

## **The Gym Limited**

Annual report and financial statements for the year ended 31 December 2019

Registered number 05659669

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## **The Gym Limited**

### **Company Information**

**Directors**

R Darwin  
M George  
J McIntosh  
B Harrison (Appointed 10 October 2019)  
D Melhuish (Appointed 1 July 2020)  
A-M Murphy (Appointed 1 July 2020)  
J Spaven (Resigned 30 June 2020)  
N Henwood (Resigned 30 June 2020)

**Registered number** 05659669

**Registered office** 5<sup>th</sup> floor  
No. 1 Croydon  
12-16 Addiscombe Road  
Croydon  
CR0 0XT

**Independent auditor** Ernst & Young LLP  
16 Bedford Street  
Belfast  
BT2 7DT

# **The Gym Limited**

## **Directors' Report**

### **for the year ended 31 December 2019 (continued)**

The directors present their report and the financial statements for the year ended 31 December 2019.

#### **Subsequent events and future developments**

In the first two months of the year trading was in line with the Board's expectations. Membership numbers at the end of February show an increase to 891,000, another record level, with a 12.2% increase since December 2019.

However, the impact of the COVID-19 pandemic forced the closure of the entire estate of The Gym Group on 20 March 2020. With the majority of our sites in England reopening on 25 July 2020, this meant that our sites were closed for over 4 months

Following re-opening, we continued to rebuild the confidence of our members and grow our membership levels and yields. Our total membership increased from 658,000 at the point of re-opening our gyms on 25 July 2020, to 676,000 as at 31 August 2020 (764,000 as at 31 August 2019), 37,000 of whom have opted to 'freeze' their membership temporarily without charge. With these membership levels we had been profitable since re-opening and the business operated with a positive cash flow. As a result of this performance the Group was able to meet its Q3 2020 bank covenant test.

From the second half of September 2020, the emergence of a second wave of COVID-19 in the UK resulted in a decline in overall membership, to 638,000 by the end of October. We were then required to close our 167 gyms in England on 4 November 2020 as part of the England wide lockdown announced by the UK Government to continue through to 2 December 2020 (the "November 2020 Lockdown"). While our 13 gyms in Scotland have remained open since reopening on 31 August 2020, our three gyms in Wales closed on 26 October as part of a 2-week lockdown announced by the Welsh Assembly. As a result of these periods of closure the business will be loss-making in Q4 2020 and consequently the Group will not be able to meet its Q4 2020 bank covenant test, which was established on the basis that the business would be trading with gyms open throughout Q4 2020. Discussions with the lending banks have been initiated to agree flexibility on covenants to allow the business to accommodate the November 2020 Lockdown and any other regional or national restrictions in the coming months.

Despite the reduction in EBITDA, the Directors do not currently expect an impairment of goodwill, other intangibles, property, plant and equipment and right of use assets, as there was significant headroom when an impairment test was undertaken at the year end.

#### **Financial instruments**

The Company has exposure to the following risks from its use of financial instruments:

- Liquidity risk
- Credit risk

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework.

##### *Liquidity risk*

Liquidity risk is the risk that the Company 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 of the Company. The Company 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.

##### *Credit risk*

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

# **The Gym Limited**

## **Directors' Report**

### **for the year ended 31 December 2019 (continued)**

#### **Going concern**

The outbreak of COVID-19 and its continuing impact on the economy casts a degree of uncertainty as to the future financial performance and cash flows of the Company. When assessing the ability of the Company to continue as a going concern the Directors have considered the Company's financing arrangements, the pattern of trading since gyms in England re-opened on 25 July 2020, the November 2020 Lockdown and future trading risks including further regional or nationwide lockdowns.

The section on going concern in note 2 details the various risks and scenarios considered by Directors in forming their opinion. In summary, whilst the Group (being the Company, its ultimate parent and fellow subsidiaries) has secured sufficient liquidity, via the raising of equity and additional debt facilities, to finance operations for at least the next twelve months through any reasonable scenario, the November 2020 Lockdown will result in the Group being unable to meet its Q4 2020 bank covenant test, as the test was established on the basis that the business would be trading with gyms open throughout Q4 2020. The Directors believe it likely that an agreement will be reached with the lending banks to waive or amend covenants as part of a revised business plan, on the basis that even after the November 2020 Lockdown the Group will have considerable levels of unused liquidity and will not have drawn down on the incremental £30 million of the New Bank Facility agreed in June 2020. At the end of October 2020 the Group had £32.2m of net debt.

Also, there is risk that amended EBITDA covenant targets in 2021 will not be met due to the impact of decreases in revenue arising from further nationwide or regional lockdowns or from the number of paying members falling below the level needed to deliver the required EBITDA covenant targets due to a general lack of confidence in members returning to the gym. The Directors deem these downside scenarios to be plausible and therefore the risk of a further breach in debt covenants is possible during 2021. In the event that the Group fails to meet one or more of its amended 2021 debt covenant EBITDA targets, for the same reasons set out above the Directors believe it likely that further agreement could be reached with the lending banks to waive or amend covenants as part of a revised business plan. However, no such commitment for further covenant waivers is currently in place with the lending banks.

Accepting that the risks as described in note 2 – all of which relate to COVID-19 impacts - represent a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the next twelve months and therefore the Directors continue to adopt the going concern basis.

#### **Directors**

The directors who served during the year were:

R Darwin  
M George  
J McIntosh  
B Harrison (appointed 10 October 2019)  
D Melhuish (appointed 1 July 2020)  
A-M Murphy (appointed 1 July 2020)  
N Henwood (resigned 30 June 2020)  
J Spaven (resigned 30 June 2020)

#### **Auditors**

Ernst & Young LLP will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

#### **Disclosure of information to auditors**

Having made enquiries of fellow directors and of the Company's auditors, each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- to the best of each director's knowledge and belief, there is no information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the board



M George  
Director

9 December 2020

# The Gym Limited

## Strategic Report

### for the year ended 31 December 2019

#### Business review

2019 was another year of strong growth and rapid development for The Gym Limited. We continued to grow our business by remaining focused on our strong and worthwhile purpose, bringing affordable fitness to towns and communities across the UK. Our growth has also been assisted by the investment in central infrastructure and systems made over the past 2-3 years and a stable, talented team that is focused on the profitable expansion of the business. Despite the COVID-19 pandemic, we continue to believe that there is a substantial opportunity within the UK low cost gym market and we are intent on ensuring that the business is well positioned to take advantage of the potential for further expansion.

Our membership base continued to expand as we rolled out new sites and grew market share with total year end members up 9.7% to 794,000 (2018: 724,000) and average members up 14.9% to 796,000 (2018: 693,000). This is reflected in the growth of our financial metrics: revenue up 25.1% to £149.0 million (2018: £119.2 million) and Adjusted EBITDA up by 19.8% to £45.9 million (2018: £38.3 million). Adjusted Profit before Tax increased by 30.9% to £14.4 million (2018: £11.0 million). Our statutory Profit before Tax decreased to £7.2 million (2018: £8.0 million).

These metrics were very much in line with our expectations for the business, demonstrating that as our estate matures and we concentrate on organic growth, this business is well positioned to generate strong profits and cashflow, once we re-emerge from the current challenges of the COVID-19 pandemic.

After two acquisitions in 2017 and 2018, our site growth this year has been concentrated on growing the Company organically. We expanded the estate by opening 18 sites of c.15,000 square feet each with the focus being on ensuring we open high quality sites in a variety of locations around the UK. Significantly we have created an additional avenue of growth with our small box format, with our first two openings late in the year. As we build on the opportunity to open small box sites our growth will enable us to offer affordable fitness to a greater proportion of the UK. Our market share as at March 2020 was 24% of the low-cost market by number of sites (higher as a proportion of members) and we are well positioned with a strong future pipeline for this to increase further over the coming years.

We continue to believe there is a substantial opportunity for the Company to expand in the UK. The PwC report we commissioned last year noted the potential for the low-cost gym market to almost double from its base of 727 gyms as at December 2019. Around half of the future growth is forecast to come from catchments with a population of over 60,000 within a 15-minute drive time (standard catchments) and half in smaller catchments. Through 2019 we have continued to take advantage of opening standard gyms. The smaller catchment opportunity is also significant for the small box format where we opened our first two sites in Newark and Beverley during the year.

#### Strategic progress

##### *Delivering strong performance from gyms*

At the end of 2019 we had 109 sites out of 175 sites which have been open and in our network for over two years (which we define as Mature). By the end of 2020 this number will grow to 155. Mature Site EBITDA in 2019 was £48.1 million, up 23.5% (2018: £39.0 million) and Mature Site EBITDA per site remained strong at £437,000 (2018: £438,000), with the 2017 cohort of sites performing well. In 2019 we achieved a return on invested capital in the mature estate of 31% (2018: 30%), once again achieving our target return on capital of 30% for organic openings. This measure continues to be achieved consistently both from sites reaching maturity more recently as well as from our older sites, which have maintained strong levels of performance.

During the year we have made good progress with the sites acquired from Lifestyle Fitness (in 2017) and easyGym (in 2018). The two remaining easyGym branded sites (Oxford Street and Kings Heath) were converted to our brand and operating model during 2019. We intend to invest further in these sites once the lease extensions are confirmed.

The former Lifestyle sites have demonstrated strong member growth as we have brought the sites up to our specification and as a result have delivered significantly increased revenue in 2019 vs 2018. The easyGym sites are also making good progress, with particularly encouraging take up of LIVE IT; penetration is already higher for ex-easyGym sites than the Company average, even though they have been selling the product for a relatively short period of time. As a result, we have seen revenue in the former easyGym sites increase in 2019 vs 2018 on a like for like basis. We will continue to make some selective investments to ensure we take advantage of the significant potential of the sites.

Our marketing capability is a real source of competitive advantage and an important way of driving high levels of member acquisition. Our no-contract proposition is appealing to new members as they know they have the flexibility to cancel their membership at any time and as a result we have some members who join and cancel multiple times. It remains important therefore that we deliver strong rejoiner numbers from ex-members and that they have had a good experience whilst being a member to encourage them to return. Our ability to attract new and ex-members is enhanced by our capability in areas such as CRM and in different marketing channels (TV, Out of home, digital, SEO and social media). Our innovative First Steps campaign launched in June offered 16 to 18-year olds their first taste of being in a gym with a 6-week off-peak free membership, helping them to manage their stress during the exam period and enabling us to reach this important group of potential members.

# The Gym Limited

## Strategic Report

### for the year ended 31 December 2019 (continued)

#### *Developing the Business Model*

Our premium membership package, LIVE IT, has benefited from being in operation for a full year across the entire estate. With the ability to access more than one site being a key feature of the premium membership, take-up of LIVE IT is assisted by the growth in our overall network of sites, demonstrated by strong levels of demand in the metropolitan areas such as London, Manchester and Birmingham where we have multiple sites. The other LIVE IT member benefits of "refer a friend" and use of the Fitquest machine are also proving popular and now are an integral part of our offer. At December 2019 150,000 members (18.9% of our total base; 2018: 85,000 members, 11.7% of our total base) had taken advantage of LIVE IT. We continue to be encouraged by the level of take-up.

Following a trial in 47 sites we rolled out Yanga Sports Water to the entire estate ahead of the peak Jan and Feb trading period. This is another great value product offered at £3.99 per month and also a sustainable product given it requires members to fill up using their own water bottles.

The roll-out of our new operating model for personal trainers, New Gym Team (NGT) went according to plan in 2019 with all gyms now on the common operating model. We now have 1,600 part-time employees who work for us 12 hours a week ("Fitness Trainers"). Outside of these hours they run their self-employed personal trainer business in our gyms for which they pay us a rent. In addition, we have around 300 full rental personal trainers who do not do any employed hours and are wholly self-employed – they also pay us a rent. We consider that this model is both market leading and also reflective of the flexible working economy that allows Fitness Trainers to be employees for part of their week, with the benefits that come from being employed, and self-employed for the rest of the time. The transition has gone smoothly and we are now focused on leveraging the benefits of this model. This means driving consistency of operational delivery across our whole estate along with the ability for Fitness Trainers to develop their skill set to further their self-employed businesses and provide high quality personal training services to our members. We hope that this will attract the best personal trainers who will then in turn provide even better member experience.

In addition to improving the overall member experience, these initiatives are also increasing Average Revenue Per Member Per Month (ARPM), which grew by 7.6% to £16.02 in the year. The increase in revenue from personal trainers under NGT (offset by a salary cost), accounted for about a third of this increase; excluding this factor ARPM increased by 5.2%. Increased LIVE IT penetration accounted for approximately a third of the growth in ARPM with the remainder coming from an increase in average headline price. We ended 2019 with an average headline price of £18.45 per month (2018: £17.14). Our philosophy remains to be a high-quality operator charging the lowest price in any given market. Where we can increase price, we will do so but we are also prepared to reduce price on occasion if the local market requires. Our capability around yield management has advanced in the last year with central support from our data and analytics team.

#### *Achieving our rollout strategy*

We opened 20 sites organically in 2019 of which two were our first small box gyms, which will bring our affordable fitness to smaller catchments across the UK. With three site closures in the year, this brings our total estate to 175 gyms. Our primary focus is selecting strong locations for the long term and we are encouraged by the quality of sites that are becoming available. Our strong, listed company covenant continues to be highly attractive to landlords, which supports us in securing high potential sites that come onto the market. Two trends are worth highlighting: increasingly we are successful in taking sites on retail parks at a time when there has been less demand from retailers for physical stores. Colliers Wood, Basingstoke and Northampton are good examples of sites we have opened in the last year on retail parks. In addition, we still see plenty of opportunities in residential areas in large towns and cities – during the year we have opened in Hove, Battersea and Glasgow West End as examples of this trend. The strength of our new openings is highlighted by the performance of the 2017 cohort (21 sites) which has now become mature and we are seeing a similar trend with the 2018 cohort that will mature this year. We continue to take a variety of sites, including new builds, which demonstrates the flexibility of our model.

Our small box format gives us the ability to take advantage of the opportunity highlighted by our market analysis. These sites have a smaller square footage than our standard model of 15,000 sq. ft and we expect to open sites of between 5000-9000 sq. ft. The development that we have made across both the operating model and capital model enables us to open at a capital cost of between £700k-£750k and we expect to continue to achieve the 30% return on capital on a lower average member level. The average monthly price that we will charge is around £2 higher than in the rest of the estate but in these types of location the competitive environment (mainly from local authority or franchise operators), will enable us to charge at this price point and be very competitive. Members' response to the small box format at Newark and Beverley has been encouraging.

#### *Developing the member proposition*

Investment continued across our existing estate and our focus in 2019 has been to ensure the sites have the appropriate equipment mix. Particular investment has been in plate-loaded equipment and enhanced functional areas. We are also maintaining our very high maintenance standards ensuring that the sites continue to maintain high levels of fit-out even as they become more mature. We will focus the more substantial refurbishments on sites that need an enhanced product and a competitive boost in their local market. We have plans to enhance our Group Exercise capability by trialling a combined real and virtual offering in some of our sites. This is part of a wider development of our Group Exercise proposition.

# The Gym Limited

## Strategic Report

### for the year ended 31 December 2019 (continued)

#### *Our use of technology*

We highlighted in 2019 that increasingly we think of our business as both an e-commerce leisure retailer and a multi-site operator. As part of this we have committed to invest into technology capex developments in the future. Our technology platforms deliver the online member experience and also serve finance, HR and commercial functions and are key to delivering sustainable scale advantages. Our focus is on making changes that deliver member improvements and operating efficiency. The initial spend will be in three areas: an upgraded website that will deliver improved opportunities for product sales and conversion; investment into efficiency gains within the gyms such as the upgrade of our digital camera systems; and a data function with enhanced models that support our team in decision making in areas such as pricing and retention. We are excited about the opportunities within this area and have been building the capability and strength of our technology team over the past year under the leadership of our CIO, Jasper McIntosh. Technology will remain fundamental to the delivery of our business model and is key to facilitating the low-cost environment in which we operate.

#### *Sustainability at the heart of our business*

Sustainability is one of the foundations on which our business is built and continues to be a core focus as we grow. We are seeking to build on the strong credentials we already have and to enhance our work in this area. During the year we have established a Sustainability Working Group ('SWG') to oversee the management of sustainability across the Group. In addition, we are working with expert advisers to articulate our sustainability strategy. We have identified four key areas of focus: i) 'Promoting Health & Wellbeing'; ii) 'Good Jobs, Quality Education and Lifelong Learning'; iii) 'Diversity and Inclusion' and iv) 'Responsibility to the Environment.' These help to deliver against the United Nations Sustainable Development Goals and in 2021. We plan to publish our first full Sustainability Report in accordance with the Global Reporting Initiative (GRI) Standards on sustainability reporting. In doing so we will be able to provide our stakeholders with information that helps demonstrate how we perform against our sustainability goals and how we are progressing with our material workstreams.

#### *Our people*

Our entire team across the business buy into the strong social purpose of The Gym Limited. Our aim is to break down barriers to Health & Fitness and in doing so to spread affordable fitness across the UK. Our values that we launched to our colleagues in 2019 – *taking the first step, friendliness, realness, and challenging our limits* – have landed well and we are now looking at ways to boost engagement across the whole team through the use of improved communication tools. Optimising Fitness Trainer recruitment is an area of focus for us now that the NGT model has been rolled out. We recognise that there are multiple recruitment channels that we need to tap into.

The drive and passion of all our people across the whole business is what makes The Gym Limited special. We retained our Gold Investors In People (IIP) status during the year and were shortlisted for Employer of the Year in the IIP awards. Rightly we celebrate these achievements with our teams. I would like to personally thank all our colleagues for their efforts in building this business and, at this current time, demonstrating great resilience and agility in response to the challenges of COVID-19.

Note that the adoption of IFRS 16 as of 1 January 2019 has had a significant impact on the key performance indicators previously adopted by the Group. As there is no impact on Group strategy or cash, the Board has amended the definitions of KPIs, which are non-IFRS GAAP measures, with the aim to have cash-based measures that best reflect the underlying performance of the business and these new definitions as defined below are those used in this document.

- **Adjusted EBITDA** - Pre-IFRS 16 definition of Adjusted EBITDA is operating profit (including IAS17 rent costs) before depreciation, amortisation, long term employee incentive costs and exceptional items, and is a non-IFRS GAAP measure. Post IFRS 16 definition of Adjusted EBITDA is operating profit before depreciation, amortisation, long term employee incentive costs and exceptional items, and after cash rent costs.
- **Adjusted Profit before Tax** - is calculated as profit before tax before non-IT amortisation and exceptional items.
- **Adjusted Earnings** - is calculated as the Company's profit for the year before non-IT amortisation, exceptional items, and the related tax effect.

# The Gym Limited

## Strategic Report

### for the year ended 31 December 2019 (continued)

#### Principle risks and uncertainties

##### Risk management

In order to gain an understanding of the risk exposure of the Company, we review each area of our business annually and use a methodology that will assist the Company in measuring, evaluating, documenting and monitoring its risks within all areas of its operations.

We use our risk management process as described to identify, monitor, evaluate and escalate risks as they emerge, enabling management to take appropriate action wherever possible in order to control them and also enabling the Board to keep risk management under review.

##### Principal risks

The risk factors addressed below are those which we believe to be the most material to our business model, which could adversely affect the operations, revenue, profit, cash flow or assets of the Company and which may prevent us from achieving the Company's strategic objectives. Additional risks and uncertainties currently unknown to us, or which we currently believe are immaterial, may also have an adverse effect on the Company.

##### Emerging risks and uncertainties in 2020 – COVID-19

We are also mindful of our exposure to emerging risks around which there is currently a high level of uncertainty of the impact on the wider environment and the Company's operations. At the time of preparing this report, we are monitoring the impact of the COVID-19 pandemic in the UK on a daily basis. Our priority is to ensure the safety of our staff and members.

We are following our robust risk management framework and ensuring that an active risk assessment and business continuity plan is in place, overseen by our Health and Safety Manager, reporting to the Executive Committee. The Company will follow Public Health England and Health Protection Scotland guidance, and medical and local authority advice where relevant, to ensure that we respond to any developments quickly, safely and in the best interests of our people. This includes responding to instructions to close the entire estate as occurred on 20 March 2020 and in recent months, including our gyms in England as part of the November 2020 Lockdown. In addition, management has taken a number of actions to reduce costs to mitigate the disruption caused by the outbreak, and it will also seek to access the various government schemes to support businesses. As set out on page 2, appropriate financial modelling has been undertaken to support the assessment of the business as a going concern with the material uncertainty from COVID-19 and in support of viability.

##### Responsibility for risk

The Board is ultimately responsible for ensuring that a robust risk management process is in place and effectively operated. The relevant roles and responsibilities in monitoring and operating the system of risk management are as follows:

PRINCIPAL RISK	DEFINITION	IMPACT	MITIGATION
COMPETITION	The Company may face increased competition and pressure from competitor pricing decisions.	The ability of the Company to hold or increase prices and therefore achieve performance targets could be affected.	<ul style="list-style-type: none"> <li>Continue to operate a low cost operating model to ensure we can retain price leadership.</li> <li>Maintain focus on choosing the best sites in a geographical area.</li> <li>Continue to invest in the member proposition.</li> </ul>
ORGANIC ROLLOUT	Site scarcity may affect the delivery of our rollout plan.	Delays to our rollout plan may have an adverse impact on growth targets and operational returns.	<ul style="list-style-type: none"> <li>Our highly experienced property team is focused on site selection and sourcing the best deals to deliver a strong pipeline.</li> <li>Our expansion into Small Box gyms increases the range of suitable sites.</li> </ul>
MEMBER EXPERIENCE	Failure to provide members with a high quality product and service would damage the Company's reputation.	Reductions in actual or perceived customer service could result in a decrease in membership numbers and revenue generation.	<ul style="list-style-type: none"> <li>Monitor gym utilisation and member satisfaction scores.</li> <li>Enhance monitoring and feedback processes.</li> <li>Ongoing review of equipment usage to ensure we meet member requirements.</li> <li>Explore further innovations to improve the member experience.</li> <li>Maintain appropriate levels of expenditure on repairs and maintenance.</li> </ul>



**The Gym Limited**  
**Strategic Report**  
for the year ended 31 December 2019 (continued)

PRINCIPAL RISK	DEFINITION	IMPACT	MITIGATION
<b>STAFF RETENTION</b>	Loss of key staff through retention policy and failure to manage succession.	A lack of experienced and motivated staff will have a detrimental impact on all areas of the business, from operations to central functions.	The Company uses a variety of techniques to attract, retain and motivate staff at all levels across the business. These techniques include: <ul style="list-style-type: none"> <li>• competitive remuneration packages;</li> <li>• opportunities to own shares in the Company;</li> <li>• opportunities for training and progression;</li> <li>• short, clear reporting lines;</li> <li>• succession planning; and</li> <li>• utilising staff engagement surveys so our staff have an opportunity to provide feedback and ideas.</li> </ul>
<b>ECONOMIC CONDITIONS</b>	A prolonged uncertainty following wider economic shock such as the impact of Brexit or COVID-19 outbreak could cause significant disruption to business conditions.	<ul style="list-style-type: none"> <li>• Incoming equipment and materials could increase in cost due to currency movement and additional import costs.</li> <li>• A period of disruption caused by a shutdown of some or all of our gyms could result in a loss of membership and revenue, combined with the inability of the Company to remove certain of its cost base in a closure scenario means this could lead to a material uncertainty in the Company's ability to continue as a growing concern.</li> </ul>	<ul style="list-style-type: none"> <li>• As part of our Brexit planning we have stockpiled the capital requirements needed to be imported from Europe to ensure we can continue to meet our rollout target in the first six months.</li> <li>• We actively monitor developing situations which may pose a risk to our supply chain and have robust risk assessment and business continuity processes in place.</li> <li>• Management has identified and implemented measures to preserve cash and reduce discretionary expenditure during a period when all of the Company's sites are closed, and to be able to re-open quickly to minimise revenue loss. Appropriate financial modelling has been undertaken to support the assessment of the business as a going concern with the material uncertainty from COVID-19 and in support of viability.</li> </ul>
<b>INFORMATION TECHNOLOGY DEPENDENCY</b>	Our ability to enrol members, carry out online marketing activity, process payments and control gym access is dependent on the performance of our IT systems.	Disruption in critical IT systems could have a negative impact on our reputation and our ability to collect revenue.	<ul style="list-style-type: none"> <li>• Our primary data systems are hosted by fully qualified organisations in suitable data centres.</li> <li>• Our primary IT infrastructure is fully managed by specialist IT companies who provide best-practice architecture and support.</li> <li>• All membership and business information is backed up using third party locations.</li> <li>• Robust disaster recovery and business continuity plans are in place.</li> </ul>

**The Gym Limited**  
**Strategic Report**  
for the year ended 31 December 2019 (continued)

PRINCIPAL RISK	DEFINITION	IMPACT	MITIGATION
<b>DATA PROTECTION</b>	The Company holds business critical and confidential information electronically. A breach of security or data protection rules is a key risk.	Unauthorised access, loss or disclosure of this information may lead to legal claims, regulatory penalties, disruption of operations and reputational damage.	<ul style="list-style-type: none"> <li>The Company's networks and systems are protected by firewalls, security software and secure passwords.</li> <li>All sensitive data is captured and presented using SSL encryption. Our transactional website is scanned quarterly to ensure PCI compliance.</li> <li>Access to central member data systems requires 2-Factor authentication.</li> <li>All customer payment data is stored externally on systems that are PCI-DSS and/ or BACS certified.</li> <li>A third party data security audit took place in 2019.</li> </ul>
<b>OPERATIONAL GEARING</b>	High operational gearing from the fixed cost base.	A limited number of corrective options in the cost base could be made to correct any underperformance in membership numbers, which could have an adverse impact on profitability.	<ul style="list-style-type: none"> <li>Monthly monitoring and reforecasting of business performance at site level.</li> <li>Active yield management on a gym-by-gym basis.</li> <li>Regular financial management by Executive Committee and Board.</li> <li>Option to slow down expansion in order to preserve cash.</li> </ul>
<b>REGULATORY</b>	Failure to adhere to regulatory requirements such as the Listing Rules, taxation, the Data Protection Act, employment law, health and safety requirements, planning regulations, noise abatement and advertising and marketing regulations.	Potential reputational damage and penalties.	<ul style="list-style-type: none"> <li>The Board has oversight of the management of regulatory risk and compliance, and delegates specific responsibilities to senior management.</li> <li>Expert opinion sought where relevant.</li> <li>Legal advice taken to ensure systems, processes and documentation conform with the Data Protection Act.</li> <li>Third party health and safety risks assessments and audits carried out. Staff conduct periodic health and safety assessments.</li> <li>Employment and continuous training and development of appropriately qualified staff.</li> </ul>

**The Gym Limited**  
**Strategic Report**  
**for the year ended 31 December 2019 (continued)**

Update on COVID-19 related risks:

On 25 July 2020 gyms in England were permitted to re-open, followed by our gyms in Wales on 10 August 2020 and Scotland on 31 August 2020. With the gyms now open, the principal COVID-19 risks relating to business performance and a summary of our mitigating actions are as follows:

COVID-19 risk	Mitigating Actions
<p><b>Our membership levels (and therefore revenue and profitability) reduce significantly as a result of (a) reduced confidence in the safety of gyms during the pandemic and/or (b) an economic recession arising from the pandemic</b></p>	<p><b>Ensuring our members can be confident about coming to the gym</b></p> <p>We have developed a comprehensive framework of protocols for operating our gyms in a COVID-secure way. This framework was developed in line with Government guidance and following academic review by the Advanced Wellbeing Research Centre at Sheffield Hallam University. Our spacious, well-ventilated gyms have been enhanced with additional cleaning protocols and equipment, a contactless entry system, limits on the number of members in the gym at any one time and the spacing of equipment to ensure social distancing. We have also developed a 'gym busyness' tracker to enable members to see when their gym is less busy to reduce peak usage. To provide confidence to our members, in addition to these measures they will see in the gyms, we have implemented a comprehensive communications plan providing them with information, videos and FAQs, via email and on our website. For further information on our #safewithus commitment please go to: <a href="https://www.thegymgroup.com/coronavirus-information/">https://www.thegymgroup.com/coronavirus-information/</a></p> <p><b>Trading in a recession</b></p> <p>The Gym was founded and grew rapidly in the global financial crisis of 2008-2012. During that period the number of people overall in the UK with a gym membership remained flat, before returning to growth again in the years since, demonstrating that the health &amp; fitness sector is very resilient to economic downturns. We are very well-placed to operate successfully in a challenging economic environment; we are the lowest price gym operator in the UK market with an average monthly subscription of £18.55 which is £2-5 per month lower than competitors in the low-cost gym sector and significantly lower than rates charged by mid-market and premium operators. Although some of our members may choose to cancel their subscription due to financial hardship we would also expect to benefit from others 'trading down' from the mid-market or premium gyms.</p> <p><b>Trading profitably with a reduced level of membership</b></p> <p>With all or most of our gyms trading, but with a reduced level of membership, we anticipate operating with monthly cash outflows of around £9 million. This £9 million includes operating costs (inclusive of COVID-related factors such as rent deferral repayment and business rates relief), capital expenditure on maintenance and IT, and debt interest payments, but excludes the cost of capital projects underway and any new expansionary capital projects that may be started in the future. The lower operating cost level assumes significantly lower spend on marketing and other discretionary costs and reduced capital expenditure, focused on IT and essential maintenance only. With this level of cash outgoings, we expect to be cash flow positive on a monthly basis with membership levels above 520,000 paying members (vs membership of 608,000 paying members at 31 October 2020 and 891,000 paying members as at 29 February 2020).</p>

**The Gym Limited**  
**Strategic Report**  
for the year ended 31 December 2019 (continued)

<p><b>A series of regional lockdowns or a second nation-wide lockdown requires us to close some or all of our gyms and as a result our revenue is reduced or eliminated for a period of time</b></p>	<p>We have detailed operational plans for how to respond to individual gym or estate-wide closure based on the experience of the original lockdown. A small number of temporary individual site closures would not have a material impact on our overall financial performance. In the event of an estate-wide closure, revenue would once again be reduced to zero and our cash burn each month would be in the range of £2.5-7.5 million, depending on (i) the extent of any Government support schemes made available such as the CJRS and (ii) our ability to defer rent as we did successfully in the original lockdown period, with agreements from landlords. With Non-Property Net Debt of £32.2 million as at 31 October 2020 and debt facilities in place of up to £100.0 million, the business has sufficient liquidity to sustain itself through a prolonged period of closure should a second national lockdown occur.</p>
<p><b>Government guidelines with respect to the COVID-secure operation of gyms change to an extent that it impacts our operating costs or limits the number of members attending the gym at any one time, and therefore impacts the profitability of our economic model</b></p>	<p>The Government guidelines have been developed with the participation of sector operators (including The Gym Group), Public Health England (PHE) and medical experts from the Government's Scientific Advisory Group for Emergencies (SAGE). Although the guidelines are therefore based on significant operational and scientific input it cannot be certain that such guidelines won't change in the future if the severity of the pandemic and the understanding of its causes and effects change over time. It is difficult to estimate the impact on profitability of any such changes but the most detrimental impact on our economic model would be a reduction in the number of people allowed to train in a gym at any one time (currently 1 member per 100 sq ft). A reduced capacity may mean we are unable to support the current level of membership in some of our busiest gyms and although it may be possible to mitigate some of the revenue impact through increased pricing it could adversely impact overall revenue. (See "Trading profitably with a reduced level of membership" above).</p>
<p><b>A combination of the risks listed above results in a reduction in profitability such that the Group breaches one or more of its bank debt covenants. If unable to reach agreement with the banks to waive covenants or restructure debt, the Group may be required to source additional forms of financing in order to continue to operate as a going concern.</b></p>	<p>The Directors consider that the combination of events required to lower the profitability of the Group to the point of breaching bank covenants is plausible, particularly in respect of national or regional lockdowns. In the event that the Group fails to meet one or more of its debt covenants, the Directors believe it likely that an agreement could be reached with the lending banks to waive or amend covenants as part of a revised business plan, on the basis that if such a breach were to occur, the Group would not at the time of breach have drawn down on the incremental £30 million of the New Bank Facility agreed in June 2020. However, no such commitment for further covenant waivers is currently in place with the lending banks. For more detail on the Directors opinion with regards to Going Concern and the risks considered in forming this opinion please refer to note 2.</p>
<p><b>An increase in the COVID-19 infection rate results in a significant number of our gym staff becoming ill and unable to work temporarily</b></p>	<p>We have taken a number of precautions to reduce the chances of our staff becoming infected. In addition to the social distancing and cleaning measures outlined above, members and staff are asked not to visit the gym if they are feeling ill or displaying COVID symptoms and staff members have their temperature measured at the start of each shift.</p> <p>Our flexible employment model – see below – and large estate means we will be able to cover staff shortages through a combination of flexing up the hours worked by other staff in the same gym or by utilising staff from other nearby gyms.</p>

**The Gym Limited**  
**Strategic Report**  
**for the year ended 31 December 2019 (continued)**

<p><b>A reduction in demand for personal training causes a reduction in the number of Fitness Trainers in our business</b></p>	<p>In addition to having a full-time Gym Manager and Assistant Gym Manager, each gym has a number of Fitness Trainers (FTs) who are employed on a part-time basis (typically 12 hours per week) to provide a range of member service duties. Outside of these employed hours the FTs operate a self-employed personal training business in our gyms with our members as clients and for the right to do this the FTs pay us rent each month. In the event that there is a significant reduction in the demand for personal training from our members, the FTs' self-employed income would decrease and they may choose to look for employment or self-employment opportunities elsewhere. If this happened, certain gyms may face a shortage of staff cover.</p> <p>To reduce this risk occurring we are:</p> <ul style="list-style-type: none"> <li>• offering significant discounts on the monthly rent charged to FTs in the first few months after re-opening ;</li> <li>• ensuring our FT employment model remains industry-leading in terms of reward and flexibility; and</li> <li>• remaining focused on FT recruitment and retention with FT resourcing being a primary focus and KPI for Gym Managers and the business as a whole;</li> </ul> <p>As a result of these actions, FT vacancy rates are currently at an all-time low. If FT shortages do occur in certain gyms in the future we expect to be able to cover the shortage by moving FTs from other gyms (without a cost to the business) or by flexing up the hours of other FTs in the same gym or cleaning contractors, which would incur an incremental cost.</p>
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# The Gym Limited

## Strategic Report

### for the year ended 31 December 2019 (continued)

#### SECTION 172 OF THE COMPANIES ACT 2006

##### Board decision making

Section 172 of the Companies Act 2006 ('s.172') imposes a general duty on directors to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its stakeholders. Our goal is to drive value for members, colleagues and shareholders alike. The Board believes that balancing the interests of stakeholders with our corporate purpose and the desire to maintain high standards of ethical conduct is embedded in the way we do business. The table below sets out who we consider to be our key stakeholders, what their interests are, some key engagement areas in 2019, and examples of how our stakeholders' interests influence the way we do business. For more information on Board decision making, see page 53 of the consolidated financial statements of The Gym Group plc available at <https://www.tggplc.com/>.

The Board has reserved certain matters for its own decision and these can be found on page 53 of the consolidated financial statements of The Gym Group plc.

##### How we consider our stakeholders

Following the COVID-19 outbreak in March 2020 we updated all our key stakeholders with information regarding the actions we were taking and how it affects them. We kept our members (and therefore the communities in which we operate) updated on actions we were taking while gyms were still open and reminded them of PHE COVID-19 guidelines. When we were required to close the gyms by the Government we immediately contacted members to let them know and to explain that their memberships would be automatically 'frozen' and they would not be charged during the period of closure. We have communicated frequently with employees via email and video messages to keep them updated on developments as the crisis has progressed, and also accelerated the rollout of our new communications platform. The Board provided information to shareholders on our COVID-19 plans in our Preliminary results statement on 19 March and then subsequently via RNS when the gyms were closed.

As a result of the COVID-19 crisis the Group has engaged with stakeholders to secure further liquidity. On 17 April 2020 the Group announced the completion of an equity placing, raising £39.9m of net proceeds and on 8 June 2020 announced the completion of a £30m extension to its bank facilities, with its existing lending banks.

Further market updates were provided in July (shortly before gyms in England re-opened) in September (half-year results) and in November (shortly after the start of the November 2020 Lockdown).

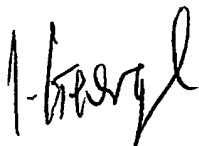
WHO THEY ARE	WHY THEY MATTER	WHAT MATTERS TO THEM	HOW WE ENGAGED DURING 2019	HOW THE BOARD CONSIDERS THE INTERESTS OF OUR STAKEHOLDERS
Shareholders	Our investors provide capital for growth, whilst providing challenge and feedback on our business model and plans for the future.	<ul style="list-style-type: none"> <li>Timely and relevant information on performance</li> <li>Opportunities for engagement with management</li> <li>Dividend policy</li> <li>Remuneration Policy</li> </ul>	<p>Our Executive Directors maintain an investor relations annual plan, consisting of:</p> <ul style="list-style-type: none"> <li>Meetings with our current and prospective shareholders;</li> <li>Presentations given to shareholders upon the release of annual or interim results;</li> <li>Feedback from our joint brokers following investor engagement, and market overview;</li> <li>Reporting to the Board as whole on investor matters;</li> <li>Preparation of investor materials.</li> </ul> <p>In 2019, the Chairwoman met with many of our top investors to discuss their views. We received approval for our Remuneration Policy in 2019.</p>	<p>The Board is kept informed of all responses received as part of shareholder consultations. The Board's dividend policy can be found on page 40 of the consolidated financial statements of The Gym Group plc.</p> <p>The Board welcomes attendance from shareholders at our AGM as another method of engagement, and giving shareholders a chance to ask questions of the entire Board. The arrangements for our 2020 AGM were confirmed in the 2020 Notice of Meeting.</p> <p>As it relates to Remuneration, we will continue to consult shareholders on any future major changes to Policy. The Remuneration Report is on pages 61-79 of the consolidated financial statements of The Gym Group plc.</p>
Employees	Our employees are the driving force behind our purpose and growth.	<ul style="list-style-type: none"> <li>Regular, relevant, clear information</li> <li>Opportunities to provide feedback</li> <li>Opportunities to develop careers and skills</li> <li>Engagement with management</li> <li>Participation in share schemes</li> </ul>	<p>Our Unique team and Culture is a vital part of our strategy, and 2019 highlights are set out on page 26 of the consolidated financial statements of The Gym Group plc. In addition to communications tools, our Executive Committee regularly visit our sites to update our employees on key changes, and for 'back to the floor' days. We have implemented employee engagement and pulse surveys, results of which are fed back to the Board. We have an Emerging Talent programme for our staff. We launched our market leading NGT model, offering our Fitness Trainers flexibility in the way they work. We now operate two all-employee share plans since the launch of Sharesave in 2019.</p>	<p>All Directors visit several of our sites each year and occasionally board meetings are held within our gyms. We also host an annual conference to which central support employees and gym managers are invited, and this presents a chance for Directors to reinforce the Company's values and ensure we have the right culture to meet the strategic needs of the business.</p> <p>David Kelly is the non-executive director of the Group who is responsible for people engagement, and you can find out more about our activities in the Directors' Report on page 80 of the consolidated financial statements of The Gym Group plc.</p>

**The Gym Limited**  
**Strategic Report**  
for the year ended 31 December 2019 (continued)

WHO THEY ARE	WHY THEY MATTER	WHAT MATTERS TO THEM	HOW WE ENGAGED DURING 2019	HOW THE BOARD CONSIDERS THE INTERESTS OF OUR STAKEHOLDERS
Members	Happy members are what makes our gyms successful, and they inspire us every day with their achievements. They are the best indicator that we are delivering fitness for all.	<ul style="list-style-type: none"> <li>• A great value experience</li> <li>• Excellent service and equipment</li> <li>• Accessibility and inclusivity</li> <li>• Demonstration of our values</li> </ul>	It is a key part of our strategy and business model to use technology to improve the member experience, with updates highlighted on page 24 of the consolidated financial statements of The Gym Group plc.. In 2019 we opened 20 sites and launched our small box format gyms, rolling out our efficient model to continue to deliver a high quality and great value member experience. Promoting wellbeing is also a key part of our sustainability strategy as on page 30 of the consolidated financial statements of The Gym Group plc.	We regularly review our member satisfaction scores at Board meetings. Member satisfaction forms part of our bonus targets for Executive Directors. Directors use member feedback to identify ways in which our member journey can be improved or enhanced.
Suppliers	We believe our partnerships ensure we source the best value goods and services for the benefit of our members. High standards of ethics and business conduct is an important part of being a responsible part of the communities in which we operate.	<ul style="list-style-type: none"> <li>• High levels of business conduct and integrity</li> <li>• Strong listed company covenant</li> </ul>	Our strong, listed company covenant continues to be highly attractive to landlords. We actively manage our supplier relationships, including site visits and meetings with landlords. The Company has in place whistleblowing arrangements which enable employees to anonymously raise concerns should they suspect wrongdoing or unethical conduct. We publish our Payment Practices Report twice a year at Companies House.	The Board is committed to high standards of ethical business conduct. The policies and procedures relevant to business conduct are available to all employees. The Board takes a zero-tolerance approach to bribery and corruption. It also reviews the Company's Modern Slavery Act Statement annually.
Community	Being a valuable part of the communities in which we operate is hugely important to us; a strong relationship between our gyms and our communities is mutually beneficial.	<ul style="list-style-type: none"> <li>• Be a responsible corporate citizen</li> <li>• Support local and national charities</li> <li>• Contribute positively to the local community</li> <li>• Be inclusive and accessible</li> </ul>	Our affordable model supports members in accessing a gym for the first time. 54% of our gyms were in areas with a high index of multiple deprivation as of December 2019. In 2019 we raised over £125,000 for Movember. Our employees also regularly focus on supporting charities local to their gyms. In 2019, we launched our First Steps campaign which was aimed at introducing 16-18 year olds to using gyms by giving them free off-peak membership for six weeks over the summer months.	The Board recognises the importance of contributing to wider society and considers it a vital part of achieving our purpose. The Board considers the long-term impact of its operations as part of its Sustainability strategy.
Environment	We continually seek out opportunities to improve our environmental performance and to contribute to the wellbeing and sustainability of the communities in which we operate.	<ul style="list-style-type: none"> <li>• Minimise the impact of the Company's operations on the environment</li> <li>• Energy efficiency and sustainable working practices</li> </ul>	During the year we established our Sustainability Working Group to build on our strong credentials. Our Sustainability Report details our environmental strategy, activity and initiatives. This can be found on pages 36 and 37 of the consolidated financial statements of The Gym Group plc.	The Board is conscious of the Company's impact on the environment and aim to make our gyms as energy efficient as possible. For more on our responsibility for the environment, please see pages 36 and 37 of the consolidated financial statements of The Gym Group plc.
Lending Banks	Our lending banks of the Group provide funds for growth and day to day working capital to enable us to operate and grow our business to its full potential.	<ul style="list-style-type: none"> <li>• Regular and clear reporting that demonstrates company performance is meeting agreed covenant targets</li> <li>• Regular engagement with management to understand business strategy and risks</li> </ul>	Prior to October 2019 the Group held lending facilities of £60 million with two leading banks: HSBC and Barclays. During the year we provided regular updates on company performance and reported on performance versus agreed debt covenants. In October 2019 we completed a re-financing exercise, which resulted in a new £70 million Revolving Credit Facility (RCF) with three leading banks: NatWest, HSBC and Banco de Sabadell. Over the course of four months, advised by Deloitte, we engaged with several lending banks before finalising the RCF transaction, which gave the Group increased funding (vs £60 million in the previous facilities) and at a lower interest charge.	Management holds regular meetings/calls with lending banks during the year to enable them to be updated on the progress and performance in the business. Representatives from the lending banks are invited to our half-year and full-year results presentations. In financial plans discussed at the Board, analysis is presented on how plans would impact debt covenants to ensure the interests of the lending banks are protected. The Board's annual going concern and viability assessment is performed with specific reference to the level of borrowings required under different scenarios and the impact of such scenarios on debt.

**The Gym Limited**  
**Strategic Report**  
**for the year ended 31 December 2019 (continued)**

By order of the board

A handwritten signature in black ink, appearing to read 'M George', written over a horizontal line.

M George

Director

9 December 2020



## **The Gym Limited**

### **Directors' Responsibilities Statement**

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with Companies Act 2006 and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**The Gym Limited**  
**Independent Auditor's Report**  
**to the members of The Gym Limited**  
**for the year ended 31 December 2019**

**Opinion**

We have audited the financial statements of The Gym Limited for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of changes in Equity and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Material uncertainty related to going concern**

We draw attention to note 2 in the financial statements, which indicates it is possible that the Company's ultimate parent undertaking may breach its bank covenants due to a reduction in the Company's revenues arising from a further period of lockdown or due to changes in members behaviours as result of the COVID-19 pandemic. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

**The Gym Limited**  
**Independent Auditor's Report**  
**to the members of The Gym Limited**  
**for the year ended 31 December 2019 (continued)**

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Ernst + Young LLP*

Michael Christie (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Belfast  
9 December 2020

**The Gym Limited**  
**Statement of Comprehensive Income**  
**for the year ended 31 December 2019**

	Note	31 December 2019	31 December 2018
		£'000	Restated* £'000
Revenue	5	149,024	119,166
Cost of sales		(1,421)	(957)
<b>Gross profit</b>		<b>147,603</b>	<b>118,209</b>
Administration expenses		(126,784)	(98,725)
<b>Operating profit</b>	<b>6</b>	<b>20,819</b>	<b>19,484</b>
Finance income	9	32	22
Finance costs	10	(13,641)	(11,458)
<b>Profit before tax</b>		<b>7,210</b>	<b>8,048</b>
Tax charge	11	(3,067)	(2,218)
<b>Profit for the year attributable to equity shareholders</b>		<b>4,143</b>	<b>5,830</b>
<b>Other comprehensive income for the year</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income attributable to equity shareholders</b>		<b>4,143</b>	<b>5,830</b>

\* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

**The Gym Limited**  
**Statement of Financial Position**  
**as at 31 December 2019**

	Note	31 December 2019	31 December 2018 Restated*	1 January 2018 Restated*
		£'000	£'000	£'000
<i>Non-current assets</i>				
Property, plant and equipment (excluding right of use asset)	13	176,002	162,592	131,882
Right of use asset	13	237,409	217,338	168,907
Intangible assets	14	30,729	28,193	14,635
Deferred tax assets		-	-	173
<b>Total non-current assets</b>		<b>444,140</b>	<b>408,123</b>	<b>315,597</b>
<i>Current assets</i>				
Inventories	15	654	379	197
Trade and other receivables	16	10,784	10,613	6,641
Cash and cash equivalents	17	2,591	25	465
<b>Total current assets</b>		<b>14,029</b>	<b>11,017</b>	<b>7,303</b>
<b>Total assets</b>		<b>458,169</b>	<b>419,140</b>	<b>322,900</b>
<i>Current liabilities</i>				
Trade and other payables	18	33,518	27,564	25,477
Lease liabilities	19	15,637	13,299	8,058
Other financial liabilities		3,875	3,002	-
Borrowings	20	20,268	-	-
Provisions	21	352	679	917
Income taxes payable		986	1,218	766
<b>Total current liabilities</b>		<b>74,636</b>	<b>45,762</b>	<b>35,218</b>
<i>Non-current liabilities</i>				
Borrowings	20	-	17,000	10,000
Lease liabilities	19	262,706	238,558	189,798
Provisions	21	1,303	1,145	740
Deferred tax liabilities	11	428	380	-
<b>Total non-current liabilities</b>		<b>264,437</b>	<b>257,083</b>	<b>200,538</b>
<b>Total liabilities</b>		<b>339,073</b>	<b>302,845</b>	<b>235,756</b>
<b>Net assets</b>		<b>119,096</b>	<b>116,295</b>	<b>87,144</b>
<i>Capital and reserves</i>				
Issued capital		68,162	68,162	39,272
Capital redemption reserve		2,056	1,398	1,067
Share premium		37,633	37,633	37,633
Retained earnings		11,245	9,102	9,172
<b>Total equity shareholders' funds</b>		<b>119,096</b>	<b>116,295</b>	<b>87,144</b>

\* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

These financial statements were approved by the Board of Directors on 9 December 2020.

Signed on behalf of the Board of Directors



M George

Director

Company Registration Number 05659669

**The Gym Limited**  
**Statement of Changes in Equity**  
**For the year ended 31 December 2019**

	Note	Issued capital £'000	Capital redemption reserve £'000	Share premium £'000	Retained earnings £'000	Total £'000
<b>At 1 January 2018</b>		<b>39,272</b>	<b>1,067</b>	<b>37,633</b>	<b>19,540</b>	<b>97,512</b>
Adjustment from adoption of IFRS 16	4	-	-	-	(10,368)	(10,368)
<b>At 1 January 2018 (restated)</b>		<b>39,272</b>	<b>1,067</b>	<b>37,633</b>	<b>9,172</b>	<b>87,144</b>
Profit for the period and total comprehensive income (restated)		-	-	-	5,830	5,830
Share based payments	24	-	283	-	-	283
Deferred tax on share based payments	11	-	48	-	-	48
Issue of Ordinary share capital		28,890	-	-	-	28,890
Dividends paid		-	-	-	(5,900)	(5,900)
<b>At 31 December 2018 (Restated)</b>		<b>68,162</b>	<b>1,398</b>	<b>37,633</b>	<b>9,102</b>	<b>116,295</b>
Profit for the year		-	-	-	4,143	4,143
Share based payments	24	-	646	-	-	646
Deferred tax on share based payments	11	-	12	-	-	12
Dividends paid		-	-	-	(2,000)	(2,000)
<b>At 31 December 2019</b>		<b>68,162</b>	<b>2,056</b>	<b>37,633</b>	<b>11,245</b>	<b>119,096</b>

\* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

# The Gym Limited

## Notes to the financial statements

### For the year ended 31 December 2019

#### 1. General information

The Gym Limited ('the Company') provides low cost, high quality health and fitness facilities. It is a company limited by shares, incorporated and domiciled in the United Kingdom with company number 05659669. The registered address of the Company is 5<sup>th</sup> floor, No. 1 Croydon, 12-16 Addiscombe Road, Croydon, United Kingdom, CR0 0XT.

#### 2. Summary of significant accounting policies

##### Statement of compliance and basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 ('FRS 101') and in accordance with applicable accounting standards. The financial statements are presented in Pounds Sterling and all values are rounded to the nearest Pound Sterling, except where otherwise indicated.

The Company meets the definition of a qualifying entity under FRS 101 and has therefore taken advantage of the following disclosure exemptions available to it under FRS 101:

- (a) the requirements of IFRS 7 Financial Instruments: Disclosures;
- (b) the requirements of paragraph 91 to 99 of IFRS 13 Fair Value Measurement;
- (c) the requirements of IAS 7 Statement of Cash Flows;
- (d) the requirements of paragraphs 10(d), 16, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- (e) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (f) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share Based Payment;
- (g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures; and
- (h) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

The financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at 1 January 2018 is presented in these financial statements due to the retrospective application of accounting policies as a result of the adoption of IFRS 16 Leases. See Note 4.

See note 12 for the adjustment in fair value of business combinations.

##### Going Concern

In assessing the going concern position of the Company for the Consolidated Financial Statements for the year ended 31 December 2019, the Directors have considered the Company's cash flows, liquidity and business activities in the light of the COVID-19 pandemic.

The outbreak of COVID-19 and its continuing impact on the economy casts a degree of uncertainty as to the future financial performance and cash flows of the Company. When assessing the ability of the Company to continue as a going concern the Directors have considered the Company's financing arrangements, the pattern of trading since gyms in England re-opened on 25 July 2020, the November 2020 Lockdown and future trading risks including further regional or nationwide lockdowns on the cashflows, liquidity and bank facility covenants of the Company and wider Group (including its ultimate parent and fellow subsidiaries) over the next 12 month period.

In the first half of 2020 the Company's ultimate parent raised additional financing in the form of:

- an equity placing, which raised net proceeds of £39.9 million; plus
- a £30.0 million debt facility extension (the 'New Bank Facility'), which provided incremental liquidity beyond the existing £70.0 million Revolving Credit Facility ('RCF')

As a result of these actions, the Company secured sufficient liquidity to finance the business through a period of gym closure extending into 2021, well beyond any reasonable closure scenario envisaged. The number of months of closure in 2021 for which we would have sufficient liquidity would depend on, among other factors, the extent to which UK Government support schemes such as CJRS and Business Rates relief were extended, if at all, beyond their current expected termination dates.

As at 31 October 2020, the Group (being the Company, its ultimate parent and fellow subsidiaries) had Non-Property Net Debt of £32.2 million versus £100.0 million of total borrowing capacity and had until the November 2020 Lockdown been trading with positive cash flow.

# **The Gym Limited**

## **Notes to the financial statements**

### **For the year ended 31 December 2019**

#### **2. Summary of significant accounting policies (continued)**

##### **Going Concern (continued)**

During the 18-month term of the New Bank Facility, the covenants of the RCF have been replaced with new covenants based on the EBITDA performance of the Group after re-opening, based on a revised business plan presented to the lending banks. The covenant tests will be performed quarterly as follows:

- Q3 2020: Cumulative EBITDA in August and September 2020 vs agreed targets
- Between Q4 2020 and Q3 2021: Cumulative EBITDA from October 2020 through to the end of the relevant quarterly reporting period vs agreed targets

Following the business's profitable trading since re-opening in the summer the Group was able to meet its Q3 2020 EBITDA covenant test. Whilst the Group has secured sufficient liquidity, via the raising of equity and additional debt facilities, to finance operations for at least the next twelve months through any reasonable scenario, the November 2020 Lockdown will result in the Group being unable to meet its Q4 2020 bank covenant test, as the test was established on the basis that the business would be trading with gyms open throughout Q4 2020. The Directors believe it likely that an agreement will be reached with the lending banks to waive or amend covenants as part of a revised business plan, on the basis that at even after the November 2020 lockdown the Group will have considerable levels of unused liquidity and will not have drawn down on the incremental £30 million of the New Bank Facility agreed in June 2020.

Also, there is risk that amended EBITDA covenant targets in 2021 will not be met due to the impact of further decreases in revenue arising from further nationwide or regional lockdowns or from the number of paying members falling below the level needed to deliver the required EBITDA covenant targets due to a general lack of confidence in members returning to the gym. The Directors deem these downside scenarios to be plausible and therefore the risk of a further breach in debt covenants is possible during 2021. In the event that the Group fails to meet one or more of its amended 2021 debt covenant EBITDA targets, for the same reasons set out above the Directors believe it likely that further agreement could be reached with the lending banks to waive or amend covenants as part of a revised business plan. However, no such commitment for further covenant waivers is currently in place with the lending banks.

The Directors have concluded that the potential impact of COVID-19 described above and uncertainty over possible mitigating actions, including covenant waivers represents a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. However, having assessed the financial forecasts, sensitivities and possible mitigating actions, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the next twelve months and therefore the Directors continue to adopt the going concern basis in preparing these financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Company were unable to continue as a going concern.

##### **Revenue**

Revenue, which is stated excluding value added tax and other sales-related taxes, is measured at the fair value of the consideration receivable for goods and services supplied.

Revenue from membership income comprises monthly membership fees, non-refundable joining fees and longer term membership fees. All membership income is recognised and spread over the period the membership relates to, being the period of the Company's performance obligations.

Rental income from Personal Trainers is recognised on a straight-line basis over the term of the rental agreement.

Other income is recognised at a point in time, which is the point of sale as this reflects the fulfilment of all performance obligations.

Contracts with customers are non-complex and do not require any significant accounting judgements or estimates.



# **The Gym Limited**

## **Notes to the financial statements**

### **For the year ended 31 December 2019**

#### **2. Summary of significant accounting policies (continued)**

##### **Revenue (continued)**

Contract liabilities relate to membership fees received at the start of a contract, where the Company has the obligation to provide a gym membership over a period of time.

##### **Cost of sales**

Cost of sales comprise costs arising in connection with the generation of ancillary revenue, primarily call centre costs and payment processing costs.

##### **Exceptional items**

Items that are material in size, unusual or infrequent in nature are included within profit or loss and disclosed separately as exceptional items in the income statement and the notes to the Financial Statements.

The separate reporting of exceptional items, which are presented as exceptional within the relevant category in the income statement, helps provide an indication of the Company's underlying business performance.

##### **Property, plant and equipment**

Property, plant and equipment are included at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is calculated to write down the cost of the assets on a straight-line over the estimated useful lives on the following bases:

- Leasehold improvements over the shorter of the useful life and the term of lease
- Fixtures, fittings and equipment between three and ten years
- Gym and other equipment between five and nine years
- Computer equipment three years

The estimated useful lives are reviewed at the end of each reporting period and adjusted if appropriate. The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Assets under construction represents the construction of gyms and are included in Property, plant and equipment. No depreciation is provided on assets under construction until the asset is available for use.

##### **Right-of-use assets**

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are related to the property leases and are depreciated on a straight-line basis over the lease term.

##### **Lease liabilities**

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include lease payments less any lease incentives receivable. In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments).

# The Gym Limited

## Notes to the financial statements

### For the year ended 31 December 2019

#### 2. Summary of significant accounting policies (continued)

##### Intangible assets

###### *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the G Company's share of the net identifiable assets of the acquired subsidiary or the Company's share of trade and assets acquired in a business combination at the date of acquisition. Goodwill on acquisitions is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units ('CGUs') for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

###### *Brands and customers lists*

Brands and customers lists are initially recognised at historical cost, or at fair value if acquired as part of a business combination. Brands and customers lists have finite useful lives and are carried at cost less accumulated amortisation and any recognised impairment. Amortisation is calculated using the straight-line method to allocate the cost of brands and customers lists over their estimated useful lives of five and three years respectively.

###### *Technology related*

Technology-related intangible assets are the intellectual property rights represented by the development costs associated with the development of the bespoke membership and customer related management systems that provide highly tailored functionality and integrate closely with website and online payment systems. This asset is amortised on a straight-line basis over its useful economic life of three years.

###### *Contract related*

Contract related intangibles relate to the premium paid to acquire certain concession arrangements. These assets have been amortised on a straight-line basis over the useful lives of the individual contracts, ranging from three to 22 years.

###### *Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Certain costs incurred in connection with the development of software to be used internally or for providing services to customers are capitalised once a project has progressed beyond a conceptual, preliminary stage to that of application development. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalisation include both internal and external costs, but are limited to those that are directly related to the specific project. Computer software costs are included at capitalised cost less accumulated amortisation and any recognised impairment loss.

Amortisation is calculated to write down the cost of the assets on a straight-line basis over their estimated useful lives, over three to five years. Useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

# **The Gym Limited**

## **Notes to the financial statements**

### **For the year ended 31 December 2019**

#### **2. Summary of significant accounting policies (continued)**

##### **Impairment of non-financial assets**

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the CGUs to which the asset belongs. For property, plant and equipment and intangible assets the allocation is made to those CGU units that are expected to benefit from the asset, that being each trading health and fitness facility. For goodwill, the CGU is deemed to be each chain of health and fitness facilities acquired.

Any impairment charge is recognised in the income statement in the period in which it occurs. Impairment losses relating to goodwill cannot be reversed in future periods. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

##### **Financial instruments**

###### *Financial assets*

The Company classifies its financial assets as those to be measured at amortised cost and those recognised at fair value through other comprehensive income.

The Company's measures its trade and other receivables and cash and cash equivalents at amortised cost. Subsequent to initial recognition these assets are carried at amortised cost using the effective interest method. Income from these financial assets is calculated on an effective yield basis and is recognised in the income statement.

Due to the Company's upfront payment model, it has limited exposure to credit losses.

Investments in unquoted in equity securities are designated as fair value through other comprehensive income if they are held as long-term strategic investments that are not expected to be sold in the short to medium term. All fair value movements in value in respect of those assets are recognised in other comprehensive income and are not recycled to profit or loss.

The financial assets are presented as current assets, except for those with maturities greater than 12 months after the reporting date. These are classified as non-current assets.

###### *Financial liabilities*

The Company's financial liabilities comprise trade and other payables, other financial liabilities (including contingent consideration) and borrowings.

The Company initially recognises its financial liabilities at fair value net of transaction costs where applicable and, other than derivatives, and with the exception of contingent consideration are subsequently measured at amortised cost using the effective interest method. Transaction costs are amortised using the effective interest method over the maturity of the loan. Contingent consideration is subsequently measured at its fair value, which is reassessed at each reporting period.

###### *Borrowing costs*

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on temporary investments of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs of eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

# **The Gym Limited**

## **Notes to the financial statements**

### **For the year ended 31 December 2019**

#### **2. Summary of significant accounting policies (continued)**

##### **Pensions**

The Company operates a defined contribution pension scheme and pays contributions to publicly or privately administered pension plans. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

##### **Share based payments**

Equity-settled share based payments are measured at the fair value of the equity instruments at the grant date, which excludes the effect of non-market-based vesting conditions. The fair value at the grant date is recognised as an expense on a straight-line basis over the vesting period, based on the Company's estimate of the number of equity instruments that will eventually vest. The estimate of the number of awards likely to vest is reviewed at each balance sheet date up to the vesting date at which point the estimate is adjusted to reflect the actual outcome of awards which have vested. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

##### **Inventories**

Inventories are carried at the lower of cost and net realisable value.

##### **Trade and other receivables**

Trade and other receivables consist mainly of prepayments, accrued income and receivables relating to property leases.

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank, short term deposits held on call with banks and other short term highly liquid investments with original maturities of three months or less.

##### **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. Trade and other payables 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.

##### **Current taxation**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Income tax relating to items recognised in comprehensive income or directly in equity is recognised in comprehensive income or equity and not in the income statement.

##### **Deferred taxation**

Deferred income tax is provided using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and amended to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

# **The Gym Limited**

## **Notes to the financial statements**

### **For the year ended 31 December 2019**

#### **2. Summary of significant accounting policies (continued)**

##### **Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

A dilapidations provision is recognised when there is future obligation relating to the maintenance of leasehold properties. The provision is based on management's best estimate of the cost of meeting this obligation.

##### **Dividends**

Dividends payable by the Company are recognised on declaration.

#### **3. Significant accounting judgements, estimates and assumptions**

The preparation of the financial information in accordance with FRS 101 requires estimates and assumptions to be made that affect the value at which certain assets and liabilities are held at the balance sheet date and also the amounts of revenue and expenditure recorded in the period. The directors believe the accounting policies chosen are appropriate to the circumstances and that the estimates, judgements and assumptions involved in its financial reporting are reasonable.

Accounting estimates made by management are based on information available to management at the time each estimate is made. Accordingly, actual outcomes may differ materially from current expectations under different assumptions and conditions. The estimates and assumptions for which there is a significant risk of a material adjustment to the financial information within the next financial year are set out below.

The preparation of the financial statements in accordance with IFRS requires estimates and assumptions to be made that affect the value at which certain assets and liabilities are held at the balance sheet date and also the amounts of revenue and expenditure recorded in the period. The Directors believe the accounting policies chosen are appropriate to the circumstances and that the estimates, judgements and assumptions involved in its financial reporting are reasonable.

Accounting estimates made by the Company's management are based on information available to management at the time each estimate is made. Accordingly, actual outcomes may differ materially from current expectations under different assumptions and conditions. The significant judgements that management has made in applying its accounting policies and the estimates and assumptions for which there is a significant risk of a material adjustment to the Financial Statements within the next financial year are set out below.

##### **Critical judgements apart from those involving estimates in applying the Company's accounting policies**

##### ***Business combinations***

In the prior year the Company acquired the trade and assets of a portfolio of gyms trading under the easyGym brand. The Directors have assessed the trade and assets acquired constituted businesses under IFRS 3 'Business combinations' (IFRS 3) on the basis that these transactions included the transfer of employees and members in addition to the transfer of property, plant and equipment. Consequently, the Directors have assessed that these acquisitions constituted a business combination under IFRS 3. In accounting for these business combinations, the Directors also made judgements in relation to identification of intangible assets acquired and the fair value of contingent consideration. As indicated in note 12, the only material intangible asset identified related to members lists.

##### ***Incremental borrowing rate***

The calculation of lease liabilities requires the Company to determine an incremental borrowing rate (IBR) to discount future minimum lease payments. Judgment is applied in determining the components of the IBR used for each lease including risk free rates, the Company's borrowing margin and any lease specific adjustments. The applicable IBR for each lease varies between 3.5% and 8.7%. See note 19 for further detail on the methodology used.

# The Gym Limited

## Notes to the financial statements

For the year ended 31 December 2019

### 3. Significant accounting judgements, estimates and assumptions (continued)

#### Source of estimation uncertainty

##### *Depreciation and amortisation*

The Company reviews the estimated useful lives and residual values of property, plant and equipment and intangible assets annually. The assets are depreciated or amortised over their estimated useful lives to their residual values. Given the significance of the carrying values of property, plant and equipment to the Company's financial position, relatively small changes in estimated useful lives could have a material effect on the Consolidated Financial Statements. Details of the useful lives assigned to the Company's property, plant and equipment and intangible assets is included in note 2. The carrying values of such assets are included in notes 13 and 14.

As a consequence of this annual review of useful lives, the useful economic life for the cardio and strength equipment was increased from five and a half and eight years to seven and nine years respectively. See note 4 for further details.

##### *Goodwill impairment*

The Company is required to test, on an annual basis, whether goodwill has suffered any impairment based on the recoverable amount of its 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 key assumptions and carrying values, is included in note 14. While the Directors have currently assessed that reasonably possible changes in key assumptions are unlikely to cause an impairment in the carrying value of goodwill, estimates of future cash flows and the determination of discount rates applied to those cash flows could change in the longer term such that an impairment arises.

##### *Provisions*

Provisions are made for dilapidations in respect of leased premises. The recognition and measurement of these provisions require estimates to be made in respect of uncertain events and amounts, with the key sources of estimation uncertainty relating to whether a restoration obligation will arise, the amount and timing of future cash flows required to settle any restoration obligation assessed as arising, and to a lesser extent the discount rate of 2% applied to those estimated cash flows. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Management has determined that the likelihood of a liability arising is remote in relation to 149 of the Company's 175 gym sites as the Company enjoys security of tenure as tenant and therefore is unlikely to give up a site where it is trading profitably. If circumstances indicate otherwise the Company will recognise an appropriate provision.

If the future cost of restoration for those sites where a provision is currently recognised was to increase by 10% across these sites, the provision at 31 December 2019 would increase by £130,000. If a provision was required for a site where the Company does benefit from security of tenure, the provision at 31 December 2019 would increase by £50,000 to £150,000, depending on the site concerned. A 10 basis points change in the discount rate would increase / decrease the provision recognised at 31 December 2019 by £11,000.

Details of dilapidation provisions recognised are set out in note 21.

# The Gym Limited

## Notes to the financial statements

For the year ended 31 December 2019

### 4. New standards adopted

New standards impacting the Company for the year ended 31 December 2019, and which have given rise to changes in the Company's accounting policies are:

#### IFRS 16 'Leases'

IFRS 16 supersedes IAS 17 Leases, the standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Company adopted IFRS 16 using the full retrospective method of adoption, with the date of initial application of 1 January 2019. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets). At the date of initial application, the applicable IBR for each lease varied between 3.5% and 8.7%.

#### Adjustments recognised on adoption of IFRS 16

The effect on the statement of financial position is as follows:

	31 December 2017 under IAS17 £'000	Impact of IFRS16 £'000	Opening balance at 1 January 2018 £'000
Right of use asset	-	168,907	168,907
Intangible assets	14,635	-	14,635
Current assets	10,797	(3,494)	7,303
Other assets	131,882	-	131,882
Deferred tax assets	-	173	173
<b>Total assets</b>	<b>157,314</b>	<b>165,586</b>	<b>322,900</b>
Current liabilities	(46,721)	19,824	(26,897)
Finance lease liabilities	-	(197,856)	(197,856)
Deferred tax liabilities	(2,078)	2,078	-
Other liabilities	(10,740)	-	(10,740)
<b>Total liabilities</b>	<b>(59,539)</b>	<b>(175,954)</b>	<b>(235,493)</b>
<b>Net assets</b>	<b>97,775</b>	<b>(10,368)</b>	<b>87,407</b>
Retained earnings	19,803	(10,368)	9,435
Other changes in equity	77,972	-	77,972
<b>Total equity shareholders' funds</b>	<b>97,775</b>	<b>(10,368)</b>	<b>87,407</b>

**The Gym Limited**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**

**4. New standards adopted (continued)**

	31 December 2018 under IAS17 £'000	Impact of IFRS16 £'000	Opening balance at 1 January 2019 £'000
Right of use asset	-	217,338	217,338
Current assets	15,233	(4,216)	11,017
Other assets	190,785	-	190,785
<b>Total assets</b>	<b>206,018</b>	<b>213,122</b>	<b>419,140</b>
Current liabilities	(54,941)	22,478	(32,463)
Finance lease liabilities	-	(251,857)	(251,857)
Deferred tax liabilities	(3,491)	3,111	(380)
Other liabilities	(18,145)	-	(18,145)
<b>Total liabilities</b>	<b>(76,577)</b>	<b>(226,268)</b>	<b>(302,846)</b>
<b>Net assets</b>	<b>129,441</b>	<b>(13,146)</b>	<b>116,295</b>
Retained earnings	22,248	(13,146)	9,102
Other changes in equity	107,193	-	107,193
<b>Total equity shareholders' funds</b>	<b>129,441</b>	<b>(13,146)</b>	<b>116,295</b>

The effect on profit before tax is as shown below.

	1 December 2018 Under IAS17 £'000	Impact of IFRS 16 £'000	31 December 2018 under IFRS16 £'000
Revenue	119,166	-	119,166
Cost of sales	(957)	-	(957)
<b>Gross profit</b>	<b>118,209</b>	<b>-</b>	<b>118,209</b>
Administration expenses	(106,179)	7,454	(98,725)
<b>Operating profit</b>	<b>12,030</b>	<b>7,454</b>	<b>19,484</b>
Finance income	22	-	22
Finance costs	(529)	(10,929)	(11,458)
<b>Profit before tax</b>	<b>11,523</b>	<b>(3,475)</b>	<b>8,048</b>
Tax charge	(2,915)	697	(2,218)
<b>Profit for the year attributable to equity shareholders</b>	<b>8,608</b>	<b>(2,778)</b>	<b>5,830</b>

**Change in accounting estimate**

The Company has reviewed the estimated useful economic life ('UEL') of gym equipment and consequently, has increased their UEL. The impact of this change is to decrease the 2019 depreciation charge by £954,000.

In addition, we reviewed the UEL of Lifestyle gym equipment and reduced the UEL of strength equipment by two years to approximately four years, and cardio equipment by one year to approximately three years. The impact of this is an increase in depreciation of £346k in 2019 and an estimated increase in depreciation of £580k in 2020.



## The Gym Limited

### Notes to the financial statements

For the year ended 31 December 2019

#### 5. Revenue

The main revenue streams are those described in the last annual financial statements; membership income, rental income and other income. The majority of revenue is derived from contracts with customers.

##### Disaggregation of revenue

In the following table, revenue is disaggregated by major products and service lines and timing of revenue recognition. All revenue arises in the United Kingdom.

	31 December 2019	31 December 2018
	£'000	£'000
<i>Major products/service lines</i>		
Membership income	143,190	118,345
Rental income	4,124	400
Other income	1,710	421
	<b>149,024</b>	<b>119,166</b>
<i>Timing of revenue recognition</i>		
Products transferred at a point in time	2,466	3,150
Products and services transferred over time	146,558	116,016
	<b>149,024</b>	<b>119,166</b>
<i>Assets and liabilities relating to contracts with customers</i>		
Contract liabilities	(7,981)	(6,973)
<i>Revenue recognised that was included in contract liabilities in the prior year</i>		
Membership income	6,912	5047
Other income	61	66

Contract liabilities relate to membership fees received at the start of a contract, where the Company has the obligation to provide a gym membership over a period of time. The contract liability balance increases as the Company's membership numbers increase, and therefore has increased between 2018 and 2019.

# The Gym Limited

## Notes to the financial statements

For the year ended 31 December 2019

### 6. Operating profit

Operating profit is stated after charging / (crediting):

	31 December 2019	31 December 2018 Restated*
	£'000	£'000
Depreciation of property, plant and equipment (excluding right of use asset)	22,204	19,361
Depreciation of right of use asset	19,050	13,829
Amortisation of IT intangible assets	1,932	1,020
Amortisation of non-IT intangible assets	931	604
(Profit)/loss on disposal of property plant and equipment	(112)	72
Cost of inventory recognised as an expense	11	46
Impairment of property, plant and equipment	2,885	-
<b>Auditors' remuneration</b>		
Fees payable for the audit of the Company's annual accounts	38	38

\* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the consolidated financial statements of The Gym Group plc.

### 7. Exceptional items

	31 December 2019	31 December 2018
	£'000	£'000
Remeasurement of contingent consideration	2,988	0
Impairment arising as a result of site closures	2,619	0
Restructuring costs	410	1,239
Acquisition costs	-	644
Acquisition integration costs	-	460
<b>Total exceptional items in operating expenses</b>	<b>6,017</b>	<b>2,343</b>

Remeasurement of contingent consideration relates to a change in the probability-based estimate of contingent consideration that will be payable for the acquisition of two easyGym sites in the event the Company is successful in acquiring new leases for these sites. This remeasurement of the acquisition consideration has been recognised in the income statement but has no cash impact in 2019.

Impairment and other costs arising as a result of site closures relate to the closure of three sites during 2019, which arose as part of our estate management in order to optimise Company performance; the closures comprised two sites acquired from the Lifestyle and easyGym acquisitions plus one site opened in 2015 for which a 5-year break clause was exercised by the Company. These costs substantially relate to the impairment of right of use assets, leasehold improvements and gym equipment, and the provision for post-closure costs.

Restructuring costs relate to the costs associated with changing the operating model for the use of personal trainers within the business that was completed in 2019.

# The Gym Limited

## Notes to the financial statements For the year ended 31 December 2019

### 8. Employee costs

	31 December 2019	31 December 2018
	£'000	£'000
Wages and salaries	20,041	13,010
Social security costs	1,555	1,449
Employers' pension costs	347	263
Long term employee incentive costs (note 24)	725	350
	<b>22,668</b>	<b>15,072</b>

The average number of employees, including Directors, during the year was:

	31 December 2019	31 December 2018
	Number	Number
Operational	1,314	343
Administration	96	84
	<b>1,410</b>	<b>427</b>

### 9. Finance income

	31 December 2019	31 December 2018
	£'000	£'000
Bank interest receivable	32	22
	<b>32</b>	<b>22</b>

### 10. Finance costs

	31 December 2019	31 December 2018
	£'000	Restated* £'000
Loans from Group undertakings	765	499
Lease interest	12,852	10,929
Unwinding of discount	24	30
	<b>13,641</b>	<b>11,458</b>

\* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption

# The Gym Limited

## Notes to the financial statements

For the year ended 31 December 2019

### 11. Taxation

Tax on profit comprises:

	31 December 2019	31 December 2018 Restated*
	£'000	£'000
<i>Current income tax</i>		
Current tax on profits for the period	2,515	2,462
Adjustments in respect of prior years	493	-
Total current income tax	3,008	2,462
<i>Deferred tax</i>		
Origination and reversal of temporary differences	229	(489)
Change in tax rates		(28)
Adjustments in respect of prior years	(170)	240
Total deferred tax	59	(277)
<b>Tax charge in the Consolidated Statement of Comprehensive Income</b>	<b>3,067</b>	<b>2,185</b>

\* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption

The tax assessed on the profit on ordinary activities for the year is lower (2018: lower) than the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%).

#### Reconciliation of income tax charge

	31 December 2019	31 December 2018 Restated*
	£'000	£'000
Profit before tax	7,210	8,512
Tax calculation at standard rate of corporation tax of 19.0%	1,370	1,617
Expenses not deductible for tax purposes	709	151
Exceptional costs not deductible	666	205
Change in tax rates		(28)
Adjustments in respect of prior years	322	240
	<b>3,067</b>	<b>2,185</b>

**The Gym Limited**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**

**11. Taxation (continued)**

*During the year the Company recognised the following deferred tax assets and liabilities:*

	Accelerated capital allowances £'000	Intangible assets £'000	Share schemes £'000	Other £'000	Total £'000
At 1 January 2018 (restated)	(1,880)	(245)	47	2,251	173
Adjustment in respect of prior years	(240)	-	-	-	(240)
Acquired in business combination	(878)	(130)	-	-	(1,008)
Recognised in equity	-	-	48	-	48
Recognised in income statement	(419)	116	61	859	617
Change in deferred tax rate	41	(12)	-	-	29
<b>At 31 December 2018</b>	<b>(3,376)</b>	<b>(271)</b>	<b>156</b>	<b>3,110</b>	<b>(381)</b>
Adjustment in respect of prior years	93	(14)	(0)	91	170
Recognised in income statement	(23)	125	59	(390)	(229)
Recognised in equity	-	-	12	-	12
Change in deferred tax rate	-	-	-	-	-
<b>At 31 December 2019</b>	<b>(3,306)</b>	<b>(160)</b>	<b>227</b>	<b>2,811</b>	<b>(428)</b>

**Unrecognised tax losses**

The Company has tax losses of £nil (2018: £nil) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

**Change in tax rate**

The 2016 Finance Bill announced a reduction in the main rate of corporation tax from 19% to 17% from 1 April 2020. Deferred tax assets and liabilities have been measured at 17% as that is the rate at the balance sheet date expected to be in effect when the asset or liability reverses.

In the Budget on 11th March 2020, the government announced that the rate of corporation tax will remain at 19%. As the amending legislation has not been substantially enacted as at the date of reporting, no amendment has been made to the valuation of deferred tax assets and liabilities which continue to be measured at 17%.

The Finance Bill 2018- 2019 introduced a number of changes to the capital allowances regime. These included the following:

- a temporary increase in the maximum annual investment allowance from £200,000 to £1 million per annum from 1 January 2019 - 31 December 2020;
- the introduction of a new Structures and Buildings Allowance of 2% per annum on certain structural construction, improvements and repairs; and
- a reduction in the rate of relief applying to Special Rate plant and machinery from 8% to 6% from 1 April 2019.

Each of these changes has been considered within the calculation of the tax charge for the year.

**Uncertain tax positions**

The Company had no material uncertain tax provisions as at 31 December 2019 (2018: £nil).

# The Gym Limited

## Notes to the financial statements

### For the year ended 31 December 2019

#### 12. Business Combinations

##### *easyGym portfolio*

On 4 July 2018 the Company acquired the trade and assets of a portfolio of 13 gyms trading under the easyGym brand for an initial cash consideration of £14.5 million, with an additional £6.1 million deferred consideration payable on completion of a lease assignment on three sites and further contingent consideration if lease extensions are agreed on two sites. £4.0 million of deferred consideration was paid shortly after acquisition. At 31 December 2018, deferred and contingent consideration with fair value of £3.0 million was outstanding and recognised within other financial liabilities.

During the year ended 31 December 2019 the remaining deferred consideration of £2.1 million was paid.

During 2019 the Directors reassessed the probabilities of the lease extensions occurring in respect of the two sites concerned and now consider these to be virtually certain. As a consequence the estimated fair value of contingent consideration payable in respect of these lease extensions at 31 December 2019 has increased by £3.0m to £3.9 million (2018: £0.9 million).

The undiscounted settlement value of the contingent consideration could be between £nil and £3.9 million. The contingent consideration has been recognised at its fair value of £3.9 million using an expected value methodology. This is a Level 3 valuation under the fair value hierarchy.

A loss of £3.0 million was recognised in profit and loss during the year in relation to the liability (see note 7). The valuation of the liability will vary between the potential settlement amounts dependent on the likelihood of the contingent consideration becoming payable. In measuring the estimated contingent consideration it has been assumed that the probability of the relevant leases being extended is now 100% (2018: a range of nil to 50% probability). The estimated liability has not been discounted due to the short time frame of any possible pay out.

The acquisition was part-funded by an equity placing of £24.0 million by the Company's ultimate parent undertaking and an extension of the Company's ultimate parent undertaking's banking facilities of £10.0 million.

Prior to 3 July 2019 the Company also finalised the fair values of the assets and liabilities of these business combinations. The adjustments made in finalising fair values relate to the adjustment of fair value of the gym equipment acquired and the restated 2018 amounts are shown below.

The details of the purchase consideration, the net assets acquired, and goodwill are as follows:

	Fair value at acquisition £'000	Adjustments £'000	Total £'000
<b>Net assets acquired:</b>			
Intangibles	768	-	768
Property, plant and equipment	11,705	(836)	10,869
Provisions	(360)	-	(360)
Deferred tax	(1,008)	-	(1,008)
Net assets	11,105	(836)	10,269
Goodwill	10,397	836	11,233
<b>Total consideration</b>	<b>21,502</b>	<b>-</b>	<b>21,502</b>
<b>Satisfied by:</b>			
Cash consideration	14,500	-	14,500
Contingent consideration	7,002	-	7,002
<b>Total consideration</b>	<b>21,502</b>	<b>-</b>	<b>21,502</b>

# The Gym Limited

## Notes to the financial statements For the year ended 31 December 2019

### 12. Business Combinations (continued)

<i>Net cash outflow arising from acquisition:</i>	31 December 2019 £'000	31 December 2018 £'000
Contingent consideration paid	2,114	4,000
Cash consideration	-	14,500
<b>Net cash outflow</b>	<b>2,114</b>	<b>18,500</b>

Goodwill represents the synergies and economies of scale expected from combining each gym within the Company's operations, the premium associated with advantageous site locations, potential growth opportunities offered by each gym and the assembled workforce. It will not be deductible for tax purposes.

### 13. Property, plant and equipment

	Assets under Construction £'000	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Gym and other equipment £'000	Computer equipment £'000	Right of use asset £'000	Total £'000
<b>Cost</b>							
At 1 January 2018 (as previously reported)	2,368	118,075	9,452	56,157	1,950	-	188,002
On adoption of IFRS 16	-	-	-	-	-	203,717	203,717
At 1 January 2018 (Restated)	2,368	118,075	9,452	56,157	1,950	203,717	391,719
Transfers	(23,412)	16,403	247	6,465	297	-	-
Additions	23,409	10,403	827	4,187	519	62,198	101,543
Business combinations	-	9,165	183	2,357	-	-	11,705
Disposals	-	(191)	-	(987)	-	-	(1,178)
At 31 December 2018 (as previously reported)	2,365	153,855	10,709	68,179	2,766	265,915	503,789
Fair Value adjustment - note 12	-	-	-	(836)	-	-	(836)
At 31 December 2018 (Restated)	2,365	153,855	10,709	67,343	2,766	265,915	502,953
Additions	24,672	7,462	519	4,700	251	40,372	77,976
Disposals	-	(157)	-	(580)	-	-	(737)
WIP transfers	(23,339)	15,566	655	6,903	215	-	-
<b>At 31 December 2019</b>	<b>3,698</b>	<b>176,726</b>	<b>11,883</b>	<b>78,366</b>	<b>3,232</b>	<b>306,287</b>	<b>580,192</b>
<b>Accumulated depreciation</b>							
At 1 January 2018	-	25,944	4,163	24,899	1,114	-	56,120
On adoption of IFRS 16	-	-	-	-	-	34,810	34,810
Charge for the year	-	9,868	1,310	7,672	511	13,829	33,190
Disposals	-	(139)	-	(896)	-	-	(1,035)
At 31 December 2018 (Restated)	-	35,673	5,473	31,675	1,625	48,639	123,085
Charge for the year	-	12,238	1,308	8,039	618	19,050	41,253
Disposals	-	(110)	-	(332)	-	-	(442)
Impairment	-	1,165	24	498	9	1,189	2,885
<b>At 31 December 2019</b>	<b>-</b>	<b>48,966</b>	<b>6,805</b>	<b>39,880</b>	<b>2,252</b>	<b>68,878</b>	<b>166,781</b>
<b>Net book value</b>							
At 31 December 2018 (Restated)	2,365	118,182	5,236	35,668	1,141	217,276	379,868
<b>At 31 December 2019</b>	<b>3,698</b>	<b>127,760</b>	<b>5,078</b>	<b>38,486</b>	<b>980</b>	<b>237,409</b>	<b>413,411</b>

The impairment charge of £2,885,000 for 2019 includes £2,619,000 in relation to the closure of three sites during 2019. See note 7 for further details.

Right of use assets relate to property leases – see note 19.

In November 2019, tangible assets with a net book value of £732,000 were transferred from a fellow Group undertaking as part of a Group restructuring.

# The Gym Limited

## Notes to the financial statements For the year ended 31 December 2019

### 14. Intangible assets

	Goodwill	Customer list	Contract	Computer software	Total
	£'000	£'000	£'000	£'000	£'000
<i>Cost</i>					
At 1 January 2018	9,885	1,652	-	4,737	16,274
Additions	-	-	-	3,181	3,181
Business combinations	10,397	768	-	-	11,165
At 31 December 2018	20,282	2,420	-	7,918	30,620
Fair value adjustment - note 12	836	-	-	-	836
At 31 December 2018 (restated)	21,118	2,420	-	7,918	31,456
Additions	894	84	1,019	3,403	5,400
At 31 December 2019	22,012	2,504	1,019	11,321	36,856
<i>Accumulated amortisation</i>					
At 1 January 2018	-	138	-	1,502	1,640
Charge for the year	-	604	-	1,020	1,624
At 31 December 2018	-	742	-	2,522	3,264
Charge for the year	-	819	112	1,932	2,863
At 31 December 2019	-	1,561	112	4,454	6,127
<i>Net book value</i>					
At 31 December 2018	21,118	1,678	-	5,396	28,193
At 31 December 2019	22,012	943	907	6,867	30,729

In November 2019, a net book value of £2,052,000 of intangible assets was transferred from one of the Group's undertakings to the Company as part of the Group's restructuring.

#### Impairment test for goodwill

Each of the Company's individual gyms has been identified as a CGU. However, for the purposes of impairment testing goodwill has been allocated to the chain of gyms or group of CGUs expected to benefit from the business combination in which the goodwill arose. Since 2018, all the gyms operated under The Gym brand and the Company now operates only as one chain of gym.

Goodwill acquired through business combinations has therefore been allocated for impairment testing purposes accordingly as follows:

	2019	2018
	£'000	Restated* £'000
The Gym chain of gyms	22,012	21,118
	<u>22,012</u>	<u>21,118</u>

This represents the lowest level within the Company at which goodwill is monitored for internal management purposes. The recoverable amount of the CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the board covering a three year period. Cash flows beyond this period are extrapolated using the estimated growth rates stated in the key assumptions. The key assumptions used in the value in use calculations are as follows:

		2019		2018
	Discount rate	Growth rate	Discount rate	Growth rate
The Gym	9.4%	3.0%	9.6%	3.0%

Discount rates reflect management's estimate of return on capital employed required in each business. This is the benchmark used by management to assess operating performance and to evaluate future capital investment proposals.



# The Gym Limited

## Notes to the financial statements

For the year ended 31 December 2019

### 14. Intangible assets (continued)

These discount rates are derived from the Company's weighted average cost of capital. Changes in the discount rates over the years are calculated with reference to latest market assumptions for the risk free rate, equity market risk premium and the cost of debt.

Membership growth, growth rates in subscriptions rates and increases applied to costs have been modelled on a site by site basis.

Goodwill is tested for impairment on at least an annual basis, or more frequently if events or changes in circumstance indicate that the carrying value may be impaired. In the years under review, management's value in use calculations have indicated no requirement to impair.

### 15. Inventories

	31 December 2019	31 December 2018
	£'000	£'000
Goods for resale	654	379
	<b>654</b>	<b>379</b>

### 16. Trade and other receivables

	31 December 2019	31 December 2018
	£'000	Restated* £'000
Other receivables	2,443	3,896
Prepayments and accrued income	6,302	6,015
Amounts owed by group undertakings	2,039	702
	<b>10,784</b>	<b>10,613</b>

\* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption

Amounts owed by group undertakings are unsecured, interest free and are repayable on demand.

### 17. Cash and cash equivalents

Cash and cash equivalents earn interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Company and earn interest at the respective short term deposit rates.

# The Gym Limited

## Notes to the financial statements

For the year ended 31 December 2019

### 18. Trade and other payables

	31 December 2019	31 December 2018
	£'000	Restated* £'000
Trade Payables	10,354	9,327
Social security and other taxes	619	114
Accruals	9,223	9,737
Contract liabilities	7,961	6,973
Amounts owed to group undertakings	5,361	1,413
	<b>33,518</b>	<b>27,564</b>

\* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption

Amounts owed to group undertakings are unsecured, interest free and are repayable on demand.

### 19. Leases

This note provides information for leases where the Company is a lessee.

#### (i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	31 December 2019	31 December 2018
	£'000	Restated* £'000
<i>Right of use asset</i>		
Property leases	237,409	217,338
<i>Lease liabilities</i>		
Current	15,637	13,299
Non-current	262,706	238,558

For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 4.

#### (ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	31 December 2019	31 December 2018
	£'000	£'000
Depreciation charge of right of use assets	19,050	13,829
Interest expense (included in finance cost)	12,852	10,929

Total cash outflow for leases in 2019 was £25,913,000 (2018: £19,367,000).

## The Gym Limited

### Notes to the financial statements

For the year ended 31 December 2019

#### 19. Leases (continued)

##### *(iii) The Company's leasing activities and how these are accounted for*

The company leases gym sites and its head office. Rental contracts are typically made for fixed periods of 10 to 20 years, but may have extension options as well.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- amounts expected to be payable by the company under residual value guarantees, and
- payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. There are no variable lease payments, residual value guarantees.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by The Gym Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

##### *(iv) Extension and termination options*

Extension and termination options are included in a number of property leases across the company. These are used to maximise operational flexibility in terms of managing the assets used in the company's operations. The majority of extension and termination options held are exercisable only by the company and not by the respective lessor.

**The Gym Limited**  
**Notes to the financial statements**  
**For the year ended 31 December 2019**

**20. Borrowings**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed to group undertakings	20,268	17,000
	<b>20,268</b>	<b>17,000</b>
Due in less than one year	20,268	-
Due in more than one year	-	17,000
	<b>20,268</b>	<b>17,000</b>

The Company has a £17,000,000 intercompany loan owed to The Gym Group PLC which is unsecured, bears interest at 4.5% and was repayable on 12 November 2020. However, this loan has subsequently been rolled over and is now repayable 31 December 2021.

In November 2019, the Company had purchased the net assets from its group undertakings Derwent Fitness NW Limited and Derwent Fitness GS Limited via an issue of a promissory note amounted to £3,268,000 which is secured, bear interest at 2.0% and are repayable on demand.

**21. Provisions**

	<b>Dilapidations</b>	<b>Other</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 January 2018 (restated)	740	917	1,657
Business combinations	143	217	360
New provisions	242	462	704
Utilisation of provisions	-	(917)	(917)
Unwinding of discount	20	-	20
At 31 December 2018	1,145	679	1,824
New provisions	134	161	295
Utilisation of provisions	-	(412)	(412)
Unwinding of discount	24	-	24
Release of provision	-	(76)	(76)
At 31 December 2019	<b>1,303</b>	<b>352</b>	<b>1,655</b>
Due in less than one year	-	679	679
Due in more than one year	1,145	-	1,145
At 31 December 2018	1,145	679	1,824
Due in less than one year	-	352	352
Due in more than one year	1,303	-	1,303
At 31 December 2019	<b>1,303</b>	<b>352</b>	<b>1,655</b>

Other provisions comprise estimated costs arising from the restructuring activities associated with changing the personal trainer operating model within the business and for remedial works associated with the acquired sites.

A dilapidations provision is recognised when there is future obligation relating to the maintenance of leasehold properties. The provision is based on management's best estimate of meeting this obligation, but the amount and timing of this is uncertain.

# The Gym Limited

## Notes to the financial statements For the year ended 31 December 2019

### 22. Issued share capital

	31 December 2019 £'000	31 December 2018 £'000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £0.0001 each	68,161	68,162
<i>Own shares held</i>		
Deferred Ordinary shares of £1 each	6,816,258,250	6,816,258,250

Each Ordinary share carries one voting right. Preference shares carry no voting rights.

An interim dividend of £0.03 pence (2018: £0.15 pence) per Ordinary share was declared. The Directors do not recommend a final dividend.

### 23. Reserves

#### *Issued capital*

The balance of issued capital comprises the nominal value of Ordinary shares issued.

#### *Share premium*

Share premium comprises the excess of consideration received over nominal value of Ordinary shares issued.

#### *Capital contribution reserve*

The capital contribution reserve represents capital contributions from The Gym Group plc in relation to share based payment charges.

#### *Retained earnings*

Retained earnings comprises cumulative comprehensive income and losses less equity dividends paid.

### 24. Share based payments

Employees were awarded shares in The Gym Group plc during the year under the following share based payment arrangements:

- The Gym Group plc Performance Share Plan
- The Gym Group plc Share Incentive Plan – Free shares
- The Gym Group plc Share Incentive Plan – Matching shares
- The Gym Group plc Restricted Stock Plan
- The Gym Group plc Long Service Award Plan
- The Gym Group plc savings - Sharesave Scheme plan

In accordance with IFRS 2 'Share Based Payments', the value of the awards are measured at fair value at the date of the grant. The fair value is expensed on a straight-line basis over the vesting period, based on management's estimate of the number of shares that will eventually vest. The Company recognised a total charge of £645,891 (2018: £283,000) in respect of the Company's share based payment arrangements and related employer's national insurance of £78,932 (2018: £66,000).

The exercise price of all options under the schemes held during the year is 0.01p.

#### a) Performance Share Plan

Following the year end, the Company has modified its reporting of profit KPIs for 2018 and 2019 awards to reflect the impact of the introduction of IFRS16 (leases) and also changes in accounting assumptions regarding the amortisation of IT investments. The related vesting targets of the financial measures (Adjusted EPS and ROIC) have also been subsequently modified to ensure that there is no impact on the vesting outcome of the awards from the adoption of IFRS 16.

The outstanding awards as at 31 December 2019 will all vest within three years, subject to continued employment and the achievement of total shareholder return (TSR) and financial performance measures with each target contributing to 50% of the vesting conditions. Prior to the 2019 awards all of the financial performance measures were based on adjusted earnings per share (EPS) targets, with the 2019 awards split equally between EPS and return on invested

# The Gym Limited

## Notes to the financial statements

For the year ended 31 December 2019

### 24. Share based payments (continued)

capital (ROIC). The maximum term of these awards is three years and settlement is in the form of shares. The fair value of the EPS element was determined using the share price at the date of grant. The fair value of the TSR element of the award was estimated at the grant date using a Monte Carlo simulation model, taking into account the terms and conditions upon which the awards were granted. This model simulates the TSR and compares it against the group of comparator companies. It takes into account historic dividends and share price fluctuations to predict the distribution of relative share price performance.

The weighted average remaining contractual life was 1.3 years (2018: 1.4 years) at 31 December 2019.

#### b) Share Incentive Plan – Free shares

The awards are subject to continued employment requirements over a three year period and have no performance conditions. The shares are held by an employee benefit trust and vest in full at the end of the three year period. The weighted average remaining contractual life was 0 years (2018: 0.3 years) at 31 December 2019.

#### c) Share Incentive Plan – Matching shares

Under the Matching shares award, for every share purchased by an employee the Company will award one matching share, up to a maximum value. The awards are subject to continued employment requirements over a three year period and have no performance conditions. The shares are held by an employee benefit trust and vest in full at the end of the three year period. The weighted average remaining contractual life was 1.4 years (2018: 1.4 years) at 31 December 2019.

#### d) Restricted stock

The awards are subject to continued employment requirements over a three year period and have no performance conditions. The shares are held by an employee benefit trust and vest in full at the end of the three year period. The weighted average remaining contractual life was 1.5 years (2018: 1.8 years) at 31 December 2019.

#### e) Long Service Awards

The awards are subject to continued employment requirements over a three year period and have no performance conditions. The shares are held by an employee benefit trust and vest in full at the end of the three year period. The weighted average remaining contractual life was 1.5 years (2018: 1.8 years) at 31 December 2019.

#### f) Sharesave Scheme Plan

Under the Saving-related share scheme, employees are allowed to acquire options over the Company's shares at a discount of up to 20% of their market value at the date of grant. The awards are subject to continued employment requirements over a three year period and have no performance conditions. The shares are held by an employee benefit trust and are dilutive for the purposes of earnings per share.

The options vest in full at the end of the three year period. The weighted average fair value of each award issued under this scheme during the year was £2.02 (2018: nil) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 2.84 years (2018: nil) at 31 December 2019.

### 25. Commitments and contingencies

	31 December 2019 £'000	31 December 2018 £'000
Contracted for but not provided	3,461	1,041

### 26. Ultimate group undertaking

The Company's immediate parent undertaking is The Gym Group Operations Limited.

The Company's ultimate parent undertaking is The Gym Group Plc. The company is included within these Group accounts which are publicly available from [www.tggplc.com](http://www.tggplc.com).

## The Gym Limited

### Notes to the financial statements

#### For the year ended 31 December 2019

##### 27. Events after the reporting period

On 20 March 2020 the Company temporarily closed all of its gym sites following the UK Government's announcement that all gyms must close as part of the Government's COVID-19 containment plan. On 25 July 2020 gyms in England were permitted to re-open, followed by our gyms in Wales on 10 August 2020 and Scotland on 31 August 2020.

From the second half of September 2020, the emergence of a second wave of COVID-19 in the UK resulted in a decline in overall membership, to 638,000 by the end of October 2020. We were then required to close our 167 gyms in England on 4 November 2020 as part of the England wide lockdown announced by the UK Government to continue through to 2 December 2020 (the "November 2020 Lockdown"). While our 13 gyms in Scotland have remained open since reopening on 31 August 2020, our three gyms in Wales closed on 26 October as part of a 2-week lockdown announced by the Welsh Assembly.

The impact of these matters and possible further periods of closure on the Group's ability to continue as a going concern is set out in note 2. Despite the reduction in EBITDA, the Directors do not currently expect an impairment of goodwill, other intangibles, property, plant and equipment and right of use assets, as there was significant headroom when an impairment test was undertaken at the year end.