

Pinnacle Bidco plc

Annual Report for the
twelve months ended 31 December 2019



PureGym 2019 Highlights

Financial Highlights

- Revenue increased by 12% to £255 million.
- Average revenue per member per month increased by 2% to £18.90.
- Adjusted EBITDA increased by 10% to £89 million.
- Strong Adjusted EBITDA margin at 35%.

Operational Highlights

- Closing members increased by 12% year on year to 1,135k as at 31 December 2019.
- Continued rollout of new sites, with 41 new PureGyms opened during the year, 11 of which are SBFs, bringing the total number of gyms to 263.
- 21 refurbishments completed in the year.
- Laid the groundwork for International expansion, exchanging contracts for the Fitness World acquisition, which completed post year end

£255m

Revenue

35%

Adjusted
EBITDA
margin

£105m

Run Rate
Adjusted
EBITDA

87%

Operating
cashflow
conversion

1.1m

Closing
members

+41

New PureGyms
opened

21

Refurbishments

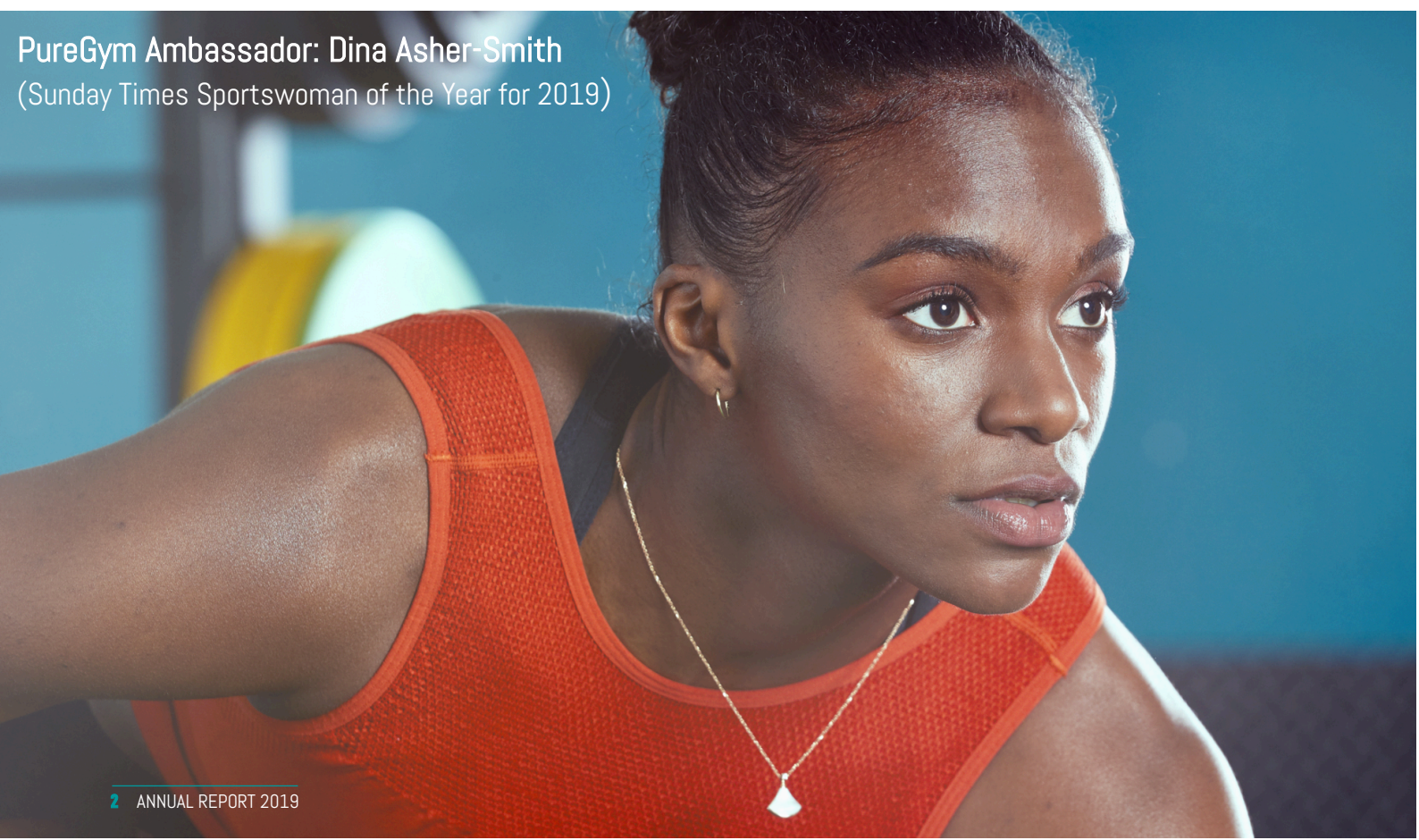
263

Total
gyms

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PureGym Ambassador: Dina Asher-Smith
(Sunday Times Sportswoman of the Year for 2019)



Business Overview

PureGym is the UK's largest private gym operator, with 263 gyms and over 1.1 million members, offering a low cost, flexible and high-quality fitness experience to a broad range of customers.

Our vision is to provide members with affordable access to the benefits that exercise can offer by focusing on what most people want from gyms and by putting innovative technology at the heart of everything we do. This focus and drive has fundamentally changed the UK gym industry and opened up access to fitness to hundreds of thousands more people. We are proud of the inclusive environment we have created and the diversity of our membership across all our gyms.

Strategy and business model

PureGym has a powerful and highly disruptive customer proposition, which is differentiated from traditional gym operators and appeals to a broad range of consumers. The group's strategy is to occupy market leading positions in the value segment, whilst delivering profitable growth for our stakeholders. We plan to continue to roll out new gyms in geographies where we can achieve a high return on capital, as well as driving the operational and financial performance of our existing gym estate.

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

- Attractive and resilient fitness markets and a growing value segment
- Benefits from being a diversified, scale operator
- Strong, differentiated customer proposition supported by technology
- Low cost, capital efficient, technology-enabled operating model
- Strong and experienced leadership team

The fitness market

The group operates in the growing value segment of the fitness market and our business model has continued to benefit from a more health-conscious population and from government and health sector initiatives designed to promote healthy living and active lifestyles. The growing availability of value gyms has increased the availability of fitness facilities to a larger proportion of the population, with value gyms now accounting for 13% of the total UK market by value¹. While the value gym segment has grown quickly over the past several years, we believe there remains significant opportunity for further growth due to value gyms' broad consumer appeal and the continued shift in consumer trends towards 'value for money'.

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

¹ Source: LDC, OC&C analysis as at January 2020





Chief Executive Officer's Statement

Humphrey Cobbold

Pure Gym is a business that was forged in the shadow of the Global financial crisis, took on the established operators and became the leading force in the UK and now in Europe. Things will come back to a new version of normal and our business is well placed to succeed in a post COVID-19 environment.

COVID-19

Over the last 10 years, we have worked hard to build an industry leading position in the gym market. Pure Gym had a strong year in 2019 and a robust start to 2020, so we entered the COVID-19 crisis from a position of real strength.

In March 2020, the governments of the countries in which we operate imposed total lockdown measures to control the spread of COVID-19 and in doing so forced the temporary closure of all of our gyms. Our first priority during this time was to take care of our staff and our members. We reacted quickly as the situation developed, following government guidance and implementing it effectively to protect the health and wellbeing of all concerned.

In tandem, we carried out thorough financial modelling to assess the impact of, and respond to, a rapidly evolving situation. This has allowed us reduce our cash burn rate quickly, preserve cash and maximise liquidity throughout this period of ongoing uncertainty.

Significant work has also been undertaken to ensure we are well prepared for reopening when that is permitted. We are working with industry bodies and Governments to shape best practice and we are adapting our operating models accordingly. We will deliver the very best standards of hygiene and protection for our staff and members to provide them with the confidence to train in a safe environment. Reopening will also likely incorporate volume and other operational restrictions for a period of time and we are preparing for these including setting appropriate performance expectations for the rest of 2020.

Looking to the future, we don't see the world moving away from fitness and activity – after all, the benefits of being fit and healthy have been made clear repeatedly in the media. On the contrary, we see people moving towards fitness and activity as a part of a broader regime of well being and we remain committed to supporting people in whatever way we can in the future.

Further details on how COVID-19 is affecting our business and how we are responding to it, including details of our liquidity position, cash burn and cash burn mitigation, can be found at corporate.puregym.com.

Fitness World acquisition

After the end of the financial year, on 14 January 2020, PureGym successfully completed the acquisition of Fitness World. This transaction accelerates PureGym's international expansion through the addition of significant pan-European operations. The combined business is now the second largest gym and fitness operator in Europe, with approximately 1.7 million members at the end of 2019 and over 500 sites across the UK, Denmark, Switzerland and Poland.

This combination provides territory, diversification and scale benefits. Fitness World is a strong strategic fit given it's no contract, budget model that is very similar to PureGym's, a strong digital app capability and a robust ancillary revenue offering. Further details of the combined business are available on page 6.

Review of 2019

I am very pleased by the performance we delivered in 2019. The group maintained its position as market leader, for the fifth year running, building on its consistent track record of healthy growth and consistently strong financial returns. Having pioneered the industry's small box format (SBF), PureGym has rolled out this design across the UK, adding another 11 SBFs to its estate in the last 12 months.

The company remains committed to an outstanding customer offering and has also continued to innovate through the addition of digital fitness studios and online fitness training through its leading app technology.

We achieved strong progression in all of our financial metrics and maintained our good cash flow conversion which supported our normal deleveraging profile. We also laid the foundations for international expansion, exchanging contracts for the acquisition of Fitness World which completed post year end.

I'm also very pleased that Dina Asher-Smith joined as a brand ambassador in April 2019. Dina is a sprinter and the U.K.'s fastest ever woman, currently holding World Championship Gold and Silver medals. She is one of the U.K.'s leading sports celebrities with a strong reputation and a growing national presence in media, which will further increase her exposure and will support Pure Gym's brand presence by association alongside Sir Chris Hoy.

"I am very pleased by the performance we delivered in 2019. The group maintained its position as market leader, for the fifth year running, building on its consistent track record of healthy growth and consistently strong financial returns."

Chief Executive Officer's Statement continued

Building a positive, sustainable business

Guided by our mission of inspiring a healthier nation, PureGym actively prioritises the responsibilities we have towards our people, our members, the communities within which our gyms operate and the environment in which we live and work. Building a sustainable and accessible business has been a key part of the growth of the group, providing a meaningful and valued service to society. Helping people make a positive difference to their lives through being healthier and more physically active is rooted in our values as a business. The recent challenges and restrictions we have all faced during the COVID-19 pandemic has made this even more important for us all.

Our people and members

The talent, commitment and energy of our colleagues is evident within our business and across our network of gyms. We provide them with a safe place to work and the skills and training needed to develop as individuals and to augment the customer experience for our members. PureGym encourages and facilitates employees to communicate effectively, raise issues with senior management and its whistle blowing policy is supported by our experienced HR team.

Providing a safe environment at our gyms for colleagues and members is a priority, and technology plays a critical role in maintaining this safe environment, 24/7/365. With 70 million visits to a PureGym site in 2019, only 0.01% resulted in health and safety incidents.

Promoting inclusion and diversity is an important part of our culture and is reflected in the diversity of our people (36% female) and members (40% female membership) and the social and economic diversity of our membership.

Our community and the environment

We strive to make a real difference to our local communities and we actively empower local gym management to support causes in their local communities. In 2019, PureGym has supported local charities through sporting events, volunteer time and collections. PureGym has supported local charity runs in Scotland, helped hospitals in Manchester, and supported collections for homeless people in the West Midlands while also working with national charity organisations such as the Macmillan Cancer Relief and Action Medical Research.

PureGym turned ten years old in 2019 and I was humbled by the spirit and goodwill of my 1,400 colleagues who marked the occasion by taking part in a non-stop, 24/7, week-long National Relay from Aberdeen to Plymouth covering over 3,000 miles in the process – running, cycling, walking and kayaking their way across the country. The relay aimed to raise awareness of the importance of physical exercise in combatting mental health problems and succeeded in raising over £350,000 for Mental Health UK.

It was an amazing achievement and the weeklong process really brought to life the extraordinary character of the organisation that I am privileged to lead.

PureGym is committed to reducing energy consumption in its gyms. We continue to explore ways to make improvements and design our gyms with a number of energy saving and “green” features including mechanical and electrical systems that comply with government energy-saving schemes. In our new gyms and refurbishments we incorporate wherever possible LED energy-saving lighting, water-saving bathroom and shower facilities, energy-efficient fitness equipment and recycle building materials.

Over the last 12 months, we have commenced a more structured program to systematically analyse all areas of energy usage and environmental impact and to develop strategies to reduce these significantly over the coming years.

Looking ahead

We believe the market dynamics post COVID-19 will be suited to our business model and we have plans both for further expansion in the UK and investment in our proposition to ensure we remain at the leading edge of fitness provision.

Our acquisition of Fitness World, a business we have admired for some time, has given us a significant presence in Europe and we are working well with the local management teams. We are pleased with this investment and are confident that the strategic rationale for the acquisition remains intact for the long term despite the significant immediate challenges faced in a COVID-19 world.

And finally, I would like to take the opportunity to thank all our colleagues. We have built a truly inspiring team at PureGym and I have been amazed by the levels of resilience and character shown at a time of such uncertainty to support the business. This level of dedication is very special indeed and adds to my confidence in our future.

Humphrey Cobbold
Chief Executive Officer

>£350,000 Raised
to support



Mental
Health
UK

PureGym's Acquisition of Fitness World Group

On 14 January 2020, PureGym completed the acquisition of Fitness World Group, the largest gym and fitness provider in Denmark (c.45% market share at March 2019), with a growing presence in both Switzerland and Poland. Further information on the Fitness World Group can be found at corporate.puregym.com.

Fitness World has a similar business model to PureGym, characterised by affordable and flexible gym memberships with no fixed term contracts and extended opening hours, making the combination a good strategic fit.

The PureGym & Fitness World combination creates a diversified **pan-European operator of scale** with **1.7m members** and **500+ gyms** at the end of 2019.

Fitness World is a market leading value gym operator

- Strong strategic fit for PureGym with an aligned low-cost model approach
- Clear #1 in Denmark and #7 value operator in Europe
- #1 value operator in Switzerland (#2 overall) with emerging presence in Poland

Positions PureGym as a Pan-European Champion

- Provides territory, diversification and scale benefits
- Over 500 gyms and over 1.7m members combined
- Presence in 4 countries with combined population of c.120 million
- Pro-forma revenue exceeds £440m, Pro-forma Run Rate Adj. EBITDA £161m, after £4.5m target cost synergies realised
- Fitness World is a highly resilient, profitable and cash generative business

2019 pro forma financials for the Combined Group:

	 PUREGYM	 FITNESS ¹ WORLD	Combined Group
# Members	1.1m	0.6m	1.7m
# Gyms	263	241	504
Revenue	£255m	£193m	£447m
Adjusted EBITDA	£89m	£43m	£132m
Adjusted EBITDA margin	35%	22%	29%
Run Rate Adjusted EBITDA	£105m	£52m	£157m
Run Rate Adjusted EBITDA, inc. synergies			£161m

1. Converted using DKK/GBP of 0.1173 average rate for 2019.





Chief Financial Officer's Statement

Alex Wood

COVID-19 has put our financial resilience to the test but I am pleased with how we have responded. We have in very short order successfully reduced operational cash outflows by 65% during lockdown.

Another year of strong performance

I am pleased to be announcing our full year results for the year ended 31 December 2019. We are reporting another robust year of progress, with significant growth driven by accelerated organic expansion, gym maturation and growth in average revenue per member.

PureGym delivered consistent and predictable growth. Revenue increased by 11.6% to £254.9 million, we opened 41 new PureGym locations in the year and completed 21 refurbishments.

We delivered £89.1 million of Adjusted EBITDA and, after adjusting to include the future maturity of new gym openings, I am pleased to report Run-Rate Adjusted EBITDA reached £104.5 million, exceeding the £100 million milestone for the first time in Pure Gym's history.

Fitness World acquisition completed

On 14 January 2020, we completed the acquisition of Fitness World, an exciting business with many similarities to the UK operation.

Fitness World reported revenue of £192.5 million for the year ended 31 December 2019 and Run Rate Adjusted EBITDA of £52.2 million for the same period. On a pro forma basis, the Combined Group delivered revenue in excess of £440 million and Run-Rate Adjusted EBITDA of £161 million for 2019, including £4.5 million of potential synergies, which are expected to be achieved from overhead and procurement efficiencies, IT and estate management optimisation.

The Combined Group benefits from scale, geographical diversification and a highly cash generative business model, which is driven by manageable maintenance capital expenditure requirements and positive working capital inflows. The working capital dynamics are underpinned by rent concessions for new and renewed leases, favourable terms with our primary gym equipment providers, and payments from members being received in advance, while major suppliers are paid in arrears.

Fitness World was acquired for approximately £345 million, which represents a 7.0x transaction multiple. The transaction was funded by a €445m bridging loan, which automatically converts to a term loan if not refinanced by 14 January 2021.

Further information on the Fitness World acquisition can be found at corporate.puregym.com.

Outlook

We had an excellent start to 2020, with an extremely successful January and February. Combined Group membership numbers peaked at 1.9 million at the end of February, with all geographical business units trading ahead of budget. The business was in good health going into the COVID-19 closure period, which gives us confidence that our core product and proposition was performing well and was resonating strongly with the marketplace.

We responded very rapidly to the close down situation, having been well prepared for this scenario. Within days of close down, we were able to institute plans to reduce our cost burn across the Combined Group from £9.0m per week (unmitigated) to approximately £4.5m per week. This was achieved through strong financial control and discipline and hard work from our people. We were able to achieve operational cost compression of around 65%, we furloughed almost the entire workforce, paused all non-essential capex and explored in full all of the government measures available to us as well as seeking support from landlords for rent abatement and deferrals.

We drew down £85m from our Revolving Credit Facility in advance of close down to give us additional liquidity alongside existing cash reserves. We therefore had approximately £150m of liquidity going into close down, net of £15m of capital commitments. Having carried out extensive modelling of various closure scenarios and focused considerable effort on mitigating our cash burn, I am confident we are well positioned to successfully navigate our way through the current COVID-19 closure.

I would also like to thank all of our colleagues for their ongoing and extraordinary commitments during this time.

Alex Wood
Chief Financial Officer

+11.6%
Revenue
Growth

34.9%
Adj. EBITDA
margin

>£100m
Run Rate
Adj. EBITDA

PureGym 2019 Financial Review

Presentation of financial information

The group has prepared consolidated financial statements as of and for the period ended 31 December 2019 in accordance with IFRS 'International Financial Reporting Standards', as adopted by the European Union.

Pinnacle Bidco plc (the "Issuer") was incorporated on 30 October 2017 and therefore the comparatives to the financial statements on page 21 onwards 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, the comparative information in this report focuses on the unaudited results of Pinnacle Bidco plc and its subsidiaries for the 12 months ended 31 December 2018. A reconciliation of the results of Pinnacle Bidco plc for the 12 months ended 31 December 2018 to the results for the 14 months ended 31 December 2018 is provided on page 17.

Change in lease accounting

The group applied the new accounting standard IFRS 16 Leases, effective from 1 January 2019, using the 'modified retrospective' method for transition and measuring right of use assets using the retrospective calculation. Cumulative effects of applying the new accounting standards were therefore recognised as an adjustment to retained earnings as of 1 January 2019, while comparative figures were not restated. IFRS 16 is a presentational change only and has no economic or cashflow impact on the group.

Funding

During the year ended 31 December 2019, the group issued an additional £40 million of Senior Secured Notes on the same terms as the existing notes, bringing the total value in issue at the year end to £430 million. The Senior Secured Notes are 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.

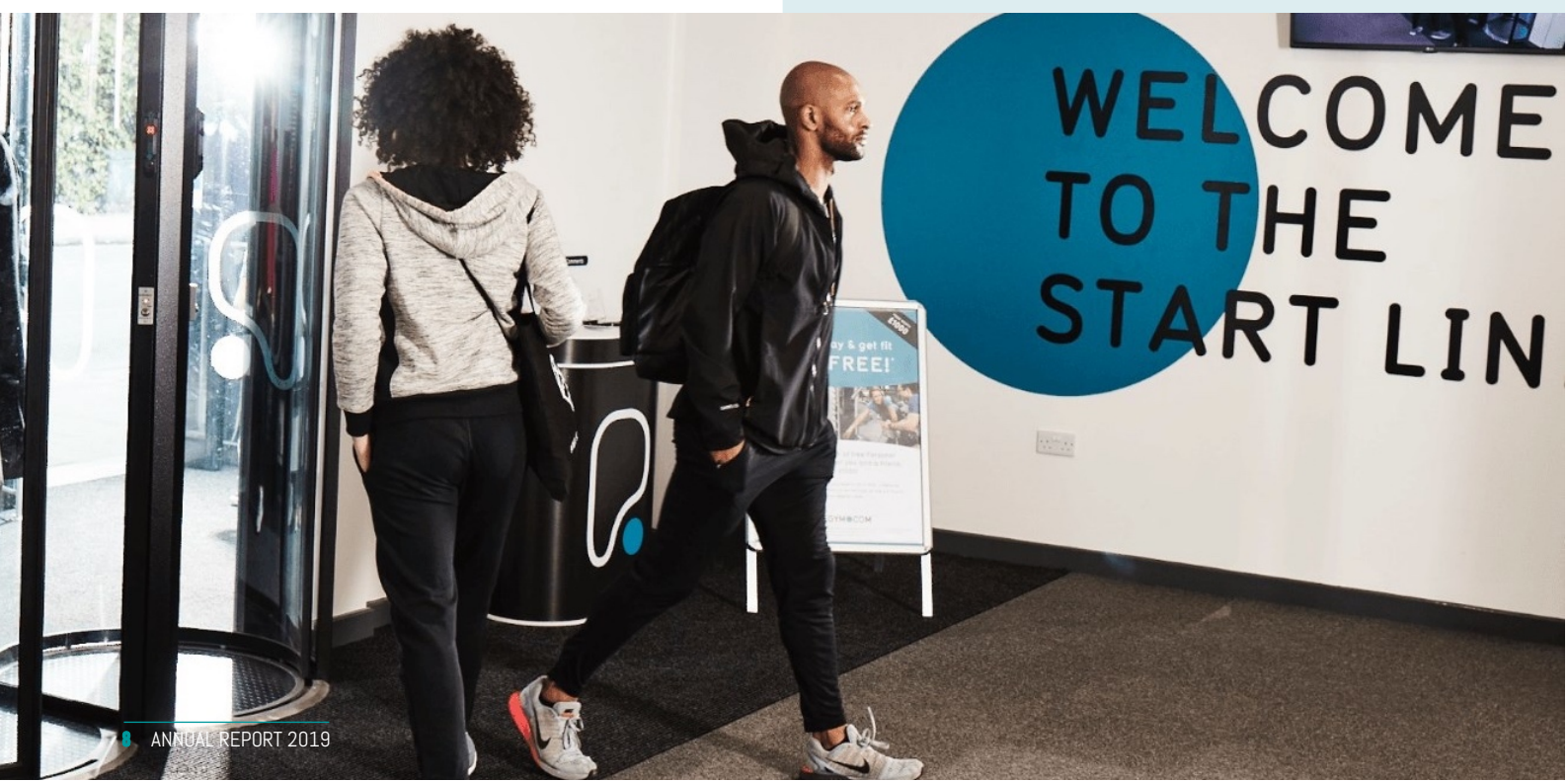
In addition to the notes, as at 31 December 2019, the group had a £60 million revolving credit facility with five international institutions (Barclays Bank PLC, Royal Bank of Canada, Credit Suisse AG, ING Bank N.V. and Lloyds Bank plc, collectively "the Lenders"), repayable on 30 November 2024.

On 14 January 2020, the group acquired the Fitness World Group for a consideration of DKK 2,037,110,000 (£233 million¹). The acquisition was funded through a €445 million (£381 million²) Senior Secured bridge facility. In general, the key terms of this debt and maximum interest rate are consistent with our existing sterling notes. It is the group's intention to refinance this facility during 2020, however should it remain in place on 13 January 2021 then the bridge facility agreement provides for automatic conversion to a term loan, repayable in February 2025.

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.

1 Converted using DKK/GBP of 0.1146 as of 14 January 2020.

2 Converted using EUR/GBP of 0.8560 as of 14 January 2020.



PureGym 2019 Financial Review

+11.6%
Revenue
Growth

Results of operations

£m	For the twelve months ended 31 Dec	
	2019	2018
Revenue	254.9	228.4
Administrative expenses	(186.8)	(196.9)
Exceptional administrative expenses	(8.3)	(3.5)
Operating profit	59.9	28.0
Net finance cost	(83.4)	(56.1)
Loss before tax	(23.5)	(28.0)
Income tax charge	(3.4)	(0.5)
Loss for the year / period	(26.9)	(28.5)

2019 was another very successful year for PureGym. We opened 41 sites in the UK, almost 40% more than 2018, demonstrating the strong appetite for our customer offering and the increasing prominence of PureGym being a highly attractive tenant in the retail property market. Through our acquisition of Fitness World, we are pleased to have realised our ambition of becoming a leading international gym and fitness operator and enabling more people to get more active, more often with our 'everybody welcome' philosophy.

Revenue

Revenue increased by 11.6% to £254.9 million from £228.4 million in 2018.

Member income, comprising membership fees and joining fees, was £235.6 million for the year, an increase of 11.7%, compared to the prior year. This growth continues to be driven by the new gym openings and the maturation of existing gyms. Income also continues to be boosted by Plus and Multi products.

Vending income increased 15.8% on prior year to £7.3 million and income from the sales of day passes, personal trainers and promotional income grew by 6.9% to £12.0 million.

Administrative expenses

Administrative expenses before exceptional items were £186.8 million for the full year, down £10.1 million compared to 2018. This is due to the implementation of IFRS 16, in which property rental charges are replaced with finance costs and depreciation of the right of use asset. Excluding the impact of IFRS 16, administrative expenses increased by 8.3% for the full year versus 2018, primarily due to the growth in number of trading gyms from 222 in December 2018 to 263 in December 2019.

Adjusted EBITDA

Adjusted EBITDA remains a comparable non-IFRS measure pre and post changes in accounting standards and has increased by 9.6% to £89.1 million for full year 2019 compared to 2018. Adjusted EBITDA margin remains strong at 34.9% for the year, although there is some dilution year on year due to new gyms yet to reach maturity, utility cost inflation and investment in cost base to build scale capability.

Exceptional items

Exceptional items were £8.3 million in 2019, which are in relation to potential acquisitions costs, the integration and transition of Soho Gyms and restructuring of the existing business.

Exceptional items were £3.5 million in 2018 which related to the acquisition and integration of Ovalhouse Limited, trading as Soho Gyms, and costs associated with the acquisition of PureGym by Leonard Green & Partners LP.

Net finance costs

Net finance costs increased to £17.5 million in 2019, compared to £13.0 million in 2018. This follows the implementation of IFRS 16, in which non-cash finance costs are incurred on the unwind of property lease liabilities totaling £28.9 million in the year.

Excluding the impact of IFRS 16, finance costs decreased by 2.6% year on year due to increased interest charges following the issue of additional Senior Secured Notes (£30 million in June 2018 and £40 million in May 2019) offset by one-off costs incurred in Q1 2018 on restructuring the group's finances.

Tax charge

Our income tax expense for the twelve months ended 31 December 2019 was £3.4 million, compared to £0.5 million for 2018. This is due to a lower deferred tax credit in 2019 on the unwind of deferred tax liabilities in relation to intangible assets, and the recognition of a deferred tax charge on the unwind of a deferred tax asset recognised as a result of the transition to IFRS 16 on 1 January 2019.

PureGym 2019 Financial Review

Cashflow and Liquidity

£m	For the twelve months ended 31 Dec	
	2019	2018
Net cash generated from operating activities ¹	69.5	64.0
Net cash used in investing activities	(69.4)	(61.5)
Net cash generated from financing activities ¹	28.2	25.7
Net increase in cash and cash equivalents	28.3	28.2
Cash and cash equivalents on the first day of the period	23.3	(4.8)
Cash and cash equivalents at end of period	51.6	23.3

87.4%
operating
cashflow
conversion

Net cash generated from operating activities

Net cash generated from operating activities was £69.5 million in 2019, compared to £64.0 million in 2018. Whilst IFRS 16 has no overall cashflow impact, it does have a presentational impact on the cashflow statement and in 2019 cash generated from operating activities increased by £11.7 million, with a corresponding decrease of £11.7 million in net cash generated from financing activities. Working capital cashflows continue to be impacted by timing which drives the remaining movements.

Net cash generated from financing activities

Net cash generated in 2019 was £28.2 million compared to £25.7 million in 2018. The increase is primarily due to the £40.0 million additional financing obtained from the issue of senior secured notes in May 2019, being higher than the £22.2 million of net financing obtained in Q2 2018 to fund the acquisition of Ovalhouse Limited (trading as Soho Gyms). This is partially offset by the negative presentational impact associated with IFRS 16 (see net cash generated from operating activities).

Net cash outflow from investing activities

Net cash outflow from investing activities was £69.4 million in 2019 compared to £61.5 million in 2018. The prior year comparative includes an £18.0 million cash outflow for the acquisition of Ovalhouse Limited (trading as Soho Gyms). Excluding the impact of the acquisition, the increase in investing expenditure reflects the increase in site openings in the period.

Capital expenditure

The following table shows our capital expenditures for the periods indicated

£m	For the twelve months ended 31 Dec	
	2019	2018
Expansionary Capital Expenditure	50.6	32.5
Maintenance and Refurbishment Capital Expenditure	16.5	11.3
Total Capital Expenditure	67.1	43.8

The group opened 41 new PureGyms (including 11 SBFs) in the year and completed 21 refurbishments.

The group has not closed or relocated any organic gyms during 2019 and had 263 trading gyms operating as at 31 December 2019.

+41

new
PureGyms

21

refurbishments
completed

¹ 2019 presented in accordance with IFRS 16, prior periods presented in accordance with IAS 17

Principal Risks and Uncertainties

The ultimate responsibility for risk management of the group rests with the Board, who delegate responsibility for identifying, monitoring and managing risk to the operational management teams of the Pure Gym and Fitness World businesses.

The following principal risks and uncertainties are those which we believe could have the most material impact on our business and strategic objectives. Mitigating steps aimed at managing and reducing those impacts are being employed by the group as summarised below. Additional risks and uncertainties currently unknown to us, or which we currently believe are immaterial, may also have an adverse effect on the group.

Risk	Description and potential impact	Mitigation
Economic conditions	Our business may be adversely affected by macro-economic conditions and other factors affecting levels of disposable income and consumer confidence. The group's gym equipment and certain other fixtures and fittings are manufactured overseas and therefore factors such as Brexit and COVID-19 could disrupt the supply chain in certain geographies or cause an increase in cost due to currency movements. The recent COVID-19 outbreak has resulted in an unprecedented shut down of all of our gyms, which if prolonged, could result in a significant loss of revenue and liquidity and therefore represents a material uncertainty in the group's ability to continue as a going concern.	- As part of Brexit planning, the stock required to meet the group's roll out plan for the next 6 months was bought forward. - Close supply relationships maintained, active monitoring of the macro-economic environment for supply chain risk. - Management acted swiftly to reduce cash outflow during the initial closure period and continues to look at ways to reduce this further to maximise and protect our liquidity position. - Appropriate modelling carried out to assess the impact under a range of scenarios, to develop responses for each and to support the assessment of the business as a going concern. 13 week cash forecasting implemented on a group wide basis to ensure tight cash controls and inform central cash management decisions on a day to day basis.
Competition	We may face increased competition from other operators taking aggressive pricing action or opening up new sites near our existing locations, which could put pressure on our pricing strategy and result in a reduction in members, revenue and profitability.	- Rigorous focus on selecting the best sites for our gyms - Continued investment and innovation of our model to provide a premium offering - Sophisticated and dynamic pricing strategy.
International markets	The group has recently acquired Fitness World (a European operator) and is in the early stages of exploring the North American market. Expanding into new markets creates additional challenges and risks which could impact upon overall group performance, growth and profitability.	- Significant international experience on the main Board and high quality, experienced senior leadership teams at Fitness World in Denmark and Switzerland. - Clear focus on the markets in which we operate to ensure the product and proposition is appropriate for the locality. - Focused investment in the infrastructure, people, and technology of our international subsidiaries. - Monitoring and detailed diligence of potential new opportunities for growth in strategically identified locations.
Member experience	The success of our business depends on our ability to attract and retain members, while maintaining sustainable and profitable memberships. We generate almost all of our revenue from membership fees and if we are unable to attract and retain members, it could result in a reduction in members, revenue and profitability.	- Continued investment and innovation of our model to provide a premium offering. - Ongoing monitoring of gym and equipment utilisation to maximise member experience. - Focus on member satisfaction and feedback.

Principal Risks and Uncertainties

Risk	Description and potential impact	Mitigation
Organic rollout	If we are unable to identify and secure good sites on favourable terms for new gyms that meet our selection criteria, we may not be able to implement our roll out strategy. Delays to our roll out plan or a compromise of the location or terms with which we secure new sites could have an adverse impact on our growth strategy and financial returns.	- Highly experienced property team that is incentivised to evaluate potential locations against strict criteria and to secure the best sites on the best terms. - Central capex committee, including CFO and CEO, approve all new sites. - Where new locations may impact on existing locations, the cannibalisation effects are estimated and then monitored and measured to ensure an overall benefit to the group is realised. - Innovation of our model into the Small Box Format opens up many potential new sites that would not previously have been suitable.
Information technology	As an online business, technology is a critical component of our business model. Our ability to sign up new members, process payments and control gym access is wholly reliant on the performance of key IT systems. Disruption to these critical systems could have a negative impact on our reputation and our ability to collect revenue.	- Our websites and apps are hosted in the cloud and designed to be resilient and robust. - Third party disaster recovery location in the Netherlands, Beta tested monthly and quarterly for production. - Data is geolocated and backups are carried out regularly and tested. - The website has 24x7 monitoring with text auto alerting. In 2019, the average uptime of the website was 99.98%. - Software releases are small (feature based) and frequent up to eight per day. Deployments are fully automated and each deploy runs thousands of tests.
Staff retention	The group is reliant on the ethos and high calibre of the executive team as well as strong management and operational teams. There is a risk that a loss of culture or lack of succession planning for staff leavers will impact on organisational performance and delivery.	The group uses a variety of techniques to attract, retain and motivate staff at all levels across the business. These techniques include: - competitive remuneration packages; - opportunities to own shares in the Company; - opportunities for training and progression; - succession planning; and - utilising staff engagement surveys so our staff have an opportunity to provide feedback and ideas.
Operational gearing	The group has relatively high operating gearing from the nature of its fixed cost base and in the ordinary course of business there are a limited number of options in the cost base that could be made to correct any underperformance in membership numbers, which could have an adverse impact on profitability.	- Weekly monitoring of performance and sophisticated yield management on a site by site basis. - Monthly financial reporting and quarterly reforecasting of business performance at site level. - Regular financial oversight by the Management and Executive Board. - Central cost control with regular and rigorous review of our base by the Procurement Director.

Principal Risks and Uncertainties

Risk	Description and potential impact	Mitigation
Data protection	In the course of business, we collect personal information and maintain a large membership database electronically, which could be subject to a breach of security. Unauthorised access, loss or disclosure of this information may lead to legal claims, regulatory penalties, disruption of operations and reputational damage.	• All member data is held by secure third party member management system and subject to ISAE 3402 reporting. • Personnel access to the member management system is reviewed monthly. • All member financial data is encrypted and all documents are stored in 256-bit encryption. • Card payment processing is carried out by PCI-DSS compliant third party provider, Adyen. • All website pages are HTTPS. • Regular third party cyber security audits and penetration testing carried out to ensure our systems remain robust.
Acquisition and integration	The group has recently acquired Fitness World (a European operator) and may identify and pursue the acquisition of other operators as part of our growth strategy. If we fail to successfully integrate acquisitions into the Pure Gym group or to achieve the benefits anticipated from the enlarged group then it could have an impact on overall group performance and profitability.	• Significant M&A experience on the main Board with proven track record of integrating significant acquisitions into the business including LA Fitness in 2015 and SohoGyms in 2018. • Dedicated and experienced project team engaged to focus on integration of Fitness World into the Pure Gym group.
Regulatory compliance	The group is exposed to regulatory and legislative requirements, including those relating to the Bribery Act, Modern Slavery Act, tax evasion, health & safety, employment law, General Data Protection Regulation ("GDPR"), the environment and the Listing Rules of The International Stock Exchange, planning regulations, noise abatement and advertising and marketing regulations. Failure to comply with regulations could lead to financial penalties and reputational damage.	• The Board has oversight of the management of regulatory risk and compliance, and delegates specific responsibilities to senior management. • A number of policies and codes in place across the business, including a code of conduct that incorporates an anti-bribery & corruption policy, outlining the mandatory requirements within the business. These policies are communicated to all the staff and made available to anyone joining the company. • Expert opinion sought where relevant. • Legal advice taken to ensure systems, processes and documentation conform with the Data Protection Act. • Internal periodic health and safety assessments supplemented by third party health and safety risks assessments and audits. • Employment and continuous training and development of appropriately qualified staff.

Emerging risk and uncertainties – coronavirus pandemic

The COVID-19 pandemic is creating a high level of uncertainty of the impact on the wider environment, our staff, our members and the group's operations. Our priority is to ensure the safety of our staff and members.

We are following our robust risk management framework and ensuring that an active risk assessment and business continuity plan is in place, lead by our Chief Executive Officer and overseen by the Chief Operations Officer. The group will follow relevant Government advice where relevant, to ensure that we respond to any developments quickly, safely and in the best interests of our people. This includes responding to instructions to close the entire estate as occurred during March 2020. In addition, management has taken a number of actions to reduce costs to mitigate the disruption caused by the outbreak, and it will also seek to access the various government schemes to support businesses. Appropriate financial modelling has been undertaken to support the assessment of the business as a going concern with the material uncertainty from Covid-19 and in support of viability.

Principal Risks and Uncertainties

Going concern

The group meets its day to day working capital requirements, capex and funding of new sites through its cash reserves and credit facilities, being an RCF facility of £85 million and overdraft of £10 million. As at 4 March 2020, the date of signing the financial statements, the group's forecasts and projections, taking account of reasonably possible changes in trading performance, showed that the group should be able to operate within its existing facilities. This assessment included the expected impact of the acquisition of Fitness World in January 2020 and the associated financing facilities, but excluded the unprecedented impact of COVID-19, as this was not foreseen at that time.

Based on these forecasts, the Directors had a reasonable expectation that the group has adequate resources to continue to remain a going concern for the foreseeable future and therefore continued to adopt the going concern basis in preparing its financial statements.

Impact of COVID-19 pandemic on going concern

Subsequent to signing the financial statements, in the period from 12th to 20th March, the governments of the countries in which we operate imposed total lockdown measures in an attempt to control the spread of COVID-19 and in doing so forced temporary closure of all of our gyms. The Directors have therefore reconsidered their assessment of going concern for the potential impact of the COVID-19 pandemic on the cashflows and liquidity of the group over the next 12 month period.

In performing this reassessment our financial modelling has taken in to account significantly reduced revenue during the closure period, mitigation measures announced by our governments, current measures being put in place by the group to preserve cash and to reduce discretionary expenditure and potential reductions in revenues resulting from changes in the behaviours of members once gyms are allowed to reopen.

In a base case scenario of a three month shut down with no revenue for a 12 week period and no mitigation measures, the group has a weekly cash burn of approximately £9.0 million per week, including interest and tax. By factoring in known government mitigation measures and management mitigation measures that allow for gyms to reopen quickly at short notice, weekly cash burn has been reduced to approximately £4.5 million. When compared to current available liquidity of £150 million, the Directors consider that the group has sufficient facilities and covenant flexibility to withstand a 3 month closure period and continue as a going concern for a period of at least 12 months.

The Directors have also considered the impact of additional downside scenarios with longer closure lengths. Should it become clear that the closure period is to be prolonged, the business would be placed into hibernation allowing the mitigated cash burn to reduce further, thereby significantly extending the liquidity lifespan.

Therefore, whilst there is still significant uncertainty around the duration of the lockdown period, the Directors have a reasonable expectation that the going concern assumption remains appropriate.

Key Performance Indicators

£m	As of and for the quarter ended 31 Dec		As of and for the twelve months ended 31 Dec	
	2019	2018 ²	2019	2018 ²
Total number of PureGyms	263	222	263	222
Total number of unconverted, open Soho gyms	-	6	-	6
Total number of gyms	263	228	263	228
Total number of mature gyms	n/a	n/a	192	170
Total number of members ('000s)	1,135	1,012	1,135	1,012
Average number of members ('000s)	1,160	1,039	1,124	1,032
Average number of members per gym	4,602	4,789	4,710	4,994
Average revenue per member per month (£)	18.84	18.56	18.90	18.45
Reported EBITDA (£ million)	31.7	16.4	125.2	73.1
Adjusted EBITDA (£ million)	22.9	19.2	89.1	81.3
Adjusted EBITDA margin	35.0%	33.2%	34.9%	35.6%
Gym Site Adjusted EBITDA (£ million)	29.0	24.6	113.0	102.7
Gym Site Adjusted EBITDA margin	44.2%	42.6%	44.3%	45.0%
Mature Gym Adjusted EBITDA (£ million)	n/a	n/a	99.4	88.3
Average Mature Gym Adjusted EBITDA (£ million)	n/a	n/a	518	519
Average Mature Gym Adjusted EBITDA Margin (%)	n/a	n/a	45.5%	45.9%
Average Mature Gym ROCE (%)	n/a	n/a	43.3%	43.6%
Average Initial Capital Investment for Mature Gyms (£ million)	n/a	n/a	1,195	1,190
Run Rate Adjusted EBITDA (£ million)	n/a	n/a	104.5	95.0
Operating Cash Flow (£ million)	23.6	28.0	77.8	82.7
Operating Cash Flow Conversion	103.1%	145.7%	87.4%	101.8%
Pro Forma Net Debt (£ million)	381.1	370.2	381.1	370.2
Ratio of Pro Forma Net Debt to Group Run Rate Adjusted EBITDA (LTM)	n/a	n/a	3.6x	3.9x
Ratio of Run Rate Adjusted EBITDA to Pro Forma Net Interest Expense	n/a	n/a	3.7x	3.7x

Note: IFRS 16 implemented from 1 January 2019. Prior periods continue to report under IAS 17

1 FY2018 financials reflect the result of Pinnacle Bidco plc, restated on a like-for-like basis for the 12 months to 31 December 2018.

Reconciliation from Loss to Adjusted EBITDA and Run Rate Adjusted EBITDA

£m	For the quarter ended 31 Dec		For the twelve months ended 31 Dec	
	2019	2018 ¹	2019	2018 ¹
Loss for the year/period	(10.6)	(8.7)	(26.9)	(28.5)
Income tax	3.4	0.2	3.4	0.5
Net finance cost	17.5	13.0	83.4	56.1
Depreciation of property, plant and equipment	13.5	7.7	53.7	30.0
Amortisation of intangible fixed assets	0.7	2.1	2.9	10.5
Impairment of property, plant and equipment	0.3	-	0.3	-
(Profit) / loss on disposal of property, plant & equipment	0.4	1.2	0.4	1.2
(Profit) / loss on lease modifications	(0.0)	-	(0.4)	-
Exceptional administrative expenses	6.4	0.9	8.3	3.5
Reported EBITDA	31.7	16.4	125.2	73.1
Other extraordinary items	-	-	-	-
Share based payment charge	0.1	0.2	0.3	0.2
Pre-opening Costs	1.5	1.6	3.5	3.5
Cash Rent Adjustment	(10.4)	0.9	(39.9)	4.4
Adjusted EBITDA	22.9	19.2	89.1	81.3
Head office costs	6.1	5.4	23.9	21.4
Site Adjusted EBITDA	29.0	24.6	113.0	102.7
Adjusted EBITDA (LTM)	n/a	n/a	89.1	81.3
Run Rate Adjustment	n/a	n/a	15.4	13.7
Run Rate Adjusted EBITDA	n/a	n/a	104.5	95.0

Note: IFRS 16 implemented from 1 January 2019. Prior periods continue to report under IAS 17

¹ FY2018 financials reflect the result of Pinnacle Bidco plc, restated on a like-for-like basis for the 12 months to 31 December 2018.

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
Revenue	245.3	16.9	228.4	-	228.4
Administrative expenses	(212.7)	(15.8)	(196.9)	12.9	(184.0)
Exceptional administrative expenses	(5.7)	(2.2)	(3.5)	1.7	(1.8)
Administrative expenses	(218.4)	(18.0)	(200.4)	14.6	(185.8)
Operating profit / (loss)	26.9	(1.1)	28.0	14.6	42.6
Net finance cost	(60.8)	(4.7)	(56.1)	27.9	(28.2)
(Loss) / profit before tax	(33.8)	(5.8)	(28.0)	42.4	14.4
Income tax charge	(0.4)	0.1	(0.5)	(2.5)	(3.0)
(Loss) / profit for the year / period	(34.2)	(5.7)	(28.5)	39.9	11.4

£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
Reported (loss) / profit for the year/period	(34.2)	(5.7)	(28.5)	39.9	11.4
Income tax	0.4	(0.1)	0.5	2.5	3.0
Net finance cost	60.8	4.7	56.1	(27.9)	28.2
Depreciation of property, plant and equipment	32.4	2.4	30.0	-	30.0
Amortisation of intangible fixed assets	11.4	0.9	10.5	(10.5)	-
Loss on disposal of property, plant and equipment	1.4	0.2	1.2	-	1.2
Exceptional administrative expenses	5.7	2.2	3.5	(1.7)	1.8
Other extraordinary items	0.1	0.1	-	-	-
Pre-opening Costs	3.9	0.4	3.5	-	3.5
Share based payment charge	0.2	-	0.2	-	0.2
Non-cash Rent Adjustment	4.9	0.5	4.4	(2.2)	2.2
Adjusted EBITDA	86.9	5.6	81.3	0.2	81.5
Head office costs	22.8	1.4	21.4	(0.2)	21.1
Site Adjusted EBITDA	109.8	7.1	102.7	-	102.7
Adjusted EBITDA	n/a	n/a	81.3	n/a	81.5
Run Rate Adjustment	n/a	n/a	13.7	n/a	13.6
Run Rate Adjusted EBITDA	n/a	n/a	95.0	n/a	95.2

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

Disclaimers and Further Information for Noteholders

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

Use of non-IFRS financial information

Certain parts of this report contain non-IFRS measures and ratios. We believe that these measures are useful indicators of our ability to incur and service our indebtedness and can assist certain investors, security analysts and other interested parties in evaluating us. Because all companies do not calculate these measures on a consistent basis, our presentation of these measures may not be comparable to measures under the same or similar names used by other companies. Accordingly, undue reliance should not be placed on these measures in this report. In particular, Adjusted EBITDA and Run Rate Adjusted EBITDA are not measures of our financial performance or liquidity under IFRS and should not be considered as an alternative to (a) net income/(loss) for the period as a measure of our operating performance, (b) cash flows from operating, investing and financing activities as a measure of our ability to meet our cash needs or (c) any other measures of performance under IFRS. We define our non-IFRS measures as set forth in the glossary on page 19.

Glossary

"Adjusted EBITDA"

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

"Adjusted EBITDA Margin"

as Adjusted EBITDA for that period divided by revenue for that period.

"Average Continuous Membership Tenure"

the average monthly tenure of all active and paying members, including members who have frozen their membership, as of a given point in time. This includes previous memberships where the gap in membership was 30 days or less but excludes the period(s) of non-membership.

"Average Initial Capital Investment for Mature Gyms"

the Initial Capital Investment for all Mature Gyms for a certain period divided by the number of Mature Gyms in that period.

"Average Gym ROCE"

Gym Site Adjusted EBITDA for the relevant portfolio of gyms for that period divided by the Initial Capital Investment attributable to that portfolio of gyms.

"Average Mature Gym Adjusted EBITDA"

Mature Gym Adjusted EBITDA for a certain period divided by the number of Mature Gyms in that period.

"Average Mature Gym Adjusted EBITDA Margin"

Mature Gym Adjusted EBITDA for a certain period divided by the revenue attributable to Mature Gyms for that period.

"Average Mature Gym ROCE"

Mature Gym Adjusted EBITDA for a certain portfolio of gyms for a certain period divided by the Initial Capital Investment attributable to that portfolio of gyms.

"Average Revenue Per Member Per Month"

revenue for that period divided by the number of months in that period and further divided by the average number of members during that period. The average number of members during that period is calculated as the average of the number of members as of the beginning of the first month and the end of every month in that period.

"Basefit"

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

"Cash Rent Adjustment"

from January 1, 2019, as the deduction of the cash rent payable during the period which otherwise was not reflected in EBITDA (as reported on an IFRS16 basis).

Pre January 1, 2019, under IAS17, the total rent payable over the life of the lease is spread over the lease term and charged to the income statement on a straight-line basis in arriving at EBITDA. As we typically receive a rent free period of a year or more as an incentive from developers or landlords to lease space in their buildings this results in rent charged to EBITDA being greater than the cash outlay in the early years of the lease term and less than the cash outlay in the later years of the lease term. The Cash Rent Adjustment adds back any non-cash element of the rent expensed in the period during these early years (less any amounts already added back as a Pre-Opening Cost) and deducts any shortfall in rent expense in the later years to reflect the actual cash outlay due for that period under our lease arrangements.

Management believes that adjusting EBITDA to reflect cash rent is a better reflection of our actual earnings.

"Combined Group"

refers to PureGym and Fitness World.

"Combined Group EBITDA"

EBITDA of PureGym plus EBITDA of Fitness World.

"Combined Group Adjusted EBITDA"

Adjusted EBITDA of PureGym plus Adjusted EBITDA of Fitness World.

"Combined Group Adjusted EBITDA Margin"

Combined Group Adjusted EBITDA for a certain period divided by the Combined Group Revenue.

"Combined Group Gym Site Adjusted EBITDA Margin"

Gym Site Adjusted EBITDA of PureGym plus Gym Site Adjusted EBITDA of Fitness World.

"Combined Group Revenue"

revenue of PureGym plus revenue of Fitness World.

"Combined Group Run Rate Adjusted EBITDA Margin"

Run Rate Adjusted EBITDA of PureGym plus Run Rate Adjusted EBITDA of Fitness World.

"Combined Group Operating Cash Flow"

Operating Cash Flow of PureGym plus Operating Cash Flow of Fitness World.

"EBITDA"

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

"Expansionary Capital Expenditure"

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

"Fitness World" or "Fitness World Group"

refers to Forward TopCo A/S and its subsidiaries.

Glossary continued

"Gym Cohorts"

groups of PureGym or Fitness World clubs, as applicable, that opened during a specified period.

"Gym Site Adjusted EBITDA"

Adjusted EBITDA for that period, excluding Head Office Costs.

"Gym Site Adjusted EBITDA Margin"

as Gym Site Adjusted EBITDA divided by revenue for that period.

"Head Office Costs"

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

"Initial Capital Investment"

the capital cost of bringing a new gym into operation or extending a gym, including expenditures on site fit out, fixtures, fittings and equipment and excluding the cost of any right of use property assets, ongoing maintenance and refurbishment capex.

"Large Box Format (LBF)"

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

"Maintenance and corporate capital expenditures"

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

"Mature Gym Adjusted EBITDA"

profit for a certain period before income tax expense, net finance cost, depreciation of property, plant and equipment and right of use assets, amortisation of intangible fixed assets, impairment of property, plant and equipment, profit/loss on disposal of property, plant and equipment, profit/loss on lease modifications and exceptional administrative expenses for Mature Gyms, after adding back the Cash Rent Adjustment and Pre-Opening Costs for Mature Gyms and after adding back Head Office Costs.

"Mature Gym EBITDA"

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

"Mature Gym"

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

"Net Debt"

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

"New gyms"

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

"Number of gyms"

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

"Operating Cash Flow"

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

"Operating Cash Flow Conversion"

the Operating Cash Flow for that period divided by Adjusted EBITDA for that period.

"Pre-Opening Costs"

the total of all gym site operating costs incurred during the pre-opening periods of gyms in that period. Pre-Opening Costs primarily consist of staff, marketing and also rent expenses when reporting under IAS17.

"ROCE"

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

"Run Rate Adjusted EBITDA"

the Adjusted EBITDA including any Run Rate Adjustment.

"Run Rate Adjusted"

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

"Senior Secured Net Debt"

the total senior secured indebtedness of the group (excluding finance lease liabilities as reported under IAS17), less cash and cash equivalents.

"Small Box Format (SBF)"

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

"Soho Gyms"

The trading name of Ovalhouse Limited.

"Working Capital Cash Flow"

cash movements in working capital less the Cash Rent Adjustment, where this is applicable under IAS17.

Pinnacle Bidco PLC
Annual report and consolidated financial statements
For the year ended 31 December 2019

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Bankers

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Strategic report for the year ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019. The comparative period was the 14 month period ended 31 December 2018, which included 13 months of trading activity.

Business Review and Future Developments

The company and its subsidiaries form the PureGym Group (“the Group”), a Group providing low cost, physical fitness facilities under the PureGym brand which is the focus of this business review.

PureGym is the largest operator of gyms in the United Kingdom, both by number of gyms and members. As of 31 December 2019, the company operated 263 open gyms (2018: 222) across the UK and had 1,135,000 members (2018: 1,012,000) representing growth of 18.5% and 12.2% 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.

The Group opened 41 new PureGym branded gyms during the year, including 11 small box formats. Small box format gyms are typically 6,000-9,000 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 2020 and beyond, both in the UK and overseas.

Results

The consolidated statement of comprehensive income on page 18 shows our results for the year ended 31 December 2019. The Group made an operating profit of £59,877,000 and a loss for the year of £26,948,000 (14 month period ended 31 December 2018: operating profit of £26,927,000 and loss for the period of £34,230,000). The loss for the year / period has arisen after deducting finance costs incurred as a result of the capital structure of the Group, which is typical for a private equity backed business. As such, management focus on other key performance indicators in evaluating the results of the Group.

We are very pleased to report significant growth in the underlying internal KPIs of PureGym. The KPIs within this strategic report are included as they best represent the performance of the business in line with the overall strategy for growth. Member and gym number growth are seen as being key drivers of growth in Adjusted EBITDA. Adjusted EBITDA is derived from adjusting operating profit and is fully defined in footnote 6 of the table on page 5. This KPI is typically used within the industry as it is more effective than operating profit in representing the results of the Group’s trade from ongoing gyms and, as such, is a key focus of our stakeholders, including our investors, our bondholders and our banking partners. The comparatives used below are restated on a like for like basis for the 12 months to 31 December 2018 as the comparative period of 14 months does not provide as useful a comparison of like-for-like performance:

Strategic report (continued)

for the year ended 31 December 2019

Results (continued)

	2019 No.	2018 No.	Increase No.	Increase %
Members	1,135,000	1,012,000	123,000	12.2%
Gyms	263	222	41	18.5%

	2019 £'000	Like for like 2018 (unaudited) £'000	Increase £'000	Increase %
Revenue	254,940	228,403	26,537	11.6%
Group EBITDA ¹	125,220	73,141	52,079	71.2%
Pre-Opening Costs (unaudited) ²	3,479	3,508	(29)	(0.8%)
Non-Cash Rent (unaudited) ³	-	4,402	(4,402)	N/A
Cash Rent (unaudited) ⁴	(39,921)	-	(39,921)	N/A
Share Based Payment Charge ⁵	306	248	58	23.4%
Adjusted Group EBITDA (unaudited) ⁶	89,084	81,299	7,785	9.6%

¹ Group EBITDA is defined as earnings before net finance cost, taxation, depreciation, amortisation, profit/loss on sale of property, plant & equipment, impairment, profit/loss on lease modifications and exceptional items. This better represents the results of the Group's trade than operating profit (note 5). As a result of the Group's transition to IFRS 16 (Leases) from IAS 17 (Leases) on 1 January 2019 (note 27), Group EBITDA in 2019 excludes most lease costs. The results for 2018 have not been restated.

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 costs, marketing and rent expense.

³ Under IAS 17, the total lease cost (net of any rent free period) was 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 Under IFRS 16, most lease costs are excluded from Group EBITDA. In order to produce a comparable Adjusted EBITDA figure, the cash paid for rent during the accounting period is deducted.

⁵ 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.

⁶ Adjusted Group EBITDA is defined as earnings before net finance cost, taxation, depreciation, amortisation, profit/loss on sale of property, plant & equipment, impairment, profit/loss on lease modifications, exceptional items, Pre-Opening Expenses, Non-Cash Rent (Cash Rent under IFRS 16), Share Based Payments and Other Extraordinary Items. The transition to IFRS 16 on 1 January 2019 has no impact on Adjusted Group EBITDA.

Strategic report (continued)

for the year ended 31 December 2019

Funding

During the year ended 31 December 2019, the Group issued an additional £40 million of senior secured notes on the same terms as the existing notes held, bringing the total value of notes in issue at the year end to £430 million. 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. The additional issue of notes in 2019 was facilitated in order to fund the continued organic expansion of the PureGym Group.

In addition to the notes, the company is party to 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 2019, the Group was not drawn down on the facility. The facility includes certain financial covenants. The Group has been in compliance with all covenants during the current period.

The revolving credit facility provides headroom for the Group's 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, evidenced by the fact that the PureGym business was born during a period of economic downturn.

As at 31 December 2019, the company 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 ultimate impact of the United Kingdom's decision to leave the European Union. The company 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, and has access to short term funding if necessary, as described in the Funding section above.

Events after the end of the reporting period

On 14 January 2020, a subsidiary of the company, Pinnacle Europe Holdings Limited acquired 100% of the share capital of Forward Topco A/S and its subsidiaries ("the Fitness World Group") for consideration of DKK 2,037,300,000 (£231,667,000). The Fitness World Group are a leading European low cost gym and fitness operator, and the combination gives PureGym significant scale in Continental Europe and rapidly accelerates the Group's international expansion. Fitness World has more than 600,000 members, over 230 gyms and in 2018 earned revenues of £175m and EBITDA of £38m. The acquisition was funded through a €445 million senior secured bridge facility agreement with a variable interest rate between 4.25% and 4.5%, in addition to upsizing the RCF by £35 million taking the total RCF facility to £95 million. It is the Group's intention to refinance the bridge facility during 2020, however should it remain in place on 13 January 2021 then the bridge facility agreement provides for automatic conversion to a term loan, repayable in February 2025.

Strategic report (continued)

for the year ended 31 December 2019

Employees and diversity

At 31 December 2019 the Group had 1,413 employees (31 December 2018: 1,052) and these are analysed as follows:

	31 December 2019			31 December 2018		
	Male	Female	Total	Male	Female	Total
Company Directors	2	-	2	2	-	2
Senior Managers	4	3	7	3	3	6
Other employees	901	503	1,404	662	382	1,044
Total	907	506	1,413	667	385	1,052

The ways in which the directors have had regard to the interests of employees and other key stakeholders of the business are explained in the Directors' Report on pages 8 to 9.

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.

On behalf of the Board

A Wood
Director
 4 March 2020

Directors' report

for the year ended 31 December 2019

The directors present their Annual Report and audited, consolidated financial statements of Pinnacle Bidco PLC and subsidiaries (together "the Group") for the year ended 31 December 2019. The comparative period was the 14 month period ended 31 December 2018.

Principal activities

Pinnacle Bidco PLC is an intermediate holding company within the Leonard Green & Partners Group and is expected to remain as such for the foreseeable future. The company is an investment and financing vehicle that holds senior secured notes and bank debt associated with the on-going expansion of Pure Gym, a provider of low cost, physical fitness facilities.

The activities of the Group are discussed in the strategic report on page 4. The Group made a loss for the year of £26,948,000 (14 month period ended 31 December 2018: £34,230,000), and had net liabilities at 31 December 2019 of £127,412,000 (2018: £30,069,000). The directors are not able to recommend payment of a dividend.

Likely future developments of the Group are discussed within the Strategic Report on page 4.

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 year and up to signing the financial statements were as follows:

H Cobbold
A Wood

The directors benefit from qualifying third party indemnity provisions in place during the financial year 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 17). 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. This assessment has also included the expected impact of the acquisition of the Fitness World Group in January 2020, and the associated financing facilities, as explained in the Strategic Report on page 6. 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.

Corporate Governance

The directors consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 December 2019.

Customer engagement is at the heart of everything we do and any decision made by the directors is made with full consideration of the impact on the Group's customers.

Directors' report (continued)

for the year ended 31 December 2019

Corporate Governance (continued)

The Group has a small number of key supplier partners with which the directors and senior managers maintain close relationships on an ongoing basis through regular dialogue, formal meetings and conferences. These communications include discussion of ongoing partnerships and an explanation of future plans for the business.

The directors seek to promote a culture of environmental sustainability within the business which is primarily focussed on an energy efficient approach to the design and management of our gyms. This includes fitting out gyms with mechanical and electrical systems that comply with government energy-saving schemes, installing using LED energy-saving lighting and water-saving bathroom and shower facilities, and using energy-efficient fitness equipment. We also seek to recycle the building materials from the fit out of our gyms.

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 year. 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.

Directors' report (continued)

for the year ended 31 December 2019

Statement of directors' responsibilities (continued)

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' 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
4 March 2020

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 2019 and of its loss and cash flows for the year 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 2019; the consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated statement of changes in equity for the year 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: £2,900,000 (2018: £1,800,000), 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.
- Risk of impairment of goodwill and non-current assets.
- Risk of material misstatement in implementing IFRS 16 'Leases'.
- Risk that the Group may not be able to continue as a going concern.

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

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.

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.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
Risk of impairment of goodwill and non-current assets The Group has £462.8m of goodwill and £527.8m of other non-current assets, made up of other intangible assets subject to amortisation, property, plant and equipment and right of use assets. The carrying value of goodwill is tested for impairment annually and management consider if there are any indicators of impairment for non-current assets. 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 Units ('CGU's) 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 four years; > A long-term (terminal) growth rate applied beyond the end of the four 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, note 3 for the critical judgements and estimates disclosure and note 11 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 evaluated management's short term growth rate implied in the cash flows for the distinct four year period, obtaining external industry reports to challenge management's assumption, with no contradictory evidence being identified. - 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. We also assessed the disclosures made with respect to the sensitivity of the key assumptions.

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

Key audit matter	How our audit addressed the key audit matter
Risk of material misstatement in implementing IFRS 16 'Leases' The Group has adopted IFRS 16 'Leases' on 1 January 2019 using the modified retrospective transition approach, measuring the 'Lease Liability' from transition and the 'Right of Use asset' at its carrying value based on application of IFRS 16 from inception of the lease, as permitted by the accounting standard. The adoption of the new accounting standard resulted in the Group recognising a lease liability of £299.4m based on applying an incremental borrowing rate to discount the remaining future lease payments as at 1 January 2019 of £516.6m. An associated right of use asset of £218.8m has also been recognised, along with an adjustment to equity of £70.7m representing the difference between the carrying value of the right of use asset being recognised and the lease liability, along with other financial statement line items at that date (see note 27). We focused on this area because the impact to the Group's balance sheet is significant and the transition requires management to exercise judgement, in particular in calculating an incremental borrowing rate applied to the lease. There is also a significant impact (increase) on the Group's main key performance indicator, EBITDA, versus the previous approach under IAS 17. See the accounting policies section for details of the policies applied in the current year and notes 12, 16 and 27 for the disclosures showing the impact of adoption of IFRS 16 on 1 January 2019 and as at 31 December 2019.	We understood and evaluated management's transition approach, ensuring it was consistent with the requirements of IFRS 16. We obtained the detailed workings and tested the lease inputs, including the following: - A sample of key lease terms, including; payments, start dates and end dates; - A sample of lease modifications and lease remeasurements; - Recalculating of the lease liability and right of use asset; - Recalculating of interest and depreciation; and - Assessing the completeness of leases. The incremental borrowing rate (IBR) is a sensitive assumption that has a significant impact on the resulting lease liability. We challenged management's IBR through the use of a valuations expert, assessing management's judgement and challenging the methodology and calculation inputs, taking into account the life of the leases and the current credit rating of the group. We also assessed management's disclosures relating to the change in accounting policy are consistent with the requirements of IFRS 16.
Going concern During the 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 date of approving the Group financial statements. In preparing their assessment management have included the cash flows of the Fitness World business acquired on 14 January 2020 and compared these cash flows against the Group's existing facilities including the bridging loan facility entered into by the Group on 13 January 2020 (see note 28). 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	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 and incorporating over this period the cash flows of Fitness World Group which was acquired on 14 January 2020. 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. - Assessing whether there are adequate resources throughout the going concern period provided by the bridging facility, which will automatically convert to a term loan repayable in February 2025 from 13 January 2021 should permanent facilities not be put in place prior to this date.

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

Key audit matter	How our audit addressed the key audit matter
period. In coming to this conclusion, management has assessed reasonably possible downside scenarios.	- Assessing whether the Group have complied with the bank covenant during the year. - In order to assess management's views on future liquidity of the Group we obtained an externally available rating agency report on the company. No contradictory evidence in respect of future liquidity outlook was noted. We performed sensitivity analyses 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 banking facilities. We also assessed management's disclosures regarding their going concern assessment and available 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 Pure Gym Limited.

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	£2,900,000 (2018: £1,800,000).
How we determined it	2.5% of earnings before interest, tax, depreciation and amortisation ('EBITDA').
Rationale for benchmark applied	Based on the benchmarks used in the annual report, EBITDA is the 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 £1,500,000 and £2,700,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

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

Materiality (continued)

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £145,000 (2018: £90,000) 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 of the United Kingdom's withdrawal 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.

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

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 year ended 31 December 2019 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 pages 9 and 10, 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.

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.

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

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 year ended 31 December 2019.

Tom Yeates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
4 March 2020

Consolidated statement of comprehensive income for the year ended 31 December 2019

	Note	Year ended 31 December 2019 £'000	14 month period ended 31 December 2018 £'000
Revenue	4	254,940	245,283
Other administrative expenses		(186,769)	(212,671)
Exceptional administrative expenses	6	(8,294)	(5,685)
Administrative expenses		(195,063)	(218,356)
Operating profit	5	59,877	26,927
Finance income	9	424	78
Finance costs	9	(83,829)	(60,833)
Loss before income tax		(23,528)	(33,828)
Income tax charge	10	(3,420)	(402)
Loss for the financial period		(26,948)	(34,230)
Total comprehensive expense for the period		(26,948)	(34,230)

Consolidated statement of financial position as at 31 December 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Intangible assets	11	515,330	515,706
Property, plant and equipment	12	475,337	196,922
Deferred tax asset	10	10,600	5,946
Trade and other receivables	14	1,450	-
		1,002,717	718,574
Current assets			
Inventories	13	1,952	1,278
Trade and other receivables	14	21,923	17,563
Cash and cash equivalents		51,626	23,320
		75,501	42,161
TOTAL ASSETS		1,078,218	760,735
Current liabilities			
Trade and other payables	15	(90,794)	(76,203)
Lease liabilities	16	(21,621)	-
Borrowings	17	-	(1,006)
Income taxes payable		(1,332)	(497)
		(113,747)	(77,706)
Non-current liabilities			
Deferred tax liability	10	(12,890)	(14,087)
Lease liabilities	16	(315,343)	-
Borrowings	17	(763,650)	(699,011)
		(1,091,883)	(713,098)
TOTAL LIABILITIES		(1,205,630)	(790,804)
NET LIABILITIES		(127,412)	(30,069)
Equity			
Share capital	20	50	50
Share premium	20	3,863	3,863
Accumulated losses		(131,325)	(33,982)
TOTAL EQUITY		(127,412)	(30,069)

The notes on pages 22 to 56 are an integral part of these financial statements. The financial statements of Pinnacle Bidco PLC, registered number 11038859, on pages 18 to 56 were approved by the board of directors and authorised for issue on 4 March 2020 and were signed on its behalf by:

A Wood
Director

Consolidated cash flow statement for the year ended 31 December 2019

	Note	Year ended 31 December 2019 £'000	14 month period ended 31 December 2018 £'000
Cash flows from operating activities			
Cash generated from operations	21	129,155	90,166
Exceptional costs paid		(3,639)	(5,685)
Bank interest and similar charges paid		(659)	(4,929)
Bank interest received		277	78
Senior secured notes interest paid		(25,437)	(12,909)
Loan note interest paid		-	(45,411)
Interest element of lease liability payments		(29,001)	-
Interest element of finance lease payments		-	(327)
Issue costs from borrowings		(477)	(16,274)
UK corporation tax paid		(687)	(615)
Net cash generated from operating activities		69,532	4,094
Cash flows from investing activities			
Purchase of subsidiary undertakings, net of cash acquired		-	(304,911)
Purchase of trade and assets	29	(2,828)	-
Purchase of property, plant & equipment	12	(66,627)	(48,146)
Proceeds from disposal of property, plant & equipment		41	264
Net cash used in investing activities		(69,414)	(352,793)
Cash flows from financing activities			
Issue of share capital	20	-	3,913
Issue of senior secured notes	17	40,000	390,000
Premium received on issue of senior secured notes		800	-
Repayment of loan note principal		-	(90,970)
Capital element of lease liability payments		(12,764)	-
Capital element of finance lease payments		-	(1,742)
Proceeds from bank borrowings		-	360,000
Repayments of bank borrowings		-	(577,762)
Proceeds from intercompany borrowings		152	288,580
Net cash generated from financing activities		28,188	372,019
Net increase in cash and cash equivalents		28,306	23,320
Cash and cash equivalents at start of period		23,320	-
Cash and cash equivalents at end of period		51,626	23,320

Consolidated statement of changes in equity for the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Accumulated losses £'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)
Change in accounting policy (note 27)	-	-	(70,701)	(70,701)
Restated balance as at 1 January 2019	50	3,863	(104,683)	(100,770)
Loss and total comprehensive expense for the year	-	-	(26,948)	(26,948)
Credit to equity for equity settled share- based payments	-	-	306	306
Balance as at 31 December 2019	50	3,863	(131,325)	(127,412)

Notes to the consolidated financial statements

1 General information

The principal activity of the Group during the year 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 2019. 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 17). 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. This assessment has also included the expected impact of the acquisition of the Fitness World Group in January 2020, and the associated financing facilities, as explained in note 28. 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 over time, 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 in that period. 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) Intangible assets 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 deducted from the cost of property, plant and equipment within that leasehold. After initial recognition, property, plant and equipment is stated at cost less provisions for depreciation and impairment.

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:

Right-of-use assets	Straight line over the life of the lease
Leasehold costs	Straight line over the life of the lease
Leasehold improvements	Straight line over the shorter of 3-15 years or remaining lease life
Fixtures and fittings	Straight line over 6 years
IT equipment	Straight line over 3 years

Residual values are calculated where appropriate based on agreed buyback terms with suppliers.

Property, plant and equipment is tested 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.

Leases as a lessee

Policies applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

Leases as a lessee (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate using the interest rates from recent third party financing received as a starting point. This rate is then adjusted to make it specific to the lease based on the lease term and security.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments; and
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss as 'profit on lease modifications' if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets as part of 'property, plant and equipment' and lease liabilities as a separate line item in the statement of financial position.

A small number of property leases contain variable payment terms that are linked to sales generated from a particular gym. For individual gyms, up to 100% of lease payments are on the basis of variable payment terms with a range of percentages as a proportion of sales. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

Leases as a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment,

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

Leases as a lessor (continued)

the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

Policies applicable prior to 1 January 2019

Leases

(a) Finance lease agreements

Where the Group 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 statement of financial position as property, plant and equipment and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account 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 against profits on a straight line basis over the period of the lease. The notional value of any rent free period or 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 or foreign currency forward contracts to hedge risks associated with interest rate movements or foreign exchange. The Group initially recognises such instruments at fair value where applicable and subsequently remeasures at each balance sheet date.

Financial assets

The Group classifies its financial assets as 'those to be measured at amortised cost' or 'those to be measured subsequently at fair value'. At initial recognition, the Group measures its financial assets at fair value plus, in the case of financial assets not at fair value through profit or loss (FVPL), transaction

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

Financial instruments (continued)

costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the profit or loss.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

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 months before 31 December 2019 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.

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.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

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 statement of financial position date.

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. Examples of items included within exceptional items are restructuring and transformational costs, and costs relating to acquisitions or certain expansion projects. Management consider, on a case by case basis, whether costs are exceptional based on the specific circumstances.

New and future accounting standards

The following standard has been adopted for the first time in these financial statements:

- IFRS 16 'Leases'

The impact of this accounting standard on the financial statements is explained in note 27.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the consolidated financial statements (continued)

3 Critical accounting estimates and judgements

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 judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements 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.

Estimates

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. Management have assessed that reasonably possible changes in key assumptions are unlikely to cause an impairment of non-financial assets. More information including carrying values is included in note 11.

Judgements

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.

Management make this judgement using a combination of evidence from historic taxable profitability and an assessment of likely future taxable profits. Detail of the tax charge and deferred tax asset are set out in note 10.

Provisions for leasehold dilapidations

The Group applies judgement in determining the recognition and measurement of provisions for dilapidations of leased premises. Management assess the likelihood of a liability arising based on the contractual obligations included within leases and an assessment of the likelihood that the company will become liable for such obligations as a result of tenancies coming to an end and not being subsequently renewed. Where it is determined that such a liability is probable, an estimate is made as to the amount and timing of future cash flows required to settle the liability, and a provision is made for this liability, discounted to present value. Where it is determined that the probability of such a liability is remote, no provision is recognised. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. At 31 December 2019, the provision recognised is £100,000 (31 December 2018: £nil).

Incremental borrowing rate for discounting of lease liabilities

The company uses its incremental borrowing rate to discount lease payments in the calculation of lease liabilities. The use of this method requires critical judgements over the impact on the incremental borrowing rate of relevant factors such as lease length and quality of security. Management utilise internal and external information to determine an appropriate rate. More information including the weighted average incremental borrowing rate applied is included in note 27.

Notes to the consolidated financial statements (continued)

4 Revenue

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

	Year ended 31 December 2019 £'000	14 month period ended 31 December 2018 £'000
Member income	235,607	226,414
Vending income	7,328	6,684
Other income	12,005	12,185
	254,940	245,283

5 Operating profit

	Year ended 31 December 2019 £'000	14 month period ended 31 December 2018 £'000
Operating profit is stated after charging / (crediting):		
Amortisation of intangibles (note 11)	2,933	11,382
Depreciation of property, plant & equipment (note 12)		
- owned assets	32,952	31,158
- right of use property assets	19,695	-
- right of use equipment assets	1,087	1,204
Operating lease charges		
- other leasehold property	-	43,666
Variable lease payments on property leases	54	-
Loss on disposal of property, plant & equipment	445	1,381
Impairment of property, plant and equipment	331	-
Profit on lease modifications	(394)	-
Exceptional costs (note 6)	8,294	5,685

Notes to the consolidated financial statements (continued)

5 Operating profit (continued)

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

	Year ended 31 December 2019 £'000	14 month period ended 31 December 2018 £'000
Operating profit	59,877	26,927
Depreciation	53,734	32,362
Amortisation	2,933	11,382
Loss on disposal of property, plant and equipment	445	1,381
Impairment of property, plant and equipment	331	-
Profit on lease modifications	(394)	-
Exceptional costs	8,294	5,685
Group EBITDA	125,220	77,737

Group EBITDA is presented as it provides a more accurate representation of the company's trading results than operating profit. As explained in note 27, the company has applied IFRS 16 (Leases) from 1 January 2019 with no retrospective restatement of the results of 2018. As a result, most lease costs are excluded from Group EBITDA and operating profit in 2019, but were included in 2018.

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:

	Year ended 31 December 2019 £'000	14 month period ended 31 December 2018 £'000
Costs relating to acquisitions	4,787	868
Integration, transition and restructuring costs	2,166	637
Exploration of acquisition and expansion opportunities	1,341	-
Costs relating to the purchase and sale of the Group	-	4,180
	8,294	5,685

In the year ended 31 December 2019, the company incurred costs related to the acquisition of the Fitness World Group (see note 28), as well as other gym acquisitions. Total costs related to these acquisitions in 2019 were £4,787,000. In the 14 month period ended 31 December 2018, £868,000 was incurred in relation to the acquisition of Ovalhouse Limited.

Notes to the consolidated financial statements (continued)

6 Exceptional administrative expenses (continued)

In addition, £2,166,000 of costs were incurred in 2019 relating to the transition and integration of Soho Gyms into the PureGym model and the restructuring of certain operations in the existing business (14 month period ended 31 December 2018: £637,000).

In the year ended 31 December 2019, the company also incurred costs of £1,341,000 in relation to the exploration of acquisition and expansion opportunities (14 month period ended 31 December 2018: £nil).

In November 2017, the PureGym Group was acquired by Leonard Green & Partners and expenses totalling £4,180,000 were incurred in the 14 month period ended 31 December 2018 relating to the sale.

All projects ongoing at 31 December 2019 are expected to complete in 2020.

7 Auditors' remuneration

The remuneration of the auditors is analysed as follows:

	Year ended 31 December 2019 £'000	14 month period ended 31 December 2018 £'000
Audit of the parent company and Group financial	8	8
Audit of subsidiary financial statements	165	145
Other assurance services	67	258
	240	411

8 Employees and directors

	Year ended 31 December 2019 £'000	14 month period ended 31 December 2018 £'000
Wages and salaries	30,799	29,640
Social security costs	2,965	3,045
Other pension costs	834	526
	34,598	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 year was £834,000 (14 month period ended 31 December 2018: £526,000) and outstanding pension contributions at the year-end were £nil (31 December 2018: £94,000).

Notes to the consolidated financial statements (continued)

8 Employees and directors (continued)

The Directors and certain employees hold ordinary A1 and A2 shares in the company, 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 £306,000 has been recognised during the year (14 month period ended 31 December 2018: £248,000) 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:

	Year ended 31 December 2019 No.	14 month period ended 31 December 2018 No.
Central support	322	279
Operations	890	684
	1,212	963

Total emoluments relating to Directors are as follows:

	Year ended 31 December 2019 £'000	14 month period ended 31 December 2018 £'000
Aggregate emoluments	1,238	1,418
Contributions to defined contribution schemes	9	6
	1,247	1,424

One director was a member of the defined contribution scheme as at 31 December 2019 (31 December 2018: one).

The amounts set out above include emoluments in respect of the highest paid director totalling £860,000 (14 month period ended 31 December 2018: £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.

Notes to the consolidated financial statements (continued)

9 Finance income and costs

	Year ended 31 December 2019 £'000	14 month period ended 31 December 2018 £'000
Bank interest received	277	78
Interest income on finance lease receivables	147	-
Total finance income	424	78

	Year ended 31 December 2019 £'000	14 month period ended 31 December 2018 £'000
Interest on bank loans and overdrafts	-	3,303
Finance lease interest	-	327
Interest payable on lease liabilities	29,148	-
Commitment fees	600	735
Amortisation of capitalised finance costs	1,283	8,101
Interest on senior secured notes	26,400	22,233
Interest payable to Group undertakings	26,106	26,066
Fair value loss on derivative financial instruments	283	-
Other	9	68
Total finance costs	83,829	60,833

Interest and finance charges paid for financial liabilities not at fair value through profit or loss totalled £83,546,000 (14 month period ended 31 December 2018: £60,833,000).

Notes to the consolidated financial statements (continued)

10 Income tax

	Year ended 31 December 2019 £'000	14 month period ended 31 December 2018 £'000
Current tax:		
- UK corporation tax on loss for the period	1,314	1,146
- Adjustment in respect of prior periods	208	-
Total current tax charge	1,522	1,146
Deferred tax:		
- Origination and reversal of timing differences	1,871	(832)
- Adjustment in respect of prior periods	225	-
- Effect of changes in tax rates	(198)	88
Total deferred tax charge / (credit)	1,898	(744)
Total tax charge in the consolidated statement of comprehensive income	3,420	402

The tax charge for the year is higher (14 month period ended 31 December 2018: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2019 of 19% (14 month period ended 31 December 2018: 19%). The differences are explained below:

Notes to the consolidated financial statements (continued)

10 Income tax (continued)

	Year ended 31 December 2019 £'000	14 month period ended 31 December 2018 £'000
Loss on ordinary activities before tax	(23,528)	(33,828)
Tax on loss on ordinary activities at standard UK corporation tax rate of 19% (14 month period ended 31 December 2018: 19%)	(4,470)	(6,427)
Effects of:		
- Fixed asset differences	971	(1,382)
- Expenses not deductible for tax purposes	1,832	3,272
- Adjustment in respect of prior periods	433	-
- Income not taxable	(78)	-
- Impact of rate differences	(198)	88
- Unrelieved tax losses and other deductions	-	63
- Amounts surrendered for Group relief for nil consideration	4,960	4,952
- Amounts not recognised on acquisition	-	(231)
- Deferred tax not recognised	-	67
- Other reliefs	(30)	-
Total tax charge for the period	3,420	402

The standard rate of corporation tax in the UK was 19% throughout the year (14 month period ended 31 December 2018: 19%) 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.

Notes to the consolidated financial statements (continued)

10 Income tax (continued)

Deferred tax assets

The movement in deferred tax assets is as follows:

	£'000
At 30 October 2017	-
Acquired through business combinations	8,672
Income statement charge	(2,568)
Movement arising on transfer of trade between Group companies	(158)
At 31 December 2018	5,946
Change in accounting policy (note 27)	7,749
At 1 January 2019	13,695
Adjustment in respect of prior periods	(225)
Income statement charge	(2,870)
At 31 December 2019	10,600

The deferred tax assets comprise temporary differences attributable to:

	2019 £'000	2018 £'000
Property, plant and equipment	3,216	5,592
Leases	7,135	-
Provisions	249	354
	10,600	5,946

At the year end, the Group had losses from certain Group companies carried forward for which a deferred tax asset has not been recognised. These losses totalled £12,412,000 (31 December 2018: £13,376,000) and the unrecognised deferred tax asset totalled £2,110,000 (31 December 2018: £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.

Notes to the consolidated financial statements (continued)

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	17,557
Income statement credit	(3,312)
Movement arising on transfer of trade between Group companies	(158)
At 31 December 2018	14,087
Income statement credit	(1,197)
At 31 December 2019	12,890

The deferred tax liabilities comprise temporary differences attributable to:

	2019 £'000	2018 £'000
Non-qualifying assets acquired through business combinations	3,956	4,653
Intangible assets	8,934	9,434
	12,890	14,087

11 Intangible assets

	Goodwill £'000	Brands £'000	Customer Relat'ships £'000	Total £'000
Cost				
Acquisitions during the period	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)

11 Intangible assets (continued)

	Goodwill £'000	Brands £'000	Customer Relationships £'000	Total £'000
Cost				
1 January 2019	460,215	58,669	8,204	527,088
Acquired through business combinations (note 29)	2,557	-	-	2,557
31 December 2019	462,772	58,669	8,204	529,645
Accumulated amortisation				
1 January 2019	-	3,178	8,204	11,382
Charge for the period	-	2,933	-	2,933
31 December 2019	-	6,111	8,204	14,315
Net book value				
31 December 2019	462,772	52,558	-	515,330

The “Brands” intangible asset represents the PureGym brand acquired during the 14 month period ended 31 December 2018. The remaining amortisation period of the Brands at 31 December 2019 is 17 years, 11 months.

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 Group of CGUs to which it relates, being “Gyms”.

EBITDA projections reflect the maturity profile of the existing estate and the key assumptions are: average annual capital expenditure of £25.4m (2018: £23.1m) on existing sites, pre-tax discount rate of 9% (2018: 10%) and a long-term growth rate of 2% (2018: 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.

Notes to the consolidated financial statements (continued)

12 Property, plant and equipment

	Leasehold costs £'000	Leasehold improvements £'000	Fixtures & Fittings £'000	IT equipment £'000	Total £'000
Cost					
Acquisitions	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

Notes to the consolidated financial statements (continued)

12 Property, plant and equipment (continued)

	Right of use assets £'000	Leasehold costs £'000	Leasehold improvements £'000	Fixtures & Fittings £'000	IT equipment £'000	Total £'000
Cost						
31 December 2018	-	8,562	148,642	61,025	4,473	222,702
Change in accounting policy (note 27)	218,807	-	-	(5,122)	-	213,685
1 January 2019	218,807	8,562	148,642	55,903	4,473	436,387
Additions	50,773	1,099	41,379	19,515	4,634	117,400
Acquired through business combinations	-	-	-	271	-	271
Disposals	-	-	(959)	(977)	(69)	(2,005)
31 December 2019	269,580	9,661	189,062	74,712	9,038	552,053
Accumulated depreciation						
31 December 2018	-	614	12,449	11,184	1,533	25,780
Change in accounting policy (note 27)	-	-	-	(1,610)	-	(1,610)
1 January 2019	-	614	12,449	9,574	1,533	24,170
Charge for the year	20,782	600	16,076	14,055	2,221	53,734
Impairment	-	63	268	-	-	331
Disposals	-	-	(518)	(932)	(69)	(1,519)
31 December 2019	20,782	1,277	28,275	22,697	3,685	76,716
Net book value						
31 December 2018	-	7,948	136,193	49,841	2,940	196,922
Change in accounting policy (note 27)	218,807	-	-	(3,512)	-	215,295
1 January 2019	218,807	7,948	136,193	46,329	2,940	412,217
31 December 2019	248,798	8,384	160,787	52,015	5,353	475,337

Notes to the consolidated financial statements (continued)

12 Property, plant and equipment (continued)

The recognised right-of-use assets relate to the following types of assets:

	31 December 2019 £'000	1 January 2019 £'000
Properties	246,149	215,295
Equipment	2,649	3,512
Total net book value	248,798	218,807

The depreciation charge on right-of-use assets relates to the following types of assets:

	2019 £'000	2018 £'000
Properties	19,695	-
Equipment	1,087	-
Total	20,782	-

Finance lease agreements

Prior to 2019, finance leased assets were included within property, plant and equipment along with other similar owned assets. Included within the closing net book value at 31 December 2018 is £3,513,000 relating to fixtures and fittings held under finance lease agreements. The depreciation charged to the financial statements in the year ended 31 December 2018 in respect of such assets amounted to £1,024,000. In 2019, such assets are included within property, plant and equipment as right of use assets, as described above.

13 Inventories

	2019 £'000	2018 £'000
Finished goods and goods for resale	1,952	1,278

Inventories recognised as an expense during the year ended 31 December 2019 amounted to £3,808,000 (14 month period ended 31 December 2018: £3,128,000). These were included in administrative expenses.

Notes to the consolidated financial statements (continued)

14 Trade and other receivables

Current

	2019 £'000	2018 £'000
Trade receivables	865	783
Loss allowance	-	-
Trade receivables – net	865	783
Prepayments	15,643	13,470
Other debtors	5,324	3,310
Finance lease receivable	91	-
	21,923	17,563

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 months before 31 December 2019 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 on trade receivables and other debtors as at 31 December 2019 is £nil (31 December 2018: £nil) as all trade receivables and other debtors are current and the expected loss rate for the Group is 0% (31 December 2018: 0%). Trade receivables written off in the year totalled £nil (14 month period ended 31 December 2018: £nil).

Non-current

	2019 £'000	2018 £'000
Finance lease receivable	1,450	-
	1,450	-

Notes to the consolidated financial statements (continued)

14 Trade and other receivables (continued)

Lease receivables

Lease receivables arise where the Group has sub-leased property as a lessor which is presented as part of right of use assets (note 12) and where that sub-lease has been classified as a finance lease. The following table sets out a maturity analysis of lease receivables showing the undiscounted lease payments to be received after the reporting date. Income receivable from finance leases is presented within finance income (note 9). Under IAS 17, the Group did not have any finance leases as a lessor.

	2019 £'000	2018 £'000
Less than one year	229	-
One to two years	231	-
Two to three years	231	-
Three to four years	231	-
Four to five years	231	-
More than five years	1,259	-
Total undiscounted lease receivable	2,412	-
Unearned finance income	(871)	-
Net investment in the lease	1,541	-

15 Trade and other payables

	2019 £'000	2018 £'000
Trade creditors	14,584	13,705
Other taxation and social security	872	650
Other liabilities	2,217	1,027
Accruals	53,656	39,897
Contract liabilities – membership income	13,704	11,705
Deferred rent accrual	-	5,238
Derivative financial instrument	265	-
VAT payable	5,496	3,981
	90,794	76,203

Notes to the consolidated financial statements (continued)

15 Trade and other payables (continued)

The deferred rent accrual relates to accumulated differences between cash rentals paid and rental charges from operating leases in the income statement and is outside the scope of IAS 39 (financial instruments). See note 27 for an explanation of the change in accounting policies which impact the deferred rent accrual.

Revenue recognised during 2019 that was included in the contract liabilities balance at the beginning of the period totalled £11,705,000 (2018: £nil). The amounts included in contract liabilities at 31 December 2019 are expected to be recognised in revenue during the next reporting period.

16 Lease liabilities

	31 December 2019 £'000	1 January 2019 £'000	31 December 2018 £'000
Current	21,621	18,695	-
Non-current	315,343	280,726	-
	336,964	299,421	-

In the year ended 31 December 2018, the Group applied IAS 17 and as such did not recognise lease liabilities under IFRS 16. Finance lease liabilities that were classified as such under IAS 17 in the year ended 31 December 2018 are included in note 17.

17 Borrowings

Current

	2019 £'000	2018 £'000
Finance leases	-	1,006

Non-current

	2019 £'000	2018 £'000
Senior secured notes	430,000	390,000
Capitalised issue costs	(7,254)	(8,163)
Senior secured notes net of issue costs	422,746	381,837
Finance leases	-	2,528
Amounts owed to Group undertakings	340,904	314,646
	763,650	699,011

Notes to the consolidated financial statements (continued)

17 Borrowings (continued)

Maturity profile (excluding capitalised issue costs)

	2019 £'000	2018 £'000
Within 1 year	-	1,006
Between 1 and 2 years	-	1,077
Between 2 and 5 years	-	1,451
After 5 years	770,904	704,646
	770,904	708,180

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

Financing

On 24 January 2018, the Group issued £360 million of senior secured notes, listed on The International Stock Exchange, to which certain 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 27 July 2018, £30 million additional senior secured notes were issued on the same terms as the original issue to fund the acquisition of Soho Gyms, and on 24 May 2019, a further £40 million of notes were issued to fund the continued expansion of the Group, taking the total value of notes in issue to £430 million at the period end.

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

In addition to the notes, the Group has access to 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").

The revolving credit facility is repayable on 30 November 2024, secured by fixed and floating charges over the assets and undertakings of the Group company, Pinnacle Bidco PLC, and certain other Group undertakings and subject to a financial covenant of net leverage ratio lower than or equal to 7.7 when amounts drawn down on the facility are greater than 40%.

In June 2018 £25 million was drawn down on the facility to fund the acquisition of Soho Gyms. This was subsequently repaid in July 2018 through the issue of additional senior secured notes as described above. At 31 December 2019, the Group was not drawn down on the facility.

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

Notes to the consolidated financial statements (continued)

17 Borrowings (continued)

Finance leases

	2019 £'000	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.

Notes to the consolidated financial statements (continued)

18 Financial instruments

	2019 £'000	2018 £'000
Financial assets measured at amortised cost		
Cash and cash equivalents	51,626	23,320
Trade receivables	865	783
Other debtors	5,324	3,310
Finance lease receivable	1,541	-
	59,356	27,413
Financial liabilities measured at amortised cost		
Trade creditors	14,584	13,705
Other liabilities	2,217	1,027
Accruals	53,656	39,897
Lease liabilities	336,964	-
Finance leases	-	3,534
Amounts owed to Group undertakings	340,904	314,646
Senior secured notes	430,000	390,000
	1,178,325	762,809
Financial liabilities measured at fair value through profit and loss		
Derivative financial instruments	265	-
	265	-

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

Fair value hierarchy

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

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

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

Notes to the consolidated financial statements (continued)

18 Financial instruments (continued)

	Carrying value		Fair value	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Financial liabilities				
Amounts owed to Group undertakings	340,904	314,646	348,421	322,482
Senior secured notes	430,000	390,000	448,813	384,150

19 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 2019 and 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:

Notes to the consolidated financial statements (continued)

19 Financial risk management objectives and policies (continued)

2019						
	Within 1 year £'000	Between 1-2 years £'000	Between 2-5 years £'000	More than 5 years £'000	Total contract- ual cash flows £'000	Carrying amount £'000
Trade and other payables	70,457	-	-	-	70,457	70,457
Derivative financial instruments	265	-	-	-	265	265
Lease liabilities	47,108	48,349	141,131	345,457	582,045	336,964
Borrowings	-	-	-	770,904	770,904	770,904
Total financial liabilities	117,830	48,349	141,131	1,116,361	1,423,671	1,178,590

2018						
	Within 1 year £'000	Between 1-2 years £'000	Between 2-5 years £'000	More than 5 years £'000	Total contract- ual cash flows £'000	Carrying amount £'000
Trade and other payables	54,629	-	-	-	54,629	54,629
Borrowings	1,208	1,208	1,512	704,646	708,574	708,180
Total financial liabilities	55,837	1,208	1,512	704,646	763,203	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 15.

20 Share capital and premium

	2019 £'000	2019 No.	2018 £'000	2018 No.
Allotted, authorised, called up and fully paid				
Ordinary shares of £0.01	50	5,000,002	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

Notes to the consolidated financial statements (continued)

20 Share capital and premium (continued)

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		Share Capital	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Shares issued				
5,000,002 ordinary shares of £0.01 each	-	3,863	-	50

21 Reconciliation of loss before tax to cash generated from operations

	Year ended 31 December 2019 £'000	14 month period ended 31 December 2018 £'000
Loss before income tax	(23,528)	(33,828)
<i>Adjustments for:</i>		
Net finance cost	83,405	60,755
Depreciation	53,734	32,362
Amortisation	2,933	11,382
Impairment of property, plant and equipment	331	-
Share based payments	306	248
Loss on disposal of property, plant and equipment	445	1,381
Profit on lease modifications	(394)	-
Exceptional costs	8,294	5,685
Changes in working capital		
Inventories	(674)	(238)
Trade and other receivables	(9,409)	(10,627)
Trade and other payables	13,712	23,046
Cash generated from operations	129,155	90,166

Notes to the consolidated financial statements (continued)

22 Analysis of net debt

	1 January 2019 (Restated) £'000	Cash flow £'000	Non-cash £'000	31 December 2019 £'000
Cash at bank and in hand	23,320	28,306	-	51,626
Lease liabilities – property	(295,888)	11,701	(50,083)	(334,270)
Lease liabilities - equipment	(3,534)	1,063	(223)	(2,694)
Senior secured notes	(390,000)	(40,000)	-	(430,000)
Intercompany loans capital	(288,581)	(152)	-	(288,733)
	(954,683)	918	(50,306)	(1,004,071)

	Acquisitions £'000	Cash flow £'000	Non-cash £'000	31 December 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)

23 Capital and other commitments

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

	2019 £'000	2018 £'000
Contracts for future capital expenditure not provided	1,423	2,532

The Group leases its gym sites under non-cancellable leases. Prior to transition to IFRS 16 on 1 January 2019, these leases were classified as 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 capital contribution or lease incentive. In the year ended 31 December 2018, the lease incentive was presented as part of the deferred rent accrual (see note 15) and was reversed on a straight line basis over the lease term.

Notes to the consolidated financial statements (continued)

23 Capital and other commitments (continued)

The Group had the following future minimum lease payments under non-cancellable operating leases in the year ended 31 December 2018:

	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

24 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 year ended 31 December 2019 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.

25 Interests in other entities

In the opinion of the directors, the Group has a single principal subsidiary at 31 December 2019 and 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.

A full list of the Group's subsidiaries is included in note 6 of the company financial statements.

26 Related party transactions

As at 31 December 2019, amounts owed to fellow Group companies includes £340,635,000 owed to the immediate parent company, Pinnacle Midco 2 Limited, repayable on 30 November 2027 (31 December 2018: £314,530,000), and £269,000 owed to the ultimate UK parent company, Pinnacle Topco Limited (2018: £116,000). Associated interest charged to the income statement in the year totalled £26,106,000 (14 month period ended 31 December 2018: £26,065,000).

Notes to the consolidated financial statements (continued)

27 Change in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard, where the modified retrospective transition approach has been adopted. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 9.2%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. The transition did not result in any measurement adjustments.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the consideration of the full lease term in determining the incremental borrowing rate at the date of initial application
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

	£'000
Operating lease commitments disclosed as at 31 December 2018	522,096
Subtract: Rent prepayments at 31 December 2018 that relate to 2018 lease payments	(5,498)
	516,598
Discounted using the Group's incremental borrowing rate of at the date of initial application	295,887
Add: finance lease liabilities recognised as at 31 December 2018	3,534
Lease liability recognised as at 1 January 2019	299,421
Of which are:	
Current lease liabilities	18,695
Non-current lease liabilities	280,726
	299,421

Notes to the consolidated financial statements (continued)

27 Change in accounting policies (continued)

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy increased / (decreased) the following items in the balance sheet on 1 January 2019, resulting in a reduction in reserves at that date of £70,701,000:

	1 January 2019 £'000
Property, plant and equipment – Right of use assets	218,807
Property, plant and equipment – Fixtures & fittings	(3,512)
Lease liabilities	299,421
Finance lease liabilities	(3,534)
Deferred tax assets	7,749
Trade and other receivables	(3,527)
Trade and other payables	(5,669)

28 Events after the end of the reporting period

On 14 January 2020, a subsidiary of the company, Pinnacle Europe Holdings Limited acquired 100% of the share capital of Forward Topco A/S and its subsidiaries (“the Fitness World Group”) for consideration of DKK 2,037,300,000 (£231,667,000). The Fitness World Group are a leading European low cost gym and fitness operator, and the combination gives PureGym significant scale in Continental Europe and rapidly accelerates the Group's international expansion. Fitness World has more than 600,000 members, over 230 gyms and in 2018 earned revenues of £175m and EBITDA of £38m. The acquisition was funded through a €445 million senior secured bridge facility agreement with a variable interest rate between 4.25% and 4.5%, in addition to upsizing the RCF by £35 million taking the total RCF facility to £95 million. It is the Group's intention to refinance the bridge facility during 2020, however should it remain in place on 13 January 2021 then the bridge facility agreement provides for automatic conversion to a term loan, repayable in February 2025.

As at the date of issue of these financial statements, the initial accounting for the business combination is incomplete. As such, the disclosures required under IFRS 3 ‘Business Combination’ cannot be made with regards to this transaction, as permitted under paragraph B64 of IFRS 3.

Notes to the consolidated financial statements (continued)

29 Business combinations

During the year, the Group made trade and asset acquisitions of existing gym businesses. The gyms were acquired for the purpose of expanding the PureGym property portfolio and increasing the Group's presence in the relevant local markets. All gyms acquired were closed for refurbishment following acquisition to be reopened under the PureGym model and branding.

The following table sets out the consideration paid and fair value of assets acquired for the gyms:

Consideration paid in cash	2,828
Property, plant and equipment	271
Total identifiable net assets	271
Residual goodwill arising on acquisition	2,557

The goodwill arising on acquisition is attributable primarily to the strong property locations and to the economies of scale expected from incorporating the gyms into the PureGym Group. Acquisition-related costs of £162,000 have been charged to administrative expenses in the Statement of Comprehensive Income for the year ended 31 December 2019.

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 2019;
- 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 2019; the company statement of changes in equity for the year 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: £1,500,000 (2018: £1,250,000), based on 1% of total assets, capped below 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.
- Risk that the company may not be able to continue as a going concern

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

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.

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.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<i>Risk of impairment of investments in subsidiaries and intercompany receivables</i> The company has investments in subsidiaries amounting to £308.2m and amounts owing from Group undertakings of £412.4m. Management consider whether there are any indicators of impairment given the financial performance and position of the subsidiary companies. 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 four years; > A long-term (terminal) growth rate applied beyond the end of the four 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 evaluated management's short term growth rate implied in the cash flows for the distinct four year period, obtaining external industry reports to challenge management's assumption, with no contradictory evidence being identified. - 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.

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

Key audit matter	How our audit addressed the key audit matter
	We also assessed the disclosures made with respect to the sensitivity of the key assumptions.
<i>Going concern</i> During the period the company has been the parent of a Group that has made a loss before tax. The Group has a key audit matter in relation to going concern due to its net liabilities and net current liabilities position at the balance sheet date. Going concern is considered a key area of focus based on the financial position of the Group of which it is part and the assessment by management requires subjective judgements and estimates about the future cash flows of the business. In addition, the company is reliant on the generation of sufficient cash by its trading subsidiaries in order to settle its cash interest obligations to bondholders of its senior secured notes (see note 9). Management have performed an assessment of going concern, preparing cash flow forecasts for a period of at least 12 months from the date of approving the Group financial statements. In preparing their assessment management have included the cash flows of the Fitness World business acquired on 14 January 2020 and compared these cash flows against the Group's existing facilities, including the bridging loan facility entered into by the Group on 13 January 2020 (see note 13). 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. In coming to this conclusion, management has assessed reasonably possible downside scenarios.	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 and incorporating over this period the cash flows of Fitness World Group which was acquired on 14 January 2020. 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. - Assessing whether there are adequate resources throughout the going concern period provided by the bridging facility, which will automatically convert to a term loan repayable in February 2025 from 13 January 2021 should permanent facilities not be put in place prior to this date. - Assessing whether the Group have complied with the bank covenant during the year. - In order to assess management's views on future liquidity of the Group we obtained an externally available rating agency report on the company. No contradictory evidence in respect of future liquidity outlook was noted. We performed sensitivity analyses 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 banking facilities. We also assessed management's disclosures regarding their going concern assessment and available 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 company, the accounting processes and controls, and the industry in which it operates.

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

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	£1,500,000 (2018: £1,250,000).
How we determined it	1% of total assets, but capped below 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 £75,000 (2018: £62,500) 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 of the United Kingdom's withdrawal 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

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

Reporting on other information (continued)

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 year ended 31 December 2019 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 pages 9 and 10, 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 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.

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

Auditors' responsibilities for the audit of the financial statements (continued)

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 year ended 31 December 2019.

Tom Yeates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
4 March 2020

Company statement of financial position as at 31 December 2019

	Note	31 December 2019 £'000	31 December 2018 £'000
Non-current assets			
Investments	6	308,236	308,236
Trade and other receivables	7	412,354	367,127
		720,590	675,363
Current assets			
Trade and other receivables	7	1,083	-
		1,083	-
TOTAL ASSETS		721,673	675,363
Current liabilities			
Trade and other payables	8	(12,358)	(9,554)
		(12,358)	(9,554)
Non-current liabilities			
Borrowings	9	(763,381)	(696,367)
		(763,381)	(696,367)
TOTAL LIABILITIES		(775,739)	(705,921)
NET LIABILITIES		(54,066)	(30,558)
Equity			
Share capital	10	50	50
Share premium		3,863	3,863
Accumulated losses		(57,979)	(34,471)
TOTAL EQUITY		(54,066)	(30,558)

Loss and total comprehensive expense for the year is £23,508,000 (14 month period ended 31 December 2018: £34,471,000).

The notes on pages 66 to 72 are an integral part of these financial statements. The financial statements of Pinnacle Bidco PLC, registered number 11038859, on pages 64 to 72 were approved by the board of directors and authorised for issue on 4 March 2020 and were signed on its behalf by:

A Wood

Director

Company statement of changes in equity for the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Accumulated losses £'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)
Loss and total comprehensive expense for the year	-	-	(23,508)	(23,508)
Balance as at 31 December 2019	50	3,863	(57,979)	(54,066)

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 year of £23,508,000 (14 month period ended 31 December 2018: £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.

Notes to the company financial statements (continued)

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.

Financial assets

The Company classifies its financial assets as 'those to be measured at amortised cost' or 'those to be measured subsequently at fair value'. At initial recognition, the Company measures its financial assets at fair value plus, in the case of financial assets not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the profit or loss.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

Impairment of financial assets

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all intercompany balances. To measure the expected credit losses, intercompany 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 months before 31 December 2019 or 1 January 2019 respectively 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.

3 Critical accounting estimates and judgements

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 judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions

Notes to the company financial statements (continued)

3 Critical accounting estimates and judgements (continued)

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.

4 Auditors' remuneration

Fees payable to the company's auditors for the audit of the annual statutory financial statements were £8,000 (14 month period ended 31 December 2018: £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 had no employees throughout the year (14 month period ended 31 December 2018: nil), 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 (14 month period ended 31 December 2018: nil). 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

	2019 £'000	2018 £'000
At 1 January / On incorporation	308,236	-
Acquired in the period	-	308,236
At 31 December	308,236	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.

Notes to the company financial statements (continued)

6 Investments (continued)

The directors believe that the carrying amount of the investment is supported by both the underlying net assets of the subsidiaries and the cash flows to be generated from operations. Given the significant headroom in the recoverable amount, there are no reasonable possible changes in the assumptions used for determining the recoverable amount that would cause a material change to the carrying amount of the investments at the next balance sheet date.

Fixed asset investments at 31 December 2019 and 31 December 2018 relate to UK registered subsidiary undertakings. The below subsidiaries have the registered office address of Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY.

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%
Pinnacle Europe Holdings Limited	Intermediate holding company	100%
Ovalhouse Limited	Property holding subsidiary	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.

The below subsidiaries have the registered office address of 1209 Orange Street, County of Newcastle, Wilmington, Delaware, 19801, USA, and were incorporated in Delaware, USA.

Company name	Principal activity	Proportion of ordinary shares held %
Pinnacle US Holdings LLC	Intermediate holding company	100%
PureFitness LLC	Provision of physical fitness facilities	100%

Notes to the company financial statements (continued)

7 Trade and other receivables

Non-current

	2019 £'000	2018 £'000
Amounts due from Group undertakings	412,354	367,127

Amounts due from Group undertakings accrue interest at 8% and are repayable on 30 November 2027. The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all amounts due from Group undertakings. Through reference to credit rating agency ratings of the Pinnacle Bidco Group throughout the life of the loans, the company was able to conclude that there has not been a significant increase in credit risk since the loans were initially recognised. The company has thus determined that the expected loss rate attached to the amounts due from Group undertakings is 0% (2018: 0%).

Current

	2019 £'000	2018 £'000
Prepayments	1,083	-

8 Trade and other payables

	2019 £'000	2018 £'000
Accruals	11,521	9,414
Other creditors	837	140
	12,358	9,554

Notes to the company financial statements (continued)

9 Borrowings

	2019 £'000	2018 £'000
Senior secured notes	430,000	390,000
Capitalised issue costs	(7,254)	(8,163)
Senior secured notes net of issue costs	422,746	381,837
Amounts owed to Group undertakings	340,635	314,530
	763,381	696,367

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

On 24 January 2018, the company issued £360 million of senior secured notes, listed on The International Stock Exchange, to which certain subsidiaries of the company 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 27 July 2018, £30 million additional senior secured notes were issued on the same terms as the original issue to fund the acquisition of Soho Gyms, and on 24 May 2019, a further £40 million of notes were issued to fund the continued expansion of the PureGym Group, taking the total value of notes in issue to £430 million at the period end.

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

In addition to the notes, the company has access to 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").

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 subsidiaries of the company and subject to a financial covenant of net leverage ratio lower than or equal to 7.7 when amounts drawn down on the facility are greater than 40%.

In June 2018 £25 million was drawn down on the facility to fund the acquisition of Soho Gyms. This was subsequently repaid in July 2018 through the issue of additional senior secured notes as described above. At 31 December 2019, the company was not drawn down on the facility.

The company has been in compliance with all covenants during the current and previous financial period.

Notes to the company financial statements (continued)

10 Share capital

	2019 £'000	2019 No.	2018 £'000	2018 No.
Allotted, authorised, called up and fully paid				
Ordinary shares of £0.01	50	5,000,002	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 year ended 31 December 2019 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.

13 Events after the end of the reporting period

On 14 January 2020, a subsidiary of the company, Pinnacle Europe Holdings Limited acquired 100% of the share capital of Forward Topco A/S and its subsidiaries ("the Fitness World Group") for consideration of DKK 2,037,300,000 (£231,667,000). The acquisition was funded through a €445 million senior secured bridge facility agreement with a variable interest rate between 4.25% and 4.5%, in addition to upsizing the RCF by £35 million taking the total RCF facility to £95 million. It is the PureGym Group's intention to refinance the bridge facility during 2020, however should it remain in place on 13 January 2021 then the bridge facility agreement provides for automatic conversion to a term loan, repayable in February 2025.

FUNCTIONAL
FORM FOLLOWS FUNCTION



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