PUREGYM

Annual Report as of and for the 14 month period ended 31 December 2018

Business overview and strategy

PureGym is the largest operator of gyms in the United Kingdom, both by number of gyms and members. As of 31 December 2018, the Group operated 222[1] gyms (31 December 2017: 192) across the UK and had 1.0m members (31 December 2017: 0.9m).

PureGym has a powerful and highly disruptive customer proposition that is differentiated from traditional UK gym operators and appeals to a broad range of consumers. The key elements of the proposition include affordable membership fees, no fixed term contracts, and “24x7x365” access to high quality gyms. The proposition is underpinned by PureGym’s differentiated low cost, 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.

The group’s strategy is to continue to roll out new gyms with high returns on capital, as well as driving the operational and financial performance of its existing gym estate.

[1] Excludes 6 Soho Gyms closed for refurbishment at 31 December 2018

Presentation of financial information

Unless otherwise indicated, the financial information presented on pages 3-9 is the historical consolidated financial information of Pinnacle Bidco plc and its subsidiaries (the "Group") for the three and twelve months ended 31 December 2018, compared to the consolidated financial information of Gym Topco Limited and its subsidiaries for the same period of the prior year.

Pinnacle Bidco plc (the "Issuer") was incorporated on 30 October 2017 and therefore the financial statements on pages 26 - 81 relate to the 14 month period to 31 December 2018. The Issuer acquired Gym Topco on 30 November 2017, and therefore these results include 13 months of trading.

To allow for comparability, this report focuses on the unaudited results of Pinnacle Bidco plc and its subsidiaries for the three and twelve months ended 31 December 2018, compared to the results of Gym Topco Limited and its subsidiaries for the three and twelve months ended 31 December 2017. A reconciliation of the results of Pinnacle Bidco plc for the twelve months ended 31 December 2018 to the results for the fourteen months ended 31 December 2018 is provided on page 9.

The Group has prepared consolidated financial statements as of and for the period ended 31 December 2018 in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Director/Officer Change

Alex Wood joined PureGym in September 2018 as an Executive Director, succeeding Adam Bellamy as PureGym's Chief Financial Officer. Alex joins PureGym from Gala Bingo, where he was CFO and Interim CEO. Prior to that, Alex was Group Mergers & Acquisitions Director of Gala Coral Group and a Director at KPMG, where he spent the majority of his career in corporate finance.

As previously announced, Adam Bellamy stepped down from his role as an Executive Director of the Group after six successful years with PureGym. Adam remains on the Board as a Non-Executive Director of Pinnacle Topco Limited.

Ownership and funding

On 30 November 2017, the group known as Leonard Green & Partners LP (the "Leonard Green group") acquired the entire share capital of Gym Topco Limited and Pinnacle Bidco plc was the acquisition vehicle for this transaction. At the same time, LGP restructured the Group's finances to obtain a £420 million financing facility with five international institutions consisting of a £360 million bridging loan and a £60 million revolving credit facility.

On 24 January 2018, the bridging loan was replaced with £360 million of 6.375% senior secured notes (the "Senior Secured Notes"), listed on The International Stock Exchange, for which Pinnacle Bidco plc is the Issuer and certain subsidiaries of the group are guarantors. The Senior Secured Notes accrue interest at a rate of 6.375% payable half yearly in February and August and are due to be repaid in full on 15 February 2025.

On 21 June 2018, the Group acquired Ovalhouse Limited (trading as Soho Gyms). The acquisition was initially financed through a £25 million drawing under the Revolving Credit Facility. On 20 July, the Group announced that it had secured commitment to issue £30 million of 6.375% Senior Secured Notes via a private placing, to repay the £25 million drawing made under the Revolving Credit Facility. With the issuance of the additional notes, Senior Secured Notes now total £390 million.

In addition to the notes, the group retains a £60 million revolving credit facility with five international institutions (Barclays Bank PLC, Royal Bank of Canada, Credit Suisse AG, ING Bank N.V. and Lloyds Bank plc, collectively "the Lenders"), repayable on 30 November 2024.

The Group's facilities provide additional headroom both for its working capital requirements and for the roll out of new gyms in line with its strategy.

2018 highlights

Financial highlights – Full year 2018

- Revenue increased by 15.3% to £228.4 million.
- Average number of members per gym reduced to 4,994 (2017: 5,070) due to the inclusion of Soho Gyms, 4 new small box format ('SBF') gyms and back-end loaded new openings.
- Average revenue per member per month increased by 2.2% to £18.38.
- Adjusted EBITDA increased by 13.8% to £81.3 million.
- Adjusted EBITDA margin remained strong at 35.6% for the full year.
- Average mature gym EBITDA increased by 6.2% to £519k with average mature gym ROCE increasing by 1.9% to 43.6%.
- Operating cashflow conversion of 101.8% of Adjusted EBITDA.
- Pro-forma Total Net Leverage reduced to 3.9x and Pro-Forma Interest Cover increased to 3.7x, compared to 4.4x and 3.5x respectively at the end of Q4 2017.

Financial highlights – Quarter 4 2018

- Revenue increased by 12.4% to £57.8 million.
- Average number of members per gym reduced to 4,789 (2017: 4,951) due to the inclusion of Soho Gyms and 2 new SBF gyms.
- Average revenue per member per month increased by 0.2% to £18.32.
- Adjusted EBITDA increased by 3.4% to £19.2 million.
- Adjusted EBITDA margin of 33.2% in Q4 2018.
- Operating cashflow conversion of 145.7% of Adjusted EBITDA, compared to 86.9% in Q4 2017.

Operational highlights

- Number of members increased by 9.2% year on year to 1.0m as at 31 December 2018.
- Continued rollout of new sites and investment in estate with 222 gyms trading at period end, an increase of 26 organic gyms and 4 gyms successfully converted from the Soho model compared to 31 December 2017.
- Good progress with planned refurbishment of selected mature sites across 2018.
- Following the acquisition of Soho Gyms in Q2 2018, consisting of 10 fitness clubs based in prime London locations, 4 Soho Gyms have now been converted to the PureGym brand. The remaining 6 Soho Gyms are closed for conversion as at period end with all conversions expected to complete in the first half of 2019.

Results of operations

Full Year 2018 compared with Full Year 2017

Revenue

Revenue increased by 15.3% to £228.4 million, from £198.0 million in 2017. An analysis of revenue by product line is as follows:

£m	Full Year 2018	Full Year 2017	% change
Member income	210.9	183.5	+14.9
Vending income	6.3	5.5	+14.6
Other income	11.2	9.0	+25.3
Total	228.4	198.0	**+15.3**

Member income, comprising membership fees and joining fees, grew by 14.9% to £210.9 million in the period. This was primarily a result of the contribution from new gyms opened during the year, the higher proportion of mature gyms in the portfolio compared to 2017 and the increased average revenue per member resulting from Extra and Multi products which are charged at a premium to members. The Multi product provides members with the ability to attend more than one gym, whilst Extra provides further additional benefits, such as the ability to book exercise classes earlier than standard members.

Vending income grew by 14.6%, ahead of the 9.2% growth in member numbers. Other income grew by 25.3% and comprises mainly income from sales of day passes, income from personal trainers and promotional income.

Adjusted EBITDA

Administrative expenses before exceptional items increased 22.3% to £196.9 million in 2018 from £161.0 million in 2017. This increase was primarily a result of the growth in the number of trading PureGyms from 192 to 222.

Overall, adjusted EBITDA increased by 13.8% to £81.3 million, corresponding to a strong adjusted EBITDA margin of 35.6% in the year to 31 December 2018, compared to 36.1% in 2017.

Exceptional items

Exceptional items were £3.5 million in 2018 (2017: £13.8 million). The costs in 2018 related to the acquisition of PureGym by Leonard Green & Partners LP, the acquisition of Ovalhouse Limited (trading as Soho Gyms) by PureGym and the subsequent integration and transition of those gyms to the PureGym model. The costs in 2017 primarily relate to the sale of PureGym to Leonard Green & Partners LP.

Net finance costs

Net finance costs increased by 48.4% to £56.1 million in 2018, compared to £37.8 million in 2017, following the Group's refinancing in January 2018 and a further £30.0 million Bond issue in July 2018.

Tax charge

Our income tax expense for the year ended 31 December 2018 was £0.5 million, a decrease of £3.1 million compared to £3.6 million in the year ended 31 December 2017. The decrease is primarily driven by the unwind of deferred tax liabilities associated with the recognition of intangible assets on acquisition of the PureGym group.

Results of operations

Quarter 4 2018 compared with Quarter 4 2017

Revenue

Revenue increased by 12.4% to £57.8 million from £51.5 million in 2017. An analysis of revenue by product line is as follows:

£m	Q4 2018	Q4 2017	% change
Member income	52.9	47.7	+11.0%
Vending income	1.3	1.1	+25.8%
Other income	3.6	2.7	+32.8%
Total	57.8	51.5	+12.4%

Member income, comprising membership fees and joining fees, grew by 11.0% to £52.9 million in Q4. This was primarily a result of the contribution from new gyms opened during the quarter, the higher proportion of mature gyms in the portfolio compared to 2017 and the increased yield resulting from Extra and Multi products.

Vending income increased 25.8% while other income, which reflects sales of day passes, income from personal trainers and promotional income, grew by 32.8%.

Adjusted EBITDA

Administrative expenses before exceptional items increased 24.8% to £52.4 million in Q4 2018 from £42.0 million in Q4 2017. The increase is primarily a result of the growth in the number of trading PureGyms from 192 to 222, and investment in the group's head office function to support further strong growth.

Reflecting this, Adjusted EBITDA increased by 3.4% to 19.2 million, with the margin remaining strong at 33.2% in Q4 2018 compared to 36.1% in Q4 2017.

Exceptional items

Exceptional items were £0.9m in Q4 2018, relating to the transition and integration of Soho Gyms and also due diligence and transaction fees incurred in connection with this acquisition and other potential targets. Exceptional items in Q4 2017 totaled £11.8m and primarily related to costs associated with the sale of the group to Leonard Green & Partners LP.

Net finance costs

Net finance costs decreased by 0.4% to £13.0 million in Q4 2018 compared to £13.1 million in 2017.

Tax charge

Our income tax expense for the quarter ended 31 December 2018, based on the Group's expected effective tax rate for the year ending 31 December 2018, was £0.2 million, a decrease of £1.0 million compared to an expense of £1.2 million in the quarter ended 31 December 2017. The decrease is primarily driven by the unwind of deferred tax liabilities associated with the recognition of intangible assets on acquisition of the PureGym group.

Cashflow and Liquidity

Summary of cashflow statement £m	As of and for the year ended 31 December 2018	2017	As of and for the quarter ended 31 December 2018	2017
Net cash generated from/(used in) operating activities	64.0	(9.9)	28.5	(45.8)
Net cash used in investing activities	(61.5)	(38.4)	(19.3)	(14.9)
Net cash generated from/(used in) financing activities	25.7	28.9	(1.0)	24.8
Net increase/(decrease) in cash and cash equivalents	**28.2**	**(19.3)**	**8.2**	**(35.9)**
Cash and cash equivalents on the first day of the period	(4.8)	14.5	15.1	31.1
Cash and cash equivalents at end of period	**23.3**	**(4.8)**	**23.3**	**(4.8)**

Net cash generated from operating activities

Net cash generated from operating activities was £64.0 million for the year to 31 December 2018, compared to £9.9 million cash used in operating activities in 2017. The improvement versus 2017 is primarily due to two factors: the 2017 operating cashflow includes £44.7m of rolled up loan note interest paid out upon sale of the group and the 2018 operating cashflow includes a temporary positive working capital movement that will reverse in 2019.

Operating cashflow conversion on Adjusted EBITDA remained strong at 101.8% for the year to 31 December 2018. This is up from 94.4% for the year to 31 December 2017 primarily due to the above positive working capital movement which is a function of timing only.

Net cash outflow from investing activities

Net cash outflow from investing activities increased to £61.5 million in 2018, compared to £38.4 million in 2017, primarily relating to the acquisition of Soho Gyms in the year.

Net cash generated from financing

Net cash generated from financing was £25.7 million in the year ending 31 December 2018 primarily relating to the additional £30m senior secured notes issued in the year.

Capital expenditure

The following table shows our capital expenditure for the periods indicated

£m	As of and for the year ended 31 December 2018	2017	As of and for the quarter ended 31 December 2018	2017
Expansionary Capital Expenditure	32.5	32.0	15.8	12.1
Maintenance Capital Expenditure	11.3	7.1	3.7	2.9
Total Capital Expenditure	**43.8**	**39.1**	**19.6**	**15.0**

Estate summary

The Group opened 10 new organic gyms and completed 3 Soho conversions in Q4 2018 compared to 6 new organic gyms in Q4 2017. In the 12 months to December 2018 the Group has opened 26 new organic gyms and converted 4 Soho sites compared to 20 new organic sites in 2017.

As at 31 December 2018, the Group has 222 open gyms, including 4 successfully converted from the Soho Gyms brand, but excluding the remaining 6 Soho sites that are closed for conversion. These are expected to be opened during the first half of 2019.

Key performance indicators

£m	As of and for the year ended 31 December 2018	2017	As of and for the quarter ended 31 December 2018	2017
Total number of PureGyms	222	192	222	192
Total number of unconverted Soho Gyms	6	-	6	-
Total number of gyms	228	192	228	192
Total number of Mature Gyms	170	132	n/a	n/a
Total number of members ('000s)	1,012	927	1,012	927
Average number of members per PureGym gym	4,994	5,070	4,789	4,951
Average revenue per PureGym member per month (£)	18.38	17.98	18.32	18.29
Adjusted EBITDA (£ million)	81.3	71.5	19.2	18.6
Adjusted EBITDA margin	35.6%	36.1%	33.2%	36.1%
Gym Site Adjusted EBITDA (£ million)	102.7	88.4	24.6	23.1
Gym Site Adjusted EBITDA margin	45.0%	44.6%	42.6%	45.0%
Run-Rate Adjusted EBITDA (£ million)	95.0	84.8	n/a	n/a
Operating Cash Flow (£ million)	82.7	67.4	28.0	16.2
Operating Cash Flow Conversion	101.8%	94.4%	145.7%	86.9%
Pro Forma Net Debt (£ million)	370.2	369.5	n/a	n/a
Ratio of Pro Forma Net Debt to Group Run-Rate Adjusted EBITDA (L12M)	3.9x	4.4x	n/a	n/a
Ratio of Run Rate Adjusted EBITDA to Pro Forma Net Interest Expense	3.7x	3.5x	n/a	n/a
Mature gym EBITDA (£ million)	88.2	64.5	n/a	n/a
Average mature gym EBITDA (£'000)	519	489	n/a	n/a
Average mature gym EBITDA margin	45.9%	44.8%	n/a	n/a
Average mature gym ROCE	43.6%	42.8%	n/a	n/a
Average initial capital investment for mature gyms (£'000)	1,190	1,142	n/a	n/a

Reconciliation from Reported Loss for the period to Adjusted EBITDA and Run-Rate Adjusted EBITDA

£m	As of and for the year ended 31 December 2018	2017	As of and for the quarter ended 31 December 2018	2017
Reported loss for the year/period	(28.5)	(18.1)	(8.6)	(16.6)
Income tax	0.5	3.6	0.2	1.2
Net finance cost	56.1	37.8	13.0	13.1
Depreciation of property, plant and equipment	30.0	26.4	7.7	6.9
Amortisation of intangible fixed assets	10.5	0.2	2.1	-
Loss on disposal of property, plant & equipment	1.2	0.7	1.2	0.2
Exceptional administrative expenses	3.5	13.8	0.9	11.8
Other extraordinary items	-	1.8	-	0.5
Pre-Opening Costs	3.5	3.6	1.6	1.4
Share based payment charge	0.2	-	0.2	-
Non-Cash Rent Adjustment	4.4	1.7	0.9	0.1
Adjusted EBITDA	81.3	71.5	19.2	18.6
Head office costs	21.4	16.9	5.4	4.6
Site Adjusted EBITDA	102.7	88.4	24.6	23.2
Adjusted EBITDA	81.3	71.5	n/a	n/a
Run-Rate Adjustment	13.7	13.3	n/a	n/a
Run-Rate Adjusted EBITDA	95.0	84.8	n/a	n/a

Reconciliation to financial information

£m	Audited Pinnacle Bidco 14 mths ended 31 Dec 18	Unaudited Pinnacle Bidco 2 mths ended 31 Dec 17	Unaudited Pinnacle Bidco 12 mths ended 31 Dec 18	Unaudited Adjustments[1] 12 mths ended 31 Dec 18	Audited Gym Topco 12 mths ended 31 Dec 18	Audited Gym Topco 12 mths ended 31 Dec 17
Revenue	245.3	16.9	228.4	-	228.4	198.0
Administrative expenses	(212.7)	(15.8)	(196.9)	12.9	(184.0)	(160.9)
Exceptional administrative expenses	(5.7)	(2.2)	(3.5)	1.7	(1.8)	(13.8)
Administrative expenses	(218.4)	(18.0)	(200.4)	14.6	(185.8)	(174.8)
Operating profit / (loss)	26.9	(1.1)	28.0	14.6	42.6	23.3
Net finance cost	(60.8)	(4.7)	(56.1)	27.9	(28.2)	(37.8)
(Loss) / profit before tax	(33.8)	(5.8)	(28.0)	42.4	14.4	(14.5)
Income tax charge	(0.4)	0.1	(0.5)	(2.5)	(3.0)	(3.6)
(Loss) / profit for the year / period	(34.2)	(5.7)	(28.5)	39.9	11.4	(18.1)

£m	Pinnacle Bidco 14 mths ended 31 Dec 18	Pinnacle Bidco 2 mths ended 31 Dec 17	Pinnacle Bidco 12 mths ended 31 Dec 18	Adjustments[1] 12 mths ended 31 Dec 18	Gym Topco 12 mths ended 31 Dec 18	Gym Topco 12 mths ended 31 Dec 17
Reported (loss) / profit for the year/period	(34.2)	(5.7)	(28.5)	39.9	11. 4	(18.1)
Income tax	0.4	(0.1)	0.5	2.5	3.0	3.6
Net finance cost	60.8	4.7	56.1	(27.9)	28.2	37.8
Depreciation of property, plant and equipment	32. 4	2. 4	30.0	-	30.0	26. 4
Amortisation of intangible fixed assets	11. 4	0.9	10. 5	(10. 5)	-	0.2
Loss on disposal of property, plant and equipment	1. 4	0.2	1.2	-	1.2	0.7
Exceptional administrative expenses	5.7	2.2	3.5	(1.7)	1.8	13.8
Other extraordinary items	0.1	0.1	-	-	-	1.8
Pre-Opening Costs	3.9	0. 4	3.5	-	3.5	3.6
Share based payment charge	0.2	-	0.2	-	0.2	-
Non-Cash Rent Adjustment	4.9	0. 5	4. 4	(2.2)	2.2	1.7
Adjusted EBITDA	86.9	5.6	81.3	0.2	81.5	71.5
Head office costs	22.8	1.4	21.4	(0.2)	21.1	16.9
Site Adjusted EBITDA	109.8	7. 1	102. 7	-	102.7	88. 4
Adjusted EBITDA	n/a	n/a	81.3	n/a	81.5	71.5
Run-Rate Adjustment	n/a	n/a	13.7	n/a	13.6	13.3
Run-Rate Adjusted EBITDA	n/a	n/a	95.0	n/a	95.2	84.8

1. Adjustments reconcile the results of Gym Topco group to the results of Pinnacle Bidco group for the 12 months ended 31 Dec 2018

Further information for noteholders

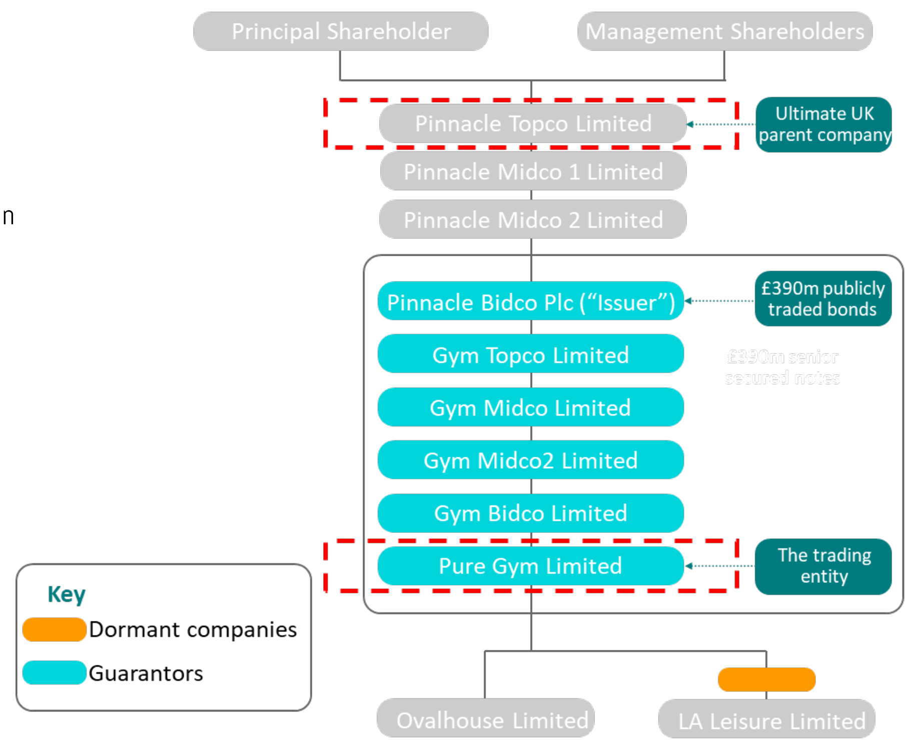
This report was prepared in accordance with the indenture dated 24 January 2018 among Pinnacle Bidco plc, as issuer, the guarantors named therein, Deutsche Trustee Company Limited, as trustee, Deutsche Bank AG, London Branch, as paying agent and security agent and Deutsche Bank Luxembourg SA as transfer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

This full year report may include forward-looking statements. All statements other than statements of historical facts included in this full year 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 full year 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 full year 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 on pages 23-24.

Group Structure



Appendix

Risks

The success of our business depends on our ability to attract and retain gym members, while maintaining sustainable and profitable membership fees.

Our success is dependent on our ability to attract and retain members to our gyms. We generate almost all of our revenue from member income (representing 92% of our revenue for the year ended 31 December 2018). As a result, we must continually engage existing members and attract new members in order to maintain or increase our gym membership levels. In addition, as our members do not enter into any fixed-term contracts, they can terminate their membership at any time without notice or penalty. If we are unable to attract and retain gym members, it could have a material adverse effect on our business, financial condition, results of operations and prospects.

One of the most significant factors affecting our ability to attract and retain members is the membership and joining fees we charge. However, we are also dependent on our ability to charge membership and joining fees at a level that both attracts members and generates an appropriate fee yield relative to our costs. While we have certain flexibility on a gym by gym basis to vary the membership fees we charge existing members and the membership and joining fees we can charge to prospective members, our ability to increase such fees to offset potential cost increases while maintaining or increasing membership levels may be limited. Furthermore, we may even need to decrease membership fees or joining fees over time to maintain or increase membership levels. If we are unable to maintain or increase such fees as necessary or are forced to decrease such fees, it could have a material adverse effect on our business, financial condition, results of operations and prospects.

Additional factors that could lead to a decline in membership levels, prevent us from increasing membership levels, or negatively affect the fees we can charge members include:

- direct local competition from value and other health and fitness club operators;
- saturation of local health and fitness club markets;
- harm to our reputation or brand;
- a decline in our ability to deliver a high-quality service to our members;
- changes in consumer preference away from the value gym offering to gym offerings with more amenities or that offer specialised or trend-driven exercises;
- increasing popularity of home fitness equipment, fitness apps and other online exercise programs;
- increasing popularity of studio gyms and outdoor fitness activities;
- a decline in the public's interest in health and fitness;
- a decline in time available for consumers to pursue leisure activities;
- changes in discretionary consumer spending habits due to deterioration of general economic conditions in the UK or demographic shifts; and
- changes in the level of positive referrals from current and former members, due to a decline in our ability to deliver high-quality services or from harm to our reputation or brand or other reasons.

A decline in membership levels, membership and joining fees and profitability as a result of any of the above factors, individually or in aggregate, could have a material adverse effect on our business, financial condition, results of operations and prospects.

If we are unable to identify and secure sites on favorable terms for new gyms that meet our selection criteria, we may not be able to implement our growth strategy.

An important part of our growth strategy is the opening of new gyms. As we lease all of our gym sites, we are dependent upon finding and securing new leasehold sites at which to open new gyms. We employ an extensive site selection strategy that incorporates a number of selection criteria such as site size, location, configuration, local population density, demographic characteristics of the local catchment, proximity of transportation networks, availability of car parks and local competitive dynamics, amongst other criteria. Our ability to identify and negotiate financially acceptable lease terms for new sites may be adversely affected by the availability of suitable sites that meet our selection criteria, fluctuations in the property rental market or significant competition for suitable sites from competitors, other commercial enterprises such as retailers, leisure and office space operators and residential operators. As a result, we may be unable to identify suitable sites and secure them at rental prices or on terms acceptable to us, or in a timely manner. If we are unable to secure sufficient sites that meet our selection criteria at acceptable rental prices within the planned roll out timeframe, we may not be able to implement our growth plan.

Any inability to identify or secure sites on favorable terms for new gyms, including for any of the above reasons, could have a material adverse effect on our business, financial condition, results of operations and prospects.

We cannot assure you that the locations of our gyms will continue to be economically viable.

The locations of our gyms have significant influence on their results of operations. We cannot assure you that current locations will continue to be economically viable. As demographic and economic patterns change, current locations may not continue to be attractive and profitable. Decrease in the population of neighborhoods where our gyms are located or adverse economic conditions in these areas and those surrounding those neighborhoods could result in reduced revenue in those locations. Furthermore, we may relocate or open gyms in new areas in anticipation of future development, which ultimately may not materialise.

Businesses in the UK are required to pay a tax for occupying a property, namely "business rates". The UK government adjusts the value of business rates to reflect changes in the property market approximately every five years. The most recent revaluation came into effect on April 1, 2017. The adjustments of the business rates could result in increased estate costs and consequently could have an adverse effect on the economic viability of certain gyms.

Our gyms may not achieve expected or minimum financial performance levels or ROCEs, which may negatively impact our financial performance.

We generally target a minimum Mature Gym return on capital employed ("ROCE") of 30% per organically opened gym. If our gyms do not achieve expected membership levels or membership fees, which has occurred in a percentage of the Mature Gym estate, then the financial performance of the gyms may be negatively impacted, resulting in a lower ROCE. The financial performance and ROCEs of gyms can also be negatively impacted by higher than expected operating, maintenance and property costs, or if such gyms experience higher than expected Initial Capital Investment costs, refurbishment costs and Pre-Opening Costs. We may not be able to recover the capital investment required to develop and operate our gyms.

Our expectations for the financial performance and Mature Gym ROCEs of our gyms, including future gyms to be opened, can be influenced by a wide variety of factors such as incorrect analyses of the suitability of sites, future changes in competitive dynamics or higher levels of future cost inflation, amongst numerous others. See "—The success of our business depends on our ability to attract and retain gym members, while maintaining sustainable and profitable membership fees," "—Our low-cost operating structure is one of our primary competitive advantages, but many factors could affect our ability to control costs" and "—Our lease costs may increase, which may negatively impact our profitability". As a result, our New Gyms, which have been open for less than 24 months, or future gyms to be opened may take longer than expected to reach minimum or targeted levels of financial performance or ROCE, or may never reach such minimums or targets. Additionally, ROCE of our Mature Gyms, which have been open for 24 months or more, may decline as a result of similar factors. We might decide to close our gyms that are underperforming and may incur unrecoverable costs due to terminating leases and employment agreements. If our gyms do not achieve minimum or targeted levels of financial performance or ROCE due to lower than expected membership levels and/or membership and joining fees, or higher than expected property, maintenance and operating costs, or higher than expected fit-out, refurbishment or Pre-Opening Costs, this could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our lease costs may increase, which may negatively impact our profitability.

Property leases constitute a large component of our site operating cost base (a total of £40.0 million for the 12 months ended 31 December 2018, representing 17% of our revenue). The leases for our gyms generally have upwards-only rent adjustments every five years that are typically in line with the retail prices index (the "RPI") subject to a 0–2% per annum collar and 3–4% per annum cap. However, some of our leases (mainly those acquired from the LA Fitness Group and Soho Gyms) have differing terms which include open market rent reviews and fixed rent uplifts. If we are unable to increase our revenue by increasing membership levels and/or membership or joining fees or reduce other costs in response to potential future increases in rents on our sites, then such increasing lease costs could have a material adverse effect on our business, results of operations, financial condition and prospects.

If we are unable to renew our existing leases on favorable terms or at all, we may have to close sites.

We lease all of our gym sites. Our ability to renegotiate financially acceptable lease terms for our sites with expiring leases may be adversely affected by fluctuations in the property rental market, such as increases in market rents or competition for sites from other health and fitness operators, commercial enterprises such as retailers and office space operators and residential operators. Although the majority of our leases benefit from the Landlord and Tenant Act of 1954, which provides security of tenure at the expiration of the lease term, there can be no assurance that we will be able to renew our existing leases on commercially acceptable terms or at all.

If leases are not renewed, we may be required to find alternative sites to operate such gyms. We could incur significant additional costs in identifying and securing suitable alternative sites or may be forced to close gyms in desirable locations if alternative sites cannot be secured. If gyms are closed, we may be unable to attract members from those gyms to other PureGym locations in significant numbers. Such members may cancel their memberships due to, among other reasons, our inability to deliver the services they require in a convenient location for them. If we are unable to renew our leases as they expire, renew them on commercially acceptable terms or secure other favorable sites on acceptable terms, or if a significant number of our existing lease agreements are terminated for any reason, our business, financial condition, results of operations and prospects could be materially adversely affected.

We are generally unable to terminate our property leases for a period of ten years from the start of the lease, and may be obliged to pay rent and pay losses if we close a location.

We are generally unable to terminate our property leases before we can exercise our tenant-only break rights, which can be found in the majority of our leases. These rights are generally exercisable at the end of the tenth year of the lease term, although, in some leases, these rights are not exercisable until the end of the fifteenth year of the lease term and in some leases, there are no rights at all to terminate before the end of the lease term. In circumstances where we are unable to terminate our property leases, we may not be able to sublet or assign our leases on commercially acceptable terms or at all. Accordingly, if we close a gym prior to being able to exercise our tenant-only break right, or prior to the end of the lease term in cases where we do not have a tenant-only break right, we may be obligated to continue to pay rent and incur operating losses at the relevant site, which could adversely affect our business, financial condition, results of operations and prospects.

Disruptions and failures involving our information technology systems could adversely affect member enrollment, member services and financial and administrative functions.

Our ability to enroll members, engage and market to our existing members, target former members to rejoin, process payments, control gym access, monitor security and engage in other critical business tasks is dependent on the efficient and uninterrupted performance of our information technology systems. In particular, disruptions or failures that affect our website, gym access, marketing, billing and other administrative functions could have an adverse effect on our financial performance. While we fully back up all of our membership and business information using third-party locations and have a full business continuity plan in place, any delay or failure on the part of the data back-up provider or in executing our business continuity plan may hinder our ability to resolve information technology system disruptions or failures in a timely and effective manner. Any disruption or failure involving our information technology systems could have a material adverse effect on our business, results of operations, financial condition and prospects.

Any issues, viruses, data inconsistencies, outages, interruptions or security breaches in connection with our information technology systems could cause significant disruption to us, and our members may become dissatisfied if such disruption or failure interrupts our ability to provide our members with access to our gyms or to other services.

Member dissatisfaction may cause members to stop using our services, cancel their membership or otherwise generate negative publicity, which could result in a material adverse effect on our business, results of operations, financial condition and prospects.

Some of our information technology systems, such as our membership management and billing systems, are outsourced to third-party providers, which in this instance is Exerp. In addition, we periodically update or change our information technology systems. Any disruptions to our information technology systems as a result of a failure by one of our third-party providers, or termination of our relationship with Exerp for any reason, could have a material adverse effect on our business, results of operations, financial condition and prospects.

Given we are a technologically enabled company and hold a large amount of sensitive and potentially valuable member information, we may be subject to cyberattack. Such an attack could take a variety of forms, for example, a denial of service/mass attack, penetration of network access in one of our sites and hacking into our network in our offices in London, Leeds or Southampton. Successful penetration of our defenses against cyberattack could lead to the loss of member data and the direct costs associated with this as well as broader reputational damage. While we take cyber security very seriously and perform regular reviews to identify and address areas of potential weakness and continually reduce cyber security risk, there can be no assurance that our business, results of operations, financial condition and prospects will not be adversely impacted by a breach of our cybersecurity systems.

Our success is dependent on our brand and reputation.

We rely on positive brand recognition, among other factors, to attract and retain members. Brand value or reputation can be severely damaged even by isolated incidents, particularly if the incidents receive considerable negative publicity or result in litigation. Some of these incidents may relate to our growth strategies, our development efforts or the ordinary course of our business, such as:

- unsatisfactory customer service, which impact may be magnified by negative commentary on social media;
- poor condition of a gym, including age of equipment, cleanliness or overcrowding;
- reductions in amenities after the conversion or refurbishment of an existing gym, for example, when swimming pools or other amenities are removed from gyms that previously offered such facilities;
- gym access or other issues resulting from a failure of our information technology systems; or
- breach or allegations of breach of legal and regulatory obligations, including health and safety requirements.

Other incidents that may disrupt the gym experience of our members or generate negative publicity or harm our brand or reputation may arise from events that are or may be beyond our control, such as:

- data security breaches or fraudulent activities associated with our customer records or electronic payment systems;
- incidents related to member safety, such as physical or verbal harassment or abuse;
- inappropriate member behavior;
- litigation and legal claims;
- third-party misappropriation, dilution or infringement of our intellectual property;
- the occurrence of a major incident at one of the gyms such as a flooding, major fire or a terrorist attack; or
- illegal activity targeted at Pure Gym or others (for example, illegal use of gyms by non-members).

Failure to address, or appearing to fail to address, these and other issues could erode consumer confidence in our gyms or our brand and may significantly reduce consumer demand for our gyms, which may result in fewer memberships sold or renewed and diminish our ability to attract and retain quality staff. Furthermore, negative commentary about PureGym may be posted on social media or similar platforms at any time and may harm our reputation or business. Consumers value readily available information about gyms and often act on such information without further investigation and without regard to its accuracy. The harm may be immediate without affording us an opportunity for redress or correction. Restoring the brand and reputation of PureGym may be costly and difficult to achieve.

If our efforts to maintain our brand and reputation are unsuccessful, or if PureGym's brand or reputation are harmed due to the above factors or otherwise, our business, results of operations, financial condition and prospects could be materially adversely affected.

We may be unable to obtain the requisite planning permission to open new gyms and could face delays in opening new gyms.

When opening new gyms, we may require planning consents from local authorities if a potential gym site does not already have the requisite use or planning permission. Additionally, the majority of PureGyms are open 24/7, which often requires various specific consents from local authorities. Any inability or delays in receiving such consents could restrict or delay our roll out plans or increase our roll out costs.

We may also experience other unanticipated roll out costs or delays in opening new gyms for a variety of reasons, such as shortages of materials or skilled labour, labour disputes and modifications in design. Any delays in new gym openings or the failure to achieve any required consents, including for any of the above reasons, could have a material adverse effect on our business, financial condition, results of operations and prospects.

The opening of new gyms near our existing locations may negatively impact our membership levels and fees at our existing gyms and accordingly, the profitability of such sites.

We intend to continue opening new PureGyms near certain of our existing gyms as part of our growth strategy. The opening of new gyms in the catchment areas of our existing gyms may attract some members away from our existing gyms for a number of potential reasons, such as the new gyms' closer proximities to such members' places of work or residence. This may result in lower revenue and profitability at our existing gyms, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not be able to successfully execute our growth strategy or effectively manage our growth.

Our growth strategy contemplates a significant expansion in the number of gyms we operate. Successful implementation of our growth strategy will require significant expenditures before any substantial associated revenue is generated. We cannot assure you that our recently opened or future gyms will generate revenue and cash flow comparable with those generated by our existing mature gyms. Furthermore, we cannot assure you that our new gyms, on average, will continue to mature at the same rate as our existing gyms, especially if economic conditions deteriorate.

Our growth could place strains on our management, employees, information systems and internal controls, which may adversely impact our business.

Growing the number of gyms that we operate will place significant demands on our management resources. We will be required to identify attractive gym locations, negotiate rental terms and open new gyms on a timely and cost-effective basis while maintaining a high level of quality, efficiency and performance at both mature and newly opened gyms. Moreover, we plan to diversify our offering in certain ways, such as opening small box format gyms, and we could encounter unanticipated problems, cost overruns or delays in opening or growing revenue from these gyms or in the market acceptance for our gyms. We will also need to recruit and retain new employees and maintain close coordination among our executive, accounting, finance, marketing, sales and operations functions.

These processes are time-consuming and expensive and may divert management's attention. We may not be able to effectively manage our growing number of gyms, and any failure to do so could have a material adverse effect on our rate of growth, business, financial condition and results of operations.

If we cannot retain senior management, and retain and attract other key managers, we may not be able to manage our operations successfully and pursue our strategic objectives.

The successful implementation of our strategy is dependent on our ability to recruit, retain and motivate high-quality senior management and other personnel with extensive experience and knowledge of the fitness industry, including gym managers and regional managers who play an important role in the operation of our gyms. Availability of such personnel is limited and competition for such personnel is strong. If we are unable to effectively recruit such employees and manage our employee turnover rate, there could be a material adverse effect on our business. Our ability to meet our labour needs is subject to many external factors, including competition for and availability of qualified personnel in a given market, unemployment levels within those markets, wage rates, health and other insurance costs, pension costs and changes in employment, labour or other workplace regulations. Increased competition for qualified employees could lead to salary cost inflation. The departure of senior management personnel or a failure to attract and retain other managers or qualified employees while simultaneously controlling labour costs could delay or prevent the achievement of our strategic objectives and could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be adversely affected by a change in the employment status of personal trainers operating at our gyms.

All of our personal trainers are independent contractors who pay an annual license fee and are permitted to train their clients at our gyms. In exchange for accessing our gyms and marketing their sessions to members, under our "hours" agreement, a proportion of our personal trainers, in addition to paying us the annual licensing fee, also provide gym services to us for a set number of hours per week, such as teaching group exercise classes and monitoring the gym floors. As an alternative to providing these gym services, they can elect to pay us a monthly fee (known as "rent" in the gym industry) rather than provide these gym services. Personal trainers in a small number of our gyms are engaged as employees on a part-time basis for a set number of hours to provide gym services and are separately engaged as independent contractors to pay a monthly rent in order to access our gyms and market their services to members. As independent contractors, the personal trainers are responsible for their own tax and National Insurance contributions. The vast majority of our personal trainers are engaged on either a "rent agreement" or an "hours agreement", with approximately 23% being party to a rent agreement. Although we believe that these arrangements are in accordance with industry practice, there is a risk that personal trainers could be reclassified either due to a change in law or by the UK tax authorities and/or an employment tribunal as either "employees" or "workers" (a quasi-employment status) rather than independent contractors. If we were to reclassify our personal trainers as employees or were required to amend our contracts significantly in response to regulatory requirements, our net expense related to personal trainers could increase as a result of modifying the applicable arrangements, including in respect of increased tax and wage costs, and any such increase may be significant.

In addition, if a personal trainer was reclassified by the UK tax authorities as an employee or a worker, we could be subject to back payment of taxes and National Insurance contributions. If an employment tribunal found that a personal trainer was an employee or a worker, we could be subject to claims regarding back-payment of minimum wage, holiday pay, and potentially pensions auto- enrolment in connection with such reclassification. Aside from the monetary expense of participating in any legal or regulatory proceedings on this issue and any damages, penalties or settlements resulting from such proceedings, which may be significant, involvement with such proceedings could negatively affect our brand and require management attention. Any of the above could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not be able to attract, train and retain a sufficient number of qualified personal trainers

We engage approximately 10 to 15 personal trainers per gym. Personal trainers interact with members within the gyms and form a core part of our value proposition to members. Availability of suitable personal trainers is limited and competition for them is strong. Although we believe that our personal trainers wish to retain their independent status, any transition or lack of transition in their employment status may negatively affect our ability to attract and retain personal trainers. If we are unable to attract or retain qualified and suitable personal trainers to our gyms, the customer proposition could be diluted and staff costs could increase, as we would be required to hire additional staff. If we fail to attract, train and retain a sufficient number of qualified and suitable personal trainers, there could be a material adverse effect on our business, financial condition, results of operations and prospects. See *"—We may be adversely affected by a change in the employment status of personal trainers operating at our gyms".*

Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity and collaboration fostered by this culture.

We believe that a critical contributor to our success has been our corporate culture, which we believe fosters collaboration, innovation and entrepreneurship. As we grow, employees and independent contractors (including personal trainers) will become more dispersed and we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. If we are unable to maintain our corporate culture, we may find it difficult to attract and retain motivated employees, continue to perform at current levels or execute on our business strategy, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Due to the capital-intensive nature of our business, we may incur additional indebtedness in the medium term if our cash flow or current facilities cannot support our capital requirements and, if we are not able to access additional financing or capital as and if necessary, our ability to operate successfully or expand our business may be impaired and our results of operations could be adversely affected.

Opening new gyms and maintaining existing gyms is capital intensive, and we require significant capital to finance such activities, as well as to fund ongoing investments in our business and to meet our debt obligations. We are pursuing a roll out strategy and, although we believe that we have sufficient working capital for the next 12 months to achieve our strategy, there can be no assurance that we may not need to incur additional indebtedness or substantially reduce our growth plans to meet our capital requirements in the medium term. Raising new debt securities could increase our finance costs or be available only on terms that restrict our business.

Any inability or delay in raising additional capital when and if required may affect our ability to execute on our growth strategy or cause us to lose future opportunities or hinder our ability to respond to competitive pressures, all of which could have a material adverse effect on our business, financial condition, results of operations and prospects

Our intellectual property rights, including trademarks and trade names, may be infringed, misappropriated or challenged by others.

We believe our brand "PUREGYM" and related intellectual property are important to our continued success. We seek to protect our trademarks, trade names, copyrights and other intellectual property by exercising our rights under applicable laws. We may also from time to time be required to initiate litigation or other enforcement action to enforce our trademarks, trade names and other intellectual property. Third parties may also assert that we have infringed, misappropriated or otherwise violated their intellectual property rights, which could lead to litigation or other enforcement action against us. Litigation whether pending, threatened or actual, is inherently uncertain and could divert the attention of management, result in substantial costs and diversion of resources, and could negatively affect our membership sales and profitability regardless of whether we are able to enforce or defend our rights successfully. If we fail to successfully protect our intellectual property rights for any reason, or if any third party misappropriates, dilutes or infringes our intellectual property, the value of our brand may be harmed, which could have an adverse effect on our business, financial condition, results of operations and prospects.

Our dependence on third-party contractors and suppliers for site fit out, equipment provision, equipment maintenance and certain other products and services could result in disruptions to our business.

We rely on third-party contractors and suppliers for various services and products, such as site fit out, gym equipment supply, gym equipment maintenance services, cleaning services, certain marketing functions and certain security and first-aid monitoring and response services, amongst others. Although we believe that adequate substitutes are currently available, we depend on these third-party contractors and suppliers to consistently and efficiently operate its day-to-day business. The ability of these third-party contractors and suppliers to successfully provide reliable and high-quality services is subject to technical and operational risks that are largely beyond our control. Any disruption to the operations of our contractors and suppliers could impact our ability to service our existing gyms, maintain the quality of our product offering and open new gyms on time or at all.

If we lose such contractors and suppliers or such contractors and suppliers encounter financial hardships unrelated to demand from us, we may not be able to identify or enter into agreements with alternative contractors and suppliers on a timely basis on acceptable terms, if at all. Transitioning to new contractors and suppliers may be time consuming and expensive and may result in interruptions to our operations.

If we encounter delays or difficulties in securing the products or services provided by our third- party contractors and suppliers or there is a deficiency, lack of or poor quality of such products or services provided, our ability to serve our members and grow our brand and gym footprint would be interrupted. Any of these events could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be unable to maintain the required level of insurance cover on acceptable terms or at an acceptable cost.

We might not be able to maintain general liability insurance on acceptable terms in the future or maintain a level of insurance that would provide adequate coverage against potential health and safety claims. An increase in the number of claims against health and fitness gym operators generally may result in the cost of insurance for the industry as a whole to rise and comprehensive insurance coverage may become more difficult to attain. Any increase in the cost of insurance in the market is likely to impact our business, financial condition, results of operations and prospects.

We may be forced to close gyms temporarily or other adverse consequences could result due to unforeseen circumstances.

We may be forced to temporarily close gyms in the future or other adverse consequences such as property damage or personal injury due to any number of unforeseen circumstances, including as a result of fire, flood, technical difficulties, loss of power, health and safety incident, terrorist incident or natural disaster. Political crises, such as riots, terrorist attacks, war and other political instability could also disrupt our operations. In the past, we have had to close a small number of gyms temporarily, primarily due to flooding. Any prolonged closures may adversely affect our results of operations and may also result in longer term reductions in revenue and profitability for a number of reasons, such as termination of memberships by members of the affected gyms. Any losses may be in excess of, or outside the scope of, our insurance. Failure to properly manage any temporary closures could have an adverse effect on our business, financial condition, results of operations and prospects.

We may identify and pursue the acquisitions of other health and fitness businesses or existing gyms and may fail to successfully integrate such businesses or gyms, may have liabilities that we are not aware of or may not be as profitable as we expected them to be.

As opportunities arise, we will continue to assess possible acquisitions of other health and fitness operators, as well as select gyms from other health and fitness operators, to complement our organic site roll out strategy. Our ability to make such acquisitions could be affected by a number of factors, including legal and regulatory changes, competition regulations, general macroeconomic, social and political conditions and available capital.

Even if we are successful in acquiring target businesses, we may experience difficulties in integrating targets into our business, may incur higher than expected costs or fail to realise the anticipated benefits. Acquiring new businesses can place significant demands on management, employees, suppliers, systems and resources and can expose us to new or unidentified liabilities. An acquired business also may not perform in line with our expectations at the time of the acquisition. Furthermore, we may not achieve the desired level of revenue or cost synergy benefits on integration of new businesses or gyms and the cost of achieving those benefits may be higher than anticipated. Failure to integrate acquisitions successfully or the manifestation of unexpected liabilities or costs associated with such acquisitions could have a material adverse effect on our business, financial condition, results of operations and prospects.

Additionally, we may be exposed to unexpected costs or liabilities resulting from acquisitions which may not be covered by contractual representations and indemnities. Although we typically conduct due diligence investigations prior to each acquisition, we can provide no assurance that we will discover all deficiencies, facts or material liabilities of an acquired business for which we may be responsible as a successor owner or operator, and actual developments may differ significantly from our expectations. Additionally, acquisitions may require the approval of governmental or regulatory authorities which can block, impose conditions on, or delay the process, resulting in a failure on our part to proceed with announced transactions on a timely basis or at all, thus hampering our opportunities for growth.

Any acquisition or other strategic transaction we may undertake in the future could result in the incurrence of debt and contingent liabilities, an increase in interest expenses and amortisation expenses related to goodwill or other intangible assets or in the use by us of available cash on hand to finance any such acquisitions.

In identifying acquisition targets, we may incorrectly assess the market position, growth prospects of the target business, or whether the business' geographic location, equipment or other assets fit within our existing operations. We may incorrectly assess the success of the location of the target business, as well as the potential to enhance these locations following the acquisition, upon which the price paid for acquisitions is primarily based. Unanticipated events or liabilities relating to these businesses could have a material adverse effect on our results of operations, financial condition and cash flow. Such failures to achieve our acquisition target performance goals and could in turn have material adverse effects on our revenue, results of operations, financial condition and cash flow.

We may invest in new business lines, which may not achieve expected results.

As part of our business strategy, we may diversify into new formats of gym, such as small box format, and new lines of business within the health and fitness market in which we have not previously directly participated. New business lines would require the investment of additional capital and the involvement of our senior management, which would divert management time away from other matters, such as our core operations. We may be unable to develop new business lines and they may not perform in line with expectations, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may expand into new international markets, which may have different market conditions and consumer preferences than the UK and expose us to other potential risks.

We may consider potential expansion into new international markets either through the acquisition of existing gym portfolios or through organic roll out. Such international markets may have different competitive conditions, market conditions, value gym penetration rates, consumer culture and preferences and discretionary consumer spending habits than the UK, which may cause gyms in these markets to perform differently than our gyms in the UK and thus fail to deliver the expected financial performance and ROCEs. In addition, any such future expansion would result in our operations being subject to new laws and regulations and could increase costs associated with complying with existing laws, regulations or licensing and authorisation regimes. Expansion into new international markets could also subject us to risks related to adverse fluctuations in currency exchange rates. Any of the above factors could have a material adverse effect on our business, financial condition, results of operations and prospects.

Certain non-IFRS measures such as Group Run-Rate Adjusted EBITDA incorporate forward- looking estimates that may differ from actual results.

Certain expected or estimated non-IFRS measures, such as Group Run-Rate Adjusted EBITDA, incorporate forward-looking estimates and assumptions made by our management. Run Rate Adjustment replaces the Adjusted EBITDA earned by our gyms that are less than three years old at the end of a certain reporting period with the projected Adjusted EBITDA for their third year of operation. Although we believe that Group Run-Rate Adjusted EBITDA is a useful metric to describe the Group Adjusted EBITDA before Pre-Opening Costs that our existing business may generate as it matures, we cannot assure you that we will be successful in achieving forecast levels of Gym Site Adjusted EBITDA within the timelines anticipated or at all. The assumptions we have made with respect to the Group Run-Rate Adjusted EBITDA and other non-IFRS Financial Measures that we represent in this report are based on our current estimates and they involve risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements to be materially different from any anticipated future results, performance or achievements expressed or implied by such adjusted financial information.

Other companies, research agencies or market reporters may include other items or factors in their calculation of similar metrics and may use certain estimates and assumptions that we do not use when calculating these metrics. These factors may cause the calculations by others of similar metrics to differ substantially from our calculations. None of the calculations of these measures should be considered in isolation or as an alternative measure of performance under International Financial Reporting Standards.

The financial information presented herein has been prepared by management. The independent auditors of Topco have not , reviewed, compiled or performed any procedures with respect to such financial information for the purpose of its inclusion herein and accordingly, they have not expressed an opinion or provided any form of assurance with respect thereto for the purpose of this document. Furthermore, the financial information does not take into account any circumstances or events occurring after the period to which it refers. You should therefore not place undue reliance on the information presented above.

The UK health and fitness industry is highly competitive and we may fail to compete effectively.

The UK health and fitness industry is highly competitive. Competition for provision of health and fitness services is highly localised, and we compete with all local public and private health and fitness operators, gyms and leisure centers offering exercise facilities, including boutique exercise studios. Our competitors have opened and may open further gyms or exercise facilities in the catchment areas of our existing or planned gyms.

Competitors, which may be new or existing operators, including companies that have greater resources or greater name recognition than us, may compete to attract members in our current or prospective markets. Non-profit organisations and local authorities in our markets may be able to obtain land and construct gyms at a lower cost and may be able to collect membership fees without paying taxes or receive preferential VAT treatment, thereby allowing them to potentially charge lower prices. Due to the increasing number of value gyms in the UK, we may face increased direct competition in the value segment of the market, especially if the operators of such value gyms charge lower membership prices than us or gain access to significant amounts of capital to enable them to rapidly build new sites. In addition, because we do not have exclusive rights to many of the elements that comprise our in-gym experience and service offering, competitors may attempt to copy or improve on our business model, or portions thereof, which could erode our competitive position, market share and brand recognition and adversely affect our prospects. There is also a risk that traditional mid-market and premium health and fitness club operators may change their models and lower prices or create lower price brand alternatives to more effectively compete with us.

In addition, individuals wishing to exercise have a wide variety of options available to them other than using purpose-built health and fitness facilities. These include engaging in outdoor activities such as cycling, running and group exercise programs, participating in other sports (including team sports) or using exercise machines or weights, fitness apps or other online programs at home.

Increased competition in the health and fitness industry could result from new market entrants or existing operators expanding their operations or lowering their prices, including operators who have traditionally participated in the mid-market and premium segment, particularly large multi-facility operators that are able to compete for attractive property opportunities. Some competitors may have lower fixed or variable costs, or have lower ROCE expectations than us, which means that they may be able to offer lower membership fees for equivalent services. We also face competition from operators offering comparable or higher pricing in conjunction with higher levels of service and other amenities. In response to competition, our business may from time to time make certain pricing, service, sales and marketing or capital decisions that could have an adverse effect on our results of operations and financial condition. If we cannot compete adequately, our growth strategy as well as our business, financial condition, results of operations and prospects could be materially adversely affected.

Our success is dependent on the continuing popularity of health and fitness in the UK, and the popularity of value gyms in particular.

Our success is dependent on the continuing popularity of value gyms in the UK. Alternative forms of fitness or venues for fitness may become popular and trends in the type of gyms that consumers wish to join may change in the future. Changes in consumer preferences that could affect us include, for example, a preference for in-home exercise, team sports, outdoor fitness activities or studio-based group exercises.

There may also be a change in the public's perception of the general benefits of exercise, which could lead to less demand for gyms. In addition, the development of pharmaceutical drugs that lead to weight loss may impact overall demand for our product. If we are unable to anticipate and adapt to consumer preferences or industry changes, or if we are unable to adapt our services on a timely basis, we may lose members, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be adversely affected by licensing regimes, tariffs or taxes.

Any significant increase in the rates, taxes and other costs and tariffs levied by local municipalities where our gyms are located or by the UK government could have a material adverse effect on our profitability and financial condition if we are unable to control costs in other areas. We have no control over the amounts levied and could experience increases in the future. Compliance with and future changes to relevant planning laws and building regulations, or the requirement to pay increased regulatory rates and taxes, could restrict or delay our expansion plans or increase our costs. In addition, when modernising, refurbishing or expanding existing gyms or opening new gyms, we may require change of use or planning consents from local authorities. Any inability or delays in receiving such consents could delay or inhibit our refurbishment, extension or new gym opening plans or increase costs associated with these plans. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations and prospects.

We could be subject to material fines and claims related to health and safety risks at our gyms.

Physical exercise and the use of our gym services and facilities, including exercise equipment, poses potential health and safety risks, including serious injury or death, to members, employees and third party contractors. For example, water hygiene problems could develop in our changing facilities that may cause a potential health risk to members and employees, or an accident on the gym floor involving fitness equipment could result in injury or death. We may be subject to material claims asserted against us for any injury or death suffered by someone using our facilities or services. We might not be able to successfully defend such claims and we may be liable for fines, damages and costs in excess of, or outside the scope of, our insurance coverage. Even with adequate insurance, such claims may cause significant damage to our reputation and may have a material impact on our ability to attract or retain members. Any such fines or claims may have a material adverse effect on our business, financial condition, results of operations and prospects.

Our operations and gyms are subject to various laws, regulations and planning and licensing regimes, including in-person marketing, licensing, signage planning, advertising standards and noise abatement requirements. Some environmental laws and regulations impose liability and responsibility on present and former owners, operators or users, including tenants, of sites for the clean-up of contamination at, or arising from, such sites, without regard to causation or knowledge of contamination. For example, we have historically incurred costs for remedial actions when asbestos was discovered at a number of gyms. Although we are not aware of any material actual or pending liabilities, claims or actions relating to contamination of any of our current sites, future investigations may lead to discoveries of contamination that we are required to remedy or damage that may subject us to claims or regulatory proceedings. A breach of environmental regulations, standards relating to health and safety or marketing and advertising or other applicable standards could potentially lead to the mandatory closure of a gym or multiple gyms for a period of time. We may also be subject to claims by members and other visitors alleging exposure to potentially harmful substances that may be present within our gym sites. We may not be able to successfully defend against such claims or regulatory proceedings or our insurance coverage may be insufficient to cover the costs of such claims. Any such actions may also lead to negative publicity for us and adversely affect our ability to attract new and retain existing members, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

New laws, regulations and licensing regimes or changes in existing laws and regulations, particularly those relating to environmental protection, health and safety, labour and employment, tax, competition, consumer protection, marketing and advertising practices, privacy and information security, may require extensive system and/or operating changes that may be difficult to implement and could increase our operating expenses or subject us to additional costs, fines or other penalties. For example, a change in the VAT or other tax regimes applicable, or the application thereof, to our business may result in uncertainty, disruption to operations and implementation costs, which we may not be able to pass on to our customers. Compliance with, or any violation of, current and future laws, regulations or licensing regimes could require material expenditures by us, expose us to government enforcement action and claims by members or otherwise materially adversely affect our business, financial condition, results of operations and prospects.

We operate in the consumer sector and our business may be significantly adversely affected by economic conditions and other factors in the UK affecting levels of disposable income and consumer confidence.

We currently operate exclusively in the UK, which exposes us to potentially adverse developments related to changes in consumer preferences, general deterioration in economic conditions and demographic changes in the UK market. On 23 June 2016, a majority of voters in the UK opted to withdraw from the EU in a national referendum and on 29 March 2017, the Government formally initiated the withdrawal process ("Brexit"). The terms of withdrawal are subject to a protracted negotiation period that could last until October 2019. Depending on the final terms of Brexit, the UK could lose access to the single European Union market, which could result, among other things, in the disruption of the free movement of goods, services and people between the UK and the European Union, undermine bilateral cooperation in key geographic areas and significantly disrupt trade between the UK and the European Union or other nations as the UK pursues independent trade relations. This could have an impact on the general and economic conditions in the UK, which will directly adversely affect the financial condition of our members.

These developments, as well as any other adverse developments in macroeconomic conditions in the UK, or the perception that any of them could occur, may result in the lower availability of credit, higher interest rates and tax rates, increased unemployment, higher consumer debt levels, lower consumer confidence, lower wage and salary levels, inflation or the public perception that any of these conditions may occur, could adversely impact demand for gym memberships in the UK. Membership of a gym may be viewed as a non-essential item and, in times of economic uncertainty or recession, members of gyms may terminate or suspend their membership. Macroeconomic conditions and uncertainties may also impact our suppliers in ways that would adversely affect our business and results of operations, including supplier closures or increases in the costs of products or services they supply. Lower levels of future economic growth, or any deterioration in the economy or any of the factors mentioned above could have a material adverse effect on our business, financial condition, results of operations and prospects.

Failure to comply with data protection legislation or a security breach or system failure in our technical or information technology infrastructure could result in significant harm to us.

In the ordinary course of business, we collect, transmit and store member and employee data, including dates of birth, bank account details and other highly sensitive personally identifiable information (including information about their physical health), in information systems that we maintain. We have a large membership database made up of prospective, current and former members. This data could be an attractive target for cyber-attack by malicious third parties with a wide range of motives and expertise, including organised criminal groups, hackers, disgruntled current or former employees and others. The protection of such personal data is critical to us. Furthermore, our use of this information is subject to numerous laws, regulations and standards designed to protect sensitive or confidential client and employee data, including, among others, the UK Data Protection Act 2018 (the "DPA"), the Privacy and Electronic Communications Regulations ("PECR") and the UK Payment Card Industry Data Security Standard ("PCI DSS"), which impose significant compliance obligations. The EU-wide General Data Protection Regulation (the "GDPR"), implemented in the UK through the DPA, became applicable in May 2018 and implements more stringent operational requirements for controllers and processors of personal data, including, for example, expanded disclosures about how personal information is to be used as well as requirements to include certain mandatory provisions in contracts with service providers who process personal data on our behalf. The DPA also imposes restrictions on the processing of certain types of data (e.g. health data) and imposes restrictions on the transfer of personal data outside of the EU (though there are currently challenges to several approved mechanisms before the European courts), which could further limit our ability to use and share personal data. Regulators will also have the ability to impose larger fines of up to €20 million or up to 4% of the total worldwide annual turnover of the preceding financial year, whichever is higher. Although we monitor legal developments, there can be no guarantee that we will be compliant at all times, and this could lead to governmental enforcement actions, litigation, fines and penalties or adverse publicity, which could have an adverse effect on our reputation and business.

We also use cookies and similar technology for online behavioural advertising. In the UK, consent is required for the placement of a cookie on a user's device. The current EU laws that cover the use of cookies and similar technology and direct marketing are under reform. Regulation of cookies, web beacons and other similar technology may lead to broader restrictions on our research activities, including efforts to understand users' Internet usage and attract prospective users. Such regulations may increase the costs for collecting or using online usage information, increase regulatory scrutiny and increase the potential for civil liability under consumer protection laws. Similarly, changes to direct marketing rules may also have a significant effect on how we market to prospective and current members. Compliance with evolving privacy and security laws, requirements and regulations may result in cost increases due to necessary systems changes, new limitations or constraints on our business models and the development of new administrative processes. Although we monitor the changes in law in this regard closely and make an effort to ensure compliance, there can be no assurance that we will be in compliance at all times, and this could lead to governmental enforcement actions, litigation, fines and penalties or adverse publicity, which could have an adverse effect on our reputation and business.

Despite the security measures we have in place to comply with applicable laws, regulations and standards, our facilities and systems, and those of our third-party providers, may be vulnerable to security breaches, acts of cyber terrorism or sabotage, vandalism or theft, computer viruses, misplaced or lost data, cyber fraud, programming and human errors or other similar events. A breach or perceived breach of data protection legislation involving the unlawful processing, misappropriation, loss or other unauthorised disclosure of personal data, including the use of such information for direct marketing purposes, whether by us, one of our sub-contractors or service providers or an unrelated party, could result in regulatory action, potential loss of business, adverse publicity, compensation claims and fines of up to €20 million or up to 4% of the total worldwide annual turnover of the preceding financial year, whichever is higher. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations and prospects.

Glossary

"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.

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

"Adjusted EBITDA margin"
Adjusted EBITDA for that period divided by revenue for that period.

"Expansionary Capital Expenditure"
the Initial Capital Investment and the capital costs of expanding gym sites incurred in that period, along with corporate growth capex

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

"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.

"Initial Capital Investment"
the capital cost of bringing a new gym into operation, including expenditures on site fit out, fixtures, fittings and equipment.

"Large Box Format (LBF)"
Large Box Format (LBF) gyms are gyms that are typically 15,000-20,000 square feet in size.

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

"Mature Gym EBITDA"
profit for a certain period before income tax expense, net finance cost, depreciation of property, plant and equipment, amortisation of intangible fixed assets, profit/loss on disposal of property, plant and equipment, exceptional administrative expenses and Head Office Costs for Mature Gyms. Mature Gym EBITDA does not include the Non-Cash Rent Adjustment, the share based payment adjustment or adjustments for Pre-Opening Costs or other extraordinary items that were added back to Group Adjusted EBITDA and Gym Site Adjusted EBITDA.

"Mature gyms"
the Group's gyms that have been open as PureGyms for 24 months or more as of the end of the relevant reporting period.

"Net Debt"
as total senior indebtedness of the Group less cash and cash equivalents.

"New gyms"
the Group's gyms that have been open as Pure Gyms for less than 24 months as of the end of the relevant reporting period.

"Non-Cash Rent Adjustment"
adding back the non-cash rent expense charged to the income statement in the period (less amounts added back as part of Pre-Opening Costs), as management believes that this is a better reflection of our actual earnings. This is because the Group typically receive a rent-free period of one year or more as an incentive from developers or property owners to lease space in their buildings. Under IFRS, the benefit of this rent-free period is spread out over the life of the lease (as a deduction in the rent payable over the entire lease period), even though on a cash basis, the Group have no cash outlay for the rent-free period.

"Number of gyms"
the total number of gyms that are open and trading under the PureGym, LA Fitness Group and Soho Gym brands, as of the specified date or the end date of the relevant period.

"Number of members"
the total number of active members, including the total number of members who have suspended ("freeze" or "frozen") their memberships, of PureGym (for the period subsequent to our acquisition of LA Fitness and Soho Gyms and prior to our completing the conversion or disposition of LA Fitness and Soho branded gyms) LA Fitness and Soho branded gyms, but excluding the total number of members who have cancelled their memberships and the total number of pre-opening members of organic gyms that have yet to open, as of a specified date or the end date of the relevant period.

"Operating Cash Flow"
Group Adjusted EBITDA plus Working Capital Cash Flow (as adjusted for the non-cash Rent Adjustment) and less Maintenance and Corporate Capital Expenditures for that period.

"Operating Cash Flow Conversion"
Group Operating Cash Flow for that period divided by Group 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, marketing and rent expenses.

"Pro forma"
giving pro forma effect to the issuance of the Senior Secured Notes as if they were issued on 1 January 2017.

"Pro forma interest cover"
The ratio of Run-Rate Adjusted EBITDA for the most recently ended four consecutive fiscal quarters, in each case on a Pro Forma basis to the sum of consolidated interest expense during the most recently ended four consecutive fiscal quarters.

"Pro forma net interest expense"
represents the net of interest payable/receivable for the twelve months ended on the reporting date after giving pro forma effect to the recent refinancing and the application of the proceeds therefrom as if the £360m bond issue occurred on 1 January 2017.

"PureGyms"
the combined New Gym and Mature Gym portfolios.

"ROCE"
EBITDA divided by Initial Capital Investment and refers to return on capital employed.

"Run-Rate Adjustment"
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.

"Run-Rate Adjusted EBITDA"
Group Adjusted EBITDA including Run-Rate Adjustments.

"Small Box Format (SBF)"
Small Box Format (SBF) gyms are gyms that are typically 5,000-8,000 square feet in size.

"Soho Gyms"
The trading name of Ovalhouse Limited.

"Working Capital Cash Flow"
cash movements in working capital less the Non-Cash Rent Adjustment.

Registered Number 11038859

Pinnacle Bidco PLC

Annual Report and consolidated financial statements for the 14 month period ended 31 December 2018

Contents

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LS1 4DL

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Strategic report
for the period ended 31 December 2018

The directors present their strategic report for the 14 month period ended 31 December 2018.

Business Review

The company was incorporated on 30 October 2017 for the purpose of acquiring and refinancing Gym Topco Limited and subsidiaries, a group providing low cost, physical fitness facilities under the PureGym brand which is the focus of this business review. The acquisition took place on 30 November 2017 and accordingly the financial statements present the consolidated results of the group for the 13 months ended 31 December 2018. The company was incorporated as Pinnacle Bidco Limited and changed its name to Pinnacle Bidco PLC on 23 November 2017 following its re-registration as a public limited company.

PureGym is the largest operator of gyms in the United Kingdom, both by number of gyms and members. As of 31 December 2018, the group operated 222 open gyms across the UK (31 December 2017: 192) and had 1,012,000 members (31 December 2017: 927,000) representing growth of 15.6% and 9.2% respectively.

PureGym has a powerful and highly disruptive customer proposition that is differentiated from traditional UK gym operators and appeals to a broad range of consumers. The key elements of the proposition include affordable membership fees, no fixed term contracts and "24x7x365" access to high quality gyms. The proposition is underpinned by PureGym's differentiated low cost, 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.

On 21 June 2018, the group acquired Ovalhouse Limited, an operator with 10 sites trading under the brand of Soho Gyms ("Soho Gyms") and a transition project commenced to convert all Soho sites to the PureGym model. As at 31 December 2018, 4 sites had been successfully converted with the remaining 6 sites closed for refurbishment and on track to reopen under the PureGym brand during the first half of 2019.

Alongside Soho conversions, the group opened 26 new organic gyms during the year, including 4 small box formats. Small box format gyms are typically 5,000-8,000 square feet in size and allow us the flexibility to serve smaller markets and take advantage of increasingly favourable property market dynamics. Our pipeline of large and small box format sites remains strong and we expect to continue our organic roll-out plan at a similar, or faster, pace in 2019 and beyond.

Results

The consolidated statement of comprehensive income on page 15 shows our results for the 14 months ended 31 December 2018 which includes trade for the 13 months ended 31 December 2018.

We are very pleased to report significant growth in the underlying internal key performance indicators of PureGym, restated below on a like for like basis for the 12 months to 31 December using the consolidated results of Gym Topco Limited for the comparative period. Gym Topco Limited is an intermediate holding company within the Pinnacle Topco Limited group and includes within its consolidation, all trade of the PureGym group:

	31 December 2018 No.	31 December 2017 No.	Increase No.	Increase %
Members	**1,012,000**	927,000	85,000	9.2%
Gyms	**222**	192	30	15.6%

Results (continued)

	2018 £'000	2017 £'000	Increase £'000	Increase %
Revenue	**228,403**	198,032	30,371	15.3%
Group EBITDA [1]	**73,141**	64,405	8,736	13.6%
Pre-Opening Costs (unaudited) [2]	***3,508***	*3,562*		
Non-Cash Rent (unaudited) [3]	***4,402***	*1,719*		
Share Based Payment Charge [4]	***248***	-		
Other Extraordinary Items (unaudited) [5]	**-**	*1,780*		
Adjusted Group EBITDA (unaudited) [6]	**81,299**	71,466	9,833	13.8%

[1] Group EBITDA is defined as earnings before net finance cost, taxation, depreciation, amortisation, profit/loss on sale of property, plant & equipment and exceptional items. This better represents the results of the Group's trade than operating profit.

[2] 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 cost, marketing and rent expense.

[3] Under IAS 17, the total lease cost (net of any rent free period) is spread evenly over the life of the lease, resulting in a mismatch between rent expensed and cash paid in the accounting period. The Non-Cash Rent adjustment removes the non-cash rent charged to the income statement in the period (less amounts already added back as part of Pre-Opening Costs adjustment).

[4] The share based payment charge relates to shares in the ultimate parent company, Pinnacle Topco Limited, issued to directors and certain employees. See note 8 of the financial statements.

[5] Other Extraordinary Items refers to the net impact of various one-off items not included in Exceptional Items. These are items that do not meet the IFRS definition of "exceptional" due to their size, but nonetheless are not representative of underlying business performance.

[6] Adjusted Group EBITDA is defined as earnings before net finance cost, taxation, depreciation, amortisation, profit/loss on sale of property, plant & equipment, exceptional items, Pre-Opening Expenses, Non-Cash Rent, Share Based Payments, and Other Extraordinary Items.

Acquisition of PureGym and funding

On 30 November 2017, the group known as Leonard Green & Partners LP (the "Leonard Green group") acquired the entire share capital of Gym Topco Limited for consideration of £308,236,000 and extinguishment of debt totalling £355,924,000. Pinnacle Bico PLC was the acquisition vehicle for this transaction.

At the same time, the group's finances were restructured to obtain a £420 million financing facility with five international institutions consisting of a £360 million bridging loan and a £60 million revolving credit facility agreement.

On 24 January 2018, the bridging loan was replaced with £360 million of 6.375% senior secured notes, issued by the group and listed on The International Stock Exchange, for which certain subsidiaries of the group are guarantors. The notes accrue interest at a rate of 6.375% payable half yearly in February and August and are due to be repaid in full on 15 February 2025.

On 21 June 2018, a further £30 million of senior secured notes were issued to fund the acquisition of Soho Gyms, taking the total value of notes in issue to £390 million at the year end.

In addition to the notes, the group retains a £60 million revolving credit facility with five international institutions (Barclays Bank PLC, Royal Bank of Canada, Credit Suisse AG, ING Bank N.V. and Lloyds Bank plc, collectively "the Lenders"), repayable on 30 November 2024. At 31 December 2018, the

Acquisition of PureGym and funding (continued)

Group was not drawn down on the facility. The facility includes certain financial covenants and the group has been in compliance with all covenants during the current period.

The group also obtains loans from subsidiaries of its ultimate UK parent company, Pinnacle Topco Limited. These loans accrue interest at 8% and are repayable on 30 November 2027.

The above facilities of the group provide headroom for its working capital requirements and for the roll out of new gyms in line with its strategy.

Principal risks and uncertainties

The group is subject to a number of risks and uncertainties. Its business model is based on it being able to generate revenue from selling memberships to its customers, therefore is dependent to some extent on the general economic environment and consumer confidence levels. The Directors believe that our low-price customer proposition mitigates this risk to a certain degree.

As at 31 December 2018, the group has low exposure to interest rate risk with senior secured notes being at a fixed rate of interest.

As at the date of signing these financial statements, there is uncertainty over the result and impact of the United Kingdom's decision to leave the European Union. The group has low exposure to the most likely impacts of this decision on account of its low level of trading with other European Union countries.

The group regularly monitors its cash flow requirements, through the use of short and long term cash flow forecasting.

Employees and diversity

At 31 December 2018 the group had 1,052 employees and these are analysed as follows:

	31 December 2018		
	Male	Female	Total
Company Directors	2	-	2
Senior Managers	3	3	6
Other employees	662	382	1,044
Total	667	385	1,052

I would like to extend our thanks to all our employees, both at the gyms and at the support centre. They continue to play a critical role in the success of the group. I'd also like to thank Adam Bellamy who stepped down from his role as Chief Financial Officer during the year. Adam has made an invaluable contribution to the business during his 6-year tenure with PureGym and I look forward to working with him in his new role as Non-Executive Director of Pinnacle Topco Limited.

On behalf of the Board

A Wood
Director
24 April 2019

Directors' report

for the period ended 31 December 2018

The directors present their Annual Report and audited, consolidated financial statements of Pinnacle Bidco PLC and subsidiaries (together "the Group") for the 14 months ended 31 December 2018.

Principal activities

Pinnacle Bidco PLC is an intermediate holding company within the Leonard Green group and is expected to remain as such for the foreseeable future.

The activities of the Group are discussed in the strategic report on page 4. The Group made a loss for the period of £34,230,000 and the directors are not able to recommend payment of a dividend.

Principal risks and uncertainties

Principal risks and uncertainties are discussed within the Strategic Report on page 6 in accordance with the provisions of s414C (11) of the Companies Act 2006.

Directors

The directors who served the group during the period and up to signing the financial statements were as follows:

H Cobbold	(appointed 30 November 2017)
A Wood	(appointed 10 October 2018)
A Bellamy	(appointed 30 November 2017, resigned 10 October 2018)
J Galashan	(appointed 30 October 2017, resigned 30 November 2017)
M Kirton	(appointed 30 October 2017, resigned 30 November 2017)

Certain directors benefit from qualifying third party indemnity provisions in place during the financial period and at the date of this report.

Going Concern

The group meets its day to day working capital requirements through its cash reserves and borrowing facilities (as detailed in note 16). The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within its existing facilities. The Directors have a reasonable expectation that the group has adequate resources to continue to remain a going concern for the foreseeable future and therefore continues to adopt the going concern basis in preparing its financial statements.

Employees

Management policies seek to ensure that both the recruitment and career development of employees are determined solely on merit and aptitude regardless of age, sex, ethnic origin, religious belief or disability. The company endeavours to ensure that all employees benefit from its training and career development programmes.

Applications for employment by persons with disabilities are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a person with a disability should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of the company as a whole. Communication with all employees continues through company meetings, briefing groups and electronic communications.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' report (continued)

for the period ended 31 December 2018

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and company's auditors are aware of that information.

Independent auditors

In the absence of any notice proposing to terminate their appointment, PricewaterhouseCoopers LLP will be deemed to be reappointed for the next financial year. PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

On behalf of the Board

A Wood
Director
24 April 2019

Independent auditors' report to the members of Pinnacle Bidco PLC

Report on the audit of the group financial statements

Opinion

In our opinion, Pinnacle Bidco PLC's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 December 2018 and of its loss and cash flows for the 14 month period (the "period") then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and consolidated financial statements (the "Annual Report"), which comprise: the consolidated statement of financial position as at 31 December 2018; the consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated statement of changes in equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

- Overall group materiality: £1,800,000 (2017: not applicable - first year audit), based on 2.5% of earnings before interest, tax, depreciation and amortisation ('EBITDA').

- The group has two significant components, Pinnacle Bidco PLC and Pure Gym Limited, which have both been scoped into our audit.

- Risk of impairment of goodwill and non-current assets.
- Risk of material misstatement in acquisition accounting.
- Going Concern.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Independent auditors' report to the members of Pinnacle Bidco PLC (continued)

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	*How our audit addressed the key audit matter*
Risk of impairment of goodwill and non-current assets The group has £460.2m of goodwill and £252.4m of other non-current assets, made up of other intangible assets subject to amortisation and property, plant and equipment. The carrying value of goodwill is tested for impairment annually and management consider if there are any indicators of impairment for non-current assets. No impairment charge has been recorded by management in the current year. We focused on this area because the determination as to whether or not goodwill is impaired involves subjective judgements and estimates about the future results and cash flows of the business. On an annual basis, management calculate the amount of headroom between the value in use of the Group's Cash Generating Unit ('CGU') and their carrying value to determine whether there is a potential impairment of the goodwill relating to those CGUs. The value in use of the CGU is dependent on a number of key assumptions which include: > Forecast cash flows for the next five years; > A long-term (terminal) growth rate applied beyond the end of the five year forecast period; and > A discount rate applied to the model. There were no indicators of impairment identified by management. See the accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates and Note 12 for detailed goodwill disclosures.	We understood and evaluated management's budgeting and forecasting process. We obtained the group impairment analysis and tested the reasonableness of the key assumptions, including the following: - We tested the mathematical accuracy of the impairment model and agreed the carrying value of non-current assets being assessed for impairment to the balance sheet. - We challenged management's calculated group weighted average cost of capital (WACC) used for discounting future cashflows within the impairment model, utilising valuation specialists to assess the cost of capital for the group and comparable organisations. - We traced the forecast financial information within the model to the latest Board approved budget and challenged management to provide support to corroborate trading assumptions, support for capital expenditure and considered the accuracy of previous forecasts. - We performed sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions and to quantify the downside changes needed before an impairment would be required at the CGU level. We determined that the disclosures made with respect to the sensitivity of the WACC are appropriate.
Risk of material misstatement in acquisition accounting During the period the Group acquired the Gym Topco Limited group for £308.2m and Ovalhouse Limited for £18.8m and have accounted for the acquisitions in accordance with IFRS 3 'Business Combinations', generating goodwill of £460.2m. Accounting for business combinations under IFRS 3 requires management to make judgements and estimates, in particular with respect to the identification and valuation of intangible assets and any fair value adjustments on assets and liabilities acquired. Intangible assets of £58.7m associated with the Pure Gym brand and £8.2m for customer relationships were recognised and were allocated useful economic lives ('UEL') of 20 years and 9 months respectively. There were no intangible assets recognised as part of the acquisition of Ovalhouse Limited.	For both acquisitions: - We read the sale and purchase agreement to understand the terms of the transaction and obtained management's analysis of the book and fair values of the acquired balance sheet on the acquisition date. - We agreed the book values of the items on the acquisition balance sheets to underlying records and performed appropriate substantive procedures. - We assessed management's work on the identification and valuation of intangible assets, including the appropriateness of the assumptions used and the UELs assigned to the identified intangible assets, utilising valuation specialists in that work. For the acquisition of Ovalhouse we assessed management's conclusions that there were no intangible assets recognised.

Key audit matter	*How our audit addressed the key audit matter*
Risk of material misstatement in acquisition accounting (continued)	- We assessed the business combinations disclosures in the consolidated financial statements and concluded that they are in accordance with IFRS 3.
Going Concern During the current period the Group has made a loss before tax and has net liabilities and net current liabilities at the balance sheet date. Going concern is considered a key area of focus based on the financial position of the group and the assessment by management requires subjective judgements and estimates about the future cash flows of the business. Management have performed an assessment of going concern, preparing cash flow forecasts for a period of at least 12 months from the anticipated date of approving the group financial statements. Management have concluded that it is appropriate to prepare the financial statements on a going concern basis, that there are sufficient cash flows to settle liabilities as they fall due in this period and that there is adequate headroom in the banking facilities, including meeting the banking covenant during this period.	We understood and evaluated management's cash forecasting process. Management have supported their going concern conclusions by preparing forecasts for a period of 12 months from the date of approval of these financial statements. We obtained these forecasts and tested the key assumptions for reasonableness, including the following: Understanding the banking facilities available to the group and associated covenants attached to those facilities. Considering the components of current liabilities to understand those that represented future cash outflows and those that were non-cash items. Assessing the consistency between the cash flow forecasts used in management's going concern assessment and those used for their annual goodwill impairment test. We also performed sensitivity analysis to ascertain the impact of reasonably possible changes in key assumptions that would result in either a breach of the banking covenants or the group exceeding available bank facilities.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which it operates.

All business activities are within the UK and subject to audit by the group engagement team, the significant majority of trading is undertaken by the Pure Gym Limited component.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£1,800,000 (2017: not applicable - first year audit).
How we determined it	2.5% of earnings before interest, tax, depreciation and amortisation ('EBITDA').
Rationale for benchmark applied	We believe that EBITDA is a primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £1,250,000 and £1,750,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

Materiality (continued)

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £90,000 (2017: not applicable - first year audit) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the statement of directors' responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report to the members of Pinnacle Bidco PLC (continued)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- certain disclosures of directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the company financial statements of Pinnacle Bidco PLC for the 14 month period ended 31 December 2018.

Tom Yeates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
24 April 2019

Consolidated statement of comprehensive income

for the 14 month period ended 31 December 2018

	Note	14 months ended 31 December 2018 £'000
Revenue	4	245,283
Administrative expenses		(212,671)
Exceptional administrative expenses	6	(5,685)
Administrative expenses		(218,356)
Operating profit	5	26,927
Finance income		78
Finance costs	9	(60,833)
Loss before income tax		(33,828)
Income tax charge	10	(402)
Loss for the financial period		(34,230)
Total comprehensive expense for the period		(34,230)

Consolidated statement of financial position

as at 31 December 2018

	Note	2018 £'000
Non-current assets		
Property, plant and equipment	11	196,922
Intangible assets	12	515,706
Deferred tax asset	10	5,946
		718,574
Current assets		
Inventories	13	1,278
Trade and other receivables	14	17,563
Cash and cash equivalents		23,320
		42,161
TOTAL ASSETS		760,735
Current liabilities		
Trade and other payables	15	(76,700)
Borrowings	16	(1,006)
		(77,706)
Non-current liabilities		
Deferred tax liability	10	(14,087)
Borrowings	16	(699,011)
		(713,098)
TOTAL LIABILITIES		(790,804)
NET LIABILITIES		(30,069)
Equity		
Share capital	19	50
Share premium	19	3,863
Retained earnings		(33,982)
TOTAL EQUITY		(30,069)

The financial statements of Pinnacle Bidco PLC, registered number 11038859, on pages 15 to 44 were approved by the board of directors and authorised for issue on 24 April 2019 and were signed on its behalf by:

A Wood
Director

Consolidated cash flow statement

for the 14 month period ended 31 December 2018

	Note	14 months ended 31 December 2018 £'000
Cash flows from operating activities		
Cash generated from operations	20	90,166
Exceptional costs paid	6	(5,685)
Bank interest and similar charges paid		(4,929)
Bank interest received		78
Loan note interest paid		(45,411)
Senior secured notes interest paid		(12,909)
Interest element of finance lease payments		(327)
Issue costs from bank borrowings		(16,274)
UK corporation tax paid		(615)
Net cash generated from operating activities		4,094
Cash flows from investing activities		
Purchase of subsidiary undertakings, net of cash acquired	26	(304,911)
Purchase of property, plant & equipment	11	(48,146)
Proceeds from disposal of property, plant & equipment		264
Net cash used in investing activities		(352,793)
Cash flows from financing activities		
Issue of share capital	19	3,913
Issue of senior secured notes	16	390,000
Repayment of loan note principal		(90,970)
Capital element of finance lease payments		(1,742)
Proceeds from bank borrowings		360,000
Repayments of bank borrowings		(577,762)
Proceeds from intercompany borrowings		288,580
Net cash generated from financing activities		372,019
Net increase in cash and cash equivalents		23,320
Cash and cash equivalents on incorporation		-
Cash and cash equivalents at end of period		23,320

Consolidated statement of changes in equity

for the 14 month period ended 31 December 2018

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
On incorporation	-	-	-	-
Transactions with owners: Proceeds from shares issued	50	3,863	-	3,913
Loss and total comprehensive expense for the period	-	-	(34,230)	(34,230)
Credit to equity for equity settled share-based payments	-	-	248	248
Balance as at 31 December 2018	**50**	**3,863**	**(33,982)**	**(30,069)**

Notes to the consolidated financial statements

1 General information

The principal activity of the group during the period was the provision of facilities for physical fitness and is expected to remain so for the foreseeable future. The group and its subsidiaries are limited by shares and are incorporated and domiciled in England. The address of the Group's registered office is Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY.

2 Summary of significant accounting policies

Basis of accounting

The Group financial statements have been prepared on the going concern basis and in accordance with International Financial Reporting Standards ('IFRS') and IFRS Interpretations Committee ('IFRS IC') interpretations, as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Group financial statements have been prepared under the historical cost convention, as modified for the revaluation of financial assets and financial liabilities at fair value through profit and loss. The Group financial statements are presented in thousands of pounds sterling ("£'000") except when otherwise indicated. Accounting policies have been consistently applied to all financial periods presented.

The preparation of the Group financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's reasonable knowledge of the amount, event or actions, actual results may differ from those estimates.

Basis of consolidation

The Group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 December 2018. The results of subsidiaries acquired are consolidated for the period from the date on which control passed. Acquisitions are accounted for using the acquisition method. Uniform accounting policies are applied throughout the Group, unless otherwise stated.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker is identified to be the Executive Management Team of the Pinnacle Bidco group of companies. The Executive Management Team have identified one reporting segment as the Group operates a single class of business. The Group's activities consist solely of the provision of high quality health and fitness facilities within the United Kingdom. It is managed as one entity and management have consequently determined that there is a single class of business and one operating segment.

Going Concern

The group meets its day to day working capital requirements through its cash reserves and borrowing facilities (as detailed in note 16). The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within its existing facilities. The Directors have a reasonable expectation that the group has adequate resources to continue to remain a going concern for the foreseeable future and therefore continues to adopt the going concern basis in preparing its financial statements.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

Revenue

Revenue primarily represents sales of services provided in the period and non-refundable joining fees received during the period, exclusive of value added tax. Member income includes membership subscriptions and joining fee income. Membership subscriptions are received in advance of the period to which they relate and are recognised as contract liabilities. The performance obligation attached to membership subscriptions is satisfied on a straight-line basis over the membership period as this best represents the timing of services provided. Joining fee income is recognised in the period in which membership commences since the performance obligation attached to that income is satisfied. Revenue from vending income is recognised at the point of sale. Other income includes various ancillary revenue streams, which are recognised in the period to which they relate. All turnover relates to sales in the United Kingdom.

Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Each gym is considered to be a CGU and goodwill is assessed at the group of CGUs level, i.e. across all gyms together.

Goodwill is not amortised, instead impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

The non-amortisation of goodwill is a departure from the Companies Act 2006 requirements, however this is considered a true and fair override due to the indefinite life of the goodwill. This is an alignment with the requirements of IAS 38 for the non-amortisation of goodwill

(b) Intangibles acquired in business combinations

The Group recognises intangible assets acquired as part of business combinations at fair value at the date of acquisition. The determination of these fair values is based upon management's judgement utilising valuation expertise and includes assumptions on the timing and amount of future incremental cash flows generated by the assets and the selection of an appropriate cost of capital. Furthermore, management must estimate the expected useful life of intangible assets and charge amortisation on these assets accordingly, the value of which is shown within administrative expenses. The useful life estimated for customer lists is 1 year and for brands it is 20 years, and these assets are amortised on a straight line basis.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

Inventories

Inventories primarily relate to goods for resale and are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Inventories are valued on a first in, first out basis. No inventories have been written off in the period.

Property, plant and equipment

All property, plant and equipment is initially recorded at cost, including those costs that were directly attributable to bringing the assets into working condition. Any capital contribution by a landlord towards leasehold fitting out works is treated as a lease incentive to be spread over the lease term.

Depreciation is calculated so as to write off the cost of an asset (less residual value) over the useful economic life of that asset as follows:

Leasehold costs	Straight line over the life of the lease
Leasehold improvements	Straight line over 3-15 years
Fixtures and fittings	Straight line over 6 years
IT equipment	Straight line over 3 years

Leases

(a) Finance lease agreements

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included within borrowings. Rentals payable are apportioned between the finance element, which is charged to the consolidated statement of comprehensive income on a straight line basis and the capital element which reduces the outstanding obligation for future instalments.

(b) Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the consolidated statement of comprehensive income on a straight line basis over the period of the lease. The notional value of any rent free period and any other lease incentive provided by the landlord is spread on a straight line basis over the period of the lease.

Financial instruments

Financial liabilities

The company initially recognises financial liabilities at fair value where applicable (net of any transaction costs) and subsequently they are measured at amortised cost using the effective interest method. Transaction costs are amortised using the effective interest method over the life of the loan.

Derivative financial instruments

The Group sometimes uses derivative financial instruments such as interest rate swaps and caps to hedge risks associated with interest rate movements. The Group initially recognises such instruments at fair value where applicable and subsequently remeasures at each balance sheet date. The Group had no separable derivatives at the balance sheet date.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

Financial assets

The Group classifies its financial assets as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting date which are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet.

Impairment of financial assets

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Taxation

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Capital management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the group. They are non-recurring material items of income or expense that have been shown separately due to the significance of their nature or amount.

2 Summary of significant accounting policies (continued)

Future accounting standards

At the date of authorisation of these financial statements the following standards and interpretations were in issue but not yet effective and therefore have not been applied in these financial statements:

- Amendments to IFRS 2 'Share based payments' on clarifying how to account for certain types of share-based payment transactions;
- Amendments to IFRS 4 'Insurance contracts' regarding the implementation of IFRS 9;
- Amendments to IFRS 9 'Prepayment features with negative compensation' regarding termination rights in order to allow measurement at amortised cost even in the case of negative compensation payments.
- Amendments to IAS 28 ' Long-term interests in associates and joint ventures' on clarifying that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
- Amendment to IAS 40 'Investment property' relating to transfers of investment property;
- IFRIC 22 'Foreign currency transactions and advance consideration';
- IFRIC 23 'Uncertainty over income tax treatments'
- IFRS 16 'Leases'; and
- IFRS 17 'Insurance contracts'

Other than in respect of IFRS 16, the directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements.

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The group is undertaking a project to review all of the group's leasing arrangements in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the group's operating leases.

As at the reporting date, the group has non-cancellable operating lease commitments of £522.1m (see note 22), all of which are long term and thus impacted by adoption of IFRS 16.

The group expects to recognise right-of-use assets of approximately £217.8m on 1 January 2019, and lease liabilities of £302.4m (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Overall net liabilities will be approximately £79.3m higher (before adjusting for deferred tax assets to be recognised), and net current liabilities will be £2.3m higher due to the difference between current liabilities recognised under IFRS 16 and the IAS 17 deferred rent accrual.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

Future accounting standards (continued)

The group expects that profit before tax will decrease by approximately £7.8m for 2019 as a result of adopting the new rules. Adjusted EBITDA as presented in the Strategic Report will not be impacted.

Operating cash inflows will increase and financing cash inflows decrease by approximately £7.5m as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

Early adoption of accounting standards

The following standards were in issue but not yet effective at the date of authorisation of these financial statements but have been early adopted in these financial statements:

- IFRS 9 'Financial instruments'; and
- IFRS 15 'Revenue from contracts with customers'

Neither of these standards have had a material impact on the financial statements.

3 Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment of non-financial assets

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment based on the recoverable amount of its cash-generating units ('CGUs'). The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a pre-tax discount rate in order to calculate the present value of the cash flows. More information including carrying values is included in note 12.

(b) Useful economic lives of property, plant and equipment

The annual deprecation charge for property, plant and equipment is sensitive to changes in the estimates, useful economic lives and residual values of the assets. The assessment of useful economic lives and residual values is determined to be a critical accounting judgement and is re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 11 for the carrying amount of the property plant and equipment and note 2 for the useful economic lives for each class of assets.

3 Critical accounting estimates and assumptions (continued)

(c) Recoverability of deferred tax assets

The Group recognises deferred tax assets only if it can be regarded as more likely than not that there will be taxable profits from which the future reversal of the underlying temporary differences can be deducted.

The calculation of the deferred tax asset is based on an estimation of the likely taxes due which requires significant judgement as to the ultimate determination of certain items. Where the actual tax position differs from these estimates, such differences will have an impact on the income tax and the deferred tax asset in the period when such determination is made. Detail of the tax charge and deferred tax asset are set out in note 10.

4 Revenue

Revenue relates wholly to sales in the United Kingdom and is analysed by service or product as follows:

	Period ended 31 December 2018 £'000
Member income	226,414
Vending income	6,684
Other income	12,185
	245,283

5 Operating profit

	Period ended 31 December 2018 £'000
Operating profit is stated after charging:	
Employee costs (note 8)	33,211
Amortisation of intangibles (note 12)	11,382
Depreciation of property, plant & equipment (note 11)	
- owned assets	31,158
- assets held under finance lease contracts	1,204
Operating lease rentals	
- land and buildings	43,666
Loss on disposal of property, plant & equipment	1,381
Exceptional costs (note 6)	5,685

Notes to the consolidated financial statements (continued)

5 Operating profit (continued)

A reconciliation from operating profit to Group EBITDA is as follows:

	Period ended 31 December 2018 £'000
Operating profit	26,927
Depreciation	32,362
Amortisation	11,382
Loss on disposal of property, plant and equipment	1,381
Exceptional costs	5,685
Group EBITDA	77,737

6 Exceptional administrative 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:

	Period ended 31 December 2018 £'000
Costs relating to the purchase and sale of the group	4,180
Costs relating to acquisition of subsidiaries	868
Integration and transition costs	637
	5,685

On 30 November 2017, the PureGym group was acquired by Leonard Green & Partners and in doing so incurred transaction expenses of £4,180,000.

The group acquired Soho Gyms on 21 June 2018, in addition to exploring a number of other acquisition opportunities. Due diligence and transaction fees incurred in connection with the acquisition of Soho Gyms and other potential targets totalled £868,000.

Following the acquisition of Soho Gyms, non-recurring costs of £637,000 were incurred in the period associated with the transition and integration of Soho Gyms into the PureGym model.

Notes to the consolidated financial statements (continued)

7 Auditors' remuneration

The remuneration of the auditors is analysed as follows:

	Period ended 31 December 2018 £'000
Audit of the parent company and group financial statements	8
Audit of subsidiary financial statements	145
Other assurance services	258
	411

8 Employees and directors

	Period ended 31 December 2018 £'000
Wages and salaries	29,640
Social security costs	3,045
Other pension costs	526
	33,211

The group operates a defined contribution pension scheme for all employees using a master trust (occupational trust-based) pension scheme. The total cost expensed in the period was £526,000 and outstanding pension contributions at the period-end totalled £94,000.

The Directors and certain employees hold ordinary A1 and A2 shares in the ultimate parent company, Pinnacle Topco Limited, which have service and vesting conditions attached and are therefore in the scope of IFRS 2 'Share based payments'. The directors have applied a Black-Scholes model to calculate a grant date fair value of these shares for IFRS 2 purposes as £2.39 per share. Consequently, a charge of £248,000 has been recognised during the period and is included within wages and salaries.

The average monthly number of persons (including directors) employed by the group during the period was made up as follows:

	Period ended 31 December 2018 No.
Central support	279
Operations	684
	963

Notes to the consolidated financial statements (continued)

8 Employees and directors (continued)

Total emoluments relating to Directors are as follows:

	Period ended 31 December 2018 £'000
Aggregate emoluments	1,418
Contributions to defined contribution schemes	6
	1,424

One director was a member of the defined contribution scheme as at 31 December 2018.

The amounts set out above include emoluments in respect of the highest paid director totalling £919,000.

The key management of the group are deemed to be the same as the directors of the group, therefore no additional disclosure of key management compensation has been provided.

9 Finance costs

	Period ended 31 December 2018 £'000
Interest on bank loans and overdrafts	3,303
Finance lease interest	327
Commitment fees	735
Amortisation of capitalised finance costs	8,101
Interest on senior secured notes	22,233
Interest payable to group undertakings	26,066
Other	68
	60,833

Interest and finance charges paid for financial liabilities not at fair value through profit or loss totalled £51,929,000.

Notes to the consolidated financial statements (continued)

10 Income tax

	Period ended 31 December 2018 £'000
Current tax:	
- UK corporation tax on loss for the period	1,146
Total current tax charge	1,146
Deferred tax:	
- Origination and reversal of timing differences	(832)
- Effect of changes in tax rates	88
Total deferred tax credit	(744)
Total tax charge in the consolidated statement of comprehensive income	402

The tax charge for the period is higher than the standard rate of corporation tax in the UK for the period ended 31 December 2018 of 19%. The differences are explained below:

	Period ended 31 December 2018 £'000
Loss on ordinary activities before tax	(33,828)
Tax on loss on ordinary activities at standard UK corporation tax rate of 19%	(6,427)
Effects of:	
- Fixed asset differences	(1,382)
- Expenses not deductible for tax purposes	3,272
- Impact of rate differences	88
- Unrelieved tax losses and other deductions	63
- Amounts surrendered for group relief for nil consideration	4,952
- Amounts not recognised on acquisition	(231)
- Deferred tax not recognised	67
Total tax charge for the period	402

Notes to the consolidated financial statements (continued)

10 Income tax (continued)

The standard rate of corporation tax in the UK was 19% throughout the period and accordingly the company's profits for this period are taxed at this rate. Deferred tax has been measured at 17% in these financial statements as that is the rate at which the timing differences are expected to reverse.

Factors that may affect future tax charges

Legislation to reduce the standard rate of corporation tax from 19% to 17% from 1 April 2020 was announced in the budget on 16 March 2017 and was substantively enacted on 6 September 2017. Accordingly deferred tax has been provided at the rate at which the temporary difference is expected to reverse.

Deferred tax assets

The movement in deferred tax assets is as follows:

	£'000
At 30 October 2017	-
Acquired through business combinations (note 26)	8,672
Income statement charge	(2,568)
Movement arising on transfer of trade between group companies	(158)
At 31 December 2018	**5,946**

The deferred tax assets comprise temporary differences attributable to:

	2018 £'000
Property, plant and equipment	5,592
Provisions	354
	5,946

At the period end, the group had losses from certain group companies carried forward for which a deferred tax asset has not been recognised. These losses totalled £13,376,000 and the unrecognised deferred tax asset totalled £2,274,000. The asset has not been recognised as the directors are of the opinion that it is unlikely that suitable taxable profits will arise in those entities in the foreseeable future.

10 Income tax (continued)

Deferred tax liabilities

The movement in deferred tax liabilities is as follows:

	£'000
At 30 October 2017	-
Acquired through business combinations (note 26)	17,557
Income statement credit	(3,312)
Movement arising on transfer of trade between group companies	(158)
At 31 December 2018	**14,087**

The deferred tax liabilities comprise temporary differences attributable to:

	2018 £'000
Non-qualifying assets acquired through business combinations	4,653
Intangible assets	9,434
	14,087

Notes to the consolidated financial statements (continued)

11 Property, plant and equipment

	Leasehold costs £'000	Leasehold improvem'ts £'000	Fixtures & Fittings £'000	IT equip't £'000	Total £'000
Cost					
Acquisitions (note 26)	6,221	124,550	49,541	2,470	182,782
Additions	2,341	29,102	14,413	2,290	48,146
Disposals	-	(5,010)	(2,929)	(287)	(8,226)
31 December 2018	**8,562**	**148,642**	**61,025**	**4,473**	**222,702**
Accumulated depreciation					
Charge for the period	614	16,148	13,782	1,818	32,362
Disposals	-	(3,699)	(2,598)	(285)	(6,582)
31 December 2018	**614**	**12,449**	**11,184**	**1,533**	**25,780**
Net book value					
31 December 2018	**7,948**	**136,193**	**49,841**	**2,940**	**196,922**

Finance lease agreements

Included within the closing net book value of fixtures and fittings is £3,513,000 relating to assets held under finance lease agreements. The depreciation charged to the financial statements in the period in respect of such assets amounted to £1,204,000.

12 Intangible assets

	Goodwill £'000	Brands £'000	Customer Relationships £'000	Total £'000
Cost				
Acquisitions during the period (note 26)	460,215	58,669	8,204	527,088
31 December 2018	**460,215**	**58,669**	**8,204**	**527,088**
Accumulated amortisation				
Charge for the period	-	3,178	8,204	11,382
31 December 2018	-	**3,178**	**8,204**	**11,382**
Net book value				
31 December 2018	**460,215**	**55,491**	-	**515,706**

Notes to the consolidated financial statements (continued)

12 Intangible assets (continued)

Additions to goodwill in the period consisted of £441,657,000 in respect of the acquisition of Gym Topco Limited and £18,558,000 in respect of the acquisition of Ovalhouse Limited (see note 26). Brands and customer relationships were capitalised at fair value in relation to the acquisition of Gym Topco Limited in November 2017. At 31 December 2018, the net book value attributable to Pure Gym customer relationships was £nil, with related amortisation of £8,204,000 included in administrative expenses for the period. Net book value attributable to the brands acquired through Gym Topco Limited was £55,491,000, with related amortisation of £3,178,000 included in administrative expenses for the period. The remaining amortisation period of the brands at 31 December 2018 is 18 years, 11 months. No other intangible assets were identified in respect of the acquisition of Ovalhouse Limited.

Goodwill is not amortised, but instead reviewed at least annually for impairment with reference to the group of cash generating units (CGUs) to which it relates. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a four-year period. All goodwill has been allocated to the single identified CGU, being “Gyms”.

EBITDA projections reflect the maturity profile of the existing estate and the key assumptions are: average annual capital expenditure of £23.1m on existing sites, pre-tax discount rate of 10% and a long-term growth rate of 2%.

Average annual capital expenditure is determined based on historical experience of management and current plans for site refurbishments. The pre-tax discount rate reflects specific risks relating to the Group and the market in which it operates. The long-term growth rate is determined based on a combination of industry and country-level forecasts.

There is sufficient headroom such that any reasonable sensitivity performed does not reduce the recoverable amount to lower than carrying value.

13 Inventories

	2018 £'000
Finished goods and goods for resale	1,278

Inventories recognised as an expense during the period ended 31 December 2018 amounted to £3,128,000. These were included in administrative expenses.

14 Trade and other receivables

	2018 £'000
Trade receivables	783
Loss allowance	-
Trade receivables – net	783
Prepayments	13,470
Other debtors	3,310
	17,563

14 Trade and other receivables (continued)

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The group has identified the GDP and the unemployment rate of the countries in which it sells its services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2018 is £nil as all trade receivables are current and the expected loss rate for the group is 0%.

15 Trade and other payables

	2018 £'000
Trade creditors	13,705
Other taxation and social security	650
Other liabilities	1,027
Accruals	39,897
Contract liabilities – membership income	11,705
Deferred rent accrual	5,238
Corporation tax payable	497
VAT payable	3,981
	76,700

The deferred rent accrual relates to accumulated difference between cash rentals paid and rental charges from operating leases in the income statement and is outside the scope of IAS 39 (financial instruments).

The amounts included in contract liabilities are expected to be recognised in revenue during the next reporting period.

Notes to the consolidated financial statements (continued)

16 Borrowings

Current

	2018 £'000
Finance leases	1,006

Non-current

	2018 £'000
Senior secured notes	390,000
Capitalised issue costs	(8,163)
Senior secured notes net of issue costs	381,837
Finance leases	2,528
Amounts owed to group undertakings	314,646
	699,011

Maturity profile (excluding capitalised issue costs)

	2018 £'000
Within 1 year	1,006
Between 1 and 2 years	1,077
Between 2 and 5 years	1,451
After 5 years	704,646
	708,180

Amounts owed to group undertakings accrue interest at 8% and are repayable on 30 November 2027.

Financing

On 30 November 2017, the group acquired Gym Topco Limited and in doing so refinanced to become party to a £420 million facility with five international institutions consisting of a £360 million bridging loan and a £60 million revolving credit facility agreement.

On 24 January 2018, the bridging loan facility was replaced with the issue of £360 million of senior secured notes, listed on The International Stock Exchange, to which certain other group undertakings are guarantors. The notes accrue interest at a rate of 6.375% payable half yearly in February and August and are due to be repaid in full on 15 February 2025.

On 21 June 2018, a further £30 million of senior secured notes were issued to fund the acquisition of Soho Gyms, taking the total value of notes in issue to £390 million at the year end.

Capitalised issue costs are amortised over the period to the repayment dates of the notes.

In addition to the notes, the company remains party to the £60 million revolving credit facility with five international institutions (Barclays Bank PLC, Royal Bank of Canada, Credit Suisse AG, ING Bank N.V. and Lloyds Bank plc, collectively "the Lenders").

Notes to the consolidated financial statements (continued)

16 Borrowings (continued)

Financing (continued)

The revolving credit facility is repayable on 30 November 2024, secured by fixed and floating charges over the assets and undertakings of the company and certain of its subsidiaries and subject to a financial covenant of net leverage ratio lower than or equal to 7.7 when drawdown of the facility is greater than 40%.

At 31 December 2018, the Group was not drawn down on the facility. The group has been in compliance with all covenants during the current financial period.

Finance leases

	2018 £'000
Commitments in relation to finance leases are payable as follows:	
Within one year	1,208
Later than one year and not later than five years	2,720
Minimum lease payments - commitments	3,928
Future finance charges	(394)
Recognised as a liability	3,534
The present value of finance lease liabilities is as follows:	
Within one year	1,006
Later than one year and not later than five years	2,528
Minimum lease payments – present value	3,534

Finance leases are secured against the assets to which they relate.

17 Financial instruments

	2018 £'000
Financial assets measured at amortised cost	
Trade receivables	783
Other debtors	3,310
	4,093
Financial liabilities measured at amortised cost	
Trade creditors	13,705
Other liabilities	1,027
Accruals	39,897
Finance leases	3,534
Amounts owed to group undertakings	314,646
Senior secured notes	390,000
	762,809

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 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. All liabilities listed below are categorised as Level 2.

	Carrying Value £'000	Fair Value £'000
Financial liabilities		
Amounts owed to group undertakings	314,646	322,482
Senior secured notes	390,000	384,150

Notes to the consolidated financial statements (continued)

18 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 risk affecting the group is interest rate risk. Financial instruments affected by market risk include certain borrowings and deposits.

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 31 December 2018 the Group had 100% of its borrowings in fixed rate instruments by way of senior secured loan notes, amounts owed to group undertakings, and finance leases. The Group has access to a £60m 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:

	2018				
	Within 1 year £'000	Between 1-2 years £'000	Between 2-5 years £'000	More than 5 years £'000	Total £'000
Trade and other payables	54,629	-	-	-	**54,629**
Borrowings	1,006	1,077	1,451	704,646	**708,180**
Total financial liabilities	**55,635**	**1,077**	**1,451**	**704,646**	**762,809**

Credit risk

The group's principal financial assets are bank balances and 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. Quantitative data is included in the consolidated statement of financial position and in note 14.

19 Share capital and premium

	2018 £'000	2018 No.
Allotted, authorised, called up and fully paid		
Ordinary shares of £0.01	50	5,000,002

On incorporation on 30 October 2017, the Company issued 1 ordinary share with an aggregate nominal value of £0.01 for total consideration of £0.01. Subsequently, on 23 November 2017, the Company issued a further 5,000,000 ordinary shares with an aggregate nominal value of £50,000 for total consideration of £50,000, and on 30 November 2017, the Company issued a further 1 ordinary share with an aggregate nominal value of £0.01 for total consideration of £3,813,260.

Each ordinary share entitles the holder to participate in dividends, and to share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held. Each ordinary share entitles the holder to one vote.

The movements in share capital and share premium in the period was as follows:

	Share Premium £'000	Share Capital £'000
Shares issued		
5,000,002 ordinary shares of £0.01 each	3,863	50

20 Reconciliation of loss before tax to cash generated from operations

	Period ended 31 December 2018 £'000
Loss before income tax	(33,828)
Adjustments for:	
Net finance cost	60,755
Depreciation	32,362
Amortisation	11,382
Share based payments	248
Loss on disposal of property, plant and equipment	1,381
Exceptional costs	5,685
Changes in working capital	
Inventories	(238)
Trade and other receivables	(10,627)
Trade and other payables	23,046
Cash generated from operations	90,166

Notes to the consolidated financial statements (continued)

21 Analysis of net debt

	Acquisitions £'000	Cash flow £'000	Non-cash £'000	2018 £'000
Cash at bank and in hand	21,579	1,741	-	23,320
Bank loans	(217,762)	217,762	-	-
Finance leases	(5,276)	1,742	-	(3,534)
Senior secured notes	-	(390,000)	-	(390,000)
Intercompany loans capital	-	(288,581)	-	(288,581)
Loan note capital	(90,970)	90,970	-	-
	(292,429)	(366,366)	-	(658,795)

22 Capital and other commitments

At 31 December, the group had the following capital commitments:

	2018 £'000
Contracts for future capital expenditure not provided	2,532

The group leases its gym sites under non-cancellable operating leases. The leases have varying terms and renewal rights. On renewal, the terms of the leases are renegotiated. A number of lease agreements include rent holidays or discounts provided by landlords as a lease incentive. The lease incentive is presented as part of the deferred rent accrual (see note 15) and is reversed on a straight line basis over the lease term.

The group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2018 £'000
Not later than one year	39,034
Later than one year and not later than five years	163,231
Later than five years	319,831
	522,096

Notes to the consolidated financial statements (continued)

23 Controlling party

The immediate parent company of Pinnacle Bidco PLC is Pinnacle Midco 2 Limited, the ultimate UK parent company is Pinnacle Topco Limited.

The smallest and largest group into which the results of this group are consolidated for the period ended 31 December 2018 are those headed by Pinnacle Topco Limited, a company incorporated in the UK. These financial statements, which are publicly available, can be obtained from the registered office: Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY.

The ultimate controlling party is Leonard Green & Partners LP, 11111 Santa Monica Boulevard, Suite 2000, Los Angeles, California 90025, United States of America.

24 Interests in other entities

In the opinion of the directors, the Group has a single principal subsidiary at 31 December 2018, Pure Gym Limited. This company is 100% owned by the group, is incorporated in the United Kingdom, and its principal activity is the provision of facilities for physical fitness.

25 Related party transactions

As at 31 December 2018, amounts owed to fellow group companies includes £314,530,000 owed to the immediate parent company, Pinnacle Midco 2 Limited, repayable on 30 November 2027, and £116,000 (2017: £nil) owed to the ultimate parent company, Pinnacle Topco Limited. Associated interest charged to the income statement totals £26,065,000.

26 Business combinations

Gym Topco Limited

On 30 November 2017, Pinnacle Bidco Limited acquired 100% of the issued share capital of Gym Topco Limited ("the PureGym group") for £308,236,000. The principal activity of the PureGym group is the provision of physical fitness facilities.

The goodwill of £441,657,000 arising from the acquisition is attributable to the acquired workforce, and anticipated future earnings from future new customers. None of the goodwill recognised is expected to be deductible for income tax purposes.

Notes to the consolidated financial statements (continued)

26 Business combinations (continued)

The following table summarises the consideration paid for Gym Topco Limited and the fair value of assets and liabilities acquired:

	Fair value £'000
Cash paid	308,236
Total consideration	**308,236**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	21,267
Property, plant and equipment	177,464
Intangibles (customer relationships and brands)	66,873
Inventories	1,005
Trade and other receivables	5,914
Trade and other payables	(41,635)
Borrowings (including finance leasing)	(355,924)
Net deferred tax liabilities	(8,385)
Total identifiable net liabilities	**(133,421)**
Residual goodwill arising on acquisition	**441,657**

Revenue included in the Consolidated Statement of Comprehensive Income for the period ended 31 December 2018 contributed by the PureGym group was £245,283,000 and profit for the period was £12,134,000 over the same period.

Had the PureGym group been consolidated from 30 October 2017 then the Consolidated Statement of Comprehensive Income would include revenue of £262,584,000 and profit for the period of £13,153,000.

Acquisition-related costs of £4,180,000 have been charged to administrative expenses in the Consolidated Statement of Comprehensive Income for the period ended 31 December 2018.

Notes to the consolidated financial statements (continued)

26 Business combinations (continued)

Ovalhouse Limited

On 21 June 2018, the group acquired 100% of the share capital of Ovalhouse Limited for cash consideration of £18,754,000 with £18,254,000 cash paid on completion and £500,000 deferred, pending successful extension of a property lease, which remains outstanding at 31 December 2018. Ovalhouse Limited is registered in the United Kingdom and provides physical fitness facilities across 10 gyms in the London region under the brand of "Soho Gyms".

As a result of the acquisition, the group is expected to increase its presence in the market. It also expects to reduce costs through economies of scale. The goodwill of £18,558,000 arising from the acquisition is attributable to the attractive property portfolio and economies of scale expected from combining the operations of the group and Soho Gyms. None of the goodwill recognised is expected to be deductible for income tax purposes. The following table summarises the consideration paid for Soho Gyms and the fair value of assets and liabilities acquired:

	Fair value £'000
Cash paid	18,254
Deferred consideration	500
Total consideration	**18,754**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	312
Property, plant and equipment	5,318
Inventories	35
Trade and other receivables	1,022
Trade and other payables	(2,498)
Borrowings (including finance leasing)	(3,494)
Deferred tax liabilities	(499)
Total identifiable net assets	**196**
Residual goodwill arising on acquisition	**18,558**

Revenue included in the Consolidated Statement of Comprehensive Income for the period ended 31 December 2018 contributed by Soho Gyms was £2,317,000 and profit for the period was £1,922,000 over the same period. Had Soho Gyms been consolidated from 30 October 2017 then the Consolidated Statement of Comprehensive Income would include revenue of £7,556,000 and loss for the period of £2,833,000. Acquisition-related costs of £480,000 have been charged to administrative expenses in the Consolidated Statement of Comprehensive Income for the period ended 31 December 2018.

COMPANY FINANCIAL STATEMENTS

Independent auditors' report to the members of Pinnacle Bidco PLC

Report on the audit of the company financial statements

Opinion

In our opinion, Pinnacle Bidco PLC's company financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2018;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and consolidated financial statements (the "Annual Report"), which comprise: the company statement of financial position as at 31 December 2018; the company statement of changes in equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

- Overall materiality: £1,250,000 (2017: not applicable - first year audit), based on 2% of total assets, limited to less than group materiality.
- All financial line items which are material have been scoped into our audit.
- Risk of impairment of investments in subsidiaries and intercompany receivables.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Independent auditors' report to the members of Pinnacle Bidco PLC (continued)

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	*How our audit addressed the key audit matter*
Risk of impairment of investments in subsidiaries and intercompany receivables The company has investments in subsidiaries amounting to £308.2m and amounts owing from group undertakings of £367.1m and management consider whether there are any indicators of impairment given the financial performance and position of the subsidiaries. No impairment charge has been recorded by management in the year. We focused on these balances given their size, the performance of the company's investments in the year and the judgements and estimates required to forecast future financial performance. Management have assessed whether there are indicators of impairment to investments and intercompany receivables by preparing a value-in-use model, including the following: > Forecast cash flows for the next five years; > A long-term (terminal) growth rate applied beyond the end of the five year forecast period; and > A discount rate applied to the model. There were no indicators of impairment identified by management.	We understood and evaluated management's budgeting and forecasting process. We obtained management's value-in-use model review and tested the reasonableness of the key assumptions, including the following: - We tested the mathematical accuracy of the impairment model and agreed the carrying value of the investments in subsidiaries and intercompany receivables being assessed for impairment to the balance sheet. - We challenged management's calculated group weighted average cost of capital (WACC) used for discounting future cashflows within the impairment model, including involving valuation specialists to assess the cost of capital for the group and comparable organisations. - We traced the forecast financial information within the model to the latest Board approved budget and challenged management to provide support to corroborate trading assumptions, support for capital expenditure and considered the accuracy of previous forecasts. - We performed sensitivity analysis to ascertain the impact of reasonably possible changes in key assumptions and to quantify the downside changes needed before an impairment would be required.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£1,250,000 (2017: not applicable - first year audit).
How we determined it	2% of total assets, limited to less than group materiality.
Rationale for benchmark applied	We believe that total assets is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark due to it being a holding company.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £62,500 (2017: not applicable - first year audit) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the statement of directors' responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true

Independent auditors' report to the members of Pinnacle Bidco PLC (continued)

and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the group financial statements of Pinnacle Bidco PLC for the 14 month period ended 31 December 2018.

Tom Yeates (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
24 April 2019

Company statement of financial position
as at 31 December 2018

	Note	31 December 2018 £'000
Non-current assets		
Investments	6	308,236
Trade and other receivables	7	367,127
TOTAL ASSETS		675,363
Current liabilities		
Trade and other payables	8	(9,554)
		(9,554)
Non-current liabilities		
Borrowings	9	(696,367)
		(696,367)
TOTAL LIABILITIES		(705,921)
NET LIABILITIES		(30,558)
Equity		
Share capital	10	50
Share premium		3,863
Retained earnings		(34,471)
TOTAL EQUITY		(30,558)

Loss and total comprehensive expense for the period is £34,471,000.

The financial statements of Pinnacle Bidco PLC, registered number 11038859, on pages 50 to 57 were approved by the board of directors and authorised for issue on 24 April 2019 and were signed on its behalf by:

A Wood

Director

Company statement of changes in equity

for the period ended 31 December 2018

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
On incorporation	-	-	-	-
Proceeds from shares issued	50	3,863	-	**3,913**
Loss and total comprehensive expense for the period	-	-	(34,471)	**(34,471)**
Balance as at 31 December 2018	**50**	**3,863**	**(34,471)**	**(30,558)**

Notes to the company financial statements

1 General Information

Pinnacle Bidco PLC is an intermediate holding company within the Leonard Green & Partners LP group of companies (the "Leonard Green Group") and is expected to remain as such for the foreseeable future. The company is a public company limited by shares and is incorporated and domiciled in the UK. The address of its registered office is Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY. The company was incorporated as Pinnacle Bidco Limited and changed its name to Pinnacle Bidco PLC on 23 November 2017 following its re-registration as a public limited company.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of preparation

The financial statements are presented in sterling, rounded to the nearest thousand. They are prepared on a going concern basis and under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below, and, unless otherwise stated, these policies have been consistently applied to all the periods presented.

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial Reporting Standard 101 "Reduced Disclosure Framework (FRS 101) and, the Companies Act 2006 (the Act). FRS 101 sets out a reduced disclosure framework for a "qualifying entity" as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

In accordance with the exemption allowed by Section 408 of the Companies Act 2006, the company has not presented its own profit and loss account, however has made a loss for the financial period of £34,471,000.

The principle disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- IFRS 7 financial instrument disclosures;
- IAS 1 information on management of capital;
- IAS 8 disclosures in respect of new standards and interpretations that have been issued but which are not yet effective;
- IAS 24 disclosure of key management personnel compensation;
- IAS 24 disclosures in respect of related party transactions entered into between fellow group companies;
- Roll-forward reconciliations in respect of share capital (IAS 1) and property, plant and equipment (IAS 16); and
- IAS 7 exemption from preparing a cash flow statement and related notes.

2 Summary of significant accounting policies (continued)

Investments

Investments in subsidiaries are held at cost, less provision for impairment. Gains and losses are recognised in the income statement as and when the investments are impaired.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in years different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Early adoption of accounting standards

The following standard was in issue but not yet effective at the date of authorisation of these financial statements but has been early adopted in these financial statements:

- IFRS 9 'Financial instruments'

This has not had a material impact on the financial statements.

3 Critical accounting estimates and assumptions

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment of investments

The company considers on an annual basis, whether investments have suffered any impairment based on the recoverable amount of its cash-generating units ('CGUs'). The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a pre-tax discount rate in order to calculate the present value of the cash flows. More information, including carrying values of investments, is included in note 6.

Notes to the company financial statements (continued)

4 Auditors' remuneration

Fees payable to the company's auditors for the audit of the annual statutory financial statements were £8,000. These are borne by Pure Gym Limited.

Fees payable to the company's auditors (and its associates) for non-audit services can be found in the consolidated financial statements.

5 Employees and directors

Employees

The company has no employees, and directors are remunerated for their services by fellow group undertakings.

Directors

No directors received any remuneration in respect of their services to the company. The key management of the group are deemed to be the same as the directors of the group, therefore no additional disclosure of key management compensation has been provided.

6 Investments

	£'000
Acquired in the year	308,236
At 31 December 2018	**308,236**

On 30 November 2017, the company acquired 100% of the issued share capital of Gym Topco Limited and its subsidiaries, trading as the PureGym group, and whose principal activity is the provision of physical fitness facilities. The investment was recorded at cost.

Fixed asset investments at 31 December 2018 relate to UK registered subsidiary undertakings and are stated at cost as shown below. The directors believe that the carrying value of the investments is supported by their underlying net assets. The below subsidiaries have the registered office address of Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY.

Notes to the company financial statements (continued)

6 Investments (continued)

Company name	Principal activity	Proportion of ordinary shares held %
Gym Topco Limited *	Intermediate holding company	100%
Gym Midco Limited	Intermediate holding company	100%
Gym Midco 2 Limited	Intermediate holding company	100%
Gym Bidco Limited	Intermediate holding company	100%
Pure Gym Limited	Provision of physical fitness facilities	100%
Ovalhouse Limited	Provision of physical fitness facilities	100%
Pure Gym (Dudley) Limited	Dormant	100%
Tolmers Newco 1 Limited	Dormant	100%
Tolmers Newco 2 Limited	Dormant	100%
LA Fitness Limited	Dormant	100%
LA Leisure Limited	Property holding subsidiary	100%
LA Westminster Limited	Dormant	100%
CS Leisure Limited	Dormant	100%

** Denotes subsidiaries that are directly owned by Pinnacle Bidco PLC.*

7 Trade and other receivables

	2018 £'000
Amounts due from group undertakings	**367,127**

Amounts due from group undertakings accrue interest at 8% and are repayable on 30 November 2027. The company has determined that the expected loss rate attached to the amounts due from group undertakings is 0%.

8 Trade and other payables

	2018 £'000
Accruals	**9,414**
Other creditors	**140**
	9,554

9 Borrowings

	2018 £'000
Senior secured notes	390,000
Capitalised issue costs	(8,163)
Senior secured notes net of issue costs	381,837
Amounts owed to group undertakings	314,530
	696,367

Amounts owed to group undertakings accrue interest at 8% and are repayable on 30 November 2027.

On 30 November 2017, the company acquired Gym Topco Limited and in doing so refinanced to become party to a £420 million facility with five international institutions consisting of a £360 million bridging loan and a £60 million revolving credit facility agreement.

On 24 January 2018, the bridging loan facility was replaced with the issue of £360 million of senior secured notes, listed on The International Stock Exchange, to which certain other group undertakings are guarantors. The notes accrue interest at a rate of 6.375% payable half yearly in February and August and are due to be repaid in full on 15 February 2025.

On 21 June 2018, a further £30 million of senior secured notes were issued to fund the acquisition of Soho Gyms, taking the total value of notes in issue to £390 million at the year end.

Capitalised issue costs are amortised over the period to the repayment dates of the notes.

In addition to the notes, the company remains party to the £60 million revolving credit facility with five international institutions (Barclays Bank PLC, Royal Bank of Canada, Credit Suisse AG, ING Bank N.V. and Lloyds Bank plc, collectively "the Lenders").

The revolving credit facility is repayable on 30 November 2024, secured by fixed and floating charges over the assets and undertakings of the company and certain of its subsidiaries and subject to a financial covenant of net leverage ratio lower than or equal to 7.7 when drawdown of the facility is greater than 40%.

At 31 December 2018, the group was not drawn down on the facility. The group has been in compliance with all covenants during the current financial period.

Notes to the company financial statements (continued)

10 Share capital

	2018 £'000	2018 No.
Allotted, authorised, called up and fully paid		
Ordinary shares of £0.01	50	5,000,002

On incorporation on 30 October 2017, the Company issued 1 ordinary share with an aggregate nominal value of £0.01 for total consideration of £0.01. Subsequently, on 23 November 2017, the Company issued a further 5,000,000 ordinary shares with an aggregate nominal value of £50,000 for total consideration of £50,000, and on 30 November 2017, the Company issued a further 1 ordinary share with an aggregate nominal value of £0.01 for total consideration of £3,813,260.

Each ordinary share entitles the holder to participate in dividends, and to share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held. Each ordinary share entitles the holder to one vote.

11 Related party transactions

Advantage has been taken of the exemption in IAS 24 not to disclose transactions between Pinnacle Topco Limited and its subsidiaries.

12 Controlling party

The immediate parent company of Pinnacle Bidco PLC is Pinnacle Midco 2 Limited. The ultimate UK parent company is Pinnacle Topco Limited.

The largest group into which the results of this group are consolidated for the period ended 31 December 2018 is that headed by Pinnacle Topco Limited, a company incorporated in the UK. These financial statements, which are publicly available, can be obtained from the registered office: Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY.

The ultimate controlling party is Leonard Green & Partners LP, 11111 Santa Monica Boulevard, Suite 2000, Los Angeles, California 90025, United States of America.

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