision is to provide members with affordable access to the benefits that activity and exercise can offer. The business does this by focusing investment on what most people want and use in gyms and by putting innovative technology that makes the process of being a member and the experience of activity as easy and straightforward as possible. This focus on affordable, flexible, and "value-for-money" memberships has fundamentally changed the gym industry over the past few years and opened up access to more activity, fitness and exercise to hundreds of thousands more people. We are proud of the environment we have created with our inclusive philosophy and the diversity of our membership across all our gyms.

The Group has a powerful and highly disruptive customer proposition, which is differentiated from traditional gym operators and appeals to a broad range of consumers. The Group's strategy is to occupy market leading positions in the value segment, whilst delivering profitable growth for our stakeholders. Key elements of the proposition include low cost membership fees, no obligation to sign a 'locked in' contract, excellent standards of hygiene and cleanliness and "24x7" access to high quality, well maintained gyms. The proposition is underpinned by the Group's differentiated capital efficient and technology-enabled gym operating model, which enables our gyms to support high levels of membership, operate on low costs, and generate strong unit economics, cash flow conversion, and ROCE.

Note:
1. As at 31 December 2020
2. 4 gyms were closed for non-COVID-19 related reasons such as refurbishment

Our brands...

PureGym

PureGym is the UK's largest private gym operator, both by number of gyms and members[1]. As of 30 June 2021 the company operated 286 gyms. Despite the impact of COVID-19 the member volumes have remained robust, with 1.1 million members at the period end.

PUREGYM

286 gyms

Fitness World

Fitness World is the leading operator in Denmark, both by number of gyms and members[1]. As of 30 June 2021 the company operated 180 gyms with 385,000 members. Fitness World is a household name, with membership accounting for close to 10% of the adult population in Denmark.

FITNESS WORLD

180 gyms

Basefit

Basefit is the second largest gym operator by members and the leading high value low cost operator in Switzerland[1]. In 2019, Basefit was the first player in the Swiss market to offer a flexible monthly membership option. As at 30 June 2021, Basefit operated 40 gyms with 70,000 members.

basefit.ch

40 gyms

Business Overview (continued)

While we have been taking a cautious approach during the COVID-19 crisis, we have made significant strategic progress with 13 new gyms opened in the UK, flexible membership introduced in Switzerland and improved revenue management implemented in Denmark. Going forward, we will maintain our strong focus on liquidity and, as appropriate, will continue to roll out new gyms in geographies where we can achieve our targeted return on capital and continue to drive the operational and financial performance of our existing gym estate.

Our ability to deliver on this strategy is underpinned by a strong business model:

- The world's population is more aware than ever of the importance of looking after physical and mental health, avoiding conditions such as obesity and ensuring a good immune system. In a post COVID-19 world we therefore believe that there will continue to be attractive and resilient fitness markets with significant growth opportunities in the value segment.
- The merit to consumers of having access to a fully-equipped, conveniently-located, always-open, well-maintained, safe and secure shared use facility is very considerable and this merit is close to impossible for most consumers to replicate at home or in any other way.
- Benefits from being a diversified, scale operator with sites spread across countries and continents.
- Strong, differentiated customer proposition supported by technology which both improves the effectiveness from a consumer point of view and reduces operating costs.
- Low cost, capital efficient, technology-enabled operating model.
- Strong and experienced leadership team.
- Significant financial capacity to support ongoing expansion and estate rollout.

The fitness market

The Group operates in the value segment of the fitness market, which has grown quickly over the past several years. The expanding footprint of value gyms has increased the availability of fitness facilities to a larger proportion of the population.

The value gym market has demonstrated resilience during periods of economic decline in the past and can also support growth in these conditions as consumers consider cost-conscious alternatives. While the COVID-19 pandemic has caused unprecedented disruption to our everyday way of life, and to our business, we firmly believe we have the right business model, operating in the most attractive segment, for weathering this challenging period and the tougher economic environment which will remain for some time after.

The re-openings across the value gym sector in Q2 2021 underpin this belief. While still early days, the initial member dynamics seen since reopening (both in terms of net joiners and volume of visits) are very encouraging and further point to a market proposition that is inherently robust and well placed.



Q2 2021 Financial Review

COVID-19 update

The estate reopened in full over the course of the second quarter of 2021, operating with varying government imposed restrictions in each of our geographies, including capacity constraints, limitations on group exercise and mandatory mask wearing.

The combination of lockdowns and restrictions had a material impact on Q2 performance and, as expected, distort all normal financial and non-financial KPIs for the period.

However following reopening, we have seen a very encouraging return of members to gyms across all geographies and strong demand from new members to join our gyms.

A successful reopening

Our estate has successfully reopened, with gyms welcoming members back across all territories between 12 April and 6 May. Our focus, as always, is very much on the health and wellbeing of our members and colleagues and we continue to work tirelessly to ensure our gyms are a safe place to work and a safe place to workout.

The successful measures which were previously implemented through our TrainSafe initiative remained in place upon reopening and are proven to work well for both our members and colleagues.

Strong member demand driving performance

We have seen rapid recovery in trading since re-opening and driven significant strategic progress across the Group.

Total group members as at 15 August 2021 stood at 94% of December 2019 levels[1]. Revenue for the month of June 2021 achieved 99% of June 2019, driven by volume recovery, new site openings and increasing average revenue per member and the bounce back in Group profitability in the quarter reflects the strength of the Group's business model and highlights customers' desire to get back to activity and working out.

15 new sites were opened in the first half of 2021 (13 in the UK) and on average these sites are performing better than site openings pre-pandemic, which reflects the growing strength of the PureGym brand and reputation.

The trends we have seen since reopening, combined with the extremely positive feedback we received from members, further supports our belief that the demand for our high quality but low cost model will remain strong as society continues to reopen.

Looking forward

As at the date of this report, all of our gyms across the UK, Denmark and Switzerland are open and trading with minimal covid related restrictions[2]. The Group retains a strong liquidity position (£221 million at 30 June 2021), has navigated through the crisis well and remains well placed to take advantage of favourable conditions for further expansion, assuming limited COVID-19 related disruption.

Note:
1. 2019 figures include the results of Fitness World on a pro forma basis
2. 4 gyms were closed for non-COVID-19 related reasons such as refurbishment



Q2 2021 Financial Review (continued)

Presentation of financial information

The Group has prepared consolidated financial statements as of and for the 6 months ended 30 June 2021 in accordance with IAS 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board.

Funding

At the start of the period the Group had £430 million of Senior Secured Notes ("the Sterling Notes") and €445 million of Senior Secured Notes ("the Euro Notes") in issue (together, "the Notes"). The Notes are listed on The International Stock Exchange, for which Pinnacle Bidco PLC is the Issuer and certain subsidiaries of the Group are guarantors. Interest on the Sterling Notes accrues at a rate of 6.375% and interest on the Euro Notes accrues at a rate of 5.500% both payable at half-yearly intervals. The Notes are due to be repaid in full on 15 February 2025.

On 4 March 2021, the Group issued an additional €45 million of Euro Notes on the same terms as the existing Euro Notes bringing the total repayment value of Euro Notes in issue as at the end of the period to €490 million.

In addition, the Group has a £145 million revolving credit facility (the "RCF") with eight international institutions, of which £10 million is designated as an overdraft facility. The RCF is repayable on 15 August 2024. As at 30 June 2021, the facility was undrawn.

Following amendments to the terms of the RCF during Q1 2021, the Lenders granted a waiver of the Group's financial covenants for the remainder of the term and instead replaced it with a £30 million minimum liquidity test on the last day of March, June, September and December each year.

The RCF and covenant environment provides headroom for the Group's working capital requirements and additional capacity for the roll out of new gyms, in line with the Group's underlying strategy.

Going Concern

In light of the on-going impact of COVID-19 on the performance of the Group, the Directors have carefully evaluated the Group's Going Concern status as at the date of this report.

The Group meets its day to day working capital requirements, capex and funding of new sites through its cash reserves and credit facilities, as detailed in the funding section. Available liquidity as at 30 June 2021 stood at £221 million.

In considering its assessment of Going Concern, the Group has carried out extensive financial modelling, taking into account the potential impact of the COVID-19 pandemic on the cashflows and liquidity of the Group.

The Group's gyms have now fully re-opened following COVID-19 closure periods and are expected to remain open for the foreseeable future.

Nevertheless, the Group has taken into account the possibility of severe but plausible downside scenarios in its forecasts and modelling, including the following factors: the impact on revenue of further localised and total Group lockdowns, the unwind of deferred payments from past closure periods, mitigation measures announced by our governments, measures put in place by the Group to preserve cash and to reduce discretionary expenditure (including capex) and potential reductions in revenues resulting from changes in the behaviours of members following the reopening of our gyms.

Based on these scenarios, and with no leverage or cash flow covenants until 2024, the Directors have concluded that there is no material uncertainty and that the Group has adequate resources to continue to remain a going concern for the foreseeable future.



Q2 2021 Financial Review (continued)

Operating results

£m	For the three months ended 30 June 2021	For the three months ended 30 June 2020[1]	For the six months ended 30 June 2021	For the six months ended 30 June 2020[1]
Revenue	82.7	13.8	83.2	109.6
Operating expenses (exc. separately disclosed items)	(48.7)	(16.3)	(56.4)	(73.4)
Group Reported EBITDA	**33.9**	**(2.5)**	**26.9**	**36.2**
Depreciation, amortisation and impairment	(41.7)	(33.0)	(78.1)	(65.6)
Profit / (Loss) on disposal of PPE	(1.1)	-	(0.9)	(0.1)
Profit on lease modifications	0.4	-	0.4	-
Exceptional items	(2.6)	(1.6)	3.1	(3.0)
Operating loss	**(11.0)**	**(37.1)**	**(48.7)**	**(32.6)**
Net finance cost	(36.5)	(39.6)	(59.6)	(80.8)
Loss before tax	(47.5)	(76.7)	(108.2)	(113.4)
Income tax credit	10.1	7.3	16.2	8.5
Loss for the period from continuing operations	(37.4)	(69.5)	(92.1)	(104.9)
Loss from discontinued operation	-	(0.7)	-	(0.9)
Loss for the period	**(37.4)**	**(70.1)**	**(92.1)**	**(105.8)**

Note: Fitness World results have been included in the Group 2020 results since the acquisition on 14 January 2020.
[1] The Polish business was sold on 14 December 2020. As such, the 2020 results have been restated to present the results of the Polish business as a discontinued operation.

Revenue

Most of the Group's gyms were closed from the start of 2021 until gyms in England opened in April. Subsequently in April and May, the remainder of the Group's gyms outside of England reopened. This had a severe, adverse impact on revenue, with 23% of trading days closed in Q2 2021 (88% in Q2 2020) and 61% of trading days closed in H1 2021 (52% in H1 2020).

Operating Expenses (exc. separately disclosed items)

For the 3 months ended 30 June 2021, operating expenses increased approximately three-fold as the Group's gyms were open significantly more in Q2 2021 compared to Q2 2020. As such there is a combination of higher government support and more cost mitigation activity in 2020 reducing operational expenses. In total, £10.3 million of government grants were received in the 3 months ended 30 June 2021 in addition to savings from rates payment relief worth £5.3 million. This compares to grants of £25.1 million and rates relief of £6.3 million in the equivalent period in 2020.

For H1 2021 operating expenses were down 23.2% compared to H1 2020, reflecting the overall longer impact of closures on H1 2021 but also the improved efficiency of cost saving measures implemented by management in the lock-down across Q1 2021. In total, £39.0 million of government grants were received in H1 2021 (£25.1 million H1 2020) in addition to savings from rates payment relief worth £10.1 million (£6.3 million H1 2020).

Depreciation, amortisation and impairment

Depreciation, amortisation and impairment is up £8.6 million or 26.1% in the 3 months ended 30 June 2021 compared to Q2 2020. This is primarily due to impairment losses recognised in Q2 2021 of £7.2 million (Q2 2020: £nil), of which £4.1 million relates to a write-off of the Basefit brand following a strategic decision to rebrand the Swiss estate to PureGym.ch. In addition, there is £2.0 million relating to assets in a small number of UK gyms reflecting the expected short-term impact of COVID-19 on cash flows, and £1.1 million relating to the business reaching a conclusion on its choice of technology infrastructure for the newly combined group after the acquisition of Fitness World.

The H1 depreciation, amortisation and impairment is up £12.5 million due to the factors above and a further £3.8 million impairment relating to the technology infrastructure recognised in Q1 2021.

Q2 2021 Financial Review (continued)

Exceptional items

Exceptional items of £2.6m in Q2 2021 mainly relate to costs incurred in integrating and restructuring the Fitness World operations (£2.3 million), and one-off costs relating to the COVID-19 pandemic (£0.2 million).

The driver of the change to net exceptional income of £3.1 million in H1 2021 is the benefit arising on settlement of a lease break at one of our sites (£5.9 million) recognised in Q1 2021. More details are provided in note 5 of the interim financial statements.

Net finance costs

The Group's finance costs primarily comprise interest on senior secured borrowings (the Notes and the RCF, when drawn), amortisation of arrangement fees incurred in entering into these arrangements, finance costs associated with the Group's property rentals under IFRS 16 (where a portion of property rental costs are recorded as interest with the remaining expense recognised as depreciation), foreign exchange gains and losses and interest payable to group undertakings.

Interest accruing on loans from group undertakings represent the pass down of the proceeds of issues of preference shares by the Group's ultimate UK parent, Pinnacle Topco Limited. The preference shares have no fixed date of repayment and are only repayable under specific circumstances.

Finance costs in the six months ended 30 June 2021 have decreased by £21.2 million compared to the same period in the prior year and this primarily relates to fluctuations in foreign exchange gains and losses on retranslation of foreign operations.

A full breakdown of finance costs and income can be found in note 6 of the interim financial statements.

Tax credit

Our income tax credit of £16.2 million in the six months ended 30 June 2021 (H1 2020: £8.5 million) is primarily a result of the large losses made in the period.

Q2 2021 Financial Review (continued)

Cashflow and Liquidity

£m	For the three months ended 30 June 2021	For the three months ended 30 June 2020	For the six months ended 30 June 2021	For the six months ended 30 June 2020
Net cash (used in) / generated from operating activities	**14.0**	**(5.0)**	**(8.9)**	**1.2**
Net cash used in investing activities	(17.1)	(12.8)	(27.2)	(254.0)
Net cash (used in) / generated from financing activities	(6.5)	(52.4)	22.5	288.8
Net (decrease) / increase in cash and cash equivalents	**(9.5)**	**(70.2)**	**(13.7)**	**36.0**
Cash and cash equivalents on the first day of the period	86.0	158.6	91.1	51.6
Effect of exchange rates on cash held	0.0	0.2	(0.9)	1.0
Cash and cash equivalents at end of period	**76.4**	**88.6**	**76.4**	**88.6**
Undrawn RCF Facility (including overdraft)	145.0	58.0	145.0	58.0
***Available liquidity at 30 June*[1]**	**221.4**	**146.6**	**221.4**	**146.6**

Note: Fitness World results have been included in the 2020 Group results since the acquisition on 14 January 2020.
[1] Subject to a £30 million minimum liquidity test at each quarter end.

Net cash (used in) / generated from operating activities

For Q2 2021, net cash generated from operating activities totalled £14.0 million, which represents a £19.0 million positive movement versus Q2 2020. The significant increase in cash generation is as a direct result of the reopening of the estate across Q2 2020 compared to the prior year when gyms were closed.

For the six months ended 30 June 2021, net cash used in operating activities totalled £8.9 million, which represents a £10.1 million adverse movement versus H1 2021. This is primarily due to the longer period of closures reflected in the 2021 figures and lower level of payment deferrals driving a £21.3 million adverse movement in cash generated from operations. This is offset by a £10.9 million exceptional cash inflow on settlement of the break of a lease.

Net cash used in investing activities

For the 3 months ended 30 June 2021, net cash used in investing activities of £17.1 million relates entirely to investments in Capex, compared to £12.8 million in Q2 2020. The increase represents a higher level of both growth and maintenance expenditure in the period as the Group returned to expansionary activity after re-opening its gyms.

For the 6 months ended 30 June 2021, net cash used in investing activities of £27.2 million relates entirely to investments in Capex. Net cash used in investing activities in H1 2020 included £27.1 million of investments in Capex and £226.4 million of cash outflow for the acquisition of the Fitness World Group, net of cash acquired.

Net cash (used in) / generated from financing activities

During Q2 2021, £6.7 million of interest free loans were received from the Danish government as part of its COVID-19 support package. The loan is repayable in installments between 2021 and 2023. These inflows are offset by Q2 2021 lease capital payments of £13.2 million, representing a proportion of the property rental costs as accounted for under IFRS 16, with the remaining rental cost accounted for within net cash used in operating activities.

The H1 2021 inflows include the £6.7 million of government loans as described above, and £38.9 million relating to a €45 million issue of Senior Secured Notes in Q1 2021. These are offset by total lease capital payments for the period of £23.2 million.

Cash and liquidity

As at 30 June 2021 the Group had cash and cash equivalents of £76.4 million and access to undrawn facilities of £145.0 million, providing total liquidity headroom of £221.4 million, an increase of £74.8 million versus the position at 30 June 2020.

Cash flow - capital expenditure

The following table shows our cash flows from capital expenditure for the periods indicated. Expansionary Capital Expenditure in H1 2021 mainly comprised investment in the completion of sites started in Q4 2020, including 13 new UK sites, 1 new Danish site and 1 new Swiss site, all opened in April and May 2021.

£m	For the three months ended 30 June 2021	For the three months ended 30 June 2020	For the six months ended 30 June 2021	For the six months ended 30 June 2020
Expansionary Capital Expenditure	12.5	7.0	21.2	18.1
Maintenance and Refurbishment Capital Expenditure	4.6	5.5	6.1	9.1
Total Capital Expenditure	**17.1**	12.5	**27.2**	27.1

Note: Fitness World results have been included in the Group 2020 results since the acquisition on 14 January 2020.

Key Performance Indicators

£m	For the three months ended 30 June 2021	For the three months ended 30 June 2020	For the six months ended 30 June 2021	For the six months ended 30 June 2020	For the twelve months ended 31 Dec 2019PF[2]
Total number of PureGyms	286	266	286	266	263
Total number of Fitness World gyms	220	223	220	223	221
Total number of gyms	506	489	506	489	484
Total number of members ('000s)	1,565	1,672	1,565	1,672	1,699
Average number of members ('000s)	1,506	1,694	1,469	1,633	1,682
Average number of members per gym	3,004	3,462	2,954	3,603	3,683
Average revenue per member per month (£)	18.30	2.71	9.44	11.19	21.90
Reported EBITDA (£ million)	33.9	(2.5)	26.9	36.2	207.9
Adjusted EBITDA (£ million)[1]	16.4	(20.3)	(9.0)	(0.2)	131.0
Adjusted EBITDA margin	19.8%	(147.5%)	(10.8%)	(0.2%)	29.6%
Gym Site Adjusted EBITDA (£ million)	32.5	(14.7)	13.7	17.1	171.5
Gym Site Adjusted EBITDA margin	39.3%	(106.4%)	16.4%	15.6%	38.8%
LTM Run Rate Adjusted EBITDA (£ million)	39.6	101.2	39.6	101.2	160.5
Operating Cash Flow (£ million)	21.1	(19.4)	(7.7)	7.3	100.8
Operating Cash Flow Conversion	128.8%	n/a	n/a	n/a	76.9%
Senior Secured Net Debt (£ million)	786.4	784.6	786.4	784.6	744.6
Ratio of Senior Secured Net Debt to LTM Run Rate Adjusted EBITDA	19.9x	7.8x	19.9x	7.8x	4.6x
Ratio of LTM Run Rate Adjusted EBITDA to Pro Forma Net Interest Expense	0.7x	2.1x	0.7x	2.1x	3.1x

Note: Fitness World results have been included in the 2020 Group results since the acquisition on 14 January 2020.

1. In 2021, the cash rent adjustment excludes the impact of COVID-19 rent deferments. Therefore, Adjusted EBITDA more closely reflects the underlying trading results of the Group for the period.
2. 2019 Pro Forma figures are based on an aggregation of PureGym and Fitness World continuing operations with the exception of Senior Secured Net Debt, Ratio of Senior Secured Net Debt to LTM Run-Rate Adjusted EBITDA and Ratio of LTM Run-Rate Adjusted EBITDA to Pro Forma Net Interest Expense which include pro forma adjustments to reflect current financing arrangements.

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

	For the three months ended 30 June		For the six months ended 30 June		For the twelve months ended 31 Dec
£m	2021	2020	2021	2020	2019PF
Loss for the period from continuing operations	**(37.4)**	**(69.5)**	**(92.1)**	**(104.9)**	**(32.3)**
Income tax	(10.1)	(7.3)	(16.2)	(8.5)	(3.0)
Net finance cost	36.5	39.6	59.6	80.8	100.7
Deprecation and impairment of property, plant & equipment	30.0	27.4	57.1	54.8	106.5
Amortisation and impairment of intangible assets	11.7	5.6	21.0	10.8	18.7
(Profit) / loss on disposal of property, plant & equipment	1.1	-	0.9	0.1	0.1
Profit on lease modifications	(0.4)	-	(0.4)	-	(0.4)
Exceptional administrative items	2.6	1.6	(3.1)	3.0	11.6
Group Reported EBITDA[1]	**33.9**	**(2.5)**	**26.9**	**36.2**	**207.9**
Other extraordinary items[2]	1.0	(0.5)	2.4	-	0.8
Share based payment charge[3]	0.1	0.1	0.2	0.2	0.3
Pre-opening costs[4]	1.5	0.3	1.9	0.7	3.6
Cash rent adjustment[5]	(20.1)	(17.7)	(40.3)	(37.3)	(81.5)
Adjusted EBITDA	**16.4**	**(20.3)**	**(9.0)**	**(0.2)**	**131.0**
Head office costs	16.1	5.7	22.6	17.3	40.5
Gym Site Adjusted EBITDA	**32.5**	**(14.7)**	**13.7**	**17.1**	**171.5**
LTM Adjusted EBITDA	(1.3)	67.6	(1.3)	67.6	131.0
Run-Rate Adjustment	40.9	28.7	40.9	28.7	24.9
Adjustment for synergies[6]	-	4.9	-	4.9	4.6
Run-Rate Adjusted EBITDA (LTM)[7]	**39.6**	**101.2**	**39.6**	**101.2**	**160.5**

Note: Fitness World results have been included in the Group 2020 results since the acquisition on 14 January 2020.

1. Group Reported EBITDA is defined as earnings before net finance cost, taxation, depreciation, amortisation, profit/loss on sale of property, plant & equipment, impairment, profit/loss on lease modifications and exceptional items.
2. Other extraordinary items includes the net impact of various one-off items not included in "Exceptional items" but which are not reflective of the underlying trade of the Group.
3. The share based payment charge relates to shares in the ultimate parent company, Pinnacle Topco Limited, issued to directors and certain employees.
4. Pre-opening costs represent the total of all gym site operating costs incurred prior to the opening of a new gym and primarily consist of staff costs and marketing.
5. Under IFRS 16, most lease costs are excluded from Group Reported EBITDA. To produce a comparable and more relevant EBITDA figure, the contractual property rent payments due during the accounting period are deducted and any property rent-related expenses included in Group Reported EBITDA are added back. Management believes that adjusting EBITDA to reflect cash rent is a better reflection of actual earnings. In 2021, the cash rent adjustment excludes the impact of COVID-19 rent deferments.
6. Q2 2020 Run-Rate Adjusted EBITDA (LTM) includes £4.9 million (2019PF: £4.6 million) of synergy benefits for the acquisition of Fitness World. Management still believe that these synergies will be delivered but in the context of reporting on the COVID impacted period can no longer be separated out from the underlying operations of the combined group.
7. The Run-Rate adjustment reflects the impact of those gyms which are less than three years old at the end of the reporting period. These adjustments replace the Adjusted EBITDA earned by these sites in the last twelve month period with the projected Adjusted EBITDA for their third year of operation. Run-Rate Adjusted EBITDA therefore seeks to reflect the anticipated mature Adjusted EBITDA potential of those gyms which were trading at the end of the relevant period. Management forecasts EBITDA on a gym-specific basis and updates forecasts quarterly based on current and anticipated performance, taking into account seasonality and location-specific factors.

Disclaimers and Further Information for Noteholders

Further information for noteholders

This report was prepared in accordance with the indentures dated 24 January 2018 and 17 November 2020, among Pinnacle Bidco plc, as issuer, the guarantors named therein, Deutsche Trustee Company Limited, as trustee, Deutsche Bank AG, London Branch, as paying agent and security agent and Deutsche Bank Luxembourg SA as transfer agent and registrar.

This report may include forward-looking statements. All statements other than statements of historical facts included in this report, including those regarding the Group's financial position, business and acquisition strategy, plans and objectives of management for future operations are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Many factors could cause the Group's actual results, performance or achievements to differ materially from those in the forward-looking statements. Forward-looking statements should, therefore, be construed in light of such risk factors and undue reliance should not be placed on forward-looking statements. These forward-looking statements speak only as of the date of this report. The Group expressly disclaims any obligations or undertaking, except as required by applicable law and applicable regulations to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Group's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

Use of non-IFRS financial information

Certain parts of this report contain non-IFRS measures and ratios. We believe that these measures are useful indicators of our ability to incur and service our indebtedness and can assist certain investors, security analysts and other interested parties in evaluating us. Because all companies do not calculate these measures on a consistent basis, our presentation of these measures may not be comparable to measures under the same or similar names used by other companies. Accordingly, undue reliance should not be placed on these measures in this report. In particular, Adjusted EBITDA and Run Rate Adjusted EBITDA are not measures of our financial performance or liquidity under IFRS and should not be considered as an alternative to (a) net income/(loss) for the period as a measure of our operating performance, (b) cash flows from operating, investing and financing activities as a measure of our ability to meet our cash needs or (c) any other measures of performance under IFRS. We define our non-IFRS measures as set forth in the glossary on page 12.

Risks

The Directors are responsible for the Group's risk management and monitor risks on an on-going basis to ensure these are being appropriately mitigated in line with its risk appetite. The Directors consider that the principal risks and uncertainties which could have a material impact on the Group's performance over the 2021 financial year remain substantially the same as those stated on pages 16 to 17 of our Annual Report and Accounts for the period ended 31 December 2020, which is available on our website corporate.puregym.com.

Glossary

"Adjusted EBITDA"
As the profit or loss for a certain period before income tax expense, net finance cost, depreciation of property, plant and equipment and right of use assets, amortisation of intangible fixed assets, impairment of property, plant and equipment, profit/loss on disposal of property, plant and equipment, profit/loss on lease modifications, exceptional administrative expenses, and other extraordinary items, after adding back Pre-Opening Costs and share based payment charges, and subtracting the Cash Rent Adjustment.

"Adjusted EBITDA Margin"
As Adjusted EBITDA for that period divided by revenue for that period.

"Average Number of Members"
The average of the number of members as at the beginning of the first month and the end of every month in that period.

"Average Revenue Per Member Per Month"
Revenue for that period divided by the number of months in that period and further divided by the average number of members during that period. The average number of members during that period is calculated as the average of the number of members as of the beginning of the first month and the end of every month in that period.

"Basefit"
Refers to Basefit.ch AG, the brand that Fitness World operates under in Switzerland.

"Cash Rent Adjustment"
The deduction of the cash rent payable during the period which otherwise was not reflected in EBITDA (as reported on an IFRS16 basis). From 2021 onwards, the Cash Rent Adjustment excludes the cash impact of COVID-19 rent deferments. Therefore, Adjusted EBITDA more closely reflects the underlying trading results of the Group for the period.

"Combined Group"
Refers to PureGym and Fitness World.

"EBITDA"
The profit or loss for a certain period before income tax expense, net finance cost, depreciation of property, plant and equipment and right of use assets, amortisation of intangible fixed assets, impairment of property, plant and equipment, profit/loss on disposal of property, plant and equipment, profit/loss on lease modifications and exceptional administrative expenses.

"Expansionary Capital Expenditure"
The Initial Capital Investment and the capital costs of expanding gym sites incurred in that period.

"Fitness World" or "Fitness World Group"
Refers to Forward TopCo A/S and its subsidiaries.

"Gym Site Adjusted EBITDA"
Adjusted EBITDA for that period, excluding Head Office Costs.

"Gym Site Adjusted EBITDA Margin"
As Gym Site Adjusted EBITDA divided by revenue for that period.

"Head Office Costs"
All non-gym specific costs, other than depreciation and amortisation, related to the operation of head office functions in a given period.

"Large Box Format (LBF)"
Large Box Format (LBF) gyms are gyms that are typically over 12,000 square feet in size.

"Maintenance and Refurbishment Capital Expenditures"
The total capital expenditure incurred in a period less Expansionary Capital Expenditure incurred in that period.

"Mature Gyms"
The gyms that have been open as Pure Gyms for 24 months or more or as Fitness World clubs for 24 months or more as of the end of the relevant reporting period.

"Net Debt"
As total indebtedness of the Group including finance lease liabilities as reported under IAS17 (excluding property lease liabilities recognised under IFRS 16) less cash and cash equivalents.

"New Gyms"
The gyms that have been open as Pure Gyms for less than 24 months or Fitness World clubs for less than 24 months as of the end of the relevant reporting period.

"Number of Gyms"
As the total number of gyms that are open and trading as of the specified date or the end date of the relevant period.

"Operating Cash Flow"
Adjusted EBITDA plus Working Capital Cash Flow and less Maintenance and Corporate Capital Expenditures for that period.

"Operating Cash Flow Conversion"
The Operating Cash Flow for that period divided by Adjusted EBITDA for that period.

"Pre-Opening Costs"
The total of all gym site operating costs incurred during the pre-opening periods of gyms in that period. Pre-Opening Costs primarily consist of staff and marketing expenses.

"Pro Forma Run Rate Adjusted EBITDA"
Run Rate Adjusted EBITDA for the twelve months ended on the reporting date, after giving pro forma effect to the recent acquisition of Fitness World as if the acquisition occurred on the first day of the period and including synergies expected to be realised from the combined Group.

Glossary continued

"Pro Forma Net Interest Expense"
The net of interest payable/receivable for the twelve months ended on the reporting date after giving pro forma effect to borrowings as at the balance sheet date, as if those borrowings occurred on the first day of the period.

"Run Rate Adjusted EBITDA"
The Adjusted EBITDA including any Run Rate Adjustment.

"Run Rate Adjusted"
The adjustment made to those gyms which are less than three years old at the end of the reporting period. These adjustments replace the Adjusted EBITDA earned by these sites in the last twelve month period with the projected Adjusted EBITDA for their third year of operation.

"Senior Secured Net Debt"
The total senior secured indebtedness of the Group (excluding finance lease liabilities as reported under IAS17), less cash and cash equivalents.

"Small Box Format (SBF)"
Small Box Format (SBF) gyms are gyms that are typically 6,000-9,000 square feet in size.

"Working Capital Cash Flow"
Cash movements in working capital.

Pinnacle Bidco PLC
Condensed Consolidated Interim Financial Statements
for the 6 months ended 30 June 2021

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Condensed Consolidated Statement of Comprehensive Income
for the 6 months ended 30 June 2021

	Note	**6 months ended 30 June 2021 (Unaudited) £'000**	6 months ended 30 June 2020 (Unaudited) £'000
Revenue	2,3	**83,233**	109,588
Cost of sales		**(3,456)**	(2,635)
Other administrative expenses		**(131,499)**	(136,510)
Exceptional administrative income / (expenses)	5	**3,058**	(3,038)
Administrative expenses		**(128,441)**	(139,548)
Operating loss	4	**(48,664)**	(32,595)
Finance income	6	**9,989**	177
Finance costs	6	**(69,568)**	(80,986)
Loss before income tax		**(108,243)**	(113,404)
Income tax credit	7	**16,156**	8,527
Loss for the period from continuing operations		**(92,087)**	(104,877)
Loss from discontinued operation		**-**	(919)
Loss for the period		**(92,087)**	(105,796)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		**(8,364)**	15,929
Income tax relating to these items		**569**	-
Other comprehensive (expense) / income for the period, net of tax		**(7,795)**	15,929
Total comprehensive expense for the period		**(99,882)**	(89,867)

Condensed Consolidated Statement of Financial Position
as at 30 June 2021

	Note	**30 June 2021 (Unaudited) £'000**	31 December 2020 (Audited) £'000
Non-current assets			
Intangible assets	8	**816,235**	846,913
Property, plant and equipment	9	**681,534**	717,556
Deferred tax assets		**44,598**	31,069
Other receivables		**6,947**	7,216
		1,549,314	1,602,754
Current assets			
Inventories		**3,867**	4,388
Trade and other receivables		**21,723**	37,554
Income taxes receivable		**546**	686
Cash and cash equivalents		**76,446**	91,134
		102,582	133,762
TOTAL ASSETS		**1,651,896**	1,736,516
Current liabilities			
Trade and other payables		**(131,662)**	(143,646)
Lease liabilities		**(89,647)**	(96,430)
Provisions		**(245)**	(2,500)
Borrowings	10	**(3,901)**	-
Income taxes payable		**(89)**	(1,290)
		(225,544)	(243,866)
Non-current liabilities			
Deferred tax liabilities		**(35,444)**	(37,572)
Other liabilities		**(1,924)**	(2,013)
Lease liabilities		**(482,487)**	(491,652)
Borrowings	10	**(1,309,812)**	(1,264,661)
Provisions		**(10,123)**	(10,486)
		(1,839,790)	(1,806,384)
TOTAL LIABILITIES		**(2,065,334)**	(2,050,250)
NET LIABILITIES		**(413,438)**	(313,734)
Equity			
Share capital		**50**	50
Share premium		**3,863**	3,863
Translation reserve		**3,984**	11,779
Accumulated losses		**(421,335)**	(329,426)
TOTAL EQUITY		**(413,438)**	(313,734)

Condensed Consolidated Cash Flow Statement

for the 6 months ended 30 June 2021

	Note	6 months ended 30 June 2021 (Unaudited) £'000	6 months ended 30 June 2020 (Unaudited) £'000
Cash flows from operating activities			
Cash generated from operations	13	**31,527**	52,930
Exceptional income received / (costs paid)		**6,129**	(7,539)
Bank interest and similar charges paid		**(1,381)**	(4,933)
Bank interest received		**210**	142
Senior secured notes interest paid		**(24,542)**	(13,706)
Interest element of lease liability payments		**(19,836)**	(14,621)
Issue costs from borrowings		**(765)**	(9,892)
Net exchange differences		**(316)**	(284)
Corporation tax (paid) / refund received		**25**	(678)
Net cash generated from operating activities of discontinued operation		**-**	(222)
Net cash (used in) / generated from operating activities		**(8,949)**	1,197
Cash flows from investing activities			
Purchase of subsidiary undertakings, net of cash acquired		**-**	(226,350)
Purchase of property, plant & equipment		**(19,594)**	(24,179)
Purchase of intangible assets		**(7,653)**	(2,950)
Proceeds from disposals of assets		**-**	56
Net cash used in investing activities of discontinued operation		**-**	(612)
Net cash used in investing activities		**(27,247)**	(254,035)
Cash flows from financing activities			
Capital element of lease liability payments		**(23,242)**	(12,821)
Issue of senior secured notes	10	**38,924**	-
Proceeds from bank borrowings		**-**	515,912
Repayments of bank borrowings		**-**	(215,963)
Proceeds from short term borrowings		**-**	2,080
Proceeds from government loans		**6,712**	-
Proceeds / (outflows) from intercompany borrowings		**57**	(1)
Net cash used in financing activities of discontinued operation		**-**	(407)
Net cash generated from financing activities		**22,451**	288,800
Net (decrease) / increase in cash and cash equivalents		**(13,745)**	35,962
Cash and cash equivalents at beginning of the period		**91,134**	51,626
Effect of exchange rates on cash held		**(943)**	993
Cash and cash equivalents at end of period		**76,446**	88,581

Condensed Consolidated Statement of Changes in Equity

for the 6 months ended 30 June 2021

	Share capital £'000	Share premium £'000	Translation reserve £'000	Accumulated losses £'000	Total Equity £'000
Balance as at 1 January 2020	**50**	**3,863**	**-**	**(131,325)**	**(127,412)**
Loss for the period	**-**	**-**	-	(105,796)	(105,796)
Other comprehensive income for the period	**-**	**-**	15,929	-	15,929
Credit to equity for equity settled share-based payments	-	-	-	178	178
Balance as at 30 June 2020	**50**	**3,863**	**15,929**	**(236,943)**	**(217,101)**
Balance as at 1 January 2021	**50**	**3,863**	**11,779**	**(329,426)**	**(313,734)**
Loss for the period	**-**	**-**	-	(92,087)	(92,087)
Other comprehensive expense for the period	**-**	**-**	(7,795)	-	(7,795)
Credit to equity for equity settled share-based payments	-	-	-	178	178
Balance as at 30 June 2021	**50**	**3,863**	**3,984**	**(421,335)**	**(413,438)**

Notes to the Condensed Consolidated Interim Financial Statements

1 General information

Pinnacle Bidco PLC is a company incorporated in England and Wales under the Companies Act 2006 and is a public limited company. The address of the company's registered office is Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY. The condensed financial statements are unaudited and were approved by the Board of Directors on 26 August 2021.

This financial information for the six months ended 30 June 2021, including comparative financial information for the six months ended 30 June 2020, has been prepared on the basis of the accounting policies set out in the last annual report and accounts and in accordance with IAS 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board. This report does not include all the notes of the type normally included in an annual financial report and accordingly should be read in conjunction with the annual report for the year ended 31 December 2020.

In preparing the condensed interim financial statements, the significant judgements made by management in applying the group's accounting policies and key sources of estimation uncertainty were the same, in all material respects, as those applied to the consolidated financial statements for the year ended 31 December 2020

Going concern assumption

In light of the on-going impact of COVID-19 on the performance of the Group, the Directors have carefully evaluated the Group's Going Concern status as at the date of this report.

The Group meets its day to day working capital requirements, capex and funding of new sites through its cash reserves and credit facilities, as detailed in note 10.

In considering its assessment of Going Concern, the Group has carried out extensive financial modelling, taking into account the potential impact of the COVID-19 pandemic on the cashflows and liquidity of the Group.

The Group's gyms have now fully re-opened following COVID-19 closure periods and are expected to remain open for the foreseeable future.

Nevertheless, the Group has taken into account the possibility of severe but plausible downside scenarios in its forecasts and modelling, including the following factors: the impact on revenue of further localised and total Group lockdowns, the unwind of deferred payments from past closure periods, mitigation measures announced by our Governments, measures put in place by the Group to preserve cash and to reduce discretionary expenditure (including capex) and potential reductions in revenues resulting from changes in the behaviours of members following the reopening of our gyms.

Based on these scenarios, and with no leverage or cash flow covenants until 2024, the Directors have concluded that there is no material uncertainty that the Group has adequate resources to continue to remain a going concern for the foreseeable future.

Information extracted from 2020 Annual Report

The financial figures for the year ended 31 December 2020, as set out in this report, do not constitute statutory accounts but are derived from the statutory accounts for that financial year.

The statutory accounts for the year ended 31 December 2020 were prepared under IFRS and have been delivered to the Registrar of Companies. The audit report was unqualified, did not draw attention to any matters by way of emphasis and did not include a statement under Section 498(2) or 498(3) of the Companies Act 2006.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

2 Operating segments

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker, identified as the Executive Management Team of the Group. The Executive Management Team primarily consider the business from a geographical perspective, by country of operation. The Group's operations consist solely of the provision of high quality health and fitness facilities and associated services and consequently, it is not necessary to segregate operating segments by service or product. The Executive Management Team use the measures of Revenue and Adjusted EBITDA as key performance indicators in assessing the performance of the operating segments. A definition of Adjusted EBITDA is included below.

The Group's material reportable segments are the United Kingdom, Denmark and Switzerland. The results from operations in all other countries in which the Group operates are included in "All other segments", as they are deemed to be individually immaterial.

Segmental information presented to the Executive Management Team for the 6 months ended 30 June 2021 is presented in the below tables, alongside comparative information:

	6 months ended 30 June 2021 (Unaudited)				
	United Kingdom £'000	**Denmark £'000**	**Switzerland £'000**	**All other segments £'000**	**Total £'000**
Revenue	**55,652**	**21,574**	**6,007**	**-**	**83,233**
Adjusted EBITDA	**7,109**	**(13,455)**	**(2,621)**	**-**	**(8,967)**

	6 months ended 30 June 2020 (Unaudited)				
	United Kingdom £'000	**Denmark £'000**	**Switzerland £'000**	**All other segments £'000**	**Total £'000**
Revenue	64,242	35,458	9,888	-	109,588
Adjusted EBITDA	(995)	1,377	(579)	-	(197)

Adjusted EBITDA is derived by adjusting operating profit for depreciation, amortisation, profit/loss on disposal of property, plant and equipment, profit/loss on lease modifications, impairment of property, plant and equipment and intangible assets, exceptional costs, other extraordinary items, share based payment charges, pre-opening costs and the cash rent adjustment. Other extraordinary items relates to items of a one-off nature which are not included within exceptional costs, but which are not reflective of the underlying trade of the Group. The cash rent adjustment includes an add-back of any property rent-related expenses charged in the statement of comprehensive income and a deduction of contractual property rent payments due in the period (whether or not paid in cash in the period). In 2021, the cash rent adjustment excludes the impact of COVID-19 rent deferments. Therefore, Adjusted EBITDA more closely reflects the underlying trading results of the Group for the period.

The Adjusted EBITDA KPI is typically used within the industry as it is more effective than operating profit in representing the results of the Group's trade and, as such, is a key focus of our stakeholders, including our investors, our bondholders and our banking partners. A reconciliation from operating profit to Adjusted EBITDA is included in note 4.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

3 Revenue

Revenue is analysed below segregated by service or product.

	6 months ended 30 June 2021 (Unaudited) £'000	6 months ended 30 June 2020 (Unaudited) £'000
Member income	**73,984**	99,999
Vending and consumables income	**5,018**	5,083
Other income	**4,231**	4,506
	83,233	109,588

As a result of the COVID-19 pandemic, the Group was forced to close all of its gyms for almost the entire first 3 months of 2021. From 12 April 2021, the Group's gyms started re-opening based on the rules in the relevant geography, with all gyms re-opened by 6 May 2021. No revenue was recognised during the period of closure which has materially impacted the revenue recorded for the 6 months ended 30 June 2021. In the 6 months ended 30 June 2020, gyms were also closed for a significant proportion of the period with closures ranging from 57 to 102 days.

The majority of member income is recognised over time to reflect the period over which the member receives the services provided. Vending and consumables income is recognised at a point in time. Other income includes revenue from personal trainers, recognised over time to reflect the period over which the personal trainer is operating and sales of day passes to non-members and personal training services which are both recognised at a point in time.

4 Operating loss

A reconciliation from operating loss to EBITDA and Adjusted EBITDA is as follows:

	6 months ended 30 June 2021 (Unaudited) £'000	6 months ended 30 June 2020 (Unaudited) £'000
Operating loss	**(48,664)**	(32,595)
Depreciation (note 9)	**55,062**	54,780
Amortisation (note 8)	**11,949**	10,828
Loss on disposal of property, plant and equipment	**926**	123
Impairment of intangible assets	**9,018**	-
Impairment of property, plant and equipment	**2,038**	-
Profit on lease modifications	**(401)**	-
Exceptional (income) / costs (note 5)	**(3,058)**	3,038
EBITDA	**26,870**	36,175
Other extraordinary items	**2,395**	-
Share based payment charge	**178**	178
Pre-opening costs	**1,923**	731
Cash rent adjustment	**(40,333)**	(37,281)
Adjusted EBITDA	**(8,967)**	(197)

Notes to the Condensed Consolidated Interim Financial Statements (continued)

4 Operating loss (continued)

During the 6 months ended 30 June 2021, the Group has applied the practical expedient to rent concessions as permitted in the COVID-19-Related Rent Concessions amendment to IFRS 16. Included within operating loss for the period is a credit of £2,843,000 (2020: £nil) reflecting the change in lease payments that has arisen from rent concessions agreed in the period. This is deducted as part of the cash rent adjustment in calculating Adjusted EBITDA.

5 Exceptional administrative income / expenses

Items that are material either because of their size or their nature, and that are non-recurring are considered as exceptional items and are presented within the line items to which they best relate. These items are analysed further below:

	6 months ended 30 June 2021 (Unaudited) £'000	6 months ended 30 June 2020 (Unaudited) £'000
Integration, transition and restructuring costs	**2,294**	2,056
Settlement on break of lease	**(5,931)**	-
One-off costs related to the COVID-19 pandemic	**299**	-
Exploration of acquisition and expansion opportunities	**280**	662
Costs relating to acquisitions	**-**	39
Other one-off costs	**-**	281
Exceptional administrative (income) / expenses	**(3,058)**	3,038

Integration, transition and restructuring costs of £2,294,000 (six months ended 30 June 2020: £2,056,000) relate to costs associated with the integration of Fitness World into the Group and major internal restructuring projects, including a programme aimed at optimising the Danish estate and operating model and maximising profitability of the Fitness World group. A more efficient structure was implemented, which impacted 328 employees but improved member experience through a more skilled and smaller group of managers and by centralising functions at the head office.

On 3 November 2020, the landlord of a UK site exercised their lease break option and agreed settlement consideration of £10,950,000. The settlement was paid at the break date of the lease on 8 March 2021. The settlement was recognised on a straight line basis over the period from the activation of the break clause to the break date of the lease with a credit of £5,931,000 recognised in the six months ended 30 June 2021 (six months ended 30 June 2020: £nil).

One-off costs related to the COVID-19 pandemic of £299,000 were incurred during the six months ended 30 June 2021, either in the process of closing gyms during the pandemic or in the preparation for and reopening of the gyms in line with government guidance (six months ended 30 June 2020: £nil). These costs included one-off deep cleans of gyms at the end of the closure period, fees for consultants engaged to provide advice on safe operation, and reviews of ventilation in gyms to ensure that they comply with our COVID-19 TrainSafe protocols.

In the six months ended 30 June 2021, costs of £280,000 were incurred relating to the exploration of acquisition and expansion opportunities in exploring opportunities for mergers and acquisitions, organic expansion or diversification (six months ended 30 June 2020: £662,000).

Notes to the Condensed Consolidated Interim Financial Statements (continued)

5 Exceptional administrative income / expenses (continued)

Furthermore, during the six months ended 30 June 2020, the Group incurred a residual credit of £39,000 related to the prior year acquisition of the Fitness World Group and £281,000 of other one-off costs in relation to the conclusion of legal cases in Denmark from events occurring prior to the acquisition of the Fitness World Group. No such costs were incurred in the current period.

6 Finance income and costs

	6 months ended 30 June 2021 (Unaudited) £'000	6 months ended 30 June 2020 (Unaudited) £'000
Bank interest received	**11**	106
Interest income on finance lease receivables	**66**	71
Other interest received	**166**	-
Foreign exchange gain	**9,746**	-
Total finance income	**9,989**	177

	6 months ended 30 June 2021 (Unaudited) £'000	6 months ended 30 June 2020 (Unaudited) £'000
Interest on bank loans and overdrafts	**145**	8,927
Interest payable on lease liabilities	**22,472**	22,342
Commitment fees	**756**	219
Unwind of discount on provisions	**27**	-
Amortisation of capitalised finance costs	**2,015**	5,591
Unwind of discount on issue of senior secured notes	**2,018**	-
Interest on senior secured notes	**25,034**	13,706
Interest payable to group undertakings	**17,101**	13,739
Foreign exchange loss	**-**	16,350
Other	**-**	112
Total finance costs	**69,568**	80,986

Notes to the Condensed Consolidated Interim Financial Statements (continued)

7 Income tax

	6 months ended 30 June 2021 (Unaudited) £'000	6 months ended 30 June 2020 (Unaudited) £'000
Current tax:		
- Corporation tax credit on loss for the period	**1**	(1,981)
- Adjustments in respect of prior periods	**(1,069)**	(1,314)
Total current tax credit	**(1,068)**	(3,295)
Deferred tax:		
- Origination and reversal of temporary differences	**(11,404)**	(5,501)
- Effect of changes in tax rates	**(3,684)**	269
Total deferred tax credit	**(15,088)**	(5,232)
Total tax credit in loss after tax	**(16,156)**	(8,527)
Deferred tax recognised in other comprehensive income for the period	**(569)**	-
Total tax credit in the statement of comprehensive income	**(16,725)**	(8,527)

The credit for taxation for the 6 months to 30 June 2021 is based on the estimated effective rate of 19% (6 months ended 30 June 2020: 19%).

Notes to the Condensed Consolidated Interim Financial Statements (continued)

8 Intangible assets

	Goodwill £'000	Brands £'000	Customer Relationships £'000	Development Projects in Progress £'000	Software £'000	Total £'000
Cost						
1 January 2020	462,772	58,669	8,204	-	-	529,645
Transfer from property, plant and equipment (note 9)	-	-	-	-	5,952	5,952
Acquired through business combinations	239,134	32,621	66,527	1,619	7,151	347,052
Additions	-	-	-	7,387	5,496	12,883
Disposals	-	-	-	-	(6)	(6)
Disposal of subsidiary	-	(502)	(387)	-	(36)	(925)
Foreign exchange differences	12,988	1,738	3,588	194	422	18,930
31 December 2020	714,894	92,526	77,932	9,200	18,979	913,531
Accumulated amortisation						
1 January 2020	-	6,111	8,204	-	-	14,315
Transfer from property, plant and equipment (note 9)	-	-	-	-	3,013	3,013
Charge for the period	-	4,949	13,889	-	5,624	24,462
Impairment	12,949	-	-	9,070	2,472	24,491
Disposal of subsidiary	-	(96)	(124)	-	(8)	(228)
Foreign exchange differences	145	24	180	130	86	565
31 December 2020	13,094	10,988	22,149	9,200	11,187	66,618
Net book value						
31 December 2020	701,800	81,538	55,783	-	7,792	846,913

Notes to the Condensed Consolidated Interim Financial Statements (continued)

8 Intangible assets (continued)

	Goodwill £'000	Brands £'000	Customer Relationships £'000	Development Projects in Progress £'000	Software £'000	Total £'000
Cost						
1 January 2021	714,894	92,526	77,932	9,200	18,979	913,531
Additions	-	-	-	5,558	319	5,877
Disposals	-	-	-	-	(1,285)	(1,285)
Foreign exchange differences	(12,174)	(1,576)	(3,300)	(442)	(455)	(17,947)
30 June 2021	702,720	90,590	74,632	14,316	17,558	900,176
Accumulated amortisation						
1 January 2021	13,094	10,988	22,149	9,200	11,187	66,618
Charge for the period	-	2,405	6,734	-	2,810	11,949
Impairment	-	4,073	-	2,932	2,013	9,018
Disposals	-	-	-	-	(1,285)	(1,285)
Foreign exchange differences	(688)	(173)	(752)	(442)	(304)	(2,359)
30 June 2021	12,406	17,293	28,131	11,690	14,421	83,941
Net book value						
30 June 2021	**690,314**	**73,657**	**46,501**	**2,626**	**3,137**	**816,235**

Brands encompass the PureGym, Fitness World, and Basefit brands acquired as part of business combinations and valued at fair value at the date of acquisition. In the six months ended 30 June 2021, an impairment charge of £4,073,000 was recognised representing the entire carrying amount of the Basefit brand following a strategic decision to rebrand the Swiss estate to PureGym.ch (year ended 31 December 2020: £nil).

The Group continues to invest in technology to evolve and improve the quality of its product offering to members and to optimise the efficiency of its operating model. Having reached a conclusion on the Group's choice of technology infrastructure, an impairment charge in relation to Development Projects in Progress and Software totalling £4,945,000 has been recognised in the period (year ended 31 December 2020: £nil).

During the period ended 30 June 2021, the group's full estate of gyms were forced to temporarily close as a result of the Covid-19 pandemic. As such, an interim impairment review has been performed over the Group's intangible assets as at 30 June 2021, resulting in an impairment charged being recognised against intangible assets totalling £9,018,000. By doing so, the Group was able to conclude that the value in use of the cash generating units to which the intangible assets have been assigned, are higher than the carrying amounts of the assets.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

9 Property, plant and equipment

	Right of use assets	Leasehold costs	Leasehold improv-ements	Assets under construction	Fixtures & fittings	IT equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
1 January 2020	269,580	9,661	189,062	-	74,712	9,038	552,053
Transfer to intangible assets (note 8)	-	-	-	-	-	(5,952)	(5,952)
Transfers	-	-	1,702	(1,702)	-	-	-
Additions	48,468	1,730	23,456	3,306	14,148	2,023	93,131
Acquired through business combinations	221,981	-	21,843	1,702	24,698	1,670	271,894
Disposals	(708)	(117)	(5,652)	-	(4,641)	(39)	(11,157)
Disposal of subsidiary	(5,164)	-	(3,131)	-	(1,696)	-	(9,991)
Foreign exchange differences	11,655	(46)	1,122	47	1,258	89	14,125
31 December 2020	545,812	11,228	228,402	3,353	108,479	6,829	904,103
Accumulated depreciation							
1 January 2020	20,782	1,277	28,275	-	22,697	3,685	76,716
Transfer to intangible assets (note 8)	-	-	-	-	-	(3,013)	(3,013)
Charge for the year	65,706	765	25,068	-	20,222	1,970	113,731
Impairment	5,104	45	1,569	-	175	5	6,898
Disposals	(686)	(43)	(3,030)	-	(2,652)	(32)	(6,443)
Disposal of subsidiary	(1,110)	-	(319)	-	(582)	-	(2,011)
Foreign exchange differences	579	-	46	-	42	2	669
31 December 2020	90,375	2,044	51,609	-	39,902	2,617	186,547
Net book value							
31 December 2020	455,437	9,184	176,793	3,353	68,577	4,212	717,556

Notes to the Condensed Consolidated Interim Financial Statements (continued)

9 Property, plant and equipment (continued)

	Right of use assets	Leasehold costs	Leasehold improv-ements	Assets under construction	Fixtures & fittings	IT equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
1 January 2021	545,812	11,228	228,402	3,353	108,479	6,829	904,103
Additions	19,552	1,216	10,553	(2,756)	6,590	(157)	34,998
Disposals	(2,767)	-	-	-	(707)	-	(3,474)
Foreign exchange differences	(11,963)	(15)	(1,078)	(111)	(1,198)	(115)	(14,480)
30 June 2021	550,634	12,429	237,877	486	113,164	6,557	921,147
Accumulated depreciation							
1 January 2021	90,375	2,044	51,609	-	39,902	2,617	186,547
Charge for the year	32,949	471	11,593	-	9,133	916	55,062
Impairment	1,103	34	664	-	235	2	2,038
Disposals	(1,316)	-	-	-	(45)	-	(1,361)
Foreign exchange differences	(2,313)	-	(190)	-	(130)	(40)	(2,673)
30 June 2021	120,798	2,549	63,676	-	49,095	3,495	239,613
Net book value							
30 June 2021	**429,836**	**9,880**	**174,201**	**486**	**64,069**	**3,062**	**681,534**

During the period ended 30 June 2021, the group's full estate of gyms were forced to temporarily close as a result of the Covid-19 pandemic. As such, an interim impairment review has been performed over the Group's tangible assets as at 30 June 2021, resulting in an impairment charge of £2,038,000 allocated proportionately across asset classes, relating to a small number of gyms in the United Kingdom that have a potential value in use below the carrying amount of their non-financial assets. The value in use of these gyms is based on estimated cashflows forecast to be generated post 30 June 2021, including the recovery period post-closures. Management expect that the value in use of these gyms will increase in future periods following the re-opening phase.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

10 Borrowings

Current

	30 June 2021 (Unaudited) £'000	31 December 2020 (Audited) £'000
Government loans	**3,901**	-

Non-current

	30 June 2021 (Unaudited) £'000	31 December 2020 (Audited) £'000
€490m 5.500% Senior Secured Notes at principal value (2020: €445m)	**420,731**	399,899
Discount on issue of Senior Secured Notes	**(16,659)**	(19,524)
€490m 5.500% Senior Secured Notes (2020: €445m)	**404,072**	380,375
£430m 6.375% Senior Secured Notes	**430,000**	430,000
Capitalised issue costs	**(15,264)**	(16,837)
Senior secured notes net of issue costs	**818,808**	793,538
Amounts owed to Group undertakings	**488,281**	471,123
Government loans	**2,723**	-
	1,309,812	1,264,661

Of the amounts owed to Group undertakings, £384,104,000 (2020: £369,166,000) accrue interest at 8% and £104,177,000 (2020: £101,957,000) accrue interest at 4.375%. All amounts owed to Group undertakings are repayable on 30 November 2027.

Bank loans and overdrafts

The Group has £430 million of Senior Secured Notes ("the Sterling Notes") and €490 million of Senior Secured Notes ("the Euro Notes") in issue as at the period end (together, "the Notes"). The Notes are listed on The International Stock Exchange, for which Pinnacle Bidco plc is the Issuer and certain subsidiaries of the Group are guarantors. Interest on the Sterling Notes accrues at a rate of 6.375%, payable half yearly in February and August and interest on the Euro Notes accrues at a rate of 5.500%, payable half yearly in May and November. The Notes are due to be repaid in full on 15 February 2025.

The original €445 million of Euro Notes were initially recognised at fair value of €422,750,000 on the date of issue of 17 November 2020, representing a discount on issue of the Euro Notes of €22,250,000. The Euro Notes are subsequently held at amortised cost with changes in the carrying amount recognised within finance cost as an unwind of discount on issue of senior secured notes.

On 4 March 2021, the Group issued an additional €45 million of Euro Notes on the same terms as the existing Euro Notes, bringing the total repayment value of Euro Notes in issue to €490 million.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

10 Borrowings (continued)

Capitalised issue costs are amortised over the period to the repayment date of the Notes.

In addition, the Group has a £145 million revolving credit facility (the “RCF”) with eight international institutions (Barclays Bank PLC, Jefferies Finance LLC, Royal Bank of Canada, Credit Suisse AG, Credit Suisse International, ING Bank N.V. Lloyds Bank plc and Danske Bank A/S, collectively "the Lenders"), of which £10 million is designated as an overdraft facility.

The RCF is repayable on 15 August 2024. As at 30 June 2021, the facility was undrawn.

The Notes and the RCF are secured by fixed and floating charges over the assets and undertakings of certain subsidiaries of the Group. Following amendments to the terms of the RCF on 18 September 2020, and further amendments on 7 January 2021, the Lenders granted a waiver of the pre-existing financial covenants on the facility for the remainder of the term. The financial covenant is replaced with a £30 million minimum liquidity test on the last day of March, June, September and December each year.

The Group has been in compliance with all such covenants and tests during the current and previous financial periods.

During the six months ended 30 June 2021, the Group obtained loan financing totalling £6,624,000 from the Danish government to support the Danish business as a result of the COVID-19 lockdown. The loan is interest free and is repayable in instalments between November 2021 and May 2023.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

11 Financial instruments

	30 June 2021 (Unaudited) £'000	31 December 2020 (Audited) £'000
Financial assets measured at amortised cost		
Cash and cash equivalents	**76,446**	91,134
Trade receivables	**7,862**	8,710
Other debtors	**11,154**	27,552
Finance lease receivable	**1,403**	1,452
	96,865	128,848
Financial liabilities measured at amortised cost		
Trade creditors	**17,592**	29,515
Other liabilities	**3,844**	3,857
Accruals	**58,257**	52,693
Government loans	**6,624**	-
Lease liabilities	**572,134**	588,082
Amounts owed to group undertakings	**488,281**	471,123
Senior secured notes	**834,072**	810,375
	1,980,804	1,955,645

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

Fair value hierarchy

IFRS 7 requires fair value measurements to be recognised using a fair value hierarchy that reflects the significance of the inputs used in the value measurements:

- Level 1: inputs are quoted prices in active markets
- Level 2: a valuation that uses observable inputs for the asset or liability other than quoted prices in active markets; and
- Level 3: a valuation using unobservable inputs i.e. a valuation technique.

There were no transfers between levels throughout the period under review.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

11 Financial Instruments (continued)

	Carrying Value		Fair Value	
	30 June 2021 (Unaudited) £'000	31 December 2020 (Audited) £'000	**30 June 2021 (Unaudited) £'000**	31 December 2020 (Audited) £'000
Financial liabilities				
€445m 5.500% Senior Secured Notes	**404,072**	380,375	**429,145**	396,220
£430m 6.375% Senior Secured Notes	**430,000**	430,000	**438,600**	425,657

12 Financial risk management objectives and policies

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

This note presents information about the Group's exposure to each of the above risks and the Group's objectives, policies and procedures for measuring and managing risk. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The key market risks affecting the Group are interest rate risk and foreign exchange rate risk. Financial instruments affected by market risk include certain borrowings and deposits. Financial instruments affected by exchange rate risk include the Euro Notes. At 30 June 2021, the €490 million Euro Notes had a carrying amount of £404,072,000 based on an amortised cost of €470,599,000 and an exchange rate of 0.859.

Interest rate risk

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

As at 30 June 2021 and 31 December 2020, the Group had 100% of its borrowings in fixed rate instruments by way of senior secured loan notes, amounts owed to group undertakings and lease liabilities. The Group has access to a £145m revolving credit facility with floating interest rates but was not drawn down on this facility at the end of the period.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, matching the maturity profiles of financial assets and operational liabilities and by maintaining adequate cash reserves. The table below summaries the maturity profile of the Group's financial liabilities and includes contractual future interest payments:

Notes to the Condensed Consolidated Interim Financial Statements (continued)

12 Financial risk management objectives and policies (continued)

	30 June 2021 (Unaudited)				
	Within 1 year £'000	**Between 1-5 years £'000**	**More than 5 years £'000**	**Total contractual cash flows £'000**	**Carrying amount £'000**
Trade and other payables	77,769	1,924	-	**79,693**	**79,693**
Lease liabilities	121,448	325,166	431,358	**877,972**	**572,134**
Borrowings	54,454	999,327	198,079	**1,251,860**	**1,328,977**
Total financial liabilities	**253,671**	**1,326,417**	**629,437**	**2,209,525**	**1,980,804**

	31 December 2020 (Audited)				
	Within 1 year £'000	Between 1-5 years £'000	More than 5 years £'000	Total contractual cash flows £'000	Carrying amount £'000
Trade and other payables	84,052	2,013	-	86,065	86,065
Lease liabilities	124,201	336,805	438,248	899,254	588,082
Borrowings	49,285	977,801	778,455	1,805,541	1,281,498
Total financial liabilities	257,538	1,316,619	1,216,703	2,790,860	1,955,645

Credit risk

The Group's principal financial assets are cash and trade receivables. The Group's credit risk is low as it has limited trade receivables. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

13 Reconciliation of loss before tax to cash generated from operations

	6 months ended 30 June 2021 (Unaudited) £'000	6 months ended 30 June 2020 (Unaudited) £'000
Loss before income tax	**(108,243)**	(113,404)
Adjustments for:		
Net finance cost	**59,579**	80,809
Depreciation	**55,062**	54,780
Amortisation	**11,949**	10,828
Impairment of intangible assets	**9,018**	-
Impairment of property, plant and equipment	**2,038**	-
Share based payments	**178**	178
Loss on disposal of property, plant and equipment	**926**	123
Profit on lease modifications	**(401)**	-
Non-cash adjustment to lease liabilities due to rent concessions	**(2,843)**	-
Exceptional costs	**(3,058)**	3,038
Changes in working capital		
Inventories	**399**	(1,373)
Trade and other receivables	**10,107**	(64)
Trade and other payables	**(3,279)**	18,015
Provisions	**95**	-
Cash generated from operations	**31,527**	52,930

Notes to the Condensed Consolidated Interim Financial Statements (continued)

14 Analysis of net debt

	1 January 2020 (Audited) £'000	Acquisitions £'000	Cash flow (continuing) £'000	Cash flow (discon-tinued) £'000	Non-cash £'000	30 June 2020 (Unaudited) £'000
Cash at bank and in hand	51,626	7,000	30,203	(1,241)	993	88,581
Lease liabilities – property and vehicles	(334,270)	(203,675)	10,112	395	(44,409)	(571,847)
Lease liabilities – equipment	(2,694)	(16,767)	2,709	12	(3,422)	(20,162)
Senior secured notes	(430,000)	-	-	-	-	(430,000)
Senior secured bank loans	-	-	(380,912)	-	(25,307)	(406,219)
Revolving credit facility	-	-	(37,000)	-	-	(37,000)
Term loan	-	(117,963)	117,963	-	-	-
Short term financing	-	-	(2,080)	-	(92)	(2,172)
Intercompany loans capital	(288,733)	-	(1)	-	-	(288,734)
Intercompany loans accrued interest	(52,171)	-	-	-	(13,739)	(65,910)
	(1,056,24	(331,405)	(259,006)	(834)	(85,976)	(1,733,463)

The provisional fair values applied to lease liabilities acquired as part of the acquisition of the Fitness World Group on 14 January 2020 were finalised in the 2020 annual report. This resulted in a restatement of lease liabilities acquired. As such, the acquired lease liabilities included in the table above are restated from those included in the condensed consolidated interim financial statements of Pinnacle Bidco PLC for the 6 months ended 30 June 2020.

	1 January 2021 (Audited) £'000	**Cash flow £'000**	**Non-cash £'000**	**30 June 2021 (Unaudited) £'000**
Cash at bank and in hand	91,134	(13,745)	(943)	**76,446**
Lease liabilities – property	(567,485)	19,374	(7,580)	**(555,691)**
Lease liabilities - equipment	(20,597)	3,868	286	**(16,443)**
Sterling notes	(430,000)	-	-	**(430,000)**
Euro notes	(380,375)	(38,924)	15,227	**(404,072)**
Government loans	-	(6,712)	88	**(6,624)**
Intercompany loans capital	(389,422)	(57)	-	**(389,479)**
Intercompany loans accrued interest	(81,701)	-	(17,101)	**(98,802)**
	(1,778,446)	**(36,196)**	**(10,023)**	**(1,824,665)**

Notes to the Condensed Consolidated Interim Financial Statements (continued)

15 Government grants

Government grants recognised in the statement of comprehensive income during the period are as follows:

	6 months ended 30 June 2021 (Unaudited) £'000	6 months ended 30 June 2020 (Unaudited) £'000
Government contributions towards wages and salaries	**16,199**	11,943
Government compensation towards fixed costs	**22,664**	13,179
	38,863	25,122

Government compensation towards fixed costs was provided to compensate the Danish and UK businesses for non-salary related costs incurred while gyms were closed.

Grants related to property rental costs are recognised as a credit in administrative expenses in the statement of comprehensive income. All other grants received are recognised as a credit to the related expense in the statement of comprehensive income.

In addition to the grants included in the above table, the Group received relief from payment of business rates, resulting in a total benefit for the six months ended 30 June 2020 of £6,315,000 and for the six months ended 30 June 2021 of £10,139,000.



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