Pinnacle Bidco plc

Annual report and consolidated financial statements for the year ended 31 December 2023

PUREGYM

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Strategic Report

The Directors present their strategic report for the year ended 31 December 2023

Business Overview

The PureGym Group ("the Group", being Pinnacle Bidco plc and its subsidiaries) is the second largest gym and fitness operator in Europe and has over 600 sites across its corporate owned and franchise operations. The Group provides high quality, low cost, flexible physical fitness facilities with market leading positions across its corporate owned sites in the UK, Denmark and Switzerland – all now operating under the PureGym brand. Alongside these, the Group is rolling out a successful franchise model, working with carefully selected partners who now operate 20 sites in the Middle East and have a strong forward pipeline.

The current macro-economic environment continues to be a challenging time for all, but the business has continued to perform well against this backdrop and has made significant progress against its strategic objectives.

The Group has a robust capital and liquidity position with £108m of cash on the balance sheet which contributes towards £284m of available liquidity at the year end (including the Revolving Credit Facility of £175.5m), as well as a further £32m of cash held by the Group's parent, Pinnacle Topco Limited which is available for use by the Group if required (providing total liquidity of £315m). This, coupled with strong support of its key shareholders, Leonard Green & Partners LP ("LGP") and Kohlberg Kravis Roberts & Co LP ("KKR"), puts the Group in a good position to fund expansion and investment in its estate whilst taking advantage of market opportunities as they arise.

Strategy and business model

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

The Group has a powerful and highly disruptive customer proposition, which is differentiated from traditional gym operators and appeals to a broad range of consumers. The Group's strategy is to occupy market leading positions in the value segment, whilst delivering profitable growth for our stakeholders. Key elements of the proposition include low cost membership fees, no obligation to sign a 'locked in' contract, excellent standards of hygiene and cleanliness and "24x7" access to high quality, well maintained gyms.

United Kingdom

PureGym is the UK's largest private gym operator, both by number of gyms and members. As at 31 December 2023 the Group operated 370 UK gyms (2022: 333 gyms) with 1,396,000 members at the year end (2022: 1,207,000).

Denmark

Having rebranded from Fitness World during the year, PureGym is also the leading operator in Denmark, both by number of gyms and members. As at 31 December 2023, with a programme of estate optimisation under way, the Group operated 164 gyms in Denmark (2022: 169 gyms) with 365,000 members (2022: 371,000).

Switzerland

As at 31 December 2023, PureGym operated 44 gyms in Switzerland (2022: 41 gyms) with 82,000 members (2022: 77,000) and is one of the largest operators and the leading high value, low cost operator in the country.

United States of America

The Group opened its first three gyms in the USA during 2022, operating under the Pure Fitness brand. As at 31 December 2023, the Group had 10,000 members in the USA (2022: 10,000).

The Middle East

The Group recently launched a franchise model with the first franchised sites opening in the Kingdom of Saudi Arabi in 2021. Since then, franchise has expanded to a second country with its first 2 sites opening in the United Arab Emirates during the year. As at 31 December 2023, there are 20 franchised gyms in operation (2022: 9 gyms) with a total of 46,000 members (2022: 24,000). This model brings the Group's affordable, accessible gym proposition to a number of exciting new markets and provides a platform for expanding the franchise offering to other territories in the future.

Business Overview continued

The proposition is underpinned by the Group's differentiated capital efficient and technology-enabled gym operating model, which enables our gyms to support high levels of membership, operate on low costs, and generate strong unit economics, cash flow conversion, and average return on investment ("ROCE").

Whilst driving the operational and financial performance of our existing gym estate across all our geographies, we will continue to roll out new corporate-owned gyms in the UK and Switzerland in a measured and controlled way, where we can achieve our targeted return on capital, and will continue to progress our estate optimisation programme in Denmark, while exploring franchise opportunities in untapped markets. The PureGym business and brand is now established consistently worldwide, giving a very robust base for further development.

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

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

The fitness market

The Group operates in the value segment of the fitness market, which has grown quickly over the past several years. The expanding footprint of value gyms has increased the availability of fitness facilities to a larger proportion of the population. The value gym market has demonstrated resilience during periods of economic decline in the past and can also support growth in these conditions as cost-conscious consumers consider alternatives. Whilst it's clear that the current macro-economic environment and cost of living crisis is challenging for consumers and for operators, we firmly believe the long-run outlook for our business remains bright; we have the right business model, operating in the most attractive segment, to be highly successful.

Chief Executive Officer's Statement

Humphrey Cobbold

I continue to be proud of the achievements of the Group in what remains a very challenging macroeconomic environment. Despite these headwinds, the business has demonstrated resilience and continued progression in key operating metrics, whilst also continuing to make progress with its longer-term strategic growth plans.

Confidence in the business and its prospects was clearly demonstrated with the refinancing of the Group's senior secured notes, completed during the year. This paves the way for us to pursue our very clear strategy, delivering against a compelling long-run opportunity at home and overseas.

Continued progression despite the challenges

The macroeconomic environment continues to prove challenging for many businesses with pressure from general inflation, interest rates, energy costs and political uncertainty, to name a few. In general, consumers are acting more cautiously when managing their household budgets and are increasingly seeking value for money. Despite these headwinds, the business is making good progress – driving recovery in the core estate and in opening new sites – total members have increased to 1.9 million at 31 December 2023 (2022: 1.7 million).

Along with all other businesses, cost inflation remains a key challenge, but the Group's business model is structurally "low cost" and management continues to focus on limiting inflationary impacts. Gym costs continue to be tightly controlled in all of the key areas, including rent, labour, cleaning and maintenance. Energy pricing was substantially fixed throughout the year and future supply contracts are locked in at acceptable and known levels for 2024. Alongside this, good progress has been made with energy consumption reduction and this will remain a focus going forwards. All of these factors, together with PureGym's market-leading revenue, pricing and performance management system, ensure the Group's ROCE remains robust.

A total of 43 new corporate-owned gyms were opened in the year, primarily across the UK, and these are performing at least in line with, if not ahead of, expectations. This underscores the strength of our best-in-class product and validates our strategy of continuing to deploy capital in a measured and controlled way to open new sites in quality locations. 8 gyms closed in the year, primarily in Denmark, as the programme of estate optimisation and consolidation continues. Following the successful rebrand of the Danish estate during the year, the PureGym brand and model is now firmly and consistently established in all of our geographies.

The Group's franchise plans are also progressing well. A further 11 new gyms opened during the year, taking the franchise estate to a total of 20 gyms at 31 December 2023 (2022: 9 gyms), including the first 2 sites in the United Arab Emirates.

Performance of these franchise sites has been satisfactory and we are on track to achieve the 130 site target for the Middle East over the next 4 years. With the franchise concept now firmly proven, we are actively exploring additional partnership opportunities to take our affordable, accessible gym proposition to other territories and create value through low capital intensity EBITDA growth.

Last but not least, we successfully completed the refinancing of the Group's senior secured notes during the year with redemption of the existing £855m-equivalent notes. In their place, new 5-year notes of £805 million-equivalent were issued and the RCF upsized to £175.5 million. This refinancing sets us up very well for the next phase of growth and delivery of our business plan.

From challenge to opportunity - embracing sustainability and ESG

The Group recognises its responsibility to play its part in supporting the goals of society with respect to climate-related issues, societal progress and good corporate governance. This year has seen the real impacts of climate change starting to manifest with record temperatures across the UK and Europe, while new regulation and reporting requirements, such as the Non-Financial and Sustainability Information Statement, are helping to hold the business to account.

Fundamentally, PureGym exists to provide a social good. Our core purpose – to provide accessible, flexible and affordable fitness to all – plays a vital role in not only improving people's health and wellbeing, but also as a route to addressing obesity, helping to prevent illness and improving mental health. Notwithstanding this positive starting position, we recognise there is increased consumer awareness of the link between societal trends and sustainability-related issues and there is some evidence that these trends are driving consumer demand towards companies that choose to pay more attention to issues in the Sustainability - Environmental, Social and Governance ("S-ESG") arena.

Chief Executive Officer's Statement continued

Through engagement with key stakeholders – employees, members, investors and third-party partners – we have identified five key focus areas in which to develop our S-ESG strategy:

Delivering Social Good – supporting as many people as possible to live healthier lives;

Empowering People – fostering a thriving, healthy team and community where everyone feels welcome and supported to reach their potential;

Energy and Emissions – using resources efficiently and reducing our carbon footprint;

Waste and Circularity – minimising operational waste and embedding "circular-by-design" principles across our operations; and

Effective Corporate Governance – building an environment of trust, transparency and accountability for sustainable performance.

We are committed to aligning our S-ESG agenda with the UN Sustainable Development Goals, to create meaningful links to broader global and sustainably-driven outcomes including specific measures of performance, targets and objectives. It's pleasing to report that this work is well underway and that S-ESG is being embedded in our teams and processes across the business.

Setting the tone for the industry

As the UK's largest gym operator, the Board of Directors ("the Board") recognises its responsibility to lead the way and set the tone for the industry. With over 100 million member visits through 2023, we are committed to providing a safe and welcoming place for everybody so they can enjoy all the benefits that fitness and wellbeing bring. Safety is the cornerstone of a positive experience for our members and employees. The Group has comprehensive emergency response and anti-harassment protocols in place and we continue to pioneer initiatives that make a positive change to gym culture.

The Group's Diversity, Inclusion and Belonging Strategy ("DIB") is fully embedded in the business, promoting an inclusive and belonging environment for all our employees and our members. The Group has a strong positive culture and as we grow in size and maturity it is important that we ensure everyone feels welcome.

Our continued focus on gender balance and initiatives to increase the number of women in senior roles across the business is setting the tone for the gym industry and has resulted in a 0% median pay gap and 2.6% mean pay gap in the UK in 2023.

Our road to carbon neutrality and net zero

Reducing the Group's carbon emissions is the single most important thing that we can do to help slow down global warming. This is the first year we will report a Non-Financial and Sustainability Information Statement which aims to align the Group's reporting with most of the requirements of the Taskforce on Climate-Related Financial Disclosures. In support of this process we have expanded our emissions reporting capabilities to include Scope 1 and 2 emissions for all major markets.

In 2022, the Group established 'Energy and Emissions' as a priority focus area setting a target to reduce our energy intensity by 20-30% over the medium term. I'm pleased to report that this year we have achieved this milestone in the UK and in doing so, have established a new "green" standard by which our operations are run, including new gym environment and temperature settings; upgrades to LED lighting specifications; and smart control systems for better management of heating, ventilation and air conditioning. This has resulted in a 12% reduction of carbon intensity per site since the previous reporting period, and a 20% reduction of carbon intensity per member visit, both on a Group-basis.

Looking forward, we are committed to setting science-based targets by 2026. Work is well underway to improve our data capability requirements and establish clear transition plans with our key supply-chain partners who will be instrumental to our success in this area.

Making a meaningful contribution to the broader community

In 2022, we became the official gym partner of The British Heart Foundation ("BHF"). In doing so, we committed to working with BHF to raise awareness of heart and circulatory diseases and how to prevent them, as well as raising £3m to fund important research projects over the next 3 years.

Highlights from the first full year of our partnership include CPR training available for all operational staff, the development of the Healthy Hearts Programme – providing participants with free access to an 8-week online health programme, and over £1m raised for critical heart research. In recognition of our outstanding contribution, we were delighted to be crowned BHF's 'Corporate Partner of the Year' which is further testament to the team's hard work and dedication to this important cause.

Chief Executive Officer's Statement continued

Looking forward

Despite the many challenges that the macro environment presents, the Group remains resilient and in good health. Inherently, we are a low-cost operator and, with fixed interest rates and fixed utility contracts throughout 2024, the business has a good degree of inflationary protection. This, combined with management's ongoing focus on combatting other areas of cost pressure and its robust member base, leaves me feeling confident that we are well placed to navigate these challenges.

The successful refinancing of our senior secured notes has set the Group up well for the future and I would like to thank all of our investors for their ongoing support. Our capital will be deployed in a measured and controlled way, to expand our existing estates in the UK and Switzerland with high quality sites capable of delivering a minimum 30% ROCE[1] and to continue the refurbishment of our estate in Denmark. Alongside this, our international franchise progress in the Middle East is paving the way for the future – the opportunity to provide accessible fitness on an international scale through capital-light franchising is clear and has the potential to be very large.

Finally, I would like to thank our colleagues, on whom the success of our Group is based. I continue to be very proud of the unwavering dedication they have shown to the business throughout these challenging times and I have no doubt that it is thanks to them that we find ourselves in such a strong and robust position to continue our growth going forward.

Humphrey Cobbold
Chief Executive Officer

Note: (1) ROCE is Return on Capital Employed, defined as Adjusted EBITDA (as defined on page 10, footnote 4), excluding head office costs, divided by the initial capital investment on a gym

2023 Financial Review

Alex Wood

I am very pleased with the excellent progress the Group has made during 2023. While the economic environment continues to be turbulent, we have once again demonstrated our ability to withstand and thrive in challenging circumstances. I'm happy to report improvements in all our key benchmarks compared to the prior year, with all the Group's geographies reporting continued and accelerating growth in profitability.

Alongside this, we successfully refinanced our external debt obligations during the year, by issuing £805m-equivalent of new senior secured notes and up-sizing the revolving credit facility to £175.5m. I'm grateful to our lenders and our bondholders for their continued support for our business. These facilities allow us to plan for the long-term success of the Group, continuing our strategy of measured and controlled investment into new sites and optimisation of the existing estate.

Continued progression in our key financial metrics

The Group's key performance indicators ("KPIs") show significant growth in 2023 compared with the prior year, and this reflects the continued recovery in our existing business and strong performance in newly opened sites.

Closing members of 1.9 million (+11% vs 2022)

As a market leading high value, low price operator, the Group is well placed in periods of such macro-economic uncertainty. Consumers increasingly look for good value with their buying decisions and the Group's best in class product and brand delivers this at a time when we are more aware than ever of the importance of fitness and wellbeing activity. Demand in our existing sites has continued to grow over the year, and our new sites have performed extremely well, such that total membership has grown 11% during the year, closing at 1.9 million (2022: 1.7 million).

54 new gym openings

The Group opened 54 new gyms in the year (2022: 51), of which 43 were corporate owned and 11 were franchise. This takes the total number of gyms to 601 (2022: 555), comprising 581 corporate owned gyms (2022: 546 gyms) and 20 franchise gyms (2022: 9) at the year-end, including the first 2 franchise sites in the United Arab Emirates.

Revenue for the year of £549 million (+15% vs 2022)

Alongside volume, the Group's sophisticated approach to revenue management, applied in a disciplined and targeted manner, has delivered an increase in Average Revenue Per Member[1] ("ARPM") of +3% when compared with 2022. This growth in ARPM, together with growth in member volume, has provided continued progression, with revenue for the year reaching £549 million (2022: £476m).

Adjusted EBITDA[2] for the year of £132 million (+39% vs 2022)

Adjusted EBITDA grew by £37 million to £132 million for the year (2022: £95 million). The Group has delivered this through strong performance from recent new site openings, progress in member volume and ARPM in the base business and effective cost control. Like-for-like operating cost inflation has been contained under 5% in 2023. This has been realised through operational efficiencies in staffing, economies of scale in procurement, and carefully timed fixing of energy costs. All of these factors have contributed to continued and accelerating growth in profitability.

Run-Rate Adjusted EBITDA[5] for the year of £150 million (+31% vs 2022)

Run-Rate Adjusted EBITDA grew by £36 million to £150 million at the year-end. This is a key metric that shows significant forward momentum as the business deploys capital into a pipeline of high quality new sites, which continue to return strongly.

Note:
1 As defined on page 10, footnote 2
2 As defined on page 10, footnote 4

£132m Adjusted EBITDA

1.9m Closing members

601 Gyms[1]

Note
1 Gyms in estate includes 581 corporate-owned & 20 franchise gyms in the Middle East.

2023 Financial Review continued

Summary KPIs and financial results

The Group utilises a variety of non-financial, IFRS and non-IFRS KPIs in assessing our performance. The most useful of these are presented in the table on the right. Where non-IFRS performance measures are used, these are described below, and reconciled to the Group's IFRS financial statements.

Group Reported EBITDA adjusts operating profit for non-trading items including depreciation, amortisation, impairment and exceptional items, but does not take account of contractual cash rental costs.

Adjusted EBITDA and Run-Rate Adjusted EBITDA are KPIs typically used within the industry as they better represent the underlying results of the Group's trade from ongoing gyms. Adjusted EBITDA takes account of contractual cash rental costs and adds back new site pre-opening costs, as well as adjusting for other non-recurring items in line with definitions set out in the Group's financing facility agreements. Run-Rate Adjusted EBITDA also reflects the expected maturation of new and immature gyms (less than 3 years old).

In a normal trading environment, the Adjusted EBITDA and Run-Rate Adjusted EBITDA measures are a key focus of our stakeholders, including our investors, our bondholders and our banking partners. Both KPIs are derived from operating profit and provide consistent measures that are not impacted by changes in accounting standards (including IFRS16). A full reconciliation from operating profit is set out in more detail on page 13.

For the twelve months ended 31 Dec

£m	2023	2022
Members (number 000's)	1,853	1,665
Gyms (number)[1]	601	555
Revenue (£m)	549.0	476.4
ARPM (£)[2]	24.57	23.84
Group Reported EBITDA[3] (£m)	231.5	183.5
Group Adjusted EBITDA[3,4] (£m)	132.2	95.1
Group RR Adjusted EBITDA[3,4,5] (£m)	**150.0**	**114.2**

1 Includes 20 franchised sites at 31 December 2023 (2022: 9).

2 ARPM defined as revenue divided by 12 months, divided by the average number of members for the year of 1,862,000 (2022: 1,665,000).

3 Group Reported EBITDA is defined as earnings before net finance cost, taxation, depreciation, amortisation, profit/loss on sale of property, plant & equipment, impairment, profit/loss on lease modifications and exceptional items. A reconciliation to operating profit is set out on page 13.

4 Group Adjusted EBITDA is defined as Group Reported EBITDA less Share Based Payments, Pre-Opening Expenses, Other Adjustments and the Cash Rent Adjustment. Adjusted EBITDA is presented before the impact of property rent deferments. This is a relevant measure as it is an alternative performance measure defined within the Group's facility agreements. A reconciliation and further detail on the approach is set out on page 13.

5 Group Run-Rate Adjusted EBITDA is defined as Group Adjusted EBITDA plus the Run-Rate adjustment which reflects the expected performance improvement from the maturity of those gyms which are less than three years old at the end of the reporting period. A reconciliation and further detail on the approach is set out on page 13.

Further KPIs are available in the Group's results presentations at: corporate.puregym.com/investors/results-reports-and-presentations.

2023 Financial Review continued

The consolidated statement of comprehensive income on page 42 shows our results for the year ended 31 December 2023 in full. The Group made an operating profit of £87 million and a loss for the year of £74 million (2022: operating profit of £5 million and loss for the year of £113 million), as summarised in the table below.

Revenue

Revenue was up £73 million (15%) year on year owing to the opening of new gyms, the maturation of existing immature gyms, the ongoing recovery of volume in older mature sites and an improvement in average revenue per member. The growth derives from an 11% increase in members and a 3% increase in the average revenue per member, which results from measured price increases in existing gyms and the penetration of premium membership offerings. Of the 2023 revenue figure of £549 million (2022: £476 million), membership income comprised £491 million (2022: £424 million), vending and consumables income was £25 million (2022: £22 million) and income from other revenue streams including the sale of day passes and income from personal trainers was £33 million (2022: £30 million).

Operating Expenses (exc. separately disclosed items)

Operating expenses were up £25 million (8%) year on year reflecting the increase in site numbers and a small amount of inflation on the underlying cost base. Despite high inflation levels at the macroeconomic level, we have been successful in limiting the impact of that through effective procurement and operational improvements. Within operating expenses, head office costs were down £7 million (11%) year on year reflecting a successful programme of sustainable cost management across the Group's head office functions while maintaining the capacity required at head office to continue with the business's growth trajectory.

Depreciation, amortisation and impairment

Depreciation, amortisation and impairment of £140 million was down £41 million on the prior year, primarily due to a reduction in impairment charges year on year. In 2022 an impairment charge of £23 million was recognised in relation to the Fitness World brand, following the decision to rebrand the Danish business to PureGym with a further £22 million in relation to assets in a small number of gyms across the estate.

In 2023, a net impairment charge of £5 million was recognised, reflecting £16 million of impairments on a small number of the Group's gyms, including gyms expected to close as part of the optimisation of the Danish estate. Also included within that figure is an impairment reversal of £11 million for gyms which have incurred impairment charges in previous years but for which expected returns have now improved.

The net charge for depreciation, amortisation and impairment in 2023 includes £61 million depreciation on the Group's leased properties (2022: £61 million), and £17 million amortisation of customer lists and brands recognised following the Group's acquisitions (2022: £18 million).

Exceptional items

Net exceptional expenses of £4 million have been recognised in 2023, in relation to the rebrand of the Danish estate to PureGym (£2 million) and legal costs expected to be incurred on litigation relating to the Group's gym estate (£2 million). In 2022, the Group recognised a net exceptional income of £1 million in respect of VAT recovered on exceptional costs treated as irrecoverable in the prior year.

Operating results

£m	2023	2022
Revenue	549.0	476.4
Operating expenses (exc. separately disclosed items)	(317.5)	(292.9)
Group Reported EBITDA	**231.5**	**183.5**
Depreciation, amortisation and impairment	(139.7)	(180.4)
Loss on disposal of PPE	(2.2)	(1.3)
Profit on lease modifications	0.8	1.8
Exceptional items	(3.6)	1.0
Operating profit	**86.8**	**4.6**
Net finance cost	(164.4)	(151.1)
Loss before tax	(77.6)	(146.5)
Income tax credit	4.1	34.0
Loss for the year	**(73.5)**	**(112.5)**

2023 Financial Review continued

Net finance costs

Net finance costs of £164 million for the year (2022: £151 million) include £58 million of interest and commitment fees on the Group's borrowing facilities (2022: £52 million) and £16 million relating to amortisation of issue costs and early redemption fees on those arrangements (2022: £4 million). These costs have increased year on year due to the Group's Refinancing, which completed in October 2023 – a one-off early redemption fee of £6 million was incurred in respect of the existing Senior Secured Notes and interest on the Group's new Senior Secured Notes is greater than those issued previously due to the market rates of interest prevailing at the time of the transaction – see funding section for full details. Also as a result of the Refinancing, a £10 million non-cash charge was recognised on redemption of the existing Senior Secured Notes to unwind the fair value gain originally recognised on issue.

A further £47 million of net finance costs relates to costs associated with the Group's property rentals (2022: £47 million). A proportion of property rental costs are recorded as interest under IFRS 16 with the remaining expense recognised as depreciation.

Also included within net finance costs is a £2 million foreign exchange gain (2022: £8 million foreign exchange loss), primarily due to a £9 million favourable exchange movement on the Group's Euro-denominated borrowings, offset by a £6 million adverse exchange movement on the Group's intercompany Danish Krone and Swiss Franc denominated loans. The Euro and Danish Krone denominated balances act as a natural partial hedge against the translated value of the Group's non-UK subsidiaries.

A further £41 million (2022: £38 million) of finance cost relates to interest accruing on the Group's borrowings from its ultimate parent Pinnacle Topco Limited. These borrowings act as a pass through of equity investments raised by Pinnacle Topco Limited and therefore the interest is not expected to be repaid until at least 2029.

Tax credit

The income tax credit of £4 million (2022: £34 million) is primarily a result of the losses made in the year.

2023 Financial Review continued

Reconciliation of Operating Profit to Run-Rate Adjusted EBITDA

£m	2023	2022
Operating Profit	**86.8**	**4.6**
Depreciation and impairment of PPE	118.8	134.6
Amortisation and impairment of intangible assets	20.9	45.8
Loss on disposal of PPE and intangible assets	2.2	1.3
Profit on lease modifications	(0.8)	(1.8)
Exceptional items	3.6	(1.0)
Group Reported EBITDA [1]	**231.5**	**183.5**
Other adjustments [2]	3.6	6.4
Pre-opening costs [3]	4.5	4.8
Cash rent adjustment [4]	(107.6)	(99.7)
Share based payment charge [5]	0.2	0.1
Adjusted EBITDA [6]	**132.2**	**95.1**
Run-Rate adjustment [7]	17.8	19.1
Run-Rate Adjusted EBITDA	**150.0**	**114.2**

1 Group Reported EBITDA is earnings before net finance cost, taxation, depreciation, amortisation, profit/loss on sale of property, plant & equipment and intangible assets, impairment, profit/loss on lease modifications and exceptional items.

2 Other adjustments include the net impact of various one-off items not included in "Exceptional items". These are recognised in accordance with the Group's banking facility agreements. In 2023, the Group incurred costs of £1.9 million (2022: £3.3 million) in relation to strategic initiatives aimed at reducing the Group's cost base and integrating the Group's operations. The Group also incurred £0.3 million of incremental costs in relation to other one off costs (2022: £0.4 million).

Also in 2023, £1.4 million (2022: £2.7 million) of costs have been incurred in relation to a management "lock-in" bonus scheme. This amount is added back in reaching Adjusted EBITDA because it has not been incurred in the ordinary course of business, relating to the impact of COVID-19 on the business during 2020 and 2022.

3 Pre-opening costs represent the total of all gym site operating costs incurred prior to the opening of a new gym and primarily consist of staff costs, and marketing.

4 Represents the deduction of the cash rent payable during the year which otherwise was not reflected in EBITDA (as reported on a post IFRS 16 basis). The Directors believe that adjusting EBITDA to reflect cash rent is a better reflection of the performance of the business.

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 9 of the financial statements.

6 Adjusted EBITDA is a non-IFRS measure derived from Group Reported EBITDA and adjusted by the items described in footnotes 2 to 5. This is a relevant measure as it is an alternative performance measure defined within the Group's facility agreements.

7 The Run-Rate adjustment reflects the impact of those gyms which are less than three years old at the end of the reporting period. These adjustments replace the Adjusted EBITDA earned by these sites in the last twelve month period with the projected Adjusted EBITDA for their third year of operation. Run-Rate Adjusted EBITDA therefore seeks to reflect the anticipated mature Adjusted EBITDA potential of those gyms which were trading at the end of the relevant year. Management forecasts EBITDA on a gym-specific basis and updates forecasts quarterly based on current and anticipated performance, taking into account seasonality and location-specific factors.

2023 Financial Review continued

Cashflow

£m	2023	2022
Net cash generated from operating activities	116.5	60.0
Net cash used in investing activities	(97.3)	(87.7)
Net cash (used in) / generated from financing activities	(115.5)	198.8
Net (decrease) / increase in cash and cash equivalents	**(96.3)**	**171.1**
Cash and cash equivalents on the first day of the year	204.6	31.9
Effect of exchange rates on cash held	(0.1)	1.6
Cash and cash equivalents at end of the year	**108.2**	**204.6**
Undrawn RCF Facility (including overdraft)	175.5	145.0
Available liquidity at 31 December[1]	**283.7**	**349.6**

1 Excludes £32 million at 31 December 2023 and £30 million at 31 December 2022 held by the parent, Pinnacle Topco Limited.

Net cash generated from operating activities

Net cash generated from operating activities totalled £117 million, which represents a £57 million favourable movement versus 2022 and is primarily explained by the £48 million improvement in Group Reported EBITDA year on year. Other compensating movements include £20 million of cash outflows incurred in relation to the Group's refinancing (incorporating £14m of arrangement and similar fees and £6 million early repayment fee on the existing Senior Secured Notes), £6 million year on year decrease of cash outflows related to the interest element of lease liabilities due to the opening of new sites, and a £4 million increased inflow from interest received on cash deposits. Change in working capital cash flows represent an inflow of £16 million year on year.

Net cash used in investing activities

The net cash used in investing activities for the year of £97 million consists of investments in capital expenditure of £99 million, offset by £2 million of proceeds from disposals of fixed assets. Investments in capital expenditure have increased £9 million compared to the prior year outflow of £90 million.

Net cash used in / generated from financing activities

Net cash used in financing activities for the year includes an outflow of £50 million in respect of partial repayment of the previous senior secured notes upon Refinancing of the Group (see funding section below) and £65 million of lease capital payments (2022: £61 million). These lease capital payments represent a proportion of the property rental costs as accounted for under IFRS 16, with the remaining rental cost accounted for within net cash used in operating activities. Lease capital payments have increased by £4 million compared to 2022 due to the expansion of the estate and some rent increases in existing gyms which are usually capped at a certain level to limit the impact of inflation on rent costs.

In 2022, the Group's parent company, Pinnacle Topco Limited issued £300 million of preference shares to leading global investment firm, KKR. Of this, £270 million was passed down through the Group as an equity injection and offsets the above financing outflows.

Cash and Liquidity

As at 31 December 2023 the Group had total accessible cash and cash equivalents of £140 million (comprising £108 million cash on the Group's balance sheet and £32 million cash held by the parent company, Pinnacle Topco Limited), and total accessible liquidity of £315 million when the RCF of £175.5 million is included.

Capital expenditure cash flow

Capital expenditure across the two years remained broadly consistent – the Group opened 40 new PureGyms in the UK during the year (2022: 40) and 3 in Switzerland (2022: 2). Careful and considered investment also continues into technology systems and infrastructure for the long term interests of the business.

Maintenance and refurbishment expenditure increased in 2023, reflecting the increased scale of the Group and ensuring a well invested and high quality existing estate for members.

£m	2023	2022
Expansionary Capital Expenditure	62.9	62.8
Maintenance and Refurbishment Capital Expenditure	36.3	27.1
Total Capital Expenditure Cash Flow	**99.2**	**89.9**

2023 Financial Review continued

Funding

The Group has £475 million of Senior Secured Notes ("the Sterling Notes") and €380 million of Senior Secured Notes ("the Euro Notes") in issue (together, "the Notes").

The Notes are listed on The International Stock Exchange, for which Pinnacle Bidco plc is the Issuer and certain subsidiaries of the Group are guarantors. Interest on the Sterling Notes accrues at a rate of 10.00% and interest on the Euro Notes accrues at a rate of 8.25%, both payable at half-yearly intervals. The Notes are due to be repaid in full on 11 October 2028.

In addition, the Group has a £175.5 million revolving credit facility (the "RCF") with five international institutions, repayable 11 July 2028. The RCF bears interest at a floating rate derived from SONIA when drawn. Included within the total RCF is a £10 million overdraft facility. As at 31 December 2023, the facility was undrawn.

The Notes were issued at par and the RCF became effective on 11 October 2023 (the "Refinancing"), replacing the existing £430 million and €490 million of Senior Secured Notes ("the Previous Notes") and £145 million revolving credit facility (the "Previous RCF"). The Previous RCF was undrawn at 31 December 2022 and throughout 2023 to the Refinancing. As part of the Refinancing, the Group paid down £50 million equivalent of the Previous Notes using cash on the balance sheet.

The RCF is subject to a quarterly financial covenant test whereby if the RCF is greater than 40% drawn, senior secured net debt cannot be greater than 8.8x Run-Rate Adjusted EBITDA.

The RCF provides substantial flexibility and headroom for unforeseen events and puts the Group in a differentiated position relative to many other operators.

Further details are provided in note 18 of the Financial Statements.

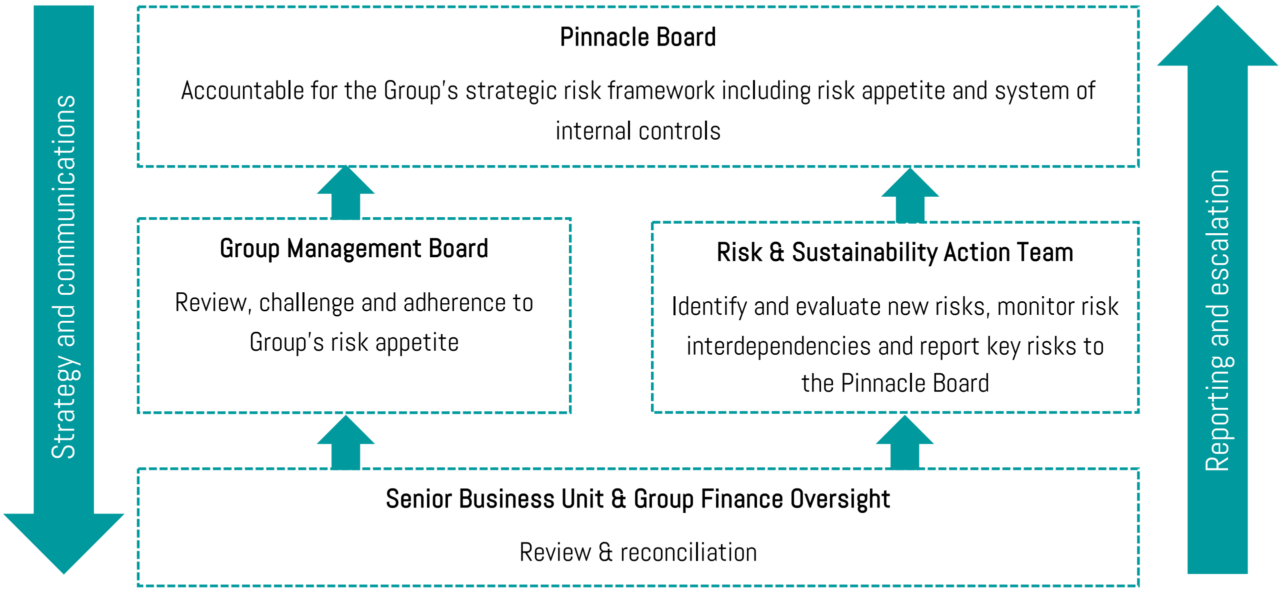
Alex Wood
Chief Financial Officer

Principal Risks and Uncertainties

To accomplish our strategic goals, an effective and robust risk management process is integral. The Group's success is underpinned by its ability to identify, manage and mitigate risk.

We understand risk is not something that we can completely avoid and instead must be understood and actively managed in pursuit of our strategic priorities. The ultimate responsibility for risk management of the Group rests with the Board, who delegate responsibility for identifying, monitoring and managing risk through the Risk & Sustainability Action Team ("RSAT", a Governance Committee) through to the Group's operational management teams.

Risk management framework



Risk appetite

We define risk appetite as the level of risk the Group can tolerate in pursuit of its strategic goals. The Pinnacle Board, in consultation with the Risk & Sustainability Action Team, evaluates the Group's risk appetite on a quarterly basis. Key indicators such as how much damage the risk can cause, how likely the risk is, and how much the risk can be lowered through management intervention, help to inform the Group's overall tolerance for risk. This ensures that there is clear alignment between the acceptable risk and the Group's strategic goals. The Group Management Board shares the Group's appetite for risk with all operational management teams to ensure it is considered when making strategic and operational decisions.

Emerging risks

Emerging risks may be new risks not previously identified, or changes to existing risks that are currently difficult to quantify. In order to identify emerging risks at the earliest opportunity, risk themes and trends from industry and professional bodies and peer networks are collated and reviewed at least quarterly by the Risk and Sustainability Action Team and managed through the risk management framework as appropriate.

Geopolitical conflicts continue to surface across new regions with the potential to create previously unforeseen risks and exacerbate existing risks which could have a significant impact on the Group's operations, including movement of key resources, willingness to travel and downturn of global economies. To mitigate ongoing pressure on supply chains, we are regularly reviewing and developing our continuity plans, focusing on surety of supply with critical suppliers, whilst ensuring consideration and compliance with our ethical and sustainability objectives.

Increased regulatory change and compliance has the potential to impact many areas across the business, from governance and controls to external disclosure requirements. In particular, changes to regulations in the area of sustainability and the corresponding time bound pressure to meet related targets could have a substantial future impact on the development and operation of sites. The exact pace and magnitude of change in any of these areas is difficult to estimate; however, the business continues to keep abreast of relevant developments with strategies in place to work towards existing targets and new requirements.

Principal Risks and Uncertainties continued

The principal risks and uncertainties set out below 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 have been put in place 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 & potential impact	Movement vs prior year	Mitigation
ECONOMIC CONDITIONS	Our business may be adversely affected by macro-economic conditions such as increasing interest rates or inflation, uncertainty from the Ukraine and Israel-Gaza wars or other factors affecting levels of disposable income and consumer confidence, which may result in members re-evaluating their spending habits and cancelling memberships, thereby reducing revenue and profits.	⇔	• A robust financial position, with access to £315 million of liquidity as at 31 December 2023 (consisting of £108 million cash on balance sheet, £32 million cash held by the parent company, Pinnacle Topco Limited, and £175.5 million Revolving Credit Facility). • As a low priced gym operator, born in a recession, the business is actually well placed to withstand an economic downturn as members typically trade down from mid-market and premium operators in times of such uncertainty. • The Group has undertaken a programme of activity to reduce energy consumption, and continues to closely monitor market prices to assess the optimum time to enter energy contracts. • The Group has close supplier and landlord relationships and actively monitors the macro-economic environment for inflationary and supply chain risk. • Various short and medium term actions continue to be proactively reviewed to allow the business to react to emerging circumstances as appropriate.
CYBER AND DATA SECURITY	Businesses continue to be subject to continuously evolving methods of cyber-attack, increasingly so as a result of ongoing global conflict. Data breaches or operational disruption caused by malware such as ransomware, can result in a loss of brand trust, regulatory fines and an adverse impact on the value of the business.	⇧	• The Group works with a specialist third party to deliver comprehensive Information Security Management including up-to-date anti-virus software, system monitoring and regular penetration testing to identify vulnerabilities. • A continuous security improvement programme is in place with regular independent external review of control effectiveness and Information Security maturity. • We have solid compliance foundations across all markets for data protection and effective collaboration between Information Security and Data Protection teams to minimise data risks and ensure compliance with GDPR.

Principal Risks and Uncertainties continued

The principal risks and uncertainties set out below 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 have been put in place 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 & potential impact	Movement vs prior year	Mitigation
TRANSFORMATION & BUSINESS CHANGE	The risk that the Group is unable to successfully deliver major transformational programmes, particularly under time bound pressures, and realise the anticipated benefits due to a high volume of change. This particularly refers to consolidation of Group-wide operational systems, alignment of brand standards, ways of working, and other estate, commercial and people-related changes. Failure to deliver value through these programmes could result in financial loss, reputational damage, and disruption to operations and productivity of the business.	NEW	• Clearly articulated vision and benefits case has been prepared for each work stream, with alignment to the Group's strategic plan. • Executive-level sponsorship and governance forums, including Board-level oversight, is in place to track and evaluate progress. • Enhanced internal project delivery expertise to ensure robust assurance management. Utilisation of specialist third parties and subject matter experts to provide further independent assurance. • Regular risk assessments and mitigation strategies implemented on all workstreams to prevent / reduce the impact of potential threats and uncertainties.
CAPITAL MANAGEMENT (including funding)	Capital management risk is the risk that the Group will have insufficient capital and other loss-absorbing debt instruments to operate effectively, including operating within the Board's approved risk appetite and supporting its strategic goals. Liquidity refers to assets that can be readily converted into cash. Liquidity risk is the risk that the Group is unable to meet financial obligations, as and when they are due. Funding consists of on-balance sheet liabilities that are used to provide cash to finance assets. Funding risk is the risk of the Group not maintaining a diversified, stable and cost-effective funding base.	⇩	• Weekly monitoring of performance and sophisticated yield management on a site by site basis. • Monthly financial reporting and regular reforecasting of business performance at site level. • Ongoing monitoring of the Group's business plan to assess capital requirements over a 3-5 year horizon. • Regular financial oversight by Management and the Executive Board. • Management work closely with advisors and monitor capital markets to ensure the Group's financing needs are appropriately met. • The Group has recently completed a refinancing exercise, in which it has issued fixed rate senior secured notes with a 5 year term, due October 2028, along with a revolving credit facility to provide flexibility. Together, this funding package is expected to be sufficient to meet the needs of the business for the foreseeable future.

Principal Risks and Uncertainties continued

The principal risks and uncertainties set out below 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 have been put in place 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 & potential impact	Movement vs prior year	Mitigation
INTERNATIONAL MARKETS (including franchising)	The Group has a well-established market presence in the United Kingdom, Denmark and Switzerland, and is continuing the expansion of its franchised operations in the Middle East. The Group also continues to explore opportunities for further expansion of its franchised operations in other markets. Expanding into new markets creates additional challenges and risks which could impact upon overall Group performance, growth and profitability.	⇔	• The Group has significant international experience on the main Board and high quality, experienced senior leadership teams in Denmark, Switzerland, the UK and to oversee its franchise operations in the Middle-East and elsewhere. • Clear focus on the markets in which we operate to ensure the product, proposition, and strategic partnerships (including franchisees) are appropriate. • 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 AND COMPETITION	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. Similarly, increased competition from other operators taking aggressive pricing action or opening new sites near our existing locations could put pressure on our pricing strategy and result in a reduction in members, revenue and profitability.	⇔	• Ongoing monitoring of gym and equipment utilisation to maximise member experience. • Focus on member satisfaction and feedback. • 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. • Ongoing and regular market analysis.
SUPPLY CHAIN RESILIENCE	The Group's gym equipment and certain other fixtures and fittings are manufactured overseas. The global supply chain may be impacted by events such as international conflicts (for example, the war in Ukraine or conflict between China and Taiwan), or global pandemics. Disruption to the supply chain could cause shortages in supplies or increase in prices due to demand outweighing supply of certain items, or due to changes in exchange rates.	⇩	• The Group's core operations in existing gyms have a low level of reliance on imported goods and services, therefore the business could continue to operate in a time of supply chain crisis. • The Group continues to evolve its Supply Chain risk management and due diligence process to ensure resilience is a key performance metric. • The Group continues to monitor its supply chain to ensure there is sufficient diversity in both suppliers and their geographical locations, to avoid any over-reliance on the stability of one supplier or region.

Principal Risks and Uncertainties continued

The principal risks and uncertainties set out below 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 have been put in place 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 & potential impact	Movement vs prior year	Mitigation
HEALTH & SAFETY	The Group provides over one and a half million members with 24/7 access to fitness facilities that are unstaffed during certain periods. Gym users come from a variety of backgrounds, physical conditions, and gym experiences. With over 100 million visits per year, there is a risk that a serious incident causing harm to a gym member, member of staff or third party could expose the business to financial or reputational damage.	⇔	• Dedicated and experienced Health & Safety team with a clear mandate to improve the robustness of the Group's Health, Safety and Environment system for the benefit of its members, employees, and partners. • Health & safety policies across the Group, outline the mandatory requirements within the business. • The Group has embedded its own TrainSafe programme to enhance its commitment to safety. • Internal periodic health and safety assessments supplemented by third party health and safety risks assessments and audits. • Employment and continuous training and development of all operational teams.
SUSTAINABILITY AND ESG (including climate change)	Sustainability – and more broadly environmental, social and governance related issues – include, but are not limited to, climate change, resource scarcity, human rights, diversity and inclusion, data privacy, and corporate ethics. The Group recognises the risk that if it does not take a proactive stance regarding sustainability, members may choose to look elsewhere for gyms that represent their values. Furthermore, if the business is unable to comply with evolving regulatory and legal requirements, it could be exposed to penalties and impact its reputation and financial returns.	⇧	• Risk & Sustainability Action Team (Governance Committee), chaired by the CEO, oversees sustainability-related change across the Group. • Climate risk register in use which documents and analyses the Group's risk in relation to the environment and sustainability. • The Group has implemented a number of ESG policies, standard and guidelines to ensure compliance with relevant laws, regulations and best practices. • Non-Financial and Sustainability Information Statement creates a porting framework helping the Group identify and assess key climate-related risks and opportunities.

Going Concern

The Directors have carefully evaluated the Going Concern basis of the Group. In doing so, they have taken account of the wider macroeconomic climate including the impact of the inflationary environment and cost-of-living pressures affecting the countries in which the Group operates at the time of signing these financial statements.

The Group made a loss before tax of £77.6m in the year ended 31 December 2023 and had net current liabilities of £73.9m and net liabilities of £383.9m as at that date. The Group meets its day to day working capital requirements, capex and funding of new sites through its surplus cash reserves and credit facilities (comprising an RCF of £175.5 million, which includes an overdraft of £10 million).

As at the date of signing the financial statements, the Group's forecasts and projections (to 30 June 2025) taking account of reasonably possible changes in trading performance, showed that the Group has ample headroom to operate within its existing facilities.

This assessment included consideration of a severe but plausible downside scenario consisting of:

- A reduction in forecast revenues increasing from a 1% reduction in March 2024 to a 5% reduction by July 2024 and for the rest of the forecast period;
- An increase in forecasts costs, rising from a 1% increase in all costs in March 2024 except utilities (as utility costs are largely fixed throughout 2024) to a 5% increase by July 2024 and for the rest of the forecast period;
- An increase in utility costs of 5% from January 2025 and for the rest of the forecast period; and
- A mitigating reduction in forecast capital expenditure, increasing from a 5% reduction in June 2024 to a reduction of 50% in maintenance capital expenditure and 70% in refurbishment and growth capital expenditure by May 2025 and for the rest of the forecast period.

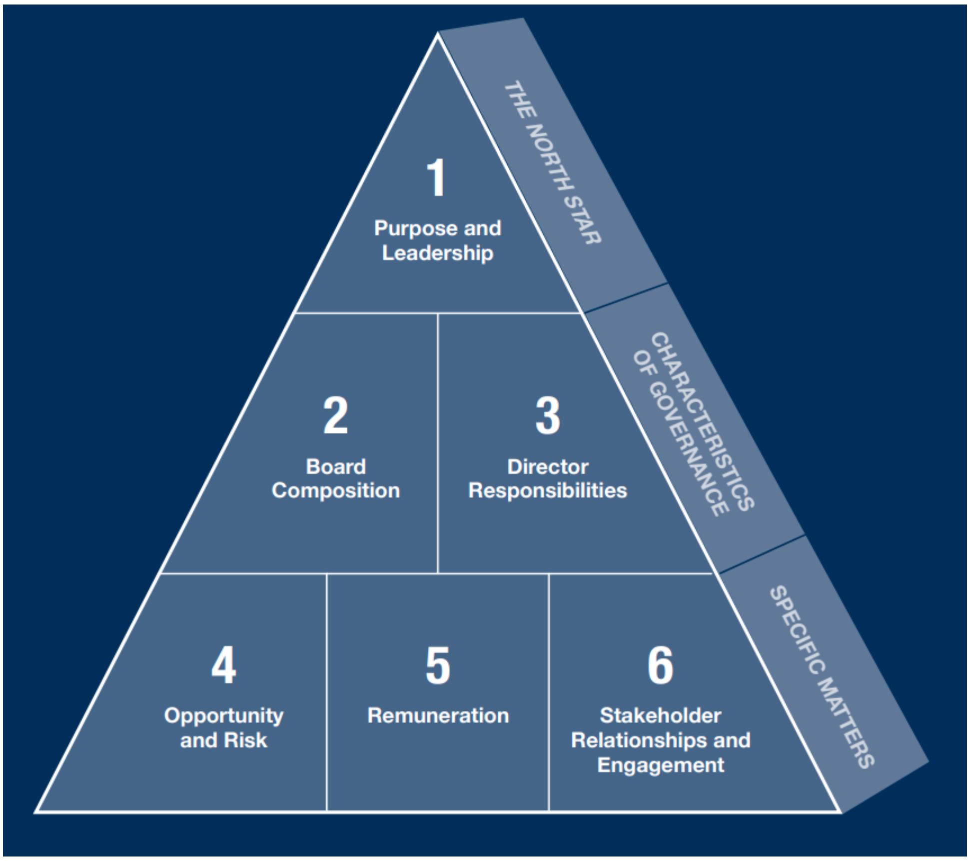
The Group had cash reserves at 31 December 2023 of £108 million, plus an additional £32 million in cash held by the Group's parent, Pinnacle Topco Limited which is available for use by the Group as necessary. Combining this with the available RCF gives a total liquidity position of £315 million at 31 December 2023. Under the severe but plausible downside scenarios modelled, the Group would maintain a minimum liquidity of £233 million for the entire forecast period to June 2025.

The Group's RCF is subject to a covenant of a maximum leverage ratio of 8.8x, which is tested when the RCF is greater than 40% drawn. Under the severe but plausible downside scenarios modelled, the Group is not expected to breach its covenants.

Based on these forecasts, the Directors have concluded that the Group has adequate resources to continue to remain a going concern for the foreseeable future and have therefore adopted the going concern basis in preparing its financial statements.

Corporate Governance

The Group applies the Wates Corporate Governance Principles for Large Private Companies ('Wates Principles'). The Wates Principles provide a framework for the Group to demonstrate how the Board has made decisions for the long term success of the Group and its stakeholders, and the Board is committed to ongoing review and challenge of these decisions to allow for continuous improvement both in the past year and in future periods. Each of the Wates Principles are laid out in the diagram below with explanations as to how the Board has applied each principle during the year included in the proceeding text.



Principle 1: Purpose and Leadership

The board of directors of Pinnacle Bidco plc are led by the board of directors of the Group's parent company, Pinnacle Topco Limited ('the Board'). The Board is responsible for the long-term strategy, direction and performance of the Group, providing rigorous challenge to those with day to day responsibility and accountability.

It is the aim of the Board that all decisions made and all actions taken reflect the Group's values and culture. The Board has established a core vision and clear strategy, as set out on page 4. This, alongside the Group's performance against this strategy, is regularly communicated in the appropriate form throughout the organisation and to relevant external stakeholders with quarterly presentations.

The specific ways in which the Board ensures these aims are met are set out in the other Wates Principles below.

Principle 2: Board Composition

The balance of skills, knowledge, and experience of the directors on the Board is continuously evaluated. The size and composition of the Board is considered to be appropriate for the scale and strategy of the Group.

The Board includes the Chief Executive Officer and Chief Financial Officer of Pinnacle Bidco plc, two representatives of our majority shareholder, LGP, a representative of our minority shareholder, KKR, and an Independent Non-Executive. The Independent Non-Executive Director brings outside experience and provides constructive challenge and influence.

By virtue of its private equity ownership structure, the composition of the Board is partly determined by the Shareholders' Agreement and it is considered to be in the best interests of the Group for the senior executives and each Shareholder to be represented at meetings. The directors individually and collectively bring a wide variety of relevant industry and wider business experience. Full biographies of the directors can be found on the Group's website at corporate.puregym.com/governance/board-of-directors.

Corporate Governance continued

Principle 3: Director Responsibilities

The Board has established an array of corporate governance policies and practices which provide the Group with clear lines of accountability and responsibility to support effective decision-making. The Board met formally 4 times during 2023, as well as informally on a monthly basis. While Board oversight is always maintained, the duties of the Board are partially executed through the decisions and actions of individuals and relevant committees which are delegated certain responsibilities in accordance with their knowledge and experience.

The Board delegates day to day management of the Group to the Group Management Board which meets formally on a monthly basis and maintains a high level of ad-hoc communication outside of the formal process. As well as the Chief Executive Officer and Chief Financial Officer who sit on the Board, the Group Management Board includes the Group Chief Operating Officer, Denmark Managing Director, UK Finance Director, Group Chief People Officer, Group Chief Strategic Officer, and Group Chief Information Officer.

In addition, certain governance responsibilities are delegated to other committees including the Audit Committee, the Remuneration Committee and the Risk and Sustainability Action Team, with the Board retaining overall responsibility for final decisions.

The Audit Committee meets at least twice a year to discharge its responsibilities around accuracy of financial reporting, adequacy of accounting practices, internal controls and the external audit process.

The Remuneration Committee meets at least annually, but as often as required, with the aim of setting remuneration levels for Board members and senior management as detailed in principle 5, below.

The Risk and Sustainability Action Team meets at least quarterly to review the Group's risk register and undertake an assessment of the principal risks and uncertainties. This Committee is also responsible for setting the S-ESG strategy for the Group going forwards. In order to monitor this, the Committee has prepared a climate risk register which is regularly reviewed. This Committee is also progressing with the development of climate and S-ESG related KPIs to be used to monitor the Group's progress in S-ESG related matters.

In executing its decision making, the Board makes use of an array of financial and non-financial information prepared on a timely basis and presented in an accurate and clear manner in its monthly management accounts and the Board packs. A number of the core financial and non-financial metrics are disclosed through our quarterly public reporting cycle to bondholders and other stakeholders (see 'Key Performance Indicators' section of the quarterly results presentations available on our website at corporate.puregym.com/investors/results-reports-and-presentations/).

The Board has established a robust framework of internal controls, including review and reconciliation, to ensure a high level of integrity over reporting is maintained. The Group's finance function is appropriately qualified to ensure the integrity of the financial information and the annual accounts are externally audited.

Principle 4: Opportunity and Risk

The Board aims to promote the long-term sustainable success of the Group through identifying opportunities to create and preserve value and establishing oversight for the recognition and mitigation of risks.

The Group's underlying operations are simple and assessed as inherently low risk relative to other sectors, with a diversified geographical spread of autonomous gyms offering straightforward services. Despite this, there is still a strong underlying ethos of ongoing risk mitigation across the business. Risk assessments have been delegated by the Board to the Group's Risk and Sustainability Action Team, which work closely with the operational teams and functional heads to refine and enhance the Group's risk management framework, as well as reporting back to the Board which provides oversight of the Group's risk framework.

A detailed overview of the Group's primary risks and uncertainties identified by the Board are included on pages 16 to 20.

Principle 5: Remuneration

The Board has an established Remuneration Committee which maintains responsibility for the Group's remuneration strategy. This strategy is devised with the aim of setting remuneration levels for Board members and senior management at a rate which offers an appropriate level of incentivisation. Remuneration includes a significant share-based compensation scheme. This scheme serves to align the motives of this high quality team with the long term objectives of the Group and its shareholders and other key stakeholders, being to grow and expand into current and new markets, increase the number of sites in a measured and effective way and enhance shareholder value.

Corporate Governance continued

Remuneration is set with reference to the market and at a level that will enhance the Group's resources by attracting and retaining quality leaders who can deliver the Group's strategic ambitions in a manner consistent with its values, purpose and the interests of its shareholders.

The Board has established policies covering pay and conditions for the wider workforce which are designed to prevent discrimination in respect of sex, religion, race, nationality or sexual orientation. The business reports annually on its Gender Pay Gap, with the latest report covering the UK business showing a 0% median pay gap and 2.6% mean pay gap. The Group is working to expand its reporting to cover all geographic regions in future. As well as reporting on the financial metrics, the report also identifies focus areas, including increasing the number of women in senior roles.

Principle 6: Stakeholder Relationships and Engagement

The Group has a wide array of stakeholders and it is the Board's aim to promote accountability and transparency with all stakeholder groups to effectively communicate the Group's performance, position and strategy.

The single largest stakeholder group is the Group's gym members with 1.9 million members as at 31 December 2023. Members' views are taken very seriously by the Group and the member experience is at the heart of many of the key decisions made by the Board.

Effective communication with members is established through the Group's websites, its app's, email communication and social media platforms which keep members up to date with the latest developments relevant to their experience. The views of members are also collected regularly through the use of Net Promoter Score metrics, which help senior management identify successes and areas for improvement.

The next largest stakeholder group is the Group's workforce. Employees are kept up to date with developments across the Group through both regular and ad-hoc communications via our dedicated digital employee engagement platform, Connect. Important messages are also fed down from the Board to the workforce through the management hierarchy. The views of the workforce are obtained and considered through regular employee surveys (the results of which are fed back to the Board for consideration) and an established one-to-one appraisal process. The Group also has a whistleblowing policy in place to allow our people to speak up without fear of personal consequences.

The Group's other key stakeholders include its shareholders, lenders, landlords and suppliers. Effective communication with these Groups is maintained primarily through regular Board meetings and the Group's quarterly and annual public reporting, including its annual and interim financial statements, which are available on the Group's corporate website. A Group procurement function is also in place to ensure both strong communication and fair treatment of the Group's suppliers.

Non-Financial and Sustainability Information Statement

In accordance with section 414CB of the Companies Act 2006 (the 'Act'), the Board provides, within this Statement, the climate-related financial disclosures for the Group.

Climate change continues to be one of the most significant issues facing the world, with global warming posing a significant risk to the worldwide economy, global population, national infrastructure and business models. The frequency of climate-related events is increasing, and the need to continually assess the impacts of climate change and improve mitigating efforts requires immediate and continuous attention.

This is the Group's first year of reporting in respect of these provisions and the Group aims to make further progress during the year ending 31 December 2024.

The Board recognises the Group's obligation as a good corporate citizen to play a meaningful part in tackling climate risk and takes its role and responsibilities seriously with respect to improving society and reducing the Group's carbon footprint.

The Group's overall assessment of risk is that while its societal contribution is strong, direct and material exposure to climate-related risks over the short and medium term is relatively low.

The rationale for this belief is as follows:

- The Group is not involved in the direct production of either energy or carbon intensive products;
- The Group does not have a significant ongoing supply chain process (with associated transport, packaging and wastage-related issues);
- The Group's physical properties are geographically dispersed with no reliance on one particular location which limits the Group's exposure to localised risks such as flooding;
- Energy costs for the Group, both direct and indirect (e.g., inbound transport of equipment), are not a large proportion of its costs or revenue;
- The Group earns the majority of its revenue by providing a service rather than products – as such it does not consume significant incremental resources per transaction;
- The Group works on an increasingly localised basis as it rolls out more geographically dispersed facilities so over time it is reducing travel times to sites. In markets such as Copenhagen in Denmark, many if not most consumers walk or ride a bike to their neighbourhood facility; and
- The Group has committed to setting science-based targets under the Science Based Targets initiative ("SBTi") by the end of 2026 and is establishing a programme to deliver improved data capability for Scope 3 emission reporting. Reported carbon emissions intensity on a Group-wide basis has reduced by 12% since the year ended 31 December 2022 based on number of gyms and by 20% based on number of member visits. This has been achieved through a series of deliberate actions arising from energy efficiency programmes. The Group continues to trial electrical alternatives, taking gas out of its operations, and is exploring the viability of onsite Solar PV as means to increase its proportion of renewable energy sources over the medium term.

The Board is committed to producing consistent, clear, comparable and reliable disclosures relating to climate-related information, societal contribution and governance. Our aim is to develop this disclosure year on year as we build on granularity of data and processes. Our goal is to ensure that this report remains meaningful and valuable to our stakeholders, enabling an engaging dialogue around climate change within the leisure sector, including what can be done to mitigate the risks and maximise the opportunities we face.

Set out below, and on the following page, are the requirements of the Act in this regard and the sections within this Statement containing the relevant information, other than in the overview description above:

Requirements of s414CB (2A) Companies Act 2006	Section name	Page
a) a description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities	Governance	26
b) a description of how the company identifies, assesses, and manages climate-related risks and opportunities	Risk Management	26
c) a description of how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management process	Risk Management	26

Non-Financial and Sustainability Information Statement continued

Requirements of s414CB (2A) Companies Act 2006	Section name	Page
d) a description of: i. the principal climate-related risks and opportunities arising in connection with the company's operations, and ii. the time periods by reference to which those risks and opportunities are assessed	Climate-related Risks, Opportunities & Resilience	26
e) a description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy	Climate-related Risks, Opportunities & Resilience	26
f) an analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios	Climate-related Risks, Opportunities & Resilience	26
g) a description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets	Metrics & Targets	28
h) a description of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based	Metrics & Targets	28

Governance

Our Board and Group Management Board remain fully committed to identifying and addressing the immediate and longer-term climate-related impacts on our business. Our Board has overall accountability for managing the business risks and opportunities posed by climate change.

The Group has established the RSAT, a committee of senior management, chaired by the CEO. The RSAT takes prime responsibility for overseeing the Group's enterprise risk management framework and sustainability strategy, including prioritising activities to ensure the management of climate-related risks and opportunities. The RSAT meets at least four times a year and reports directly to the Board on its progress, observations and recommendations.

The RSAT consists of senior managers and executives with senior representation from all major markets and functions. RSAT membership is reviewed on an ongoing basis to ensure that it includes individuals with significant and broad-based experience, who have appropriate expertise in climate-risk and sustainability-related matters.

Risk management

The Board has ultimate responsibility for risk management and the risks that the Group is willing to accept to achieve its objectives, including risks related to climate change. The risk management framework and the processes in place to manage risks are overseen by the RSAT. In assessing the Group's risk appetite, the Board reviews the five-year business plan and the associated strategic risks.

Risk appetite for specific risks, mainly of a financial nature and related to capital risks, are determined within specific Board-approved policies, including the delegation of authority. Climate—related risks are discussed in these forums.

The Group's principal risks are mapped to the relevant mitigating actions in order to generate a matrix that summarises the Group's overall risk profile. The Board reviews this risk profile of the Group and discusses risk appetite four times a year.

Our risk management processes continue to identify new and emerging risks and these are included as they arise within the risk management framework. We believe we are well placed to manage the risks associated with the transition to a low carbon economy and to take advantage of the significant opportunities such transition creates.

Climate-related risks, opportunities and resilience

The Group categorises climate risks into two types: physical risk; and transition risk. Within each, we identify a number of factors arising from climate change which we monitor over the short (0 to 2 years), medium (2 to 5 years) and long term (over 5 years).

Overall, we do not believe the impact of climate change will be material for our business over the short or medium term. Over the longer term, impacts are harder to identify due to the timeframes and nature of risks, but, at this point, we do not believe the impact of climate change over this period will be material. We have, however, identified the main risks which could have a potential and material impact on the business.

Non-Financial and Sustainability Information Statement continued

The Group has identified the following as our most material climate-related risks over a short, medium and long-term horizon:

Physical risks

Description	Time horizon	Existing mitigation activity
Increase in energy costs from changing temperatures and temperature extremes	Medium term & Long term	As part of our energy reduction programme, we are continually trialling and rolling out technology to reduce energy usage, and understand its application and operating cost impacts.
Increased building / equipment costs due to higher specification requirements	Medium term & Long term	We monitor and will continue to monitor through our subject matter experts (internal and external) emerging regulations to proactively react and work with suppliers to benefit from proven and scalable technological innovation.
Damage to physical infrastructure due to increased frequency and intensity of extreme weather leading to increased maintenance and replacement costs	Long term	We maintain strong relationships with our insurers and ensure climate-risks are considered within estate planning processes. We continue to enhance proactive and reactive maintenance programmes.
Logistics problems for goods / manufacturing materials in supply chain which are unavailable or delayed as a result of climate impacts leading to increased costs	Medium term & Long term	We will continue to work on developing climate risk views into supply chain planning and supplier locations.

Transition risks

Description	Time horizon	Existing mitigation activity
New and emerging climate legislation which increases costs around energy, waste reduction and packaging, including greater requirement for recycling.	Medium term & Long term	We continue to monitor regulations in the countries in which we operate, ensuring updates are presented internally and to the Board periodically. We undertake periodic materiality assessments to ensure our programme proactively addresses key issues and emerging trends.
Reputation – The risk that our brand is not aligned with the increased stakeholder awareness of climate impact.	Medium term & Long term	We will continue to monitor and assess member and other stakeholder sentiment for our offering. Member and industry trends are key inputs to our commercial, marketing, and strategic development.
Policy – Recessionary impacts arising from the impact of climate change.	Medium term & Long term	Our commercial and finance teams have a track record of successfully navigating recessionary impacts, mitigating the overall impact on the Group. Our scale and financial strength support navigation through recessionary periods better than more fragmented competition, and the scale of our supply chain also brings benefits to preserve our commercial proposition.

Non-Financial and Sustainability Information Statement continued

The scale and potential impact of climate-related risks and the benefits of these efforts (noted above) have been assumed (implicitly) in the Group's annual budgeting, and long-term strategic forecasting and planning processes. It should be noted that climate-related risks and opportunities will continue to be reviewed against assumptions used to develop budgets and forecasts as the impact of such risks and opportunities become more certain and clearer over time.

The Group has not assessed or analysed risks against climate scenarios. We are committed to completing appropriate climate-related risk modelling over the medium term, which will help quantify the financial impact of both risks and opportunities. The RSAT will be carefully and conscientiously working through these scenarios and pathways, assembling its perspective on the Group's resilience to them and thus provide the framework for developing the optimal medium and long-term strategies for the Group.

Metrics and targets

The Group is considering a number of climate-related metrics for measuring performance against key risks and opportunities but key performance indicators have not yet been set. The measures being considered have been informed by the Group materiality assessments, stakeholder engagement and relevant global ESG reporting framework guidance. The Group's immediate focus is to establish a reliable baseline across each of its major markets. Once the baseline has been quantified, the Group will set appropriate targets to manage climate-related risks and help realise opportunities.

Reporting of our energy consumption and Scope 1, 2 and 3 emissions is included within our Streamlined Energy and Carbon Reporting (SECR) table within the 'Energy Use and Emissions' section below. Here, we also explain the extent of our energy use, our emissions data and plans for extending that data so that we have a better baseline for setting emission reduction targets and metrics for reporting in the future.

Energy Use and Emissions

The Group is required to report its energy use and impact under the Streamlined Energy and Carbon Reporting (SECR) regulations. The SECR regulations require the reporting of UK-only emissions in the following categories:

- Scope 1 emissions from fuel use and combustion of natural gas;
- Scope 2 emissions from electricity purchase and use for operations; and
- Scope 3 emissions from business travel in rental cars or employee owned vehicles.

In the 2022 annual report, the Group reported under these categories as well as additional voluntary reporting on Scope 3 emissions from other transport (such as flights). The 2022 annual report included emissions from electricity and gas usage in gyms where the landlord controls the metering as Scope 3 emissions under the category 'Upstream leased assets'.

For the 2023 annual report, the Group is voluntarily significantly expanding and enhancing its reporting on emissions in the following ways:

- Emissions from 'Upstream leased assets' are being restated to be included within Scope 1 and Scope 2 emissions. This is more relevant to the practical nature of these emissions as they are generated in the same way as emissions from gyms where the Group does have control over metering.
- Emissions from all material operating countries will be reported on for the first time, bringing emissions from Denmark and Switzerland into scope to give a more complete picture of the Group's carbon footprint.

The Group has defined its organisational boundary using financial control approach. Therefore, the figures do not include franchisee-related operations, or energy usage provided by landlords included in service charge and not metered. Energy use and Greenhouse Gas ("GHG") emissions for the US-based operations have not been included as they do not meet the Group's materiality threshold (5% of Group revenue).

Non-Financial and Sustainability Information Statement continued

The following table shows UK-only emissions as required to be reported under SECR regulations and as-reported in the 2022 annual report with the exception of the classification of emissions from Upstream leased assets as described below:

Consumption and Emissions – UK only	2023 Consumption (kWh 000's)	2023 Emissions (tC02e)	2022 Consumption (kWh 000's)	2022 Emissions (tC02e)
Direct from Operations: Gas (Scope 1)	13,901	2,818	14,678	2,679
Indirect from Purchased Electricity (Scope 2)	52,970	10,606	60,957	11,788
Direct from Operations: Car Fuel (Scope 3)	1,113	276	1,114	278
Indirect from Services Purchased: Other transport (Scope 3)	-	246	-	88
Total	**67,984**	**13,946**	**76,749**	**14,833**
Average number of gyms		**352**		**310**
Intensity Metric (tC02e per gym)		**40**		**48**
Member visits (m)		**98**		**80**
Intensity Metric (tC02e per million member visits)		**143**		**186**

The following table shows emissions for the whole Group arising from gas and mobile fuel usage, the purchase of electricity, car fuel and other transport usage. This was not reported in the 2022 annual report but 2022 figures have been included for comparability:

Consumption and Emissions – Group	2023 Consumption (kWh 000's)	2023 Emissions (tC02e)	2022 Consumption (kWh 000's)	2022 Emissions (tC02e)
Direct from Operations: Gas (Scope 1)	15,475	3,217	16,128	3,047
Indirect from Purchased Electricity (Scope 2)	72,526	12,858	81,942	13,982
Direct from Operations: Car Fuel (Scope 3)	1,113	276	1,114	278
Indirect from Services Purchased: Other transport (Scope 3)	-	246	-	88
Total	**89,114**	**16,597**	**99,184**	**17,395**
Average number of gyms		**565**		**522**
Intensity Metric (tC02e per gym)		**29**		**33**
Member visits (m)		**126**		**106**
Intensity Metric (tC02e per million member visits)		**132**		**165**

On a Group-wide basis, carbon emissions reported under SECR have reduced by 12% on a per gym basis and 20% on a per visit basis since 2022 through a series of deliberate actions arising from energy efficiency programmes. The Group has established a new "green" standard by which its operations are run, including new gym environment and temperature set points; upgrades to LED lighting specification; and, control systems for better management of heating, ventilation and air conditioning.

The Group has committed to setting science-based targets under the SBTi by 31 December 2026 and is establishing a programme to deliver improved data capability for Scope 3 to include areas such as supply chain and energy transport and distribution related emissions. The Group continues to trial electrical alternatives, taking gas out of its operations, and is exploring the viability of onsite Solar PV as means to increase its proportion of renewable energy sources over the medium term.

Section 172 statement

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 Group 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 2023. Those matters include having regard for the following, which are cross-referenced to further details given elsewhere in either the Strategic Report or Directors' Report:

a) The consequences of the decisions we take in the long term (Strategy and business model: page 4)

b) The interests of the Group's employees (Setting the tone for the industry: page 7; Principle 6: page 24)

c) The need to foster the Group's business relationships with suppliers, customers and others (Principle 6: page 24; Employees: page 30)

d) The impact of the Group's operations on the community and the environment (From challenge to opportunity - embracing sustainability and S-ESG: page 6; Our road to carbon neutrality and net zero: page 7; Non-Financial and Sustainability Information Statement: page 25)

e) Maintaining a reputation for high standards of business conduct (throughout Strategic Report); and;

f) The need to act fairly between members of the Group (Principle 6: page 24)

Employees and Diversity

At 31 December 2023 the Group had 6,785 employees (31 December 2022: 6,838) and these are analysed as follows:

	31 December 2023			31 December 2022		
	Male	**Female**	**Total**	Male	Female	Total
Directors	**2**	**-**	**2**	2	-	2
Senior Managers	**3**	**3**	**6**	4	4	8
Other employees	**3,594**	**3,183**	**6,777**	3,493	3,335	6,828
Total	**3,599**	**3,186**	**6,785**	3,499	3,339	6,838

I would like to extend our thanks to all our employees, both at the gyms and at the support centre, for their support and continued hard work throughout a very successful year.

On behalf of the Board

A Wood

Director

19 April 2024

Directors' Report

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 2023.

A review of the performance of the Group's business during the year, the principal risks and uncertainties facing the Group and its future prospects are included in the discrete Strategic Report set out on pages 4 to 30 which should be read in conjunction with this Directors' report.

As permitted by legislation, some of the matters normally included in the Directors' report, including disclosures regarding greenhouse gas emissions, have instead been included in the Strategic Report (pages 4 to 30) as the Board considers them to be of strategic importance.

Disclosures elsewhere in the Annual report and consolidated financial statements are cross-referenced in this Directors' report where appropriate.

Principal activities

Pinnacle Bidco plc is an intermediate holding company of the Group and is an investee of investment funds controlled by Leonard Green & Partners LP. It is expected to remain as such for the foreseeable future.

The activities of the Group are discussed in the Strategic Report on pages 4 to 8. The Group made a loss for the year of £73.5m (2022: £112.5m), and had net liabilities at 31 December 2023 of £383.9m (2022: £314.8m). The directors are not able to recommend payment of a dividend (2022: £nil).

Likely future developments of the Group are discussed within the Strategic Report on page 8.

Principal risks and uncertainties

Principal risks and uncertainties are discussed within the Strategic Report on pages 16 to 20 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 made a loss before tax of £77.6m in the year ended 31 December 2023 and had net current liabilities of £73.9m and net liabilities of £383.9m as at that date. The Group meets its day to day working capital requirements through its cash reserves and borrowing facilities (as detailed in note 18 of the Financial Statements).

As set out in the Strategic Report on page 21, 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.

Political contributions

The Group did not make any political donations or incurred any political expenditure during the year (2022: none).

Financial instruments

Information in respect of the Group's policies on financial risk management objectives including policies to manage credit risk, liquidity risk and foreign currency risk are given in note 21 to the financial statements.

Stakeholder engagement

The Group's stakeholders, and the methods in which the Group and Board interact with those stakeholders is set out in the Strategic Report under Principle 6 of the Corporate Governance section on page 24.

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 Group endeavours to ensure that all employees benefit from its training and career development programmes.

Employees

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 Group continues and the appropriate training is arranged. It is the policy of the Group 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.

Directors' Report continued

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 Group as a whole. Communication with all employees continues through Group meetings, briefing groups and electronic communications.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the consolidated 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 UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 and the 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, 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 for that year. In preparing the financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's 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 Group'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

19 April 2024

Registered Number 11038859

Pinnacle Bidco plc
Financial Statements
for the year ended 31 December 2023

Independent auditors' report to the members of Pinnacle Bidco plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Pinnacle Bidco plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2023 and of the group's loss and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements 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 and Company statements of financial position as at 31 December 2023; the Consolidated statement of comprehensive income, the Consolidated cash flow statement and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

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

Audit scope

- Our significant components were determined in relation to their contribution to the group's financial result
- The group audit consisted of full scope audits over three components comprising; two financially significant components, being Pure Gym Limited (UK) and Pure Gym Denmark A/S (Denmark), and one other significant component, being PureGym AG (Switzerland). PureGym AG (Switzerland) has again been considered as full scope in the current year on a risk basis due to a prior year adjustment identified in revenue recognition which was accounted for and disclosed in the prior year financial statements. Audit procedures were also performed over Foreign Exchange Gains and Losses in Pinnacle Europe Holdings Limited (UK), Bonds and associated interest within Pinnacle Bidco Plc and over Inventory in Functional Supply A/S (Denmark).
- In addition, centrally managed functions, including the group consolidation, were audited at the head office by the group engagement team.

Key audit matters

- Risk of impairment of right-of-use assets and property, plant and equipment (group)
- Risk of impairment of goodwill and intangible assets in Denmark and Switzerland (group)
- Risk of impairment of investments in subsidiaries and amounts due from group undertakings (company)

Materiality

- Overall group materiality: £5,800,000 (2022: £4,600,000) based on 2.5% of group EBITDA.
- Overall company materiality: £16,100,000 (2022: £12,850,000) based on 1% of total assets, audited to allocated component materiality of £5,500,000 (2022: £2,500,000) for group purposes.
- Performance materiality: £3,625,000 (2022: £2,920,000) (group) and £4,125,000 (2022: £1,875,000) (company).

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.

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.

Risk of material misstatement in revenue recognition in Switzerland and the Risk of incorrect classification of current lease liabilities in the UK, which were key audit matters last year, are no longer included because of the correction by way of prior year adjustment that was accounted for and disclosed as a one-off item in the prior year financial statements in respect of revenue recognition in Switzerland, and because there were no significant findings from our prior year audit work in respect of classification of current lease liabilities in the UK. We now consider these to be normal risk areas. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Risk of impairment of right-of-use assets and property, plant and equipment (group) The Group holds a significant amount of right-of-use ('ROU') assets and other property, plant and equipment ('PPE') on the balance sheet, amounting to a net book value of £746.8m at the year end (2022: £681.0m). Each gym is considered an individual cash generating unit ('CGU') and assessed individually for evidence of any impairment triggers, principally by reference to the performance of the individual gyms. The identification of impairment triggers requires management to exercise judgement. For those gyms where an impairment assessment is required, management have prepared discounted cash flows to support the carrying value of the associated assets. The discounted cash flows include a number of estimates, with the key assumptions being: gym membership numbers; average revenue per member; operating costs; capital expenditure required to maintain the assets' current condition; the long term growth rate used within the forecasts; and the discount rate applied to the cash flows. Management has recognised an impairment charge in relation to ROU assets and PPE of £15.6m during the year (2022: £21.4m), offset with a £10.5m reversal (2022: nil). See the Critical accounting estimates and judgements policies section within the Group financial statements for disclosure of the related accounting policies, judgements and estimates and Note 13 within the Group financial statements for details of the Property, plant and equipment balances including ROU assets.	• We understood management's process for budgeting and forecasting and obtained management's impairment model for each gym which had impairment triggers identified; • We reviewed the forecast financial performance of the gyms within each territory and held discussions with management to understand their assessment of potential impairment indicators; • We assessed the trigger assessment performed; • We tested the integrity and mathematical accuracy of the impairment model and agreed the carrying value of non current assets being assessed for impairment to the underlying accounting records; • We agreed the first year forecasts to board approved budgets; • We assessed the historical accuracy of management's forecasts by reviewing actual results to previous forecasts • We assessed the cash flow projections used in the impairment model in comparison to the trading environment and industry reports, and our understanding of performance from other aspects of our audit, including our consideration of the impact of climate change on the business; • We utilised our internal valuation experts to assess the reasonableness of the discount rates and long term growth rates used within the impairment models for each CGU; • We performed sensitivity analyses to ascertain the impact of changes in key assumptions to quantify the downside changes needed to trigger an impairment, or to increase the impairment charges recognised; • We also assessed the disclosures made with respect to the sensitivity of the key assumptions. Based on the procedures performed we did not identify any material adjustments to the carrying value of right-of-use assets and property, plant and equipment at year end, and concluded that management's impairment assessment and related disclosures were reasonable.
Risk of impairment of goodwill and intangible assets in Denmark and Switzerland (group) The Group holds £770.5m of goodwill and intangible assets on the balance sheet at the year end (2022: £783.3m). Within these balances are amounts relating specifically to the Pure Gym Denmark (formerly Fitness World) and Switzerland businesses acquired in 2020 (with carrying values of £176.3m and £62.6m at year end respectively). Management is required to perform an annual impairment assessment of goodwill and test for impairment other intangible assets where there are indicators of impairment. Impairment assessments of this nature involve subjective judgements and estimates about the future results and cash flows of the business. We focused specifically on the Denmark and Switzerland groups of CGUs due to the relatively lower degree of impairment headroom compared to the UK and the respective trading results of these components. Management prepared discounted cash flows for each group of CGUs to support the carrying value of the associated assets. The discounted cash flows include a number of estimates, with the key assumptions being: the forecast cash flows of the territory; the long term growth rate used within the forecasts; and the discount rate applied to the cash flows. Management has not recognised an impairment charge in relation to Goodwill and other	• We understood management's process for budgeting and forecasting and obtained management's impairment model for each group of CGUs; • We reviewed the forecast financial performance of the groups of CGUs and held discussions with management to understand their assessment of potential impairment; • We tested the integrity and mathematical accuracy of the impairment model and agreed the carrying value of assets being assessed for impairment to the underlying accounting records; • We agreed the first year forecasts to board approved budgets; • We assessed the historical accuracy of management's forecasts by reviewing actual results to previous forecasts; • We assessed the cash flow projections used in the impairment model in comparison to the trading environment and industry reports, and our understanding of performance from other aspects of our audit, including our consideration of the impact of climate change on the business; • We utilised our internal valuation experts to assess the discount rates and long term growth rates used within the impairment models for each group of CGUs;

intangibles during the year (2022: £23.7m) due to the assessed headroom in both Switzerland and Denmark. See the Critical accounting estimates and judgements policies section within the Group financial statements for disclosure of the related accounting policies, judgements and estimates and Note 12 within the Group financial statements for details of the goodwill and other intangible assets balances.	• We performed sensitivity analyses to ascertain the impact of changes in key assumptions to quantify the downside changes needed to trigger an impairment. • We also assessed the disclosures made with respect to the sensitivity of the key assumptions. Based on the procedures performed we did not identify any material adjustments to the carrying value of the goodwill and other intangible assets in Denmark and Switzerland at year end, and concluded that management's impairment assessment and related disclosures were reasonable.
Risk of impairment of investments in subsidiaries and amounts due from group undertakings (parent) The Company has investments in subsidiaries amounting to £578.2m (2022: £309.2m) and amounts due from group undertakings of £1,032.9m (2022: £976.0m). Investments in subsidiaries are reviewed annually for impairment indicators. Where necessary, the impairment review in respect of the investment balance is performed in conjunction with the annual impairment review of goodwill and acquired intangible assets at a group level. Amounts due from group undertakings are considered as part of management's IFRS 9 expected credit loss assessment. 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. No impairment expense against the carrying value of investments in subsidiaries was recognised in the current year (2022: £269.0m) and the expected credit loss allowance against amounts due from group undertakings carried forward at the year-end was £60.0m (2022: £61.2m). See the Critical accounting estimates and judgements policies section within the Company financial statements for disclosure of the related accounting policies, judgements and estimates and Notes 6 and 7 within the Company financial statements for details of the investments in subsidiaries and amounts due from group undertakings.	• We evaluated management's assessment of triggers for impairment in investment in subsidiaries and management's IFRS 9 expected credit loss model in respect of the amounts due from group undertakings; • As the impairment assessment in relation to investment in subsidiaries is performed in conjunction with the annual impairment review of goodwill and acquired intangible assets at a group level, see the procedures set out above in the related key audit matter above; • We compared the combined output of each of the impairment reviews of goodwill and acquired intangible assets at a group level to the carrying value of investment in subsidiaries; • We have considered management's approach to the expected credit loss assessment of each of the amounts due from group undertakings, agreeing inputs to counterparty entity accounting records and considering the risk of default on payment; • We also assessed the disclosures made in the company financial statements. Based on the procedures performed we did not identify any material adjustments to the carrying value of the Company's investments in subsidiaries or the amounts due from group undertakings at year end.

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 and the company, the accounting processes and controls, and the industry in which they operate.

The group comprises 27 components of which 4 are main trading entities and 23 are holding or dormant companies. We scoped the audit with three significant components. This included the two largest trading entities, Pure Gym Limited (UK) and Pure Gym Denmark A/S (Denmark), which contribute the majority of the trading results. PureGym AG (Switzerland) has again been considered as full scope in the current year on a risk basis due to a prior year adjustment identified in revenue recognition which was accounting for and disclosed in the prior year financial statements. In addition, audit procedures were also performed over Foreign Exchange Gains and Losses in Pinnacle Europe Holdings Limited (UK), Bonds and associated interest within Pinnacle Bidco Plc and over Inventory in Functional Supply A/S (Denmark). Finally, centrally managed functions, including the group consolidation, were audited at the head office by the group engagement team. In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, or component auditors from the PwC network operating under our instruction. Where work was performed by component auditors, we determined the level of involvement we needed to have in this work to be able to conclude that sufficient appropriate audit evidence had been obtained.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the group's and company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the group's and company's financial statements.

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:

	Financial statements - group	**Financial statements - company**
Overall materiality	£5,800,000 (2022: £4,600,000).	£16,100,000 (2022: £12,850,000).
How we determined it	2.5% of group EBITDA	1% of total assets, audited to allocated component materiality of £5,500,000 (2022: £2,500,000) for group purposes.
Rationale for benchmark applied	EBITDA is considered to be an appropriate benchmark as this is considered to be the key performance indicator (KPI) of the Group.	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.

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 from £3,000,000 to £5,500,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 62.5% (2022: 62.5%) of overall materiality, amounting to £3,625,000 (2022: £2,920,000) for the group financial statements and 75% of overall materiality, amounting to £4,125,000 (2022: £1,875,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £290,000 (group audit) (2022: £230,000) and £275,000 (company audit) (2022: £125,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Obtained the Directors' group level going concern assessment paper and cash flow forecasts in the going concern review period, and tested the cash flow forecasts for mathematical accuracy;
- Performed look back procedures to assess management's forecasting accuracy;
- Evaluated the forecasts against current trading conditions and assessed the reasonableness of the key assumptions driving the cash flows;
- Reviewed the relevant legal documents for the refinancing of external listed debt which completed during the year;
- Assessed the group's banking facilities and the associated banking covenant requirements in the going concern assessment period;
- Challenged management on their severe but plausible downside scenarios, and assessed the resilience of the business to withstand these.
- We considered the level of liquidity headroom and covenant compliance in the forecast period in both management's severe but plausible downside scenario, and a more severe downside scenario to determine if the group were able to maintain sufficient liquidity and complied with its debt covenants.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2023 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 company and their 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 in respect of the financial statements, 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 and 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 group or 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to health and safety legislation, employment law, and data protection legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or EBITDA, and management bias in accounting estimates, specifically those relating to the carrying value of goodwill, intangible assets, right of use assets, property, plant and equipment, investments in subsidiaries and amounts owed by group undertakings. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- discussed with management and the audit committee consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- assessed compliance with local laws and regulations and relevant tax legislation by each component audit team and the group audit team, as applicable;
- identified and tested journal entries using a risk-based targeting approach for unexpected account combinations, specifically those to increase revenue, or reclassify items above or below the EBITDA line to manipulate the financial performance of the business;
- obtained management's impairment models to assess the carrying value of goodwill, intangible assets, right of use assets, property, plant and equipment, investments in subsidiaries and amounts owed by group undertakings and challenge the assumptions and judgements made by management by agreeing to supporting information and evidence; and
- reviewed financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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 company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
19 April 2024

Consolidated statement of comprehensive income
for the year ended 31 December 2023

	Note	2023 £m	2022 £m
Revenue	5	**549.0**	476.4
Cost of sales		**(17.4)**	(15.4)
Other income		**0.8**	1.8
Other administrative expenses		**(442.0)**	(459.2)
Exceptional administrative (expenses) / income	6	**(3.6)**	1.0
Administrative expenses		**(445.6)**	(458.2)
Operating profit	7	**86.8**	4.6
Finance income	10	**8.8**	2.9
Finance costs	10	**(173.2)**	(154.0)
Loss before income tax		**(77.6)**	(146.5)
Income tax credit	11	**4.1**	34.0
Loss for the year		**(73.5)**	(112.5)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign operations – foreign currency translation differences, net of tax		**4.0**	4.2
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension obligations, net of tax (note 19)		**0.2**	0.5
Total other comprehensive income for the year, net of tax		**4.2**	4.7
Total comprehensive expense for the year		**(69.3)**	(107.8)

Consolidated statement of financial position
as at 31 December 2023

	Note	2023 £m	2022 £m
Non-current assets			
Intangible assets	12	**770.5**	783.3
Property, plant and equipment	13	**746.8**	681.0
Deferred tax assets	11	**65.8**	65.8
Other receivables	15	**7.2**	7.2
		1,590.3	1,537.3
Current assets			
Inventories	14	**5.1**	5.0
Trade and other receivables	15	**37.0**	28.7
Income taxes receivable		**0.3**	0.8
Cash and cash equivalents		**108.2**	204.6
		150.6	239.1
TOTAL ASSETS		**1,740.9**	1,776.4
Current liabilities			
Trade and other payables	16	**(146.3)**	(132.6)
Lease liabilities	17	**(72.3)**	(74.4)
Provisions	19	**(5.9)**	(4.5)
Income taxes payable		**-**	(0.1)
		(224.5)	(211.6)
Non-current liabilities			
Deferred tax liabilities	11	**(15.5)**	(19.2)
Other liabilities		**(2.1)**	(2.0)
Lease liabilities	17	**(490.6)**	(455.2)
Borrowings	18	**(1,376.1)**	(1,388.5)
Provisions	19	**(16.0)**	(14.7)
		(1,900.3)	(1,879.6)
TOTAL LIABILITIES		**(2,124.8)**	(2,091.2)
NET LIABILITIES		**(383.9)**	(314.8)
Equity			
Share capital	22	**2.8**	2.8
Share premium		**271.2**	271.2
Translation reserve		**11.4**	7.4
Accumulated losses		**(669.3)**	(596.2)
TOTAL EQUITY		**(383.9)**	(314.8)

Consolidated statement of financial position

as at 31 December 2023 (continued)

The notes on pages 47 to 82 are an integral part of these financial statements. The financial statements of Pinnacle Bidco plc, registered number 11038859, on pages 42 to 82 were approved by the board of directors and authorised for issue on 19 April 2024 and were signed on its behalf by:

A Wood
Director

Consolidated cash flow statement
for the year ended 31 December 2023

	Note	2023 £m	2022 £m
Cash flows from operating activities			
Cash generated from operations	23	**234.8**	165.3
Exceptional (expenses paid) / income received		**(1.2)**	0.8
Bank interest and similar charges paid		**(1.4)**	(2.1)
Bank interest received		**7.0**	2.9
Senior secured notes interest paid		**(53.0)**	(50.7)
Interest element of lease liability payments		**(49.9)**	(56.3)
Issue costs and early repayment charges on borrowings		**(20.3)**	-
Corporation tax refund received		**0.5**	0.1
Net cash generated from operating activities		**116.5**	60.0
Cash flows from investing activities			
Purchase of property, plant & equipment		**(89.1)**	(83.5)
Purchase of intangible assets		**(10.1)**	(6.4)
Proceeds from disposal of property, plant & equipment		**1.9**	2.2
Net cash used in investing activities		**(97.3)**	(87.7)
Cash flows from financing activities			
Issue of ordinary share capital		**-**	270.0
Issue of senior secured notes		**804.1**	-
Repayment of senior secured notes		**(854.3)**	-
Capital element of lease liability payments		**(65.2)**	(61.2)
Repayments of other borrowings		**-**	(8.6)
(Outflows) / inflows from intercompany loan payables		**(0.1)**	(0.4)
Outflows from intercompany loan receivables		**-**	(1.0)
Net cash (used in) / generated from financing activities		**(115.5)**	198.8
Net (decrease) / increase in cash and cash equivalents		**(96.3)**	171.1
Cash and cash equivalents at start of year		**204.6**	31.9
Effect of exchange rate changes on cash held		**(0.1)**	1.6
Cash and cash equivalents at end of year		**108.2**	204.6

Consolidated statement of changes in equity
for the year ended 31 December 2023

	Share capital £m	Share premium £m	Translation reserve £m	Accumulated losses £m	Total £m
Balance as at 1 January 2022	0.1	3.9	3.2	(484.3)	(477.1)
Proceeds from shares issued	2.7	267.3	-	-	270.0
Loss for the year	-	-	-	(112.5)	(112.5)
Other comprehensive income for the year	-	-	4.2	0.5	4.7
Total comprehensive expense for the year	**-**	**-**	**4.2**	**(112.0)**	**(107.8)**
Credit to equity for equity settled share-based payments (note 9)	-	-	-	0.1	0.1
Balance as at 31 December 2022	**2.8**	**271.2**	**7.4**	**(596.2)**	**(314.8)**
Balance as at 1 January 2023	2.8	271.2	7.4	(596.2)	(314.8)
Loss for the year	**-**	**-**	**-**	**(73.5)**	**(73.5)**
Other comprehensive income for the year	**-**	**-**	**4.0**	**0.2**	**4.2**
Total comprehensive expense for the year	**-**	**-**	**4.0**	**(73.3)**	**(69.3)**
Credit to equity for equity settled share-based payments (note 9)	**-**	**-**	**-**	**0.2**	**0.2**
Balance as at 31 December 2023	**2.8**	**271.2**	**11.4**	**(669.3)**	**(383.9)**

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. Pinnacle Bidco plc ("the Company") is limited by shares and is registered, incorporated and domiciled in England, United Kingdom. The address of the Company's registered office is C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY, United Kingdom.

2 Summary of material accounting policy information

Basis of accounting

The Group financial statements have been prepared on the going concern basis and in accordance with UK-adopted International Accounting Standards, in conformity with the requirements of the Companies Act 2006, as applicable to companies reporting under those standards.

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 millions of pounds sterling ("£m") except when otherwise indicated. Accounting policies have been consistently applied to all financial years presented.

The preparation of the Group financial statements in conformity with UK-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 2023. 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.

Foreign currency translation

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ('the functional currency').

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, from the translation of monetary assets and liabilities denominated in foreign currencies, and from borrowings denominated in foreign currencies at year end exchange rates, are presented in the statement of profit or loss, within finance costs.

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income, and accumulated in the translation reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Notes to the consolidated financial statements (continued)

2 Summary of material accounting policy information (continued)

Segmental reporting

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker, identified as the Group's Group Management Board. The Group Management Board primarily consider the business from a geographical perspective, by country of operation. The Group's operations consist solely of the provision of high quality health and fitness facilities and associated services and consequently, it is not necessary to segregate operating segments by service or product. The Group Management Board use the measures of Revenue and Adjusted EBITDA as key performance indicators in assessing the performance of the operating segments. A definition of Adjusted EBITDA is included in note 4.

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

Going Concern

The Directors have carefully evaluated the Going Concern basis of the Group. In doing so, they have taken account of the wider macroeconomic climate including the impact of the inflationary environment and cost-of-living pressures affecting the countries in which the Group operates at the time of signing these financial statements.

The Group made a loss before tax of £77.6m in the year ended 31 December 2023 and had net current liabilities of £73.9m and net liabilities of £383.9m as at that date. The Group meets its day to day working capital requirements, capex and funding of new sites through its surplus cash reserves and credit facilities (comprising an RCF of £175.5 million, which includes an overdraft of £10 million).

As at the date of signing the financial statements, the Group's forecasts and projections (to 30 June 2025) taking account of reasonably possible changes in trading performance, showed that the Group has ample headroom to operate within its existing facilities.

This assessment included consideration of a severe but plausible downside scenario consisting of:

- A reduction in forecast revenues increasing from a 1% reduction in March 2024 to a 5% reduction by July 2024 and for the rest of the forecast period;
- An increase in forecasts costs, rising from a 1% increase in all costs in March 2024 except utilities (as utility costs are largely fixed throughout 2024) to a 5% increase by July 2024 and for the rest of the forecast period;
- An increase in utility costs of 5% from January 2025 and for the rest of the forecast period; and
- a mitigating reduction in forecast capital expenditure, increasing from a 5% reduction in June 2024 to a reduction of 50% in maintenance capital expenditure and 70% in refurbishment and growth capital expenditure by May 2025 and for the rest of the forecast period.

The Group had cash reserves at 31 December 2023 of £108 million, plus an additional £32 million in cash held by the Group's parent, Pinnacle Topco Limited which is available for use by the Group as necessary. Combining this with the available RCF gives a total liquidity position of £315 million at 31 December 2023. Under the severe but plausible downside scenarios modelled, the Group would maintain a minimum liquidity of £233 million for the entire forecast period to June 2025.

The Group's RCF is subject to a covenant of a maximum leverage ratio of 8.8x, which is tested when the RCF is greater than 40% drawn. Under the severe but plausible downside scenarios modelled, the Group is not expected to breach its covenants.

Based on these forecasts, the Directors have concluded that the Group has adequate resources to continue to remain a going concern for the foreseeable future and have therefore adopted the going concern basis in preparing its financial statements.

Notes to the consolidated financial statements (continued)

2 Summary of material accounting policy information (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.

Where there are specific performance obligations attached to joining fees, then the income related to this is recognised in the period in which membership commences since the performance obligation attached to that income is satisfied in that period. Where there are no specific performance obligations attached to joining fees, these are recognised over time, on a straight line basis over the expected duration of the membership.

Vending and consumables income is recognised at a point in time.

Other revenue includes revenue from personal trainers, recognised over time to reflect the period over which the personal trainer is operating, and sales of day passes to non-members and personal training services vouchers which are both recognised at a point in time.

Other Income

Other income represents income arising outside of the Group's ordinary activities, being the running of gyms, provision of gym-related services, and the sale of vending and consumable items. It includes income from insurance claims which are recognised when received.

Cost of sales

Cost of sales represents the cost arising in connection with the generation of revenue from the "vending and consumables income" and "other revenue" revenue streams, including the cost of inventories sold.

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.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

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, or group of CGUs, 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.

Notes to the consolidated financial statements (continued)

2 Summary of material accounting policy information (continued)

(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 assets acquired in business combinations varies based on the characteristics of the particular asset, and are set out in note 12. Intangible assets acquired in business combinations include customer relationships and brands. For the purpose of impairment testing, intangible assets acquired in a business combination are allocated to each of the CGUs, or groups of CGUs, expected to benefit from the synergies of the combination.

(c) Software

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets where the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- Management intends to complete the software and use it in the course of business;
- There is an ability to use the software;
- It can be demonstrated how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use the software are available; and
- The expenditure attributable to the software during its development can be reliably measured.

Until the software is ready for use, capitalised development costs are presented within "Development Projects in Progress" and are not amortised. Once the software is ready for use, the capitalised costs are transferred into the "Software" category and amortised straight line over a period of 3 to 5 years.

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.

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, except where the Group has control over retaining a lease beyond its contractual term. Where this is the case, the depreciation period is the shorter of 3-15 years or the expected remaining period to remain in the lease
Fixtures and fittings	Straight line over 3-10 years
IT equipment	Straight line over 3-5 years

Assets which are not ready for use are presented within "Assets under construction" and are not depreciated. Once the asset is ready for use, the capitalised costs are transferred into the appropriate category within property, plant and equipment.

Notes to the consolidated financial statements (continued)

2 Summary of material accounting policy information (continued)

Leases as a lessee

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.

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. More information on the determination of the lease term is included in note 3.

The lease liability is initially measured at the present value of the lease payments to the end of the determined lease term, 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 funding, with adjustments appropriate for the lease term and security to make it specific to a particular lease.

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 certain 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.

Notes to the consolidated financial statements (continued)

2 Summary of material accounting policy information (continued)

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, 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.

Financial instruments

(a) Financial liabilities

The Group 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. Where the Group has borrowings, transaction costs are amortised using the effective interest method over the life of the loan. Transaction costs include costs incurred in arranging the loan and an estimate of costs expected to be incurred at the end of the loan, including early termination fees. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire. Any gain or loss on derecognition is recognised as finance income or finance cost in the statement of comprehensive income.

(b) 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.

(c) 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 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.

Financial assets measured at amortised cost include cash and cash equivalents and trade and other receivables. These assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial assets give rise, on specified dates, to cash flows that are solely payment of principal and interest on the principal amount outstanding. Derivative financial instruments are measured at fair value.

Borrowing costs

Borrowing costs, as defined by IAS 23, are expensed in the period in which they are incurred.

Notes to the consolidated financial statements (continued)

2 Summary of material accounting policy information (continued)

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 financial assets. To measure the expected credit losses, financial assets 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 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 for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. This is deemed to occur when the cash generating unit ("CGU") to which the asset belongs is performing below expectation. For property, plant and equipment this is generally deemed to be when the CGU to which it belongs is budgeted to experience a significant decrease in profits more than one year after opening.

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). The Group's CGUs consist of individual gyms.

Goodwill, customer relationships and brands are assessed at the group of CGUs level, where each gym represents a CGU. No group of CGUs is at a level higher than an operating segment.

Prior impairments of non financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Property, plant and equipment is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where it is not possible to isolate cash flows generated by a specific item of property, plant and equipment, impairment is tested at the CGU level, representing a single gym. 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.

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 (to the extent drawn) 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 material accounting policy information (continued)

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

On certain of its leases, the Group is required to restore leased premises to their original condition at the end of the respective lease term. Where it is deemed probable that an outflow of resources will be required to settle the restoration obligation, a provision is recognised for the present value of the estimated expenditure required to remove leasehold improvements. The associated cost is capitalised as part of the leasehold improvements and amortised over the shorter of the lease term or the useful life of the assets. The estimates used in determining probability of an outflow of resources are addressed in note 3.

Pension obligations

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

The liability or asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The discount rate is determined by reference to market yields at the end of the reporting period on high quality corporate bonds in the currency the benefits are paid. An extrapolation of current market rates along the yield curve takes place to determine the necessary discount rates for the valuation of the pension liabilities.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the balance sheet.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

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.

Notes to the consolidated financial statements (continued)

2 Summary of material accounting policy information (continued)

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 minimise 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 items of income or expense that have been shown separately due to the significance of their nature and amount. Examples of items included within exceptional items are restructuring and transformational costs, and costs relating to acquisitions or certain expansion projects. Impairments of intangible assets and property, plant and equipment are not included within exceptional items, but are presented separately in note 7. Management consider, on a case by case basis, whether costs are exceptional based on the specific circumstances.

New and amended standards

The below new or amended standards have been adopted for the first time in these financial statements and are relevant to the Group, but are not expected to have a material impact on the Group's financial statements:

- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8
- Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction

Certain new or amended standards have been published that are due to take effect in future accounting periods. They have not been early adopted by the Group and are not expected to have a material impact on the Group's financial statements once adopted.

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

(a) Impairment of non-financial assets

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment based on the recoverable amount of its cash generating units ('CGUs'). The Group also assesses whether any events have occurred which would trigger an impairment review of non-financial assets with finite useful lives such as intangible assets other than goodwill and property, plant and equipment.

Where this is the case, the recoverable amount of the CGU being assessed is initially determined based on the higher of value in use calculations or fair value less cost to sell. The use of a value in use 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 also consider whether reasonably possible changes in key assumptions may cause an impairment of the non-financial assets. A summary of the key assumptions used, and the possibility of impairment, should reasonably possible changes in those key assumptions occur, is included in notes 12 and 13 where relevant.

Notes to the consolidated financial statements (continued)

3 Critical accounting estimates and judgements (continued)

(b) Provisions for leasehold dilapidations

Provisions are made for dilapidations or restoration of leasehold improvements in leased properties. Management make estimates of the amount and timing of future payments in relation to the restoration of leased properties based on contractual obligations, historical experience and the views of experts. Where it is assessed that the likelihood of an outflow of resources to settle a restoration obligation on leased premises is probable, a provision is made for the expected future outflow, discounted to present value using a discount rate of between 0% and 4% (2022: 1% and 4%) to reflect the time value of money. The discount rate is based on risk-free costs of borrowing in the relevant jurisdictions.

During the year ended 31 December 2023, the Group re-estimated the expected restoration cost for 18 gyms based on those gyms' profitability and likely lease termination dates. This resulted in an increase in Provisions and Property, plant and equipment at 31 December 2023 of £2.0m.

As at 31 December 2023, management have determined that a provision is required for 244 out of its 581 leased premises. Details of the provision recorded are included in note 19. If the future cost of restoration for a site where a provision has been recorded were to increase by 10%, the provision at 31 December 2023 would increase by £2.1m.

(c) Incremental borrowing rate for discounting of lease liabilities

The Group uses its incremental borrowing rate to discount lease payments in the calculation of lease liabilities. The use of this method requires estimates of interest rates which would be available to the Group if it were to borrow funds, over a similar term and with a similar security, necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment. Management utilise internal and external information to determine an appropriate rate. This includes evidence arising from the Group's recent third-party borrowings, publicly available borrowing rates for companies with similar characteristics to the Group, and risk-free interest rates applicable in the relevant geographies in which the Group operates. IBRs applied to leases across the Group range from 5% to 11% (2022: 5% to 10%). Details of the lease liabilities recognised are included in note 17.

(d) 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 makes an estimate of the future taxable profits of the Group and compares this to the available losses, taking into account applicable tax laws in the relevant geographies. In making the estimate, management-approved budgets for a 5 year period after the end of the reporting period are used. It is then assumed that no further growth in profits will occur beyond this point, in the absence of detailed budgets for that period. Estimation uncertainty increases in later years of the forecast period due to the inherent uncertainty in forecasting future profits.

At 31 December 2023, the Group has recognised a deferred tax asset of £60.3m (2022: £52.5m) on carried forward losses of £248.7m (£217.2m). Of the deferred tax asset of £60.3m, £31.6m is expected to be utilised within the 5 year period for which there are management-approved budgets. The remaining £28.7m is expected to be utilised in the period 2029 to 2031. There is therefore greater uncertainty over the timing of utilisation of the losses during this period. If taxable profits were to fall in the period beyond the 5 year forecast, the time taken to utilise carried forward losses would increase. Of the deferred tax asset on losses, £1.0m is expected to be utilised within 12 months. Further detail of the tax charge and deferred tax asset are set out in note 11.

Notes to the consolidated financial statements (continued)

3 Critical accounting estimates and judgements (continued)

Judgements

(a) Lease terms on leased properties

The Group recognises leased properties in accordance with IFRS 16 'Leases'. The lease term is determined as the non-cancellable period of each lease, together with periods covered by an option to extend the lease if management are reasonably certain to exercise that option. Certain of the Group's leases include clauses which allow the Group to unilaterally extend the lease on a rolling basis. Management exercise significant judgement in determining the period over which they are reasonably certain that they will continue to extend such leases. In making this assessment on a lease-by-lease basis, management consider the following factors:

- The prevailing market conditions relative to the contractual lease terms;
- Significant leasehold improvements undertaken that are expected to have a significant economic benefit for the Group;
- Costs relating to the termination of the lease;
- The importance of the gym to the Group's operations; and
- The Group's past practice on extending leases beyond their contractual terms.

During the year ended 31 December 2023, the Group reassessed the lease terms of 33 of its leases as a result of significant changes in management's expectations for the length of time expected to retain the leases. This resulted in an increase in Lease Liabilities and Right of use assets at 31 December 2023 of £17.8m.

(b) Classification of exceptional administrative expenses

The Group presents exceptional administrative expenses separately within the statement of comprehensive income. The Group exercises judgement in determining which expenses are categorised as exceptional bearing in mind the size and nature of the expenses and associated projects.

4 Operating segments

The group's material reportable segments in the current period are the United Kingdom, Denmark and Switzerland. The results from operations in all other countries in which the Group operates are included in "Other". Segmental information presented to the Board and Group Management Board for the year is presented in the below table:

			2023		
	United Kingdom £m	**Denmark £m**	**Switzerland £m**	**Other £m**	**Total £m**
Revenue	**366.5**	**139.6**	**37.9**	**5.0**	**549.0**
Adjusted EBITDA	**109.6**	**20.6**	**2.5**	**(0.5)**	**132.2**

			2022		
	United Kingdom £m	Denmark £m	Switzerland £m	Other £m	Total £m
Revenue	308.1	137.6	29.4	1.3	476.4
Adjusted EBITDA	78.8	20.5	(1.1)	(3.1)	95.1

All operating segments derive revenue from all of the services and products included within note 5. All revenue included in the table above derives from external customers.

Notes to the consolidated financial statements (continued)

4 Operating segments (continued)

Adjusted EBITDA is a non-IFRS measure derived by adjusting operating profit for depreciation, amortisation, profit/loss on disposal of property, plant and equipment, profit/loss on lease modifications, impairment of property, plant and equipment, exceptional costs, share based payment charges, pre-opening costs, other adjustments and the cash rent adjustment. The cash rent adjustment includes an add back of any property rent related expenses charged in the statement of comprehensive income and a deduction of contractual property rent payments due in the period (whether or not paid in cash in the period).

The Adjusted EBITDA KPI is typically used within the industry as it is more effective than operating profit in representing the performance of the business and, as such, is a key focus of our stakeholders, including our investors, our bondholders and our banking partners.

5 Revenue

Revenue is analysed by service or product as follows:

	2023 £m	2022 £m
Member income	**491.1**	424.3
Vending and consumables income	**25.0**	22.3
Other revenue	**32.9**	29.8
	549.0	476.4

Included within member income in 2022 is £5.3 million related to gift cards issued, but not utilised, during 2020 and 2021. In 2022, it was concluded that the chance of these gift cards being utilised in future periods was remote and therefore the deferred income was released in that year.

6 Exceptional administrative expense / income

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:

	2023 £m	2022 £m
Exceptional administrative costs:		
Integration, transition and restructuring costs	**2.1**	0.4
Legal costs	**1.5**	-
Exceptional administrative income:		
VAT receivable on historical exceptional expenses	**-**	(1.4)
Exceptional administrative expense / (income)	**3.6**	(1.0)

Integration, transition and restructuring costs of £2.1m in 2023 and £0.4m in 2022 relate to the rebranding of the Danish Fitness World business to PureGym. This project commenced in 2022 and was completed during 2023. Legal costs relate to one-off costs expected to be incurred on litigation relating to the Group's gym estate.

During 2022, a £1.4m credit was recognised in relation to VAT recoverable on exceptional expenses incurred in previous periods. This recovery had previously been determined to be not probable and therefore the payment of VAT was treated as an exceptional expense.

Notes to the consolidated financial statements (continued)

7 Operating profit

	2023 £m	2022 £m
Operating profit is stated after charging / (crediting):		
Amortisation of intangibles (note 12)	**20.9**	22.1
Depreciation of property, plant & equipment (note 13)		
- owned assets	**50.3**	48.3
- right of use property assets	**61.2**	61.4
- right of use equipment assets	**2.2**	3.5
Loss on disposal of property, plant & equipment	**2.2**	1.3
Impairment of intangible assets (note 12)	**-**	23.7
Impairment of property, plant and equipment (note 13)	**5.1**	21.4
Profit on lease modifications	**(0.8)**	(1.8)
Exceptional administrative expense / (income) (note 6)	**3.6**	(1.0)

A reconciliation from operating profit to Group Reported EBITDA and Adjusted EBITDA is included in the table below. Group EBITDA and Adjusted EBITDA are non-IFRS measures.

	2023 £m	2022 £m
Operating profit	**86.8**	4.6
Amortisation of intangibles (note 12)	**20.9**	22.1
Depreciation of property, plant & equipment (note 13)	**113.7**	113.2
Loss on disposal of property, plant and equipment	**2.2**	1.3
Impairment of intangible assets (note 12)	**-**	23.7
Impairment of property, plant and equipment (note 13)	**5.1**	21.4
Profit on lease modifications	**(0.8)**	(1.8)
Exceptional administrative expense / (income) (note 6)	**3.6**	(1.0)
Group EBITDA [1]	**231.5**	183.5
Other adjustments [2]	**3.6**	6.4
Pre-opening costs [3]	**4.5**	4.8
Cash rent adjustment [4]	**(107.6)**	(99.7)
Share based payment charge [5]	**0.2**	0.1
Adjusted EBITDA[6]	**132.2**	95.1

Notes to the consolidated financial statements (continued)

7 Operating profit (continued)

[1] Group Reported EBITDA is a non-IFRS measure defined as earnings before net finance cost, taxation, depreciation, amortisation, profit/loss on sale of property, plant & equipment and intangible assets, impairment, profit/loss on lease modifications and exceptional items.

[2] Other adjustments include the net impact of various one-off items not included in "Exceptional items". These are recognised in accordance with the Group's banking facility agreements. In 2023, the Group incurred costs of £1.9 million (2022: £3.3 million) in relation to strategic initiatives aimed at reducing the Group's cost base and integrating the Group's operations. The Group also incurred £0.3 million of incremental costs in relation to other one off costs (2022: £0.4 million).

Also in 2023, £1.4 million (2022: £2.7 million) of costs have been incurred in relation to a management "lock-in" bonus scheme. This amount is added back in reaching Adjusted EBITDA because it has not been incurred in the ordinary course of business, relating to the impact of COVID-19 on the business during 2020 and 2022.

[3] 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.

[4] Represents the deduction of the cash rent payable during the year which otherwise was not reflected in EBITDA (as reported on a post IFRS 16 basis). The Directors believe that adjusting EBITDA to reflect cash rent is a better reflection of the performance of the business.

[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 9.

[6] Adjusted EBITDA is a non-IFRS measure derived from Group Reported EBITDA and adjusted by the items described in footnotes 2 to 5. This is a relevant measure as it is an alternative performance measure defined within the Group's facility agreements.

8 Auditors' remuneration

The remuneration of the auditors is analysed as follows:

	2023 £m	2022 £m
Audit of the parent company and Group financial statements	**0.1**	0.1
Audit of subsidiary financial statements	**0.7**	0.7
Audit-related assurance services	**0.5**	-
	1.3	0.8

Audit-related assurance services of £527,000 were received during 2023 (2022: £16,400). Included within this figure in 2023 was £509,000 for audit-related assurance services relating to the Group's refinancing.

Notes to the consolidated financial statements (continued)

9 Employees and directors

	2023 **£m**	2022 £m
Wages and salaries	**106.1**	103.4
Social security costs	**7.8**	6.5
Other pension costs	**4.1**	3.4
	118.0	113.3

The Group operates defined contribution pension schemes in the United Kingdom and Denmark for all employees in those countries using master trust (occupational trust based) pension schemes. The total cost expensed in the year was £3.6m (2022: £2.9m) and outstanding pension contributions at the year-end were £0.4m (2022: £0.3m).

In addition, the Group operates a defined benefit pension scheme for employees in Switzerland. More information is included in note 19.

The Directors and certain employees hold ordinary A1 and A2 ordinary shares in the Group, which have service and vesting conditions attached and are therefore in the scope of IFRS 2 'Share based payments'. Two tranches of shares have been issued (the "2017 shares" and the "2022 shares"). The 2017 shares were valued at issue for IFRS 2 purposes at £2.39 per share, and the 2022 shares were valued at issue for IFRS 2 purposes at £1.68 per share. During the year ended 31 December 2022, the estimated vesting date of the 2017 shares was re-assessed and extended. The resulting adjustment to employee expenses was re-calculated retrospectively and recognised in 2022. Consequently, a charge of £0.1m was recognised during 2022 and was included within wages and salaries. No such adjustment has been recognised in 2023.

In addition, certain employees hold phantom shares (the "2022 phantom shares") which entitle the employees to a cash payment of the same value and under the same vesting conditions as the 2022 shares. The fair value of the 2022 phantom shares is determined at the end of each reporting period with changes in the fair value recognised as a change to the share-based payment liability in other liabilities.

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

	2023 **No.**	2022 No.
Central support	**629**	603
Operations	**6,320**	6,305
	6,949	6,908

Total emoluments relating to Directors are as follows:

	2023 **£m**	2022 £m
Aggregate emoluments	**1.7**	1.5
Contributions to defined contribution schemes	**-**	-
	1.7	1.5

One director was a member of the defined contribution schemes as at 31 December 2023, with total contributions in the year of £11,000 (31 December 2022: one with total contributions of £10,000).

Notes to the consolidated financial statements (continued)

9 Employees and directors (continued)

The amounts set out above include emoluments in respect of the highest paid director totalling £1.1m (2022: £1.0m).

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.

10 Finance income and costs

	2023 £m	2022 £m
Bank interest received	**7.0**	2.9
Foreign exchange gain	**1.8**	-
Total finance income	**8.8**	2.9

	2023 £m	2022 £m
Interest on bank loans and overdrafts	**-**	0.5
Interest payable on lease liabilities	**47.9**	47.3
Commitment fees	**1.7**	1.5
Unwind of discount on provisions	**0.4**	0.2
Amortisation of capitalised finance costs	**9.9**	4.1
Early repayment charge on senior secured notes	**5.8**	-
Unwind of discount on issue of senior secured notes	**10.4**	4.3
Interest on senior secured notes	**56.3**	50.3
Interest payable to Group undertakings	**40.8**	37.8
Foreign exchange loss	**-**	8.0
Total finance costs	**173.2**	154.0

Interest and finance charges paid for financial liabilities not at fair value through profit or loss totalled £173.2m (2022: £146.0m).

Notes to the consolidated financial statements (continued)

11 Income tax credit

	2023 £m	2022 £m
Current tax:		
- Adjustment in respect of prior periods	**(0.1)**	(0.4)
Total current tax credit	**(0.1)**	(0.4)
Deferred tax:		
- Origination and reversal of timing differences	**(3.4)**	(19.0)
- Adjustment in respect of prior periods	**(0.6)**	(15.3)
- Effect of changes in tax rates	**-**	0.7
Total deferred tax credit	**(4.0)**	(33.6)
Total tax credit in the consolidated statement of comprehensive income	**(4.1)**	(34.0)

The tax credit for the year is lower (2022: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2023 of 23.5% (2022: 19%). The differences are explained below:

	2023 £m	2022 £m
Loss before tax	**(77.6)**	(146.5)
Tax on loss at standard UK corporation tax rate of 23.5% (2022: 19%)	**(18.2)**	(27.8)
Effects of:		
- Depreciation not deductible for tax purposes	**0.3**	0.7
- Fixed assets permanent differences	**(0.5)**	(3.1)
- Other expenses not deductible for tax purposes	**1.1**	5.0
- Adjustment in respect of prior periods	**(0.7)**	(15.7)
- Income not taxable	**(1.6)**	(0.2)
- Impact of rate differences	**(0.1)**	(1.1)
- Unrecognised tax losses and other deductions	**5.3**	2.4
- Group relief surrendered for nil consideration	**9.9**	7.3
- Overseas tax rate differences	**0.4**	(1.5)
Total tax credit for the period	**(4.1)**	(34.0)

The standard rate of corporation tax in the UK was 19% from 1 January 2023 to 31 March 2023 and 25% from 1 April 2023 to 31 December 2023 (2022: 19% throughout the year) and accordingly the Group's profits for this period are taxed a blended rate of 23.5% (2022: 19%). Deferred tax has been measured at the rate expected to apply at the time at which the timing differences are expected to reverse of 25%.

Notes to the consolidated financial statements (continued)

11 Income tax credit (continued)

Deferred tax assets

The movement in deferred tax assets is as follows:

	Property, plant and equipment £m	Leases £m	Provisions £m	Losses £m	Total £m
At 1 January 2022	4.9	11.8	1.7	23.5	41.9
Adjustment in respect of prior periods	1.2	(0.1)	0.3	11.6	13.0
Foreign exchange movement	(0.1)	0.1	0.2	0.8	1.0
Income statement (charge) / credit	(8.5)	1.2	0.6	16.6	9.9
At 31 December 2022	(2.5)	13.0	2.8	52.5	65.8
Category transfer	0.3	(0.3)	-	-	-
Adjustment in respect of prior periods	0.3	(1.0)	0.5	0.8	0.6
Foreign exchange movement	-	-	-	(0.4)	(0.4)
Income statement (charge) / credit	(5.6)	(1.7)	(0.3)	7.4	(0.2)
At 31 December 2023	**(7.5)**	**10.0**	**3.0**	**60.3**	**65.8**

Adjustments to losses in respect of prior periods in 2022 relate to finalisation of calculations on the UK corporate interest restriction, and conclusion of judgements on the deductibility of expenses in relation to IT projects and costs incurred in the exploration of capital fundraising options in 2021.

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 £42.4m (2022 restated: £36.4m) and the unrecognised deferred tax asset totalled £8.4m (2022: £7.3m). The Group also had restricted interest carried forward for which a deferred tax asset has not been recognised. This restricted interest totalled £42.4m (2022: £36.4m) and the unrecognised deferred tax asset on restricted interest totalled £8.4m (2022: £7.3m). The assets have not been recognised as the directors are of the opinion that it is unlikely that suitable taxable profits will arise in the relevant entities in the foreseeable future. Note that the 2022 losses not recognised previously reported totalled £92.0m and unrecognised deferred tax asset previously reported totalled £23.0m. These have been restated above as the figures incorrectly included amounts recognised as tax assets during 2022.

Deferred tax liabilities

The movement in deferred tax liabilities is as follows:

	Non-qualifying assets acquired through business combinations £m	Intangible assets £m	Total £m
At 1 January 2022	3.2	26.1	29.3
Adjustment in respect of prior periods	(1.2)	(1.1)	(2.3)
Impact of rate changes	0.7	-	0.7
Foreign exchange movement	-	0.6	0.6
Income statement credit	(0.6)	(8.5)	(9.1)
At 31 December 2022	**2.1**	**17.1**	**19.2**
Foreign exchange movement	-	(0.1)	(0.1)
Income statement credit	(0.5)	(3.1)	(3.6)
At 31 December 2023	**1.6**	**13.9**	**15.5**

Notes to the consolidated financial statements (continued)

12 Intangible assets

	Goodwill £m	Brands £m	Customer Relationships £m	Development Projects in Progress £m	Software £m	Total £m
Cost						
31 December 2022	717.0	92.5	78.1	6.3	24.0	917.9
Additions	-	-	-	7.4	2.8	10.2
Transfers	-	-	-	(6.0)	6.0	-
Foreign exchange differences	(1.7)	(0.5)	(0.7)	-	(0.1)	(3.0)
31 December 2023	715.3	92.0	77.4	7.7	32.7	925.1
Accumulated amortisation						
31 December 2022	13.5	48.8	50.1	-	22.2	134.6
Charge for the year	-	2.9	13.8	-	4.2	20.9
Foreign exchange differences	0.1	(0.5)	(0.3)	-	(0.2)	(0.9)
31 December 2023	13.6	51.2	63.6	-	26.2	154.6
Net book value						
31 December 2022	703.5	43.7	28.0	6.3	1.8	783.3
31 December 2023	**701.7**	**40.8**	**13.8**	**7.7**	**6.5**	**770.5**

Notes to the consolidated financial statements (continued)

12 Intangible assets (continued)

	Goodwill £m	Brands £m	Customer Relationships £m	Development Projects in Progress £m	Software £m	Total £m
Cost						
31 December 2021	700.7	90.5	73.8	8.9	23.2	897.1
Additions	-	-	-	6.0	0.5	6.5
Disposals	-	-	-	(8.7)	(0.3)	(9.0)
Foreign exchange differences	16.3	2.0	4.3	0.1	0.6	23.3
31 December 2022	717.0	92.5	78.1	6.3	24.0	917.9
Accumulated amortisation						
31 December 2021	12.5	19.6	34.4	8.6	17.1	92.2
Charge for the year	-	4.3	13.4	-	4.4	22.1
Impairment	-	23.3	-	-	0.4	23.7
Disposals	-	-	-	(8.7)	(0.3)	(9.0)
Foreign exchange differences	1.0	1.6	2.3	0.1	0.6	5.6
31 December 2022	13.5	48.8	50.1	-	22.2	134.6
Net book value						
31 December 2021	688.2	70.9	39.4	0.3	6.1	804.9
31 December 2022	**703.5**	**43.7**	**28.0**	**6.3**	**1.8**	**783.3**

Notes to the consolidated financial statements (continued)

12 Intangible assets (continued)

The below table sets out the amount of impairment loss recognised in each operating segment:

	2023 £m	2022 £m
United Kingdom	**-**	0.4
Denmark	**-**	23.3
Switzerland	**-**	-
Total impairment loss	**-**	23.7

Development Projects in Progress and Software consist of capitalised development costs, being an internally generated intangible asset.

During the year ended 31 December 2022, the Group began the process of re-branding the Danish estate from Fitness World to PureGym, which completed in 2023. As a result, an impairment of £23.3m was recognised in 2022 to fully write down the Fitness World brand. The remaining net book value in relation to Brands at 31 December 2023 relates to the PureGym brand. This had an amortisation period of 20 years from the date acquired and has a remaining amortisation period of 14 years.

Customer Relationships represent the fair value of customer relationships held in Denmark and Switzerland at the time of the acquisition of the Fitness World group in January 2020. These assets have a useful life of 5 years and a remaining amortisation period of 1 year.

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. Customer Relationships and Brands are allocated to the group of CGUs to which they relate and tested for impairment at the CGU or group of CGUs level as these assets do not generate cash flows that are largely independent from other assets in each CGU or group of CGUs. The recoverable amount of a cash generating unit (CGU) has been determined based on value-in-use calculations which require the use of assumptions. These have been determined to result in a higher recoverable amount for the CGU than a fair value less costs of disposal valuation. Value-in-use calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

The below table sets out the carrying amount of goodwill allocated to each group of CGUs:

	2023 £m	2022 £m
United Kingdom	**462.8**	462.8
Denmark	**176.3**	180.8
Switzerland	**62.6**	59.9
	701.7	703.5

The below table sets out the long term growth rate and pre-tax discount rate applied in the value-in-use calculations for each group of CGUs.

Notes to the consolidated financial statements (continued)

12 Intangible assets (continued)

	31 December 2023		
	UK	**Denmark**	**Switzerland**
Long-term growth rate (%)	2.0	2.0	1.5
Pre-tax discount rate (%)	10.1	9.0	7.5

	31 December 2022		
	UK	Denmark	Switzerland
Long-term growth rate (%)	1.9	2.0	1.0
Pre-tax discount rate (%)	11.0	9.3	8.4

The key assumptions which impact value-in-use for the above groups of CGUs are long-term growth rate, discount rate, gym membership numbers, average revenue per member, operating costs and capital expenditure required to maintain the assets' current condition. These assumptions are included in the Group's five-year forecast. These assumptions are modelled based on historical performance of each group of CGUs and management's expectations on future developments in the business. These future developments incorporate both macroeconomic factors and internal drivers of performance such as plans for marketing activity and cost-saving measures.

The forecasts used to determine value-in-use are derived from the Group's management-approved budget but exclude the expected cash flows from new gyms as these do not arise from the continued use of the Group's existing assets in their current condition.

No reasonably possible changes in key assumptions give rise to an impairment in goodwill.

Notes to the consolidated financial statements (continued)

13 Property, plant and equipment

	Right of use assets	Leasehold costs	Leasehold improv-ements	Assets under constru-ction	Fixtures & fittings	IT equipment	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
31 December 2022	616.2	17.6	304.0	8.3	137.3	8.7	1,092.1
Additions	105.7	0.5	31.8	21.4	31.8	3.0	194.2
Transfers	(6.1)	2.0	16.4	(23.0)	10.6	0.1	-
Disposals	(9.2)	(0.1)	(12.1)	(0.3)	(16.0)	(0.6)	(38.3)
Foreign exchange differences	(3.1)	(0.2)	(0.7)	-	0.7	0.1	(3.2)
31 December 2023	**703.5**	**19.8**	**339.4**	**6.4**	**164.4**	**11.3**	**1,244.8**
Accumulated depreciation							
31 December 2022	233.1	4.1	101.4	-	66.8	5.7	411.1
Transfers	(2.8)	-	-	-	2.8	-	-
Charge for the year	63.4	1.1	25.5	-	21.6	2.1	113.7
Impairment	0.5	0.1	3.4	-	1.1	-	5.1
Disposals	(6.3)	(0.1)	(9.2)	-	(14.8)	(0.6)	(31.0)
Foreign exchange differences	(1.3)	-	(0.1)	-	0.4	0.1	(0.9)
31 December 2023	**286.6**	**5.2**	**121.0**	**-**	**77.9**	**7.3**	**498.0**
Net book value							
31 December 2022	383.1	13.5	202.6	8.3	70.5	3.0	681.0
31 December 2023	**416.9**	**14.6**	**218.4**	**6.4**	**86.5**	**4.0**	**746.8**

Notes to the consolidated financial statements (continued)

13 Property, plant and equipment (continued)

	Right of use assets £m	Leasehold costs £m	Leasehold improve-ments £m	Assets under construction £m	Fixtures & fittings £m	IT equipment £m	Total £m
Cost							
31 December 2021	586.1	16.0	245.0	0.4	120.0	6.5	974.0
Additions	71.2	1.1	62.0	16.0	28.9	2.2	181.4
Transfers	(3.4)	-	6.7	(8.1)	4.8	-	-
Disposals	(55.2)	(0.1)	(11.5)	-	(18.3)	(0.2)	(85.3)
Foreign exchange differences	17.5	0.6	1.8	-	1.9	0.2	22.0
31 December 2022	**616.2**	**17.6**	**304.0**	**8.3**	**137.3**	**8.7**	**1,092.1**
Accumulated depreciation							
31 December 2021	157.8	3.0	74.4	-	58.9	3.9	298.0
Transfers	(4.1)	-	-	-	4.1	-	-
Charge for the year	64.9	1.0	26.7	-	18.8	1.8	113.2
Impairment	10.8	0.2	8.1	-	2.3	-	21.4
Disposals	(3.6)	(0.1)	(8.4)	-	(17.9)	(0.1)	(30.1)
Foreign exchange differences	7.3	-	0.6	-	0.6	0.1	8.6
31 December 2022	**233.1**	**4.1**	**101.4**	**-**	**66.8**	**5.7**	**411.1**
Net book value							
31 December 2021	428.3	13.0	170.6	0.4	61.1	2.6	676.0
31 December 2022	**383.1**	**13.5**	**202.6**	**8.3**	**70.5**	**3.0**	**681.0**

Notes to the consolidated financial statements (continued)

13 Property, plant and equipment (continued)

Included within right-of-use asset additions during the year was £62.9m related to modifications and remeasurements of existing leases arising from rent reviews, lease extensions, changes in estimates of lease terms and renegotiations of terms of the leases (2022: £7.1m).

Impairment for the year of £5.1m includes a charge of £15.6m and a £10.5m reversal of impairment for gyms impaired in previous years. The below table sets out the amount of impairment charge / (reversal) recognised in each operating segment:

	2023 £m	2022 £m
United Kingdom	**9.2**	10.4
Denmark	**5.4**	9.9
Switzerland	**1.0**	1.1
Total impairment charge	**15.6**	21.4
United Kingdom	**(5.2)**	-
Denmark	**(3.4)**	-
Switzerland	**(1.9)**	-
Total impairment reversal	**(10.5)**	-
Net impairment	**5.1**	21.4

The impairments and reversals have been allocated proportionately across asset classes. Impairment charges relate to a small number of gyms across the Group that have a value in use below the carrying amount of their non-financial assets. The values in use for the CGUs impaired during the year of £12.5m (2022: £42.7m) have been determined to result in higher recoverable amounts than using fair value less costs of disposal valuations. An impairment indicator was identified during the year for certain gyms which are expected to perform worse than previously expected due to small range of specific localised factors, such as competitor activity or demographic change. The values in use for the CGUs which have had impairment reversals total £93.4m (2022: £nil). Impairment reversals arose due to expected improvements in performance of gyms which had previously been flagged as impaired. The values in use of the impaired gyms, and those with reversals, are based on estimated cashflows forecast to be generated post 1 January 2024.

Discount rates and long-term growth rates applied in the value in use calculations are determined at a country level, and are as disclosed in note 12. Under a reasonably possible downside scenario, where the discount rate used is 50 basis points higher and the operating cash flows included in the value in use calculations are 10% lower than forecast, an additional impairment of £2.9m would have been recognised.

Disposals of the cost of right-of-use assets in the year ended 31 December 2022 of £55.2m related to the termination of leases and reductions in lease terms due to changes in the estimate of reasonably certain lease termination dates. These were treated as lease modifications under IFRS 16.

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

	2023 £m	2022 £m
Properties	**411.1**	371.9
Equipment	**5.8**	11.2
Total net book value	**416.9**	383.1

Notes to the consolidated financial statements (continued)

13 Property, plant and equipment (continued)

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

	2023 £m	2022 £m
Properties	**61.2**	61.4
Equipment	**2.2**	3.5
	63.4	64.9

14 Inventories

	2023 £m	2022 £m
Finished goods and goods for resale	**5.1**	5.0

Inventories recognised as an expense during the year ended 31 December 2023 amounted to £15.4m (2022: £16.4m). These were included in cost of sales. Inventories written off during the year ended 31 December 2023 totalled £0.7m (2022: £0.7m).

15 Trade and other receivables

Current

	2023 £m	2022 £m
Trade receivables	**9.1**	6.6
Loss allowance	**(0.8)**	-
Trade receivables – net	**8.3**	6.6
Prepayments	**18.9**	13.9
Other debtors (gross and net)	**9.8**	8.2
	37.0	28.7

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all financial assets.

To measure the expected credit losses, financial assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on historical experience of credit losses in the relevant geography.

On that basis, the loss allowance on trade and other receivables as at 31 December 2023 is £0.8m (2022: £nil). Trade receivables written off in the year totalled £nil (2022: £nil).

Notes to the consolidated financial statements (continued)

15 Trade and other receivables (continued)

Non-current

	2023 £m	2022 £m
Other debtors (gross and net)	**6.0**	6.1
Amounts owed by group undertakings	**1.2**	1.1
	7.2	7.2

16 Trade and other payables

	2023 £m	2022 £m
Trade payables	**26.6**	42.0
Other taxation and social security	**4.1**	1.9
Other liabilities	**1.6**	1.6
Accrued expenses	**59.2**	47.9
Interest and commitment fee accruals	**17.3**	13.5
Contract liabilities – membership income	**29.4**	25.7
VAT payable	**8.1**	-
	146.3	132.6

Revenue recognised during 2023 that was included in the contract liabilities balance at the beginning of the period totalled £23.4m (2022: £29.6m). The amounts included in contract liabilities at 31 December 2023 are expected to be recognised in revenue during the next reporting period.

17 Lease liabilities

	2023 £m	2022 £m
Current lease liabilities	**72.3**	74.4
Non-current lease liabilities	**490.6**	455.2
	562.9	529.6

The Group's leases primarily relate to its gym premises, as well as offices, equipment and vehicles. Leases for properties are typically made for fixed periods of 10 to 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

The total cash outflow for leases during the year was £115.1m (2022: £117.5m).

During the year ended 31 December 2022, the Group applied the practical expedient to rent concessions as permitted in the COVID-19-Related Rent Concessions amendment to IFRS 16. Included within administrative expenses for 2022 is a credit of £5.1m relating to rent concessions agreed in the year. In 2023, no such amounts have been recognised as all rent concessions in relation to COVID-19 have been settled.

Notes to the consolidated financial statements (continued)

17 Lease liabilities (continued)

Included within note 13 are additions to right-of-use assets during the year, the depreciation charge for right-of-use assets by class of underlying assets incurred during the year, and the carrying amount of right-of-use assets by class of underlying assets at the end of the year.

A maturity of analysis of lease liabilities as at the end of the year is included in note 21.

18 Borrowings

	2023 £m	2022 £m
€490m 5.500% Senior Secured Notes at principal value	**-**	434.1
Discount on issue of Senior Secured Notes	**-**	(10.6)
€490m 5.500% Senior Secured Notes	**-**	423.5
£430m 6.375% Senior Secured Notes	**-**	430.0
£475m 10.000% Senior Secured Notes	**475.0**	-
€380m 8.250% Senior Secured Notes	**329.6**	-
Unamortised transaction costs	**(13.1)**	(8.8)
Senior Secured Notes held at amortised cost	**791.5**	844.7
Amounts owed to Group undertakings	**584.6**	543.8
	1,376.1	1,388.5

Of the amounts owed to Group undertakings, £468.6m (2022: £432.7m) accrue interest at 8% and £116.0m (2022: £111.1m) accrue interest at 4.375%. On 11 October 2023, the repayment date of these amounts was extended from 30 November 2027 to 11 April 2029.

Financing

The Group currently has £475 million of Senior Secured Notes ("the Sterling Notes") and €380 million of Senior Secured Notes ("the Euro Notes") in issue (together, "the Notes").

The Notes are listed on The International Stock Exchange, for which Pinnacle Bidco plc is the Issuer and certain subsidiaries of the Group are guarantors. Interest on the Sterling Notes accrues at a rate of 10.00% and interest on the Euro Notes accrues at a rate of 8.25%, both payable at half-yearly intervals. The Notes are due to be repaid in full on 11 October 2028.

In addition, the Group has a £175.5 million revolving credit facility (the "RCF") with five international institutions, repayable 11 July 2028. The RCF bears interest at a floating rate derived from SONIA when drawn. Included within the total RCF is a £10 million overdraft facility. As at 31 December 2023, the facility was undrawn.

The Notes and the RCF were issued on 11 October 2023 (the "Refinancing"), replacing the existing £430 million and €490 million of Senior Secured Notes ("the Previous Notes") and £145 million revolving credit facility (the "Previous RCF"). The Previous RCF was undrawn at 31 December 2022 and throughout the year to the refinancing. As part of the Refinancing, the Group paid down £50 million equivalent of the Previous Notes using cash on balance sheet.

The RCF is subject to a financial covenant, tested quarterly, of a minimum senior secured net leverage of 8.8x, when drawdown of the RCF is greater than 40%. The Previous RCF was subject to a £30 million quarterly minimum liquidity test. The Group has been in compliance with all relevant covenants and tests during the current and previous financial years.

Notes to the consolidated financial statements (continued)

19 Provisions

	Non-current		Current	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Dilapidations provision	**16.3**	14.7	**4.4**	4.5
Legal provisions	**-**	-	**1.5**	-
Defined pension benefits	**(0.3)**	-	**-**	-
	16.0	14.7	**5.9**	4.5

Movements in the dilapidations and legal provisions during the current and prior year are set out below:

	Dilapidations provision £m	**Legal provisions £m**	**Total £m**
Carrying amount at 1 January 2022	10.0	-	10.0
Additions during the year	10.9	-	10.9
Unwind of discount	0.2	-	0.2
Utilisations during the year	(2.6)	-	(2.6)
Foreign exchange movements	0.7	-	0.7
Carrying amount at 1 January 2023	19.2	-	19.2
Additions during the year	4.5	1.5	6.0
Unwind of discount	0.4	-	0.4
Release during the year	(3.0)	-	(3.0)
Utilisations during the year	(0.5)	-	(0.5)
Foreign exchange movements	0.1	-	0.1
Carrying amount at 31 December 2023	**20.7**	**1.5**	**22.2**

Dilapidations provisions relate to the requirement for the Group to restore leased premises to their original condition at the end of the respective lease term. Outflows related to Dilapidations provisions are expected to materialise over the next 1 to 25 years, depending on the length of the Group's lease terms. In estimating the timing of outflows, the Group has assumed that leases will be exited at the end of the lease terms, but there is uncertainty over whether leases will be extended or exited early which would alter the timing of the outflow. Included within additions during the year ended 31 December 2022 is a £10.8m uplift in estimated outflows on leases which existed prior to 2022 which were reassessed due to changes in forecast cost of restoration, expected likelihood of outflows being payable, and discount rates.

Legal provisions relate to legal costs as described in note 6.

Defined pension benefits

The Group operates a defined benefit pension plan in Switzerland, which pays benefits as per the Federal Law on Occupational Benefits. The plan is organised as a contribution-based scheme as per Article 15 of the Swiss Federal Law on Vesting in Pension Plans. Retirement benefits of active participants accrue over a notional account as the sum of retirement credits (retirement credit rate multiplied by pensionable salary) and interests. The Group mitigates the risks of a pension deficit by insuring the liability with the pension foundation Allianz.

Notes to the consolidated financial statements (continued)

19 Provisions (continued)

The amounts recognised in the balance sheet and the movements in the net defined benefit obligation over the relevant periods are as follows:

	Present value of obligation £m	Fair value of plan assets £m	Total £m
As at 1 January 2022	(2.2)	2.0	(0.2)
Current service cost	(0.4)	-	(0.4)
Past service cost	-	-	-
Administration expenses	-	(0.1)	(0.1)
Amounts recognised in P&L	(0.4)	(0.1)	(0.5)
Actuarial gain	0.5	-	0.5
Amounts recognised in other comprehensive income	0.5	-	0.5
Employee contributions	(0.3)	0.3	-
Employer contributions	-	0.2	0.2
Benefit payments	0.2	(0.2)	-
Foreign exchange movements	(0.2)	0.2	-
At 31 December 2022 and 1 January 2023	**(2.4)**	**2.4**	**-**
Current service cost	(0.4)	-	(0.4)
Interest (expense) / income	(0.1)	0.1	-
Amounts recognised in P&L	(0.5)	0.1	(0.4)
Actuarial gain	0.2	-	0.2
Amounts recognised in other comprehensive income	0.2	-	0.2
Employee contributions	(0.3)	0.3	-
Employer contributions	-	0.4	0.4
Benefit payments	0.7	(0.7)	-
Foreign exchange movements	(0.3)	0.4	0.1
At 31 December 2023	**(2.6)**	**2.9**	**0.3**

All of the plan assets relate to unquoted instruments in all years.

Notes to the consolidated financial statements (continued)

20 Financial instruments

	2023 £m	2022 £m
Financial assets measured at amortised cost		
Cash and cash equivalents	**108.2**	204.6
Trade receivables	**8.3**	6.6
Other debtors (current and non-current)	**15.8**	14.3
Amounts owed by Group undertakings	**1.2**	1.1
	133.5	226.6

	2023 £m	2022 £m
Financial liabilities measured at amortised cost		
Trade payables	**26.6**	42.0
Other liabilities (current and non-current)	**3.7**	3.6
Accrued expenses	**59.2**	47.9
Interest and commitment fee accruals	**17.3**	13.5
Amounts owed to Group undertakings	**584.6**	543.8
Senior secured notes	**804.6**	853.5
	1,496.0	1,504.3

Notes to the consolidated financial statements (continued)

20 Financial instruments (continued)

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 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.

	Carrying value		**Fair value**	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Financial liabilities				
€490m 5.500% Senior Secured Notes	**-**	423.5	**-**	378.5
£430m 6.375% Senior Secured Notes	**-**	430.0	**-**	371.4
£475m 10.000% Senior Secured Notes	**475.0**	-	**491.6**	-
€380m 8.250% Senior Secured Notes	**329.6**	-	**342.5**	-

21 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 and foreign exchange risk.

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

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The key market risks affecting the Group are interest rate risk and foreign exchange rate risk. Financial instruments affected by market risk include certain borrowings and deposits. Financial instruments affected by exchange rate risk include the Euro Notes. At 31 December 2023, the €380 million Euro Notes had a carrying amount of £329.6m (2022: €490m Euro Notes had a carrying amount of £423.5m) based on an exchange rate of 0.867 (2022: 0.886). Had the exchange rate at 31 December 2023 been 10% higher, then the Group's loss for the year would have increased by £33.0m (2022: £42.3m). Foreign exchange risk on the Group's Euro Notes is partially mitigated through the cash flows and value of the Group's investments in subsidiaries denominated in Danish Krone. Danish Krone is pegged against the Euro. The effectiveness of this mitigation depends on the relative value of the Group's Danish operations.

Notes to the consolidated financial statements (continued)

21 Financial risk management objectives and policies (continued)

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.

As at 31 December 2023 and 31 December 2022, the Group had 100% of its borrowings in fixed rate instruments by way of senior secured notes, amounts owed to group undertakings, and lease liabilities. The Group has access to a £175.5m (2022: £145.0m) 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 undiscounted contractual cash flows on financial liabilities and includes contractual future interest payments:

	2023				
	Within 1 year £m	**Between 1-5 years £m**	**More than 5 years £m**	**Total contractual cash flows £m**	**Carrying amount £m**
Trade and other payables	104.7	2.1	-	**106.8**	**106.8**
Lease liabilities	113.7	369.6	359.6	**842.9**	**562.9**
Borrowings	58.1	1,106.1	801.9	**1,966.1**	**1,389.2**
Total financial liabilities	**276.5**	**1,477.8**	**1,161.5**	**2,915.8**	**2,058.9**

	2022				
	Within 1 year £m	Between 1-5 years £m	More than 5 years £m	Total contractual cash flows £m	Carrying amount £m
Trade and other payables	105.0	2.0	-	107.0	107.0
Lease liabilities	109.6	322.3	371.0	802.9	529.6
Borrowings	37.9	1,713.2	-	1,751.1	1,397.3
Total financial liabilities	252.5	2,037.5	371.0	2,661.0	2,033.9

Credit risk

The Group's principal financial assets are bank balances and cash, and trade receivables. The Group's credit risk is minimised due to exposure being spread over a large number of customers who generally pay by direct debit in advance. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Quantitative data is included in the consolidated statement of financial position and in note 15.

Notes to the consolidated financial statements (continued)

22 Share capital

	2023 £m	**2023 No.**	2022 £m	2022 No.
Allotted, authorised, called up and fully paid				
Ordinary shares of £0.01	**2.8**	**275,000,002**	2.8	275,000,002

On 3 February 2022, the Company issued an additional 270,000,000 ordinary shares with an aggregate nominal value of £2.7 million for total consideration of £270 million.

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.

23 Reconciliation of loss before tax to cash generated from operations

	2023 £m	**2022 £m**
Loss before income tax	**(77.6)**	(146.5)
Adjustments for:		
Net finance cost	**164.4**	151.1
Depreciation	**113.7**	113.2
Amortisation	**20.9**	22.1
Impairment of property, plant and equipment	**5.1**	21.4
Impairment of intangible assets	**-**	23.7
Share based payments charge	**0.2**	0.1
Loss on disposal of property, plant and equipment	**2.2**	1.3
Profit on lease modifications	**(0.8)**	(1.8)
Non-cash adjustment to lease liabilities due to rent concessions	**-**	(5.1)
Exceptional administrative expense / (income)	**3.6**	(1.0)
Changes in working capital		
Increase in inventories	**(0.1)**	(1.2)
Increase in trade and other receivables	**(5.6)**	(8.3)
Increase / (decrease) in trade and other payables	**9.0**	(0.7)
Decrease in provisions	**(0.2)**	(3.0)
Cash generated from operations	**234.8**	165.3

Notes to the consolidated financial statements (continued)

24 Changes in liabilities arising from financing activities

	Lease liabilities £m	Borrowings £m	Total £m
Liabilities arising from financing activities at 1 January 2022	575.0	1,341.9	**1,916.9**
Financing cash flows	(61.2)	(9.0)	**(70.2)**
New leases and lease modifications	12.6	-	**12.6**
Foreign exchange adjustments	12.2	22.3	**34.5**
Interest expense	47.3	42.1	**89.4**
Interest payments (presented as operating cash flows)	(56.3)	-	**(56.3)**
Liabilities arising from financing activities at 31 December 2022	**529.6**	**1,397.3**	**1,926.9**
Financing cash flows	(65.2)	(50.3)	**(115.5)**
New leases and lease modifications	102.0	-	**102.0**
Foreign exchange adjustments	(1.5)	(9.0)	**(10.5)**
Interest expense	47.9	51.2	**99.1**
Interest payments (presented as operating cash flows)	(49.9)	-	**(49.9)**
Liabilities arising from financing activities at 31 December 2023	**562.9**	**1,389.2**	**1,952.1**

25 Capital and other commitments

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

	2023 £m	2022 £m
Contracts for future capital expenditure not provided	**4.1**	2.0

26 Controlling party

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

The largest Group into which the results of this Group are consolidated for the year ended 31 December 2023 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: C/O Pure Gym Limited, 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.

Notes to the consolidated financial statements (continued)

27 Interests in other entities

In the opinion of the directors, the Group has three principal subsidiaries at 31 December 2023 and 31 December 2022 being Pure Gym Limited, Pure Gym Denmark A/S and PureGym AG. The subsidiaries are 100% owned by the Group, are incorporated in the United Kingdom, Denmark and Switzerland respectively, and all have the principal activity of 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.

28 Related party transactions

As at 31 December 2023, amounts owed to fellow Group companies includes £584.6m owed to the immediate parent company, Pinnacle Midco 2 Limited, repayable on 11 April 2029 (2022: £543.8m repayable on 30 November 2027), and £1.2m owed by the ultimate UK parent company, Pinnacle Topco Limited (2022: £1.1m). Associated interest charged to the income statement in the year totalled £40.8m (2022: £37.8m).

Company statement of financial position
as at 31 December 2023

	Note	2023 £m	2022 £m
Non-current assets			
Investments	6	**578.2**	309.2
Other receivables	7	**1,032.9**	976.0
TOTAL ASSETS		**1,611.1**	1,285.2
Current liabilities			
Other payables	8	**(17.4)**	(14.0)
		(17.4)	(14.0)
Non-current liabilities			
Borrowings	9	**(1,610.8)**	(1,486.8)
		(1,610.8)	(1,486.8)
TOTAL LIABILITIES		**(1,628.2)**	(1,500.8)
NET LIABILITIES		**(17.1)**	(215.6)
Equity			
Called up share capital	10	**2.8**	2.8
Share premium account		**271.2**	271.2
Accumulated losses		**(291.1)**	(489.6)
TOTAL EQUITY		**(17.1)**	(215.6)

Profit and total comprehensive income for the year is £198.5m (2022: loss and total comprehensive expense of £374.9m).

The notes on pages 85 to 93 are an integral part of these financial statements. The financial statements of Pinnacle Bidco plc, registered number 11038859, on pages 83 to 93 were approved by the board of directors and authorised for issue on 19 April 2024 and were signed on its behalf by:

A Wood

Director

Company statement of changes in equity
for the year ended 31 December 2023

	Share capital £m	Share premium £m	Accumulated losses £m	Total £m
Balance as at 1 January 2022	**0.1**	**3.9**	**(114.7)**	**(110.7)**
Issue of ordinary shares	2.7	267.3	-	**270.0**
Loss and total comprehensive expense for the year	-	-	(374.9)	**(374.9)**
Balance as at 31 December 2022	**2.8**	**271.2**	**(489.6)**	**(215.6)**
Profit and total comprehensive income for the year	-	-	198.5	**198.5**
Balance as at 31 December 2023	**2.8**	**271.2**	**(291.1)**	**(17.1)**

Notes to the company financial statements

1 General Information

Pinnacle Bidco plc is an intermediate holding company within the Pinnacle Topco Limited group and is expected to remain as such for the foreseeable future. The Company is a private company limited by shares and is registered, incorporated and domiciled in England, UK. The address of its registered office is C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY, United Kingdom.

2 Summary of material accounting policy information

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 £0.1m. 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 International Accounting Standards, in conformity with the requirements of the Companies Act 2006.

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 profit for the financial year of £198.5m (2022: loss of £374.9m).

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 and IAS 1 exemption from preparing a cash flow statement and related notes.

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 or impairments are reversed.

Notes to the company financial statements (continued)

2 Summary of material accounting policy information (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 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.

Going concern

The Directors have carefully evaluated the Going Concern basis of preparation in the context of the Company, and the Pinnacle Bidco Group, of which it is a part. In doing so, they have taken account of the wider macroeconomic climate including the impact of the inflationary environment and cost-of-living pressures affecting the countries in which the Group operates at the time of signing these financial statements.

The Group made a loss before tax of £77.6m in the year ended 31 December 2023 and had net current liabilities of £73.9m and net liabilities of £383.9m as at that date. The Group meets its day to day working capital requirements, capex and funding of new sites through its surplus cash reserves and credit facilities (comprising an RCF of £175.5 million, which includes an overdraft of £10 million).

As at the date of signing the financial statements, the Group's forecasts and projections (to 30 June 2025) taking account of reasonably possible changes in trading performance, showed that the Group has ample headroom to operate within its existing facilities.

This assessment included consideration of a severe but plausible downside scenario consisting of:

- A reduction in forecast revenues increasing from a 1% reduction in March 2024 to a 5% reduction by July 2024 and for the rest of the forecast period;
- An increase in forecasts costs, rising from a 1% increase in all costs in March 2024 except utilities (as utility costs are largely fixed throughout 2024 in March 2024, to a 5% increase by July 2024 and for the rest of the forecast period;
- An increase in utility costs of 5% from January 2025 and for the rest of the forecast period); and
- A mitigating reduction in forecast capital expenditure, increasing from a 5% reduction in June 2024 to a reduction of 50% in maintenance capital expenditure and 70% in refurbishment and growth capital expenditure by May 2025 and for the rest of the forecast period.

Notes to the company financial statements (continued)

2 Summary of material accounting policy information (continued)

The Group had cash reserves at 31 December 2023 of £108 million, plus an additional £32 million in cash held by the Group's parent, Pinnacle Topco Limited which is available for use by the Group as necessary. Combining this with the available RCF gives a total liquidity position of £315 million at 31 December 2023. Under the severe but plausible downside scenarios modelled, the Group would maintain a minimum liquidity of £233 million for the entire forecast period to June 2025.

The Group's RCF is subject to a covenant of a maximum leverage ratio of 8.8x, which is tested when the RCF is greater than 40% drawn. Under the severe but plausible downside scenarios modelled, the Group is not expected to breach its covenants.

Based on these forecasts, the Directors have concluded that the Group and Company have adequate resources to continue to remain a going concern for the foreseeable future and have therefore adopted the going concern basis in preparing its financial statements.

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 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, if there are any indicators of impairment or impairment reversal to investments and if so, considers whether investments have suffered any impairment or are due an impairment reversal 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.

(b) Expected credit losses on amounts owed by group undertakings

The Company applies the IFRS 9 simplified approach to measuring expected credit losses on amounts owed by group undertakings. Under this approach, management exercise judgement in determining whether there has been a significant increase in credit risk over the life of the loan. Where there has not been a significant increase in credit risk, a 12-month expected credit loss is calculated. Conversely, where there has been a significant increase in credit risk, a lifetime expected credit loss is calculated.

In calculating the expected credit loss on amounts owed by group undertakings, management take into account the probability of default assigned to the Group's external debt, where this is deemed to be closely related to the probability of default on the intra-group loans. In addition, management consider the historical rate of default on intra-group loans. More information, including the expected credit losses applied to amounts owed by group undertakings, is included in note 7.

Notes to the company financial statements (continued)

4 Auditors' remuneration

Fees payable to the Company's auditors for the audit of the annual statutory financial statements were £0.1m (2022: £0.1m). 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 (2022: 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 (2022: 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

	2023 **£m**	2022 £m
At 1 January	**309.2**	308.2
Acquisition of additional shares in Gym Topco Limited	**-**	270.0
Reversal of impairment of investment	**269.0**	-
Impairment of investment	**-**	(269.0)
At 31 December	**578.2**	309.2

During the year ended 31 December 2023, the Company recognised a reversal of the £269.0m impairment of its investment in Gym Topco Limited, which had originally been recognised in 2022. The value in use of the investment was calculated at £937.1m as compared to a pre-impairment carrying amount of the investment of £578.2m.

The calculated value in use of the investment reflects the present value of future cash flows of the Company's direct and indirect subsidiary undertakings, comprising of the UK, Denmark and Switzerland operating segments as described in note 4 of the consolidated financial statements. Key assumptions applied in the calculation of the present value of future cash flows of those operating segments are as described in note 12 of the consolidated financial statements. The improvement in value in use in the year reflects an improved trading environment and expectations of future performance, as well as an over-performance during 2023 compared to that expected at 31 December 2022.

The below table sets out the name, principal activity and registered office address of all of the Company's subsidiaries. The Company, either directly or indirectly, owns 100% of the ordinary shares of all companies listed.

Notes to the company financial statements (continued)

6 Investments (continued)

Company name	Principal activity	Registered office address
Gym Topco Limited *	Intermediate holding company	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Gym Midco Limited	Intermediate holding company	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Gym Midco 2 Limited	Intermediate holding company	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Gym Bidco Limited	Intermediate holding company	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Pure Gym Limited	Provision of physical fitness facilities	Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Pinnacle Europe Holdings Limited	Intermediate holding company	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Ovalhouse Limited	Property holding subsidiary	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Pure Gym (Dudley) Limited	Dormant	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Tolmers Newco 1 Limited	Dormant	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Tolmers Newco 2 Limited	Dormant	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
LA Fitness Limited	Dormant	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
LA Leisure Limited	Property holding subsidiary	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
LA Westminster Limited	Dormant	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
CS Leisure Limited	Dormant	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Pinnacle US Holdings LLC	Intermediate holding company	1209 Orange Street, County of Newcastle, Wilmington, Delaware, 19801, USA
PureFitness LLC	Provision of physical fitness facilities	1209 Orange Street, County of Newcastle, Wilmington, Delaware, 19801, USA
PureFitness Franchising LLC	Franchisor for physical fitness facilities	1209 Orange Street, County of Newcastle, Wilmington, Delaware, 19801, USA
Forward TopCo A/S	Intermediate holding company	Egegårdsvej 61, 2610 Rødovre, Denmark
Pure Gym Denmark Holding A/S	Intermediate holding company	Egegårdsvej 61, 2610 Rødovre, Denmark
Pure Gym Denmark A/S	Provision of physical fitness facilities	Egegårdsvej 61, 2610 Rødovre, Denmark

Notes to the company financial statements (continued)

6 Investments (continued)

Company name	Principal activity	Registered office address
Functional Supply A/S	Development and resale of sports nutrition products	Egegårdsvej 61, 2610 Rødovre, Denmark
Fitness Institute ApS	Provision of training and development services	C.F. Richs Vej 107, 3., 2000 Frederiksberg, Denmark
PureGym AG	Provision of physical fitness facilities	Grabenwisstrasee 5, 8604 Volketswil, Switzerland

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

7 Other receivables

Non-current

	2023 £m	2022 £m
Amounts due from group undertakings	**1,092.9**	1,037.2
Loss allowance	**(60.0)**	(61.2)
Amounts due from group undertakings - net	**1,032.9**	976.0

The table below breaks out amounts due from group undertakings based on interest rate and repayment date:

	2023 £m	2022 £m
8% loan repayable 30 November 2027	**541.8**	500.3
4.375% loan repayable 30 November 2027	**-**	364.6
4.375% loan repayable 14 January 2030	**490.9**	111.1
Interest free and repayable on demand	**0.2**	-
Amounts due from group undertakings	**1,032.9**	976.0

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 for £657.8m of loans there has not been a significant increase in credit risk since the loans were initially recognised. As such, for these loans, the Company has determined an expected credit loss rate of 0%.

A loan of £434.9m due from Pinnacle Europe Holdings Limited ("Pinnacle Europe") was determined to have experienced a significant increase in credit risk between the loan's inception in January 2020 and the year end of 31 December 2023 as a direct consequence of the impact of the COVID-19 pandemic on the Group's operations. The Company determined an expected credit loss rate of 14% by estimating the expected level of cash which could be generated by Pinnacle Europe ahead of the loan's due date.

The expected credit loss rate calculated reflects the impact of COVID-19, and the related downturn in performance of Pinnacle Europe's trading subsidiaries, on the ability of Pinnacle Europe to generate cash to repay the loan. The loan arose from the acquisition of Pinnacle Europe's subsidiaries in Denmark and Switzerland, and the subsequent cash funding of those subsidiaries through the COVID-19 lockdown period.

Notes to the company financial statements (continued)

8 Other payables

	2023 £m	2022 £m
Accruals	**17.3**	13.6
Other liabilities	**0.1**	0.4
	17.4	14.0

9 Borrowings

	2023 £m	2022 £m
€490m 5.500% Senior Secured Notes at principal value	**-**	434.1
Discount on issue of Senior Secured Notes	**-**	(10.6)
€490m 5.500% Senior Secured Notes	**-**	423.5
£430m 6.375% Senior Secured Notes	**-**	430.0
£475m 10.000% Senior Secured Notes	**475.0**	-
€380m 8.250% Senior Secured Notes	**329.6**	-
Unamortised transaction costs	**(13.1)**	(8.8)
Senior Secured Notes held at amortised cost	**791.5**	844.7
Amounts owed to group undertakings	**819.3**	642.1
	1,610.8	1,486.8

Notes to the company financial statements (continued)

9 Borrowings (continued)

The table below breaks out amounts owed to group undertakings based on interest rate and repayment date:

	2023 £m	2022 £m
8% loan repayable 30 November 2027	**234.7**	528.5
8% loan repayable 11 April 2029	**468.6**	-
4.375% loan repayable 11 April 2029	**116.0**	-
4.375% loan repayable 30 November 2027	**-**	111.1
4.375% loan repayable 30 November 2030	**-**	2.5
Amounts owed to group undertakings	**819.3**	642.1

Financing

The Company currently has £475 million of Senior Secured Notes ("the Sterling Notes") and €380 million of Senior Secured Notes ("the Euro Notes") in issue (together, "the Notes").

The Notes are listed on The International Stock Exchange, for which the Company is the Issuer and certain subsidiaries of the Company are guarantors. Interest on the Sterling Notes accrues at a rate of 10.00% and interest on the Euro Notes accrues at a rate of 8.25%, both payable at half-yearly intervals. The Notes are due to be repaid in full on 11 October 2028.

In addition, the Company has a £175.5 million revolving credit facility (the "RCF") with five international institutions, repayable 11 July 2028. The RCF bears interest at a floating rate derived from SONIA when drawn. Included within the total RCF is a £10 million overdraft facility. As at 31 December 2023, the facility was undrawn.

The Notes and the RCF were issued on 11 October 2023 (the "Refinancing"), replacing the existing £430 million and €490 million of Senior Secured Notes ("the Previous Notes") and £145 million revolving credit facility (the "Previous RCF"). The Previous RCF was undrawn at 31 December 2022 and throughout the year to the refinancing. As part of the Refinancing, the Group paid down £50 million equivalent of the Previous Notes using cash on balance sheet.

The RCF is subject to a financial covenant, tested quarterly, of a minimum senior secured net leverage of 8.8x, when drawdown of the RCF is greater than 40%. The Previous RCF was subject to a £30 million quarterly minimum liquidity test. The Group has been in compliance with all relevant covenants and tests during the current and previous financial years.

10 Called up share capital

	2023 £m	**2023 No.**	2022 £m	2022 No.
Allotted, authorised, called up and fully paid				
Ordinary shares of £0.01	**2.8**	**275,000,002**	2.8	275,000,002

On 3 February 2022, the Company issued an additional 270,000,000 ordinary shares with an aggregate nominal value of £2.7 million for total consideration of £270 million.

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.

Notes to the company financial statements (continued)

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 Company are consolidated for the year ended 31 December 2023 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: C/O Pure Gym Limited, 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.

PureGym
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