PureGym Q2 2023
Conference call Thursday 24 August 2023

Humphrey Cobbold (CEO)
Good morning, everybody. Welcome to the presentation of our quarter two and first half 2023 results. We'll be running through the presentation that was posted on our website at 7:00am this morning, dated 24th August. Hopefully you all have this in front of you and, as usual, we'll guide you to the page number references as we go through the document.

Before we get underway, I would just like to call out that I am pleased to welcome our Group MD, Rebecca Passmore, who is joining us as a presenter on this update for the first time. Rebecca does not need much introduction for most of you. She is the MD of our UK business and also takes senior ownership of the Swiss business and the Group Property Development function. After over 15 years in the retail world, Rebecca has been with us for 6 years and has made an outstanding contribution to the development of the UK business in particular, but also the Group as a whole. She will be presenting the update materials on the market and business and of course will be ready to take questions as well. So, with that welcome to Rebecca, let's get underway.

Turning to page 4, I'd like to give you an overview of the period, where things stand now and what we will cover today. In simple summary, our Q2 performance was very strong, building on the momentum we established in Q1. Adjusted EBITDA for the quarter was £36m which was 29% up on the prior quarter and 39% up on Q2 2022. Run-Rate Adjusted EBITDA showed continued healthy progression to £128m which was £8m up on the prior quarter. The month of June alone delivered Adjusted EBITDA of £13m vs prior year of £9m, a 44% improvement YoY. The drivers are broad based rather than narrow, base membership volumes, ARPM and costs are all making good progress as are LFL clubs and new openings. The business has good momentum and a strong and reliable EBITDA "tailwind" from new site openings in 2022 and early 2023. I am pleased to confirm that the positive momentum we saw in Q2 has continued well into Q3. Alex will provide some further details on this in his section.

We continue to manage judiciously, we had over £200m of cash and over £350m of liquidity at the end of Q2 and this is allowing us to maintain a programme of very high quality new site openings. Rebecca and I will discuss the dynamics of the broader value gym market which we continue to see as attractive.

While we are constantly scrutinising the data, we see relatively little adverse impact from the challenges that consumers are facing. Our value focused proposition seems to be really striking a chord in the current market environment and our management action on costs and expenditure is clearly paying dividends.

Looking to future outlook we have a clear strategy for the way ahead, but are very mindful of the need to have a sound financial foundation on which to build. With that in mind we are pleased to confirm that we have extended our current £145m RCF to preserve full flexibility and we are very well advanced with preparation for both a refinancing of our bonds and a new RCF facility to allow us to continue with our strategy. Of course, this work is going on

with the full support of our world class financial sponsors LGP and KKR who continue to be great advocates for the business.

So, with that overview, let me now hand over to Alex to take you through our results for Q2 2023 in more detail - Alex, over to you.

Alex Wood (CFO)
Thank you, Humphrey and good morning, everyone.

Let me start on page 6, with the highlights of our financial results for the 3 months ended 30 June 2023. This page gives a snapshot of some of the most telling statistics from the quarter. In summary, as Humphrey has said, Q2 was a very good performance indeed, demonstrating strong ongoing recovery, a clear step up in EBITDA and EBITDA trajectory and growing momentum. Adjusted EBITDA was up +39% when compared with Q2 2022. Revenue growth was +17%, driven by 11% member volume growth and 4% ARPM growth vs Q2 2022. Run-Rate Adjusted EBITDA stepped forward again to £128m and we are pleased that we are maintaining, and indeed increasing, ROCE for mature gyms in the UK, which now stands at 35%. We opened 10 new sites in the quarter, and we now have a total of 566 corporate sites and 582 sites in total.

So, with those as the headlines, let me drill down into a bit more detail starting on page 7. We are very pleased with the continued healthy progression achieved in the quarter. Run-Rate Adjusted EBITDA was £20m ahead of prior year and quarterly revenue increased to £138m, driven by a 190k increase in member numbers and a healthy increase in ARPM. Finally, if you look at the bottom right had corner of this page you can see that we, and our franchise partners, continued to deploy capital to grow the estate over the last year.

Turning to page 8, operating cashflow in the quarter was up £12m, more than 50% on the prior year. As you can see, cash conversion is recovering and is now well on the way to more “normal” levels. Cash at the end of the quarter was £211m, which was £3m higher than the closing position as at the end of Q1 2023, showing that the business generated sufficient cash in the quarter to more than cover all its operating costs, maintenance and growth capex and interest outgoings. We continued to invest in 10 new sites in the quarter and regard quality new site openings and well-judged refurbishment to be critical parts of our strategy. We closed the quarter with over £350m of available liquidity. As I mentioned last time we spoke, these cash reserves and liquidity continue to be a significant differentiator versus many competitors, especially in the current capital constrained macro environment. Importantly, it provides the financial capacity for us to push on with strategic plans in a measured and controlled way. I would also like to point out towards the bottom right hand side of this page that the business is now evidencing deleveraging, with Senior Secured Net Leverage falling versus the prior year due to Run-Rate Adjusted EBITDA growing at a rate that more than compensates for the capital we are investing on new site roll out.

Moving to page 9, I thought it would be helpful to give you a clear sense of the quarter-on-quarter momentum for a few of our core KPIs. Here you can see the momentum build for the last three quarters from Q4 2022 through to Q2 2023. Revenue, Adjusted EBITDA and Adjusted EBITDA margin are all making really good progress. Progression in average members

per gym and Run-Rate Adjusted EBITDA follow a similar trend and we are pleased to be able to show the progress we have made on overhead cost reduction as well.

One question you may have is whether there is any impact of seasonality on these figures, the answer to that is there is some modest seasonality in the headline member numbers but actually Q4 profitability is pretty good on a LFL basis in a normal year because we spend very little marketing money in November and December. So, in general the trend you are seeing here in performance does reflect underlying progression in the business rather than a seasonal effect. A second question you may have is how does it look today? On that front I am pleased to be able to tell you that July and August have been good months for us as well with performance continuing to be ahead of expectations. Volumes, ARPM, revenue and EBITDA are all in positive territory as I look at the July results and early indications for August and that bodes well for Q3 and the second half of 2023.

Turning over to page 10, I have included the flash headline results for July for your reference. You will note that Adjusted EBITDA was up +£3m versus the prior year in July alone and Run-Rate Adjusted EBITDA grew to £130m. Importantly, cash conversion in the month was also strong, with cash at the end of July increasing by +£9m vs last month to £220m. Finally, July's results provide further evidence of the business' return to natural deleveraging, with SS Net Leverage falling further to 4.9x by the close of the month.

Now let's spend a moment on performance of the base business over on page 11 where I set out LFL performance for each country operating unit versus the prior year. You can see that all parts of the business continue to show solid recovery in the base, with year on year LFL revenue growth across all geographies: the UK is up 5% YoY, Denmark is up 3% YoY and Switzerland is up 17% YoY. So overall, we are satisfied with clear ongoing recovery, across the Group.

Turning next to costs over on page 12, costs continue to be extremely well controlled, leading to strong drop through of growing revenue through to EBITDA, growing margins and strong cash conversion. We have shared data on operating costs and on overhead cost containment previously and we continue to focus intensely on these areas. LFL operating costs have been kept flat between 2019 and 2022 and we expect cost inflation in 2023 to be held below 5% due to our strong focus on procurement and operational cost reduction initiatives. With regard to energy costs, we have now fixed over 95% of Group energy costs through to the end of 2024, removing volatility risk in this area. The value of fixing forward was made very clear to us just a couple of weeks ago when European gas prices spiked by 40% on the back of threat of strikes at Australian LNG terminals. So, we are pleased to have removed exposure to those sorts of utility price swings. For completeness, we have also included several supporting schedules in the appendix to provide further details on a number of these key cost areas.

To further underpin the strength of the underlying business momentum, let's turn over onto page 13. Here you can see a couple of updated cuts of the new gym performance data. This shows that recent UK site openings continue to progress very well, highlighting that the product and the offering continue to "hit the mark". Specifically, these charts show that new sites across all cohorts: 2020, 2021, and 2022, are performing very consistently and are hitting

revenue and/or membership volume maturity levels within two years - that is ahead of schedule. Our 2023 new sites are also off to a very good start and performing just as well, if not better than this. This is clearly very encouraging on several levels, and it naturally follows that strong consistent performance from carefully selected new sites reliably converts into EBITDA growth.

In addition to this healthy level of growth, we place at least equal weight on the quality of that growth and for us quality of growth means focusing on return on capital employed. So, let's look at that now, updated for Q2 2023 figures over on page 14. Here we show that the mature UK estate delivered ROCE of 35%. This a broad base of 186 gyms opened in 2017 or prior years, including those in the city of London and other town centres. Clearly, we are focused on driving the further recovery of this estate so we would hope this metric continues to improve further in the future. A fair question you may ask is, "that is fine but what about the newer gyms that opened after 2017 – how are they doing on a ROCE basis?". We can see that the more recently opened sites from 2018, 2019 and 2020 – 72 sites in all – are performing at a very similar, if not slightly better, level to the older cohort of sites. Clearly this is good news, and we would hope to maintain and indeed improve this position going forward.

Turning to capital expenditure now on page 15. We invested £13m on new site openings in the quarter, opening 7 new corporate owned sites at an average cost of £1.2m per site when normalised for payment timing. We also spent £7m in the quarter on maintenance & refurbishment works. Coming out of the pandemic we have carefully scaled our organisational ability to deploy capital wisely in new sites and refurbishments and we intend to use this capability in the coming periods. As we have explained many times before, a well invested estate is a very important part of our business model.

Let me now give a short reminder on the Run-Rate Adjustment over on page 16. As I explained last time we spoke, we, as management, look at both Adjusted EBITDA and Run-Rate Adjusted EBITDA as two key metrics. Adjusted EBITDA gives, we believe, a good measure of the current cash profitability, which is very important for obvious reasons, but this does not take into account the benefits from investment into new sites, which in fact drags EBITDA to a degree in the near term. Given the predictable maturation of new sites, the Run-Rate Adjustment reflects the additional EBITDA when the immature sites have matured. As such Run-Rate Adjusted EBITDA shows the underlying level of profitability of the business and gives us a measure of the forward momentum we have. Over on the right-hand side of the page, we plot the performance of new gyms opened in 2019 and later. These are the actual results of those gyms since they were opened. You can see that for each of our size formats, actual performance is in excess of the run rate assumptions used, showing that we're maintaining a prudent mindset.

Turning now to page 17, we thought it would be helpful to set out our Run-Rate Adjusted EBITDA over the last six quarters up until the end of Q2 2023. Firstly, you can see that the business has delivered progression quarter on quarter and that there's increasing momentum in that growth. Secondly, you can see visually how the Run-Rate Adjustment, in grey, reliably converts over to adjusted EBITDA, in teal, over time. Indeed, you can see that the Run-Rate Adjusted EBITDA for a quarter reliably becomes the actual LTM Adjusted EBITDA about 3 or 4

quarters later – that, in a nutshell, is how the business works. Finally, you will note that there were 35 corporate owned sites opened over Q4 2022 and Q1 2023 alone, delivering a higher Run-Rate Adjustment and fuelling further growth as those, and other, new sites mature over the next 12-24 months. Hopefully this page is useful and gives you a good feel for the trajectory of the business. Of course, we plan to continue opening new sites each quarter, which will continue to fuel this trajectory going forward.

Turning now onto page 18, to tie all this together with respect to leverage, strong growth in EBITDA means the business rapidly de-levers. We are targeting leverage to operate between a multiple of 3.6x to 4.6x of Run-Rate Adjusted EBITDA (i.e., back to pre-Covid leverage operating levels) over the next 18 to 24 months. Of course, not only does debt capacity measured in terms of multiple improve, as we follow our strategy for recovery, so too does our capacity to bear higher interest rates when we refinance. In addition, cash flow conversion also improves from the currently suppressed levels to the more normal pre-Covid levels, which are over 80% when the business is fully reflated.

Finally, to end this section, I've set out on page 19 our pre-Covid track record of deleveraging from 2017 through to the end of 2019. You can see that this business can very effectively de-lever as it grows rapidly, but also secondly, that we raised small tranches of bonds along the way to fund new sites

I hope that this financial and recent trading update was helpful and it's reassuring you that we're thinking of all the key variables as we manage and guide the business trajectory. I also hope that these perspectives help you understand that the business is well set ahead of refinancing, with our RCF extended out 5 months to August 2025 and our Rating Agencies both currently showing “stable outlooks” for PureGym.

So, with that, let me now hand over to Rebecca to update on how we see the market and the business outlook.

Rebecca Passmore (Group MD)
Thank you, Alex, for those details and good morning, everyone.

Given where we are in terms of preparation for refinancing, we thought it would be worthwhile giving a bit of insight into how we see the market in a post-pandemic world, and the outlook for our business. So, turning to page 21, the first point to note is that research evidence suggests that people are showing greater concern for their wellbeing as we come through the pandemic and within that, exercise and activity are rated as very important, ranking within the top 5 activities most central to consumers lifestyle. That’s a good starting point for us as a business.

Looking within the gym and fitness arena and considering who is winning the battle for memberships, we can see on slide 22 that, whether you look at the UK or Europe more broadly, the value gym sub-sector continues to gain the majority of membership growth in the marketplace. This corroborates with what we are seeing in the market, with our new openings doing particularly well and opening up new market demand in locations underserved by value gyms.

Looking at our three main markets on page 23, we note that the value gym sector market share was increasing pre pandemic and this trend appears to have continued post-pandemic as well, with value gym membership increasing across all three markets 2023 on 2022.

Looking to page 24, latest analysis suggests this trend will continue over the coming years. This is especially the case in the UK and Switzerland where we see significant opportunity to put down more space. It is less so in Denmark, but that is only to be expected given the already very high penetration of value fitness in Denmark.

It is worth remembering the fundamentals of why value fitness is winning on page 25, value fitness wins because, when it is well executed, it is economically superior to the traditional mid-market gym businesses. Margins and EBITDA per site are higher because costs are lower relative to the revenue base and capex is lower because value operators offer a slimmed down and more focused product. The result of a larger numerator and smaller denominator is a higher ROCE, which we show on the RHS of the page

Now of course we are acutely aware that we are facing into some challenging economic times. But we expect expenditure to hold up pretty well in the gym sector as a whole. Why do we expect this to be the case? Well, looking on page 26, we observe that gym expenditure, the thick red dotted line, never went negative during the last crunch period while expenditure on a lot of other areas did.

Turning to recent consumer research conducted in May on page 27, we observe that gym membership is, on average, one of the more protected areas of spend.

Turning on to page 28, we have been and continue to track a range of potential indicators that might tell us consumers are “backing off” from gym expenditure. These include general indicators, including web site traffic, conversion rates and ancillary spend, and it includes specific indicators such as debt collection rates and the feedback members give us on why they have left – with particular focus on financial stress. We track these overall and look at differences and trends in different income groups. While these indicators do inevitably go up and down a bit over time, none of the indicators are yet giving us clear signs of distress in the market.

Turning to page 29, one of the benefits we experience may be the trade down effect. This is quite hard to track and research but we summarise what we have been able to model and gather here. The value sector appears to benefit from net trade down from the mid-market/public sector gyms of around 180k members per year and even a few trade downs per year from premium memberships to value. Indeed, I see this trade down as I travel around our gyms and talk to members. We regularly see members joining us from Fitness First, especially within London, local leisure centres, Nuffield Health and David Lloyd to name a few. Who knows, as times have got a little harder on the street, maybe a few investment bankers have even come out of their high-end gyms to join us in the last 12 months!

The final point to make in this market section on page 30 is that we occupy a privileged leadership position in our markets. Here we illustrate the position for the UK, but to be honest

we could also have chosen Denmark where our relative position is even stronger. We have an exceptional network of locations, and we are already well ahead of the chasing pack. In the UK, our annual new site opening rate is higher than the rest of the branded market leaders combined when accounting for closures. So, our relative market position is getting stronger overtime as well and market strategy 101 tells us that relative market share is typically a key determinant of long run performance. So, we regard these strong positions as important underpinning to our performance trajectory.

This is a natural segue, turning through page 31, to me outlining briefly some of the key points around the business itself.

On page 32 we highlight the first point, we are now effectively "one brand" and one business. The most recent, and arguably most significant change has been the rebranding of the Danish business to PureGym. Having started in April, this is largely complete and now approaching 85% of Danish membership is in gyms that have now been rebranded and reset. Huge credit goes to the team on the ground in Denmark working with my Group property team for completing this transition. It has been done over a swift 5-month period and has gone very smoothly with no loss in traffic, attendance or membership associated with the rebrand. The rebrand allows us to now act much more coherently as one business across the entire estate. From a commercial and marketing point of view, it is now much more straightforward to reuse assets and campaigns, align ways of working, drive performance against the same sets of KPIs, and capture greater economies of scale.

Brand is not just about a name above the door but is about strength of market position and how well you connect with members. On page 33 we summarise where we are looking to get to in using our brand strength utilising the brand tracker from the UK. Brand awareness is important because as an operator you want to be top of mind when a consumer is thinking of joining or attending a gym. Putting it simply – which gyms will consumers search for in Google or recognise when an operators name comes up in a google search. Looking at the relevant stats for the UK, on the "most demanding" measure of unprompted first mention in the left-hand chart, we are at nearly 3x the level of mention of David Lloyd, and far, far ahead of other budget/value operators. On a softer measure of prompted awareness we are still ahead of everyone and nearly double the level of key comparable competition. Finally, we score highly on consideration as well. All of these measures are linked, of course, to the spread and density of our network and estate, but they are also driven by steady, coherent investment in the brand and its awareness

It is satisfying and economically important that this positive brand awareness translates into a positive level of member revenue retention. We illustrate this on page 34 where we show the level of monthly revenue retention through each month of 2023.This shows that month-on-month we retain 90-95% of prior month revenue in the UK. It is worth remembering that every member can leave if they want to, we have no holds on people. High and stable levels of ongoing revenue retention underpin a subscription business like ours and we are in a good place on that dimension.

Turning to page 35 a statistic we track carefully is "member tenure" in mature clubs. We believe this gives us a good feeling for the solidity of the membership base. Tenure is the

period of time in months for which members have been a member during their current membership period. On the left-hand side of this page, you can see the mix of membership by membership tenures, it shows that around 40% of members have tenure of over 12 months. On the right hand side, we show how the average is trending over time in a post-pandemic era. It has taken a bit of time to recover, which we fully expected, but it is now getting back towards the levels of pre-pandemic which was over 17 months. At 16-17 months we should remember that this is 4-5 months longer than the 'normal' 12-month subscription for gyms that require members to sign up for a subscription.

Tenure matters, as we show on page 36. This is because tenure translates into value of membership. Obviously, short tenure members are relatively low value and longer tenure values are worth more, but overall, average tenure members are worth over £300. People often forget that statistic for us as a non-contracted membership subscription model, but we think it's another helpful underpinning of the financial strength of our business.

Underpinning the tenure model and successful revenue generation, is our commercial management model which we summarise on page 37. I know that Humphrey and Alex have shared this model before, but it is so central to how we manage the business that I make no apologies for presenting it again for emphasis. Our model is operationally geared so marginal revenue equals marginal profit and this explains why we focus so much effort and attention on this. I personally spend a lot of time thinking about and working on this with the team.

Working from left to right, we work hard to get positioning right and we drive high-volume, low-cost member acquisition. We run a sophisticated pricing and promotional platform that allows us to tailor prices at the local gym level – much as Premier Inn will price the same standard of room at different prices in different cities. We "premiumise" revenues where we can, by charging a modest premium for multi-site access, early class booking and guest access for example. Of course, we are building a big data set-up that allows us to continually review and refine how we manage the revenue line.

One notable objective of this approach to revenue management is to manage prices and deliver to the bottom line over time. Overall, we highlight on page 38 that we have been careful here not to over-step the mark. Price increases have, in general, been below the rate of inflation and below the level of increases we have seen from some key competitors. This means that our relative price position in the eyes of consumers remains robust, but overall the fact is that we are able to consistently deliver price increases that clearly deliver to the bottom line. This confirms that we have a measure of pricing power in the markets within which we operate.

So, as we look to the future and turn to page 40, building on the market situation and business position we have just summarised, our strategy as we have said before is really clear and simple. The foundation is continuing to drive recovery in the core estate and I think the numbers Alex presented demonstrate, unequivocally, that we are progressing well in this area. We will continue to open new sites to capitalise on latent demand and take advantage of the lack of investment of many of our competitors. Once again, I think Alex has been able to demonstrate that we are progressing well on this front.

Finally, we are continuing to seek growth through franchising in other areas of the world and just touching on this global opportunity on page 41. We have highlighted this before, but our enthusiasm remains undimmed for the opportunity. We are progressing very well in the Middle East with our partners from Al Hokair who have already passed 15 gyms and are building a strong pipeline for the future. We are in active conversations in numerous other territories such as India, Japan and North America. None of this is easy – you have to kiss a lot of frogs in this game, but we retain a firm belief that we will get there.

So, with that, let me now hand back over to Humphrey to draw things together.

Humphrey Cobbold (CEO)
Thanks very much Rebecca and Alex and thank you to both of your for the great work that you and all your teams do and are doing to keep the business moving forward.

Let me just conclude with a few summary points over on page 43 to pull the story together for you.

Performance in the business is very strong with Q2 ahead of forecast and well ahead of the prior year. The drivers of our strong performance momentum through Q2 are clear, robust and broad based: volumes, yields, revenues and cost performance are all contributing in what I would describe as a very healthy balance. We are pleased to be able to confirm that the strong Q2 performance has continued after the end of the quarter and well into July and August as we stand today. Given the early strengths of new site openings we can be confident in the tailwind effect and visibility of future progress in EBITDA and deleveraging. We are taking care not to compromise the quality of assets for growth as proven by ROCE remaining healthy and indeed ahead of the benchmark 30% rate of return. By maintaining a considered opening programme, we are retaining and strengthening our market leadership position especially in the UK. All of this will set us up well for a successful refinancing of our bonds and we are very well advanced in our preparation for this refinancing.

Let me just finish by calling out the hard work of all my colleagues in the Group team, in the UK, in Denmark, Switzerland and the USA. We all know that work is challenging at the moment and our colleagues have stuck to their tasks very well. And with that, I would like to close the formal proceedings and I think we would be happy to take a few questions.