RNS Number : 2208T
The Gym Group plc
19 March 2019

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The Gym Group plc
('the Company' or 'The Gym')

Full Year Results
Continued rapid growth in membership, revenue and profit

The Gym Group plc, the fast growing, nationwide operator of 160[1] low cost, no contract, 24/7 gyms, announces its full year results for the year ended 31 December 2018.

Financial highlights

- Revenue of £123.9 million, an increase of 35.6% (2017: £91.4 million)
- Group Adjusted EBITDA[2] of £36.8 million, an increase of 31.6% (2017: £28.0 million)
- Basic adjusted earnings per share[3] increased to 8.4p (2017: 7.4p)
- Adjusted profit before tax[4] increased by 19.4% to £14.4 million (2017: £12.0 million)
- Statutory profit before tax of £10.0 million (2017: £9.2 million)
- Proposed final dividend of 0.95p per share, giving a proposed full year dividend of 1.30p per share (2017: 1.20p per share)

Strategic and operational progress

- 17 new gyms opened and 13 acquired from easyGym, increasing the total estate to 158 at December 2018
- Total year end members at 724,000, an increase of 19.3% versus prior year (2017: 607,000); average member numbers grew by 31.3% to 693,000 (2017: 528,000)
- LIVE IT take-up grows to 85,000 representing 11.7% of members at 31 December 2018
- Increase in the average revenue per member per month to £14.89 (2017: £14.41)
- Return on capital on mature estate above 30% target at 31% (2017: 32%)
- The new Personal Trainer model rollout across the estate to be completed by Autumn 2019

Outlook

- The new financial year has started well and current trading is in line with the Board's expectations with 793,000 members at the end of February, an increase of 9.5% since the year end; additionally, over the same period, the penetration of LIVE IT has grown to 13.5%
- Expect to achieve guidance range of 15 to 20 site openings for 2019
- The low cost gym market is expected to double in size in the next seven years, from its current number of sites to between 1,200 and 1,400 gyms (PwC)
- Intend to open first small box format gym in 2019 and commence a rollout thereafter

Richard Darwin, CEO of The Gym Group, commented:

"During 2018 we accelerated our growth to reach 158 gyms, delivering rapid increases in revenue and profits as well as important projects to support a business of scale in the longer term. Our purpose is to provide affordable access to everyone who wants to improve their wellbeing and we see every day the positive impact we achieve as The Gym continues to make health and fitness available and affordable to all. Independent research confirms the low cost gym market can at least double its number of sites supporting our ambition for further organic growth alongside the maturing of our current estate.

January and February are peak months for new memberships. We have had a successful start to the year and our brand now serves over 800,000 members with 10 million visits already so far this year. We plan on opening 15-20 gyms in 2019 as we extend access to affordable fitness nationwide."

An audio webcast of the analyst presentation will be available live on http://view-w.tv/795-1295-21250/en at 09:30.

A copy of the Annual Report and Accounts is available via our website www.tggplc.com

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1 158 sites branded The Gym and two sites currently branded easyGym. All gyms branded The Gym open 24/7 excluding six gyms as at 19 March 2019 due to licensing restrictions.
2 Group Adjusted EBITDA is calculated as operating profit before depreciation, amortisation, long term employee incentive costs and exceptional items.
3 Basic adjusted earnings per share is calculated as the Group's profit for the year before amortisation, exceptional items, and the related tax effect, divided by the basic weighted average number of shares.
4 Adjusted profit before tax is calculated as profit before tax before amortisation and exceptional items.

Chairwoman's Statement

The past year has seen significant progress at The Gym Group. Our rollout of sites took the number of gyms in which we operate from 128 to 158, comprising 17 organic openings and the acquisition of 13 gyms previously branded easyGym. This positions us strongly in the low cost gym sector, growing our market share to 24%. In addition to the organic site openings and acquisition, we converted and rebranded 22 sites including 12 former Lifestyle sites, acquired in 2017, and ten of the 13 former easyGym sites, strengthening our plaftorm for growth in 2019 and beyond. The rapid development of the Company has continued, with revenue and Group Adjusted EBITDA increasing in excess of 30% whilst mature estate ROCE was maintained above our 30% target.

These are significant achievements; however, our overall financial performance was marginally below the stretching targets set for the business and the high EBITDA hurdle set for bonus purposes. Whilst we decided to convert more Lifestyle sites than originally planned, the conversions took longer than expected and membership uplift following reopening took longer than planned. In addition some of the organic openings began trading later in the year than originally anticipated, resulting in fewer trading weeks and lower revenue than expected. We have spent time reviewing performance and adapting to build further resilience. But the bigger picture is that we start 2019 as a larger business than first planned and with strong brand and operating standards across all 158 gyms in a consumer market that continues to appreciate our proposition. This signals significant room for growth in a growing market - a recent study by PwC indicates the size of the UK low cost gym market could double to 1,200 to 1,400 sites by 2026.

It was also an important year for our leadership team. John Treharne, Founder of the business in 2007, expressed his desire to step back from the CEO position having led the business through more than ten years of continued profitable growth, through our IPO in 2015 and beyond 100 gyms; achievements he could barely have dreamed of in the early days. It has been a real privilege to work with such a successful entrepreneur whose restless energy to deliver higher standards and whose personal style has created a culture of which we are all proud. I am delighted that John remains on the Board as Founder Director, focussing on continued innovation and development and providing his great experience, network and wisdom to our business and to Board deliberations.

The Nomination Committee engaged in a thorough process to determine our succession plans. Further details are provided in the Report of the Nomination Committee in the Annual Report. Having considered external candidates, we were pleased to ask Richard Darwin to step up from CFO to CEO; this continuity is welcome and Richard is ambitious and committed to grow into the CEO role. We also undertook a thorough search to find a successor CFO to Richard and were delighted to appoint Mark George to the Board. Mark brings high quality, relevant experience and a good cultural fit; he is settling well into his role.

Transitioning a business from being Founder-led requires some thought about the unique qualities that Founders bring, particularly around culture and tone from the top. We have always been proud of the enthusiasm of our colleagues and our strong culture; the Board and executive team are determined to maintain this culture and our values as we begin the next chapter. Our purpose is to break down barriers to fitness for all: Open 24/7, whenever members are ready; no contract, come and go as it suits; outstanding value; excellent quality gyms. This simple and inclusive approach has introduced hundreds of thousands of people to health and fitness for the first time and we are passionate about continuing with this mission.

In order to codify the culture that we hold dear at The Gym Group we have established our values. We are committed to lead an organisation that helps members and each other 'Take The First Step'. We are characterised by 'Realness', being fair and honest in all we do. We run gyms that accentuate 'Friendliness' being welcoming, inclusive and not intimidating. 'Challenging Your Limits' is a mindset we bring to members, to each other and to the Company as a whole. We intend to live by these values throughout the Company.

During 2018 we worked on three key initiatives to build a stronger business. We began the rollout of LIVE IT, a class of membership that offers additional benefits for a small premium. This is developing well, with members enjoying the benefits of 'multiple sites' and 'bring a friend' as well as the FitQuest monitoring machines. We also undertook the implementation of a new ERP system, Workday, which will provide a far superior platform for our financial and HR systems going forward and was an important milestone. Finally, we continued to trial and refine our innovative new ways of working with Personal Trainers. This is perhaps the most important change to our business model since inception and so getting it right was more important than going fast. Our trial phase is now complete and full rollout will run from April through to September 2019. We are confident this makes us more attractive to Personal Trainers, who in turn contribute significantly to higher member satisfaction. All of our colleagues are supportive of this important change.

My Board colleagues and I continue to visit sites regularly; I have been pleased to visit former Lifestyle and easyGym sites this year to see the high quality of our conversions with member gratitude obvious. We grow fast but I have still visited the majority of our sites! Working out alongside members is the most fun, but also the most valuable way to see the daily life of our operations.

Our sites are often in some of the more economically challenged locations or in areas that have not previously had affordable access to a gym and so we bring an important benefit to the community to engage in fitness, many for the first time. With a young membership we know that adopting a healthy lifestyle can bring long term benefits to individuals and society as a whole. We were also proud to support 'Move for Movember', contributing over £100,000 from member and staff activities and donations to this important charity, in addition to member donations to other charities collected as part of the joining process.

Of course, much is being written about the uncertain economic times and Brexit in particular. We continue to expect to perform well; our high quality, outstanding value fitness proposition will remain relevant even if the economy becomes more subdued. We do not expect Brexit to impact our trading, having taken steps to ensure we have ready access to sufficient fitness equipment and fixtures to support our growth. We will remain focussed on delivering value for all stakeholders.

Finally, let me extend thanks to my Board colleagues, particularly so in a year of executive succession. Their support and challenge are much appreciated. In turn, on behalf of the Board, thank you to all our colleagues for their hard work, good nature and commitment to delivering results for all.

Penny Hughes
Chairwoman
19 March 2019

Chief Executive's Statement

Introduction

This is my first report since becoming CEO of The Gym Group. It is a privilege to be the second CEO in the Company's 11 year history, succeeding our Founder, John Treharne. I am delighted that John remains an integral part of the business and is on the Board as Founder Director, enabling us to benefit from his experience, knowledge and contacts. As the low cost gym market continues to develop and grow, we will draw on his insight and ensure that we continue to develop the business reflecting the culture that John established.

This has been another significant year of growth for the business and The Gym Group continues to build a strong market share in the low cost gym sector through a combination of acquisition and organic openings. During the year we expanded our estate by a further 30 sites, bringing the total to 158 at year end. We have doubled the number of sites in two and a half years. 17 new sites were opened during the year as a result of our organic opening programme (within our target of 15-20 sites), and additionally we acquired 13 sites from easyGym - further strengthening our position in the South East. We financed this acquisition principally through an equity placing to maintain a relatively unleveraged balance sheet and a strong covenant for landlords; we are grateful for the support of our shareholders which enabled us to accelerate our growth in this way.

This expansion continues to grow our membership base, with total year end members up 19.3% to 724,000 (2017: 607,000) and average members up 31.3% to 693,000 (2017: 528,000). The ongoing expansion of our business has led to an increase in all our key metrics: revenue up 35.6% to £123.9 million (2017: £91.4 million) and Group Adjusted EBITDA up by 31.6% to £36.8 million (2017: £28.0 million). Adjusted Profit before Tax increased by 19.4% to £14.4 million (2017: £12.0 million) and Basic Adjusted Earnings per Share up by 13.5% to 8.4p (2017: 7.4p). Our statutory Profit before Tax has increased to £10.0 million (2017: £9.2 million).

Despite these metrics, a combination of the acceleration of the rebranding of the Lifestyle Fitness sites and some delays to the new opening schedule to be later second half weighted, caused lower revenue and fewer trading weeks. Despite rapid growth in both revenue and EBITDA, the Company delivered a less profitable result than the Board's high expectations and below the EBITDA hurdle set for bonuses. These impacts on profits are expected to have only a short term effect. We are extremely encouraged by the response of the Lifestyle sites, which have had more than 20% membership growth since acquisition; and the gyms opened in 2018 are maturing as we expect.

The low cost gym market continues to grow rapidly, and our organic and acquisition strategy has enabled us to continue to build market share. Low cost gyms remain the most attractive part of the health and fitness market. Overall, our market share increased from 22.4% in December 2017 to 24.2% in December 2018. The Gym Group achieved 40% of the net growth in the market, as we continue to expand our market share, taking members from existing operators as well as those who have never been a member of a gym before.

In a recent market report commissioned by us, PwC has evaluated the gym market in the UK and estimated the potential size of the market to be 1,200 to 1,400 low cost gyms, compared to 1,000 in previous assessments. This means that the market is forecast to double in size from where it is today (654 low cost gyms at December 2018). Penetration is estimated to increase both into new catchments that currently do not have a low cost gym, as well as other catchments that can increase their number of low cost gyms. Half of the future growth is forecast to come in the size of catchments in which we have opened to date ('standard catchments') and half in smaller catchments. The PwC assessment implies that low cost member penetration could grow to 5-7% of the population by 2026 (2018: 3.7% penetration), a penetration growth rate well below that achieved historically. With the strength of our pipeline we are extremely well placed to take advantage of the growth in standard catchments and are working on the concept that can take advantage of the smaller catchment opportunity; we intend to open our first small box format gym later this year and expect to commence a rollout thereafter.

Strategic progress

Delivering performance from gyms
Our primary financial goal is to develop sites to maturity and achieve high levels of return on capital. Overall this remains a business with significant potential, with a number of sites that have been acquired or opened in the last two years yet to reach maturity (in terms of member numbers). At the year end we had 89 sites that have been operating for more than two years (2017: 74 sites), just 56% of the total estate. Of the remaining 69 sites, 31 were acquired and 38 opened organically in 2017 and 2018. These sites continue to increase profitability and are maturing as anticipated. Mature Site EBITDA was £39.2 million, up 15.0% (2017: £34.1 million) and Mature Site EBITDA per site was £440,000 (2017: £461,000). This reduction in Mature EBITDA per site was expected and consistent with our move to smaller sites built at lower capital cost; we continue to target returns on capital of greater than 30% across our mature sites for organic openings and in 2018 we achieved that target again with a return on capital in the mature estate of 31% (2017: 32%). The return on capital for mature sites opened between 2008 and 2013 and for sites opened in 2014 to 2016 is also above 30%.

The 18 sites acquired as part of the Lifestyle transaction in September 2017 are still maturing. We took the decision during the year to accelerate rebranding of all 18 sites to The Gym brand, with 12 of these conversions taking place in 2018. This will enable these gyms to benefit from our brand, marketing, systems and operating model in 2019. Although it resulted in lower revenue and more weeks of site closures than initially expected in 2018, we were prepared to make this decision in order to maximise the best long term result for the business. The consideration for the Lifestyle business was £20.5 million, alongside total conversion costs of £9.0 million, an average of £499,000 per site. We will target a 20% plus return on capital by 2020 on this acquisition. This percentage is lower than for our organic openings, reflecting the acquisition premium incurred on such sites.

Having integrated the Lifestyle sites ahead of schedule, we successfully completed on a second significant transaction with the acquisition of 13 sites branded easyGym in July 2018. This acquisition demonstrates our focus on quality as we purchased 13 out of 16 sites, leaving behind three sites that failed to meet our location and financial criteria. The consideration for these 13 sites was £20.6 million, with contingent consideration of £4.1 million if two sites have lease extensions agreed; discussions on the £4.1 million remain ongoing. At December 2018 we had successfully converted ten of these sites to The Gym brand, enabling them to benefit from our marketing and our platform during the important January / February trading period. The total cost of conversion has been £312,000 per site. The easyGym acquisition further strengthens our network in London (eight sites) and in four other cities where we already operate (Southampton, Cardiff, Liverpool and Birmingham). In particular, we expect strong take-up of LIVE IT, our premium pricing initiative, across the easyGym sites where there has not previously been a multi-site option for members. As with the Lifestyle acquisition, we are targeting a 20% return on capital for this acquisition by 2020.

One of the most significant changes in the past year has been the overhaul of our marketing capability. This was facilitated by the appointment of new agencies in media and creative, which has enabled us to deliver fresh and innovative marketing ahead of the peak trading periods. During 2018 our marketing plans used out of home, social media, performance marketing and local awareness. The marketing plan for January / February 2019 introduced a fresh new campaign based on members' motivations for using The Gym - 'So I can' - with the launch of our first ever TV advert.

Improving operating efficiencies

Mature Site EBITDA margin in 2018 was marginally lower at 45.3% (2017: 47.0%), in line with our expectations and reflecting our continued ability to apply our operating model across a business of growing scale. The slight decrease in Mature Site EBITDA margin does not impact our ability to meet return on capital targets. We have had ongoing success in being able to secure new sites with the appropriate level of fixed cost base to operate our business efficiently, taking advantage of our ever increasing scale.

We ended 2018 with an average headline price of £17.14 per month (2017: £17.50). Our philosophy remains to be a high quality operator charging the lowest price in any given market. As in previous years, we have sought to maximise revenue on a site-by-site basis by balancing volume and price, so took the decision at the end of 2018 to reduce prices across approximately 30% of the estate. We are pleased with the response to this decision, with membership volumes growing by 1.5 times the growth rate of the rest of the estate (October 2018 to February 2019).

Some of these sites were the Lifestyle sites that had not gone through the same pricing changes that one of our organic openings experiences. In other sites we continue to endeavour to increase yield where the local market allows - pricing decisions are made through a combination of data analytics and local market intelligence. Average Revenue per Member per Month increased by 3.3% across our estate and we expect further progress in 2019 as sites become more established and LIVE IT has been in place for a whole year across the estate.

LIVE IT, our premium pricing initiative, was rolled out nationally by May 2018 and 85,000 members had taken advantage of this offer by December 2018. We continue to be encouraged by the level of take-up and expect further growth in absolute numbers as those sites that have not had LIVE IT for a whole year go through their initial months of member acquisition. As expected the most significant take-up is from new members joining. We continue to monitor the characteristics of tenure and attrition of our LIVE IT members and currently they match those of our DO IT. members. LIVE IT will be an important contributor to yield growth in 2019.

Achieving our rollout strategy

We opened 17 sites organically in 2018. Our primary focus is choosing optimal locations and we open the number of sites that is consistent with that aim. Our strong, listed company covenant is highly attractive to landlords, which results in winning the best sites that come onto the market. We continue to expect to open a geographically diverse range of sites to build on our strength in the South East, where 50% of our gyms are currently located. In 2018 we opened a number of strong London sites; today 55 of the sites are located within the M25. Our new sites continue to trade well with strong opening profiles. We are very encouraged by the performance of the gyms opened in 2017, which have delivered an EBITDA margin that is consistent with the first year performance of previous cohorts, and expect to see strong returns on capital. The 2018 cohort opened later in the year than originally planned. This meant they were earlier in their maturity profile and therefore resulted in lower revenue in 2018 than our original plans.

The flexibility of our model allows us to take advantage of trends in the property market. Increasingly we are taking space in new developments such as Tottenham White Hart Lane, Sutton and Stockport. In 2019 we anticipate opening 15 to 20 sites and the pipeline of new sites is encouraging for 2019 and into 2020. As in previous years, openings are expected to be weighted towards to the second half of 2019.

In addition to the conversions of the Lifestyle and easyGym sites, investment continued across our existing estate with a substantial refurbishment programme to ensure that all our sites benefit from modern signage along with the most up-to-date branding and product mix. Our aim was to ensure the estate matched a common standard by the end of 2018 and other than in a handful of sites this was achieved. Our rolling maintenance programme requires sites to be closed every six months for two days and ensures sites are maintained to a high standard. In the future we will focus the more substantial refurbishments on sites that need a competitive boost in their local market.

In the past year we retendered our gym equipment supply contract, splitting the contract into equipment and accessories and in the process achieving a further 10% reduction in capital costs across these areas. As part of our Brexit planning we have stockpiled the capital requirements, including gym equipment, sourced from Europe to ensure we can continue to meet our rollout target in the first six months of 2019.

Developing the member proposition

Our new system of tracking member satisfaction, which measures customer feedback, has now been deployed at site level for over a year. Detailed member satisfaction feedback is available via an app for General Managers, enabling them to focus their time on activites that improve levels of member satisfaction. This new system has enabled us to identify best practice and roll it out across the estate. The new Personal Trainer operating model is another driver behind enhanced member satisfaction and reflects the determination of our business to put member service at the heart of everything we do.

Our use of technology

Following the launch of the Member Management System in 2017, further advances have been made in developing technology infrastructure in 2018. The launch of Workday has given us a robust finance and HR system that will strengthen our capability in these areas for the future and was another significant achievement by our team. Having developed a platform for future growth, we will continue to research ways in which using technology will enhance the customer experience. Late in 2018 we launched our member app and there will be further upgrades launched over the coming months. In addition, we are investing in Artificial Intelligence to give us further insight in areas such as pricing and churn and to enable us to drive further efficiencies from our operating processes. Technology will remain fundamental to the delivery of our business model and assist in facilitating the low cost environment in which we operate.

Our people

During the year we commenced the trial of a new operating model that will enable our Personal Trainers to take up part-time employment. The majority of our Personal Trainers will be contracted for 12 hours and, outside these hours, they will continue to run their business on a self-employed basis in our gyms and will pay a monthly rent to access the gym. During the year we received HMRC clearance for the new model. We transitioned 24 new and existing sites onto the new model during the year.

The trials have shown that the new model enhances member satisfaction compared to the previous arrangements. During the trial we re-evaluated the commercial proposition to the Personal Trainers and decided to reduce the rent that is charged to those Personal Trainers who will also be part-time employees. The new model will be financially neutral for Personal Trainers. This change to the financial arrangements has been extremely well received by our Personal Trainer colleagues. The new model is probably the most significant change to the way this business has operated in its history, hence the care and attention we have taken to ensure the model is correct. We believe it will deliver tangible benefits and retain our competitive advantage by attracting and retaining the best Personal Trainers operating in our gyms.

The business has grown rapidly over the past few years and in doing so it is important that we identify the features that have made it a special place to work. As a result of the transition of John Treharne from CEO to Founder Director, we decided we needed to consult with a number of colleagues to define the values and culture associated with The Gym Group. These values will drive our colleague engagement and member interaction in future years. Our overall brand purpose is that The Gym breaks down barriers to fitness. This has been central to The Gym's purpose since it created the first low cost gym brand in the UK, and became the first to offer 24/7 operation and online-only sign-ups. As we continue to develop we will ensure we remain true to our culture. I feel proud that our business has a strong social purpose in improving the health of the nation. We believe this conviction and our core low cost ethos will allow us to continue to drive demand, even with the uncertain economic environment caused by Brexit.

We continue to build the central teams that can support the management at site level. Our intent remains to drive performance at a local level while providing high quality central support. In 2018, the focus has been to build strong teams that can support our ambition. Infrastructure developments will enable us to run a business of greater scale and substance. I was delighted to welcome Mark George to the team and the Board as CFO. Mark brings a highly relevant set of skills in digital businesses such as ASOS and Auto Trader as well as multi-site experience from a number of roles at Tesco. Ann-marie Murphy also joined as Director of People and Development during the year and already has made significant progress in supporting our front-line operations.

The commitment of all our people remains key to the success of this business, whether it be in supporting new site openings, integrating acquisitions or in day-to-day operations. Over the past year we have welcomed many employees from Lifestyle and easyGym and other new colleagues to support our growth. Additionally, during the coming year we will bring on board a further 1,500 Personal Trainers as part-time employees. I would like to welcome them all to the business and along with our existing dedicated colleagues, I thank them all for their ongoing commitment to this business.

Outlook

The new financial year has started well and current trading is in line with the Board's expectations. Membership numbers at the end of February show an increase to 793,000, another record level, with a 9.5% increase since December 2018. The significant levels of member growth are being reinforced by the performance of our acquisitions from Lifestyle and easyGym that have been fully integrated into the Group. In 2019 we anticipate opening 15 to 20 sites, with six in the first half of the year. We expect to maintain our ratio of having over 50% of our sites in the South East and expect LIVE IT to continue to increase in penetration and underpin our yield growth.

We have developed a portfolio of outstanding gyms and in 2019 we are committed to continue driving profitable progress. We remain confident in our model and its ability to drive value for colleagues and shareholders as the business continues its rapid development.

Richard Darwin
Chief Executive Officer
19 March 2019

Financial Review

Summary

I am pleased to be presenting these annual results for the first time as The Gym Group's new CFO. I am fortunate to have joined such a great business; one that's in a market of long term structural growth and has a well proven business model that can deliver outstanding value for its members and at the same time an attractive return on capital to shareholders.

2018 has been a significant year of progress for the Group, with strong organic growth, a new acquisition, the integration of a previous acquisition and many other important initiatives that position us well for continued growth in the coming years.

The Group has delivered another strong set of financial results, with revenue growing 35.6% to £123.9 million and Group Adjusted EBITDA growing 31.6% to £36.8 million. We have also continued to deliver a strong return on capital, with ROCE in our mature sites at 31% (2017: 32%).

The growth in Group Adjusted EBITDA has been achieved alongside significant transformation and investment in the business in 2018 with 17 organic site openings, the acquisition of 13 sites from easyGym and the conversion of the remaining sites acquired from Lifestyle Fitness in 2017. We financed the easyGym acquisition principally through an equity placing, raising £24.0 million.

Group Operating Cash Flow increased 37.7% to £34.0 million (2017: £24.7 million) as a result of the growth in EBITDA and continuing efficient use of working capital.

	2018	2017
	£'000	£'000
Total Number of Gyms	158	128
Total Number of Members ('000)	724	607
Revenue	123,884	91,377
Group Adjusted EBITDA[1]	36,813	27,963
Group Adjusted EBITDA before Pre-Opening Costs[2]	39,305	30,598
Adjusted Earnings[3]	11,230	9,527
Group Operating Cash Flow[4]	33,972	24,677
Statutory profit before tax	9,967	9,191

1 Group Adjusted EBITDA is calculated as operating profit before depreciation, amortisation, long term employee incentive costs, and exceptional items.
2 Group Adjusted EBITDA before Pre-Opening Costs is defined as Group Adjusted EBITDA excluding the costs associated with new site openings.
3 Adjusted Earnings is calculated as the Group's profit for the year before amortisation, exceptional items, and the related tax effect.
4 Group Operating Cash Flow is calculated as Group Adjusted EBITDA less working capital less maintenance capital expenditures.

Result for the year

	2018	2017
	£'000	£'000
Revenue	123,884	91,377
Cost of sales	(1,007)	(982)
Gross profit	**122,877**	**90,395**
Administration expenses	(107,825)	(78,015)
Long term employee incentive costs	(1,012)	(774)
Exceptional items	(2,343)	(1,664)
Operating profit	**11,697**	**9,942**
Finance income	22	12
Finance costs	(1,752)	(763)
Profit before tax	**9,967**	**9,191**
Tax charge	(2,761)	(2,020)
Profit for the year	**7,206**	**7,171**
Tax charge	2,761	2,020
Amortisation of intangible assets	2,051	1,175
Exceptional administration expenses	2,343	1,664
Adjusted profit before tax	**14,361**	**12,030**
Tax charge	(2,761)	(2,020)
Tax effect of above items	(370)	(483)
Adjusted Earnings	**11,230**	**9,527**

	2018	2017
	£'000	£'000
Operating profit	**11,697**	**9,942**
Depreciation of property, plant and equipment	19,710	14,408
Amortisation of intangible assets	2,051	1,175
Exceptional items	2,343	1,664
Long term employee incentive costs	1,012	774
Group Adjusted EBITDA	**36,813**	**27,963**

Revenue

The increase in revenue was driven by a combination of growth in the number of members and an increase in the Average Revenue Per Member Per Month ('ARPMM').

We ended the year with 724,000 members, an increase of 19.3% compared with the closing membership level in December 2017. As a result of having the Lifestyle sites for a whole year compared to just three months in 2017, plus the 13 easyGym sites acquired in July 2018, the average membership level across the 12-month period grew by 31.3% to 693,000 (2017: 528,000).

ARPMM increased from £14.41 to £14.89 in 2018 through a combination of price increases, member mix and the take-up of our premium membership package LIVE IT, which, following a full year's rollout, increased its penetration to 11.7% of our membership by the end of the year.

As a result of these factors, revenue for the year increased 35.6% to £123.9 million (2017: £91.4 million).

Group Adjusted EBITDA

Group Adjusted EBITDA increased by 31.6% to £36.8 million (2017: £28.0 million), due to sites opened in recent years increasing their contribution to profits. Group Adjusted EBITDA margin reduced from 30.6% to 29.7%, reflecting the absorption of the Lifestyle Fitness and easyGym sites, and the fact that a large proportion of our sites are immature. Our mature sites (those more than two years old) delivered Group Adjusted EBITDA margin of 45.3%, we therefore expect the overall Group margin to grow over time as our estate matures.

Group Adjusted EBITDA is adversely affected by pre-opening costs. Group Adjusted EBITDA before Pre-Opening Costs increased by 28.5% to £39.3 million. Pre-opening costs decreased from £2.6 million to £2.5 million, reflecting 17 site openings in 2018 compared to 21 in 2017.

Growth in EBITDA from our mature sites has contributed significantly towards the growth in Group Adjusted EBITDA. Mature Site EBITDA[1] contributed by the 89 mature sites increased to £39.2 million (2017: £34.1 million Mature Site EBITDA from 74 mature sites).

EBITDA from new sites increased from £3.0 million in 2017, representing 54 sites, to £8.3 million in 2018, with 69 sites at 31 December 2018. New sites include 18 sites acquired from Lifestyle Fitness in 2017 and 13 sites from easyGym in 2018, in addition to new gyms opened in 2017 and 2018, which are performing well.

Administration expenses

Administration expenses increased by 38.2%, primarily due to the number of gyms increasing from 128 at 31 December 2017 to 158 at 31 December 2018.

The largest cost within administration expenses is property lease rentals, which increased from £17.3 million in 2017 to £23.0 million in 2018 due to the increase in the number of gyms. Staff costs also form a significant part of administration expenses and increased from £13.2 million to £16.0 million, excluding a charge of £1.0 million (2017: £0.8 million) from long term employee incentives. The increase was driven by both gym openings and a scaling up of support office costs to support future growth. Support office costs increased from £9.1 million in 2017 to £10.7 million in 2018 due primarily to headcount increases.

Depreciation

Depreciation charges increased from £14.4 million in 2017 to £19.7 million in 2018, as a result of the increased number of sites in our estate. Depreciation as a percentage of revenue remained flat at 16%. Amortisation charges increased from £1.2 million to £2.1 million due to increases in software investment and acquisition intangibles.

Exceptional items

Exceptional costs increased to £2.3 million from £1.7 million in 2017 and comprised: £1.2 million in restructuring costs relating to the change in how we work with Personal Trainers in our gyms (including restructuring costs expected to be incurred in the rollout in 2019); £0.6 million of costs associated with the acquisition of easyGym; and £0.5 million of costs relating to the integration of the Lifestyle Fitness and easyGym assets.

Long term employee incentives

During the year the Group granted further Performance Share Plan ('PSP'), Share Incentive Plan ('SIP') shares and Restricted Stock Options to certain members of senior management. The awards vest in three years provided continuous employment during this period and, in the case of the PSP, certain performance conditions are attained relating to the earnings per share and total shareholder returns.

The Group continues to operate a matching shares scheme under the SIP, where for every share purchased by an employee the Group will award one matching share, up to a maximum value, which vest in three years subject to continued employment.

The Group recognised a charge of £1.0 million (2017: £0.8 million) in relation to these share based payment arrangements.

Finance costs

Finance costs increased to £1.7 million in 2018 (2017: £0.8 million) with further drawing on our debt facilities to fund the expansion of our estate. At December 2018 the Group had undrawn facilities of £4.0 million within its five-year bullet repayment facility and

£7.0 million from its revolving credit facility, ending the year with net debt of £46.0 million, representing 1.25x Group Adjusted EBITDA (2017: 1.34x). This relatively low level of leverage ensures we can offer a strong covenant to potential landlords, providing us with a significant commercial advantage in the securing of desirable new sites.

Taxation

The Group has incurred a tax charge of £2.8 million for the year ended 31 December 2018, which represents an effective tax rate ('ETR') on statutory profit before tax of 27.7% (2017: 22.0%). The increase in ETR is due to an increased level of exceptional items which are not deductible for tax purposes, and increased charges relating to share based payments.

The underlying effective tax rate on adjusted profit before tax, after adjusting for amortisation and exceptional items, is 21.8% (2017: 20.8%).

Earnings

Statutory profit before tax increased to £10.0 million (2017: £9.2 million), largely as a result of the increase in Group Adjusted EBITDA, offset by increased depreciation due to increased number of sites, increased amortisation of intangible assets from acquisitions and higher exceptional costs. The Group delivered a profit for the year of £7.2 million (2017: £7.2 million) as a result of the factors discussed above.

Basic earnings per share ('EPS') was 5.4p (2017: 5.6p). Basic adjusted EPS was 8.4p (2017: 7.4p). Adjusted EPS is calculated by excluding amortisation, exceptional items, and the resultant tax effect from earnings.

Dividend

The Board expects to continue to adopt a progressive dividend policy. When making proposals for the payment of dividends, the Board considers the resources available to the Group.

The Group declared an interim dividend of 0.35p per share earlier in the year. The Board recommends a final dividend of 0.95p per share in respect of the financial year ending 31 December 2018, resulting in a full year dividend of 1.30p per share. Shareholders will be asked to approve the dividend at the AGM on 4 June 2019, for payment on 14 June 2019 to shareholders whose names are on the register on 24 May 2019. The shares will be marked ex-dividend on 23 May 2019.

Cash flow

	2018	**2017**
	£'000	**£'000**
Group Adjusted EBITDA	36,813	27,963
Movement in working capital	5,477	2,981
Maintenance capital expenditure[2]	(8,318)	(6,267)
Group Operating Cash Flow	**33,972**	**24,677**
Expansionary capital expenditure[3]	(57,551)	(52,453)
Exceptional items	(2,105)	(1,147)
Taxation	(2,009)	(1,050)
Finance costs	(1,349)	(759)
Dividends paid	(1,637)	(1,347)
Other net cash flows from financing and investing activity	33,249	27,714
Net cash flow	**2,570**	**(4,365)**

Group Operating Cash Flow has increased by 37.7% from £24.7 million to £34.0 million as a result of an increase in Group Adjusted EBITDA and efficient use of working capital. Total maintenance capital expenditure was £8.3 million (2017: £6.3 million). Our Group Operating Cash Flow Conversion has increased slightly to 92.3% (2017: 88.2%).

Expansionary capital expenditure of £57.6 million (2017: £52.5 million) arises as a result of the fit-out of new gyms, the acquisition of the easyGym portfolio and the conversion of the Lifestyle sites acquired in 2017.

Balance sheet

	2018	**2017**
	£'000	**£'000**
Non-current assets	241,039	196,723
Current assets	15,318	9,691
Current liabilities	(56,957)	(45,401)
Non-current liabilities	(49,558)	(40,129)
Net assets	**149,842**	**120,884**

Our business model and strong conversion from revenue to cash results in an uncomplicated balance sheet.

Non-current assets have increased by £44.3 million to £241.0 million (2017: £196.7 million). This is largely as a result of £22.9 million of assets and goodwill acquired from easyGym, capital expenditure in property, plant and equipment and intangibles totalling £43.7 million, offset by depreciation and amortisation of £21.8 million.

Current assets have increased due primarily to higher cash balances. Current liabilities have increased by £11.6 million as a result of lease incentives associated with new gyms opening in the year, contingent consideration associated with the easyGym acquisition, £3.0 million drawn on the revolving credit facility at 31 December 2018 and increases in trade and other payables as the size of our business grows.

The Group has drawn £46.0 million of its five-year bullet repayment facility and £3.0 million of its revolving credit facility. £11.0 million of the facilities were undrawn at 31 December 2018.

Guidance for 2019

On 1 January 2019 the Group will adopt IFRS 16 'Leases'. The indicative effect of this new accounting standard is shown in note 9.

We plan to continue our progressive dividend policy in which we pay 10 to 20% of adjusted earnings to shareholders each year in the form of dividends. With the move to the IFRS 16 in 2019 our statutory earnings will change versus earnings levels previously stated under the previous accounting standard. However, our intention is to continue to pay dividends based on 10 to 20% of adjusted earnings as measured in the pre-IFRS16 definition.

In addition:

- We expect 15 to 20 new site openings.
- We expect new site fit-out costs to continue to be between £1.3 million and £1.4 million per site.
- We anticipate £3.5 million to £4.0 million of capital expenditure on technology projects.
- Maintenance capital expenditure is expected to be between 6% and 7% of revenue in 2019.
- Depreciation is expected to be just under 16% of revenue (on an IAS 17 basis, consistent with 2018 reporting).
- The charge for long term employee incentives is anticipated to be £1.8 million in 2019.
- To support the growth of the business we expect support office costs to be 8.0% to 8.5% of revenue (2018: 8.6%).
- The future effective tax rate, after adjusting for amortisation and exceptional items, is estimated to be 23.0% in 2019 (2018: 21.8%).

Mark George
Chief Financial Officer
19 March 2019

1 Mature sites are defined as gyms that have been open for 24 months or more measured at the end of the year. New sites are defined as gyms that have been open for fewer than 24 months at the end of the year, and include all 18 Lifestyle sites and all 13 easyGym sites.
2 Maintenance capital expenditure comprises the replacement of gym equipment and premises refurbishment. It is a non-IFRS GAAP measure.
3 Expansionary capital expenditure relates to the Group's investment in the fit-out of new gyms, the acquisition of the Lifestyle and easyGym portfolios and technology projects. It is stated net of contributions towards landlord building costs. It is a non-IFRS GAAP measure.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	31 December 2018 £'000	31 December 2017 £'000
Revenue		123,884	91,377
Cost of sales		(1,007)	(982)
Gross profit		**122,877**	**90,395**
Administration expenses		(111,180)	(80,453)
Operating profit		**11,697**	**9,942**
Being:			
- Group Adjusted EBITDA[1]		**36,813**	**27,963**
- Depreciation	6	(19,710)	(14,408)
- Amortisation		(2,051)	(1,175)
- Exceptional items	3	(2,343)	(1,664)
- Long term employee incentive costs		(1,012)	(774)
Finance income		22	12
Finance costs		(1,752)	(763)
Profit before tax		**9,967**	**9,191**

Tax charge	5	(2,761)	(2,020)
Profit for the year attributable to equity shareholders		**7,206**	**7,171**
Other comprehensive income for the year			
Items that may be reclassified to profit or loss			
Changes in the fair value of derivative financial instruments		(11)	-
Items that will not be reclassified to profit or loss			
Changes in the fair value of financial assets at fair value through other comprehensive income		(463)	-
Total comprehensive income attributable to equity shareholders		**6,732**	**7,171**
Earnings per share	4	**pence**	**pence**
Basic		5.4	5.6
Diluted		5.3	5.6

1 Group Adjusted EBITDA is a non-GAAP metric used by management and externally by investors

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	31 December 2018 £'000	31 December 2017 Restated[1] £'000
Non-current assets			
Property, plant and equipment	6	164,505	133,356
Intangible assets		76,080	62,536
Trade and other receivables		-	515
Financial assets at fair value through other comprehensive income		285	-
Derivative financial instruments		169	-
Available-for-sale financial assets		-	316
Total non-current assets		241,039	196,723
Current assets			
Inventories		379	197
Trade and other receivables		11,912	9,037
Cash and cash equivalents		3,027	457
Total current assets		15,318	9,691
Total assets		**256,357**	**206,414**
Current liabilities			
Trade and other payables		48,983	43,662
Other financial liabilities		3,002	-
Borrowings	7	3,000	-
Provisions		679	917
Income taxes payable		1,293	822
Total current liabilities		56,957	45,401
Non-current liabilities			
Borrowings		45,165	37,113
Other financial liabilities		-	184
Provisions		1,145	740
Deferred tax liabilities	5	3,248	2,092
Total non-current liabilities		49,558	40,129
Total liabilities		**106,515**	**85,530**
Net assets		**149,842**	**120,884**
Capital and reserves			
Issued capital		14	12
Own shares held		48	48
Capital redemption reserve		4	4

Share premium	159,474	136,280
Hedging reserve	(11)	-
Retained deficit	(9,687)	(15,460)
Total equity shareholders' funds	**149,842**	**120,884**

1 See note 8 for details regarding the restatement as a result of fair value adjustments.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Note	Issued capital £'000	Own shares held £'000	Capital redemption reserve £'000	Share premium £'000	Hedging reserve £'000	Retained deficit £'000	Total £'000
At 1 January 2017		12	48	4	136,280	-	(22,054)	114,290
Profit for the year and total comprehensive income		-	-	-	-	-	7,171	7,171
Share based payments		-	-	-	-	-	655	655
Deferred tax on share based payments		-	-	-	-	-	115	115
Dividends paid		-	-	-	-	-	(1,347)	(1,347)
At 31 December 2017		12	48	4	136,280	-	(15,460)	120,884
Adjustment from adoption of IFRS 15		-	-	-	-	-	(263)	(263)
Profit for the year		-	-	-	-	-	7,206	7,206
Share based payments		-	-	-	-	-	797	797
Deferred tax on share based payments	5	-	-	-	-	-	133	133
Issue of Ordinary share capital		2	-	-	23,998	-	-	24,000
Costs associated with the issue of share capital		-	-	-	(804)	-	-	(804)
Dividends paid		-	-	-	-	-	(1,637)	(1,637)
Changes in the fair value of derivative financial instruments		-	-	-	-	(11)	-	(11)
Changes in the fair value of financial assets at fair value through other comprehensive income		-	-	-	-	-	(463)	(463)
At 31 December 2018		**14**	**48**	**4**	**159,474**	**(11)**	**(9,687)**	**149,842**

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Note	31 December 2018 £'000	31 December 2017 £'000
Cash flows from operating activities			
Operating profit		11,697	9,942
Adjustments for:			
Exceptional items	3	2,343	1,664
Depreciation of property, plant and equipment	6	19,710	14,408
Amortisation of intangible assets		2,051	1,175
Long term employee incentive costs		1,012	774
Loss / (profit) on disposal of property, plant and equipment		72	(5)
Increase in inventories		(182)	(38)
Increase in trade and other receivables		(1,940)	(3,334)
Increase in trade and other payables		7,527	6,358
Cash generated from operations		42,290	30,944
Tax paid		(2,009)	(1,050)
Interest paid		(1,371)	(771)
Net cash flows from operating activities before exceptional items		38,910	29,123
Exceptional items		(2,105)	(1,147)
Net cash flow from operating activities		**36,805**	**27,976**
Cash flows from investing activities			
Payment for financial assets at fair value through other		(432)	(316)

comprehensive income (2017: Available-for-sale financial assets)	(432)	(316)
Business combinations	(18,600)	(21,300)
Purchase of property, plant and equipment	(42,341)	(35,411)
Purchase of intangible assets	(4,928)	(1,693)
Interest received	22	12
Net cash flows used in investing activities	**(66,279)**	**(58,708)**
Cash flows from financing activities		
Dividends paid	(1,637)	(1,347)
Drawdown of bank loans	12,500	28,000
Repayments of bank loans	(1,500)	-
Proceeds of issue of Ordinary shares	24,000	-
Costs associated with share issue	(804)	-
Payment of financing fees	(302)	(286)
Payment for derivative financial instruments	(213)	-
Net cash flows from financing activities	**32,044**	**26,367**
Net increase / (decrease) in cash and cash equivalents	2,570	(4,365)
Cash and cash equivalents at 1 January	457	4,822
Cash and cash equivalents at 31 December	**3,027**	**457**

Notes

1. General information

The financial information, comprising the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and related notes, has been extracted from the Consolidated Financial Statements of The Gym Group plc ('the Company') for the year ended 31 December 2018, which were approved by the Board of Directors on 19 March 2019.

The financial information set out above does not constitute statutory accounts for the years ended 31 December 2018 or 2017 within the meaning of sections 435(1) and (2) of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of International Financial Reporting Standards ('IFRS'), but is derived from those accounts. An unqualified report on the Consolidated Financial Statements for each of the years ended 31 December 2018 and 2017 has been given by the auditors Ernst & Young LLP. Each year's report did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain any statement under section 498(2) or (3) of the Companies Act 2006.

The Consolidated Financial Statements for the year ended 31 December 2017 have been filed with the Registrar of Companies, and those for 2018 will be delivered in due course subject to their approval by the Company's shareholders at the Company's Annual General Meeting on 4 June 2019.

2. Basis of preparation

The Consolidated Financial Statements for the year ended 31 December 2018, from which the financial information in this announcement is derived, have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the EU, International Financial Reporting Interpretations Committee ('IFRIC') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Consolidated Financial Statements have been prepared on a going concern basis under the historical cost convention as modified by the recognition of derivative financial instruments and other financial liabilities at fair value. The Directors have made appropriate enquiries and formed a judgement at the time of approving the Financial Statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the Financial Statements.

3. Exceptional items

	2018 **£'000**	**2017** **£'000**
Acquisition costs	644	548
Integration costs	460	525
Restructuring costs	1,239	543
Costs associated with head office relocation	-	48
	2,343	**1,664**

Acquisition and integration costs relate to the acquisition of the trade and assets from Lifestyle Fitness and easyGym (note 8).
Restructuring costs relate to the cost associated with changing the operating model in relation to the use of Personal Trainers within the business.

4. Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity shareholders by the weighted average number of Ordinary shares outstanding during the year, excluding unvested shares held pursuant to The Gym Group plc Share Incentive Plan, The

Gym Group plc Performance Share Plan, The Gym Group plc Restricted Stock Plan and The Gym Group plc Long Service Award Plan.

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary shares outstanding to assume conversion of all dilutive potential Ordinary shares. During the year ended 31 December 2018, the Group had potentially dilutive shares in the form of share options and unvested shares issued pursuant to The Gym Group plc Share Incentive Plan, The Gym Group plc Performance Share Plan, The Gym Group plc Restricted Stock Plan and The Gym Group plc Long Service Award Plan.

	2018	2017
Basic weighted average number of shares	133,301,917	128,105,275
Adjustment for share awards	1,569,233	416,773
Diluted weighted average number of shares	134,871,150	128,522,048
Basic earnings per share (p)	5.4	5.6
Diluted earnings per share (p)	5.3	5.6

Adjusted earnings per share is based on profit for the year before exceptional items, amortisation and their associated tax effect.

	2018 £'000	2017 £'000
Profit for the year	7,206	7,171
Amortisation of intangible assets	2,051	1,175
Exceptional administration expenses	2,343	1,664
Tax effect of above items	(370)	(483)
Adjusted earnings	**11,230**	**9,527**
Basic adjusted earnings per share (p)	8.4	7.4
Diluted adjusted earnings per share (p)	8.3	7.4

5. Taxation

Tax on profit

	2018 £'000	2017 £'000
Current income tax		
Current tax on profits for the year	2,458	1,712
Adjustments in respect of prior years	22	24
Total current income tax	2,480	1,736
Deferred tax		
Origination and reversal of temporary differences	69	534
Change in tax rates	(28)	(78)
Adjustments in respect of prior years	240	(172)
Total deferred tax	281	284
Tax charge in the Consolidated Statement of Comprehensive Income	**2,761**	**2,020**

Reconciliation of tax charge

	2018 £'000	2017 £'000
Profit before tax	9,967	9,191
Tax calculation at standard rate of corporation tax of 19.0% (2017: 19.25%)	1,894	1,769
Expenses not deductible for tax purposes	415	329
Exceptional costs not deductible	218	148
Change in tax rates	(28)	(78)
Adjustments in respect of prior years	262	(148)
	2,761	**2,020**

Deferred tax

	Accelerated capital allowances £'000	Losses £'000	Intangible assets £'000	Share schemes £'000	Total £'000
At 1 January 2017	(475)	160	(393)	25	(683)
Prior year adjustment	171	-	-	1	172

Acquired in business combination	(921)	-	(319)	-	(1,240)
Recognised in equity	-	-	-	115	115
Recognised in income statement	(777)	(20)	137	126	(534)
Change in deferred tax rate	123	(15)	25	(55)	78
At 31 December 2017	(1,879)	125	(550)	212	(2,092)
Prior year adjustment	(240)	-	-	-	(240)
Acquired in business combination	(878)	-	(130)	-	(1,008)
Recognised in equity	-	-	-	133	133
Recognised in income statement	(412)	(18)	192	169	(69)
Change in deferred tax rate	40	-	(12)	-	28
At 31 December 2018	**(3,369)**	**107**	**(500)**	**514**	**(3,248)**

6. Property, plant and equipment

	Assets under Construction £'000	**Leasehold improvements £'000**	**Fixtures, fittings and equipment £'000**	**Gym and other equipment £'000**	**Computer equipment £'000**	**Total £'000**
Cost						
At 1 January 2017	-	90,656	6,747	42,800	1,305	141,508
Additions	2,368	21,875	2,505	10,608	647	38,003
Business combinations	-	5,724	208	4,827	-	10,759
Disposals	-	(180)	(8)	(522)	(2)	(712)
At 31 December 2017	2,368	118,075	9,452	57,713	1,950	189,558
Transfers	(23,412)	16,403	247	6,465	297	-
Additions	23,409	10,403	827	4,143	519	39,301
Business combinations	-	9,165	183	2,357	-	11,705
Disposals	-	(191)	-	(987)	-	(1,178)
At 31 December 2018	**2,365**	**153,855**	**10,709**	**69,691**	**2,766**	**239,386**
Accumulated depreciation						
At 1 January 2017	-	18,683	3,133	19,909	746	42,471
Charge for the year	-	7,429	1,034	5,575	370	14,408
Disposals	-	(168)	(4)	(503)	(2)	(677)
At 31 December 2017	-	25,944	4,163	24,981	1,114	56,202
Charge for the year	-	9,868	1,310	8,021	511	19,710
Disposals	-	(139)	-	(892)	-	(1,031)
At 31 December 2018	**-**	**35,673**	**5,473**	**32,110**	**1,625**	**74,881**
Net book value						
At 31 December 2017	2,368	92,131	5,289	32,732	836	133,356
At 31 December 2018	**2,365**	**118,182**	**5,236**	**37,581**	**1,141**	**164,505**

7. Borrowings

	2018 £'000	**2017 £'000**
Non-current		
Facility A	10,000	10,000
Facility B	36,000	28,000
Loan arrangement fees	(835)	(887)
	45,165	**37,113**
Current		
Revolving credit facility	**3,000**	**-**

The Group's bank borrowings are secured by way of fixed and floating charges over the Group's assets.

HSBC and Barclays bank facility

On 12 November 2015, the Group entered into a five-year bullet repayment facility with HSBC and Barclays. The facility currently comprises a £10.0 million term loan ('facility A') for the purposes of refinancing the Group's previous finance leases, a £40.0 million term loan ('facility B') to fund acquisitions and capital expenditure, and a £10.0 million revolving credit facility. Interest is charged at LIBOR plus a 2.5% margin.

During 2017, the Group entered into an amendment to increase the facility B commitment from £25.0 million to £35.0 million to fund the acquisition of the Lifestyle Fitness portfolio of gyms.

During the year, the Group entered into an amendment to the facility to increase the facility B commitment from £35.0 million to £40.0 million, and the revolving credit facility commitment from £5.0 million to £10.0 million.

8. Business combinations

easyGym portfolio

On 4 July 2018 the Group 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.

The undiscounted settlement value of the contingent consideration could be between £nil and £4.1 million. The contingent consideration has been recognised at its fair value of £0.9 million using an expected value methodology. This is a level 3 valuation under the fair value hierarchy. No gains or losses were recognised in profit and loss during the year in relation to the liability. 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 payable a range of nil to 50% probability of the relevant leases being extended has been assumed. 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 and an extension of the Group's banking facilities of £10.0 million.

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

	Fair value £'000
Net assets acquired:	
Intangible assets	768
Property, plant and equipment	11,705
Provisions	(360)
Deferred tax	(1,008)
Net assets	11,105
Goodwill	10,397
Total consideration	**21,502**
Satisified by:	
Cash consideration	14,549
Deferred and contingent consideration	6,953
Total consideration	**21,502**
Net cash outflow arising on acquisition:	
Cash and deferred consideration	18,500
Net cash outflow	**18,500**

The fair values of assets acquired are provisional and will be finalised within 12 months of the acquisition date.

Goodwill represents the synergies and economies of scale expected from combining each gym within the Group'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.

The business contributed revenues of £5.7 million and net profit of £0.7 million to the Group for the period from 4 July 2018 to 31 December 2018. The revenues and net profit associated with the Group had the business been acquired on 1 January 2018 have not been disclosed as the relevant information is not available.

Acquisition-related costs of £0.6 million were incurred in respect of the easyGym acquisition and have been included in exceptional items in note 3.

Lifestyle Fitness portfolio and Aylesbury site

On 29 September 2017, the Group acquired the trade and assets of a portfolio of 18 gyms trading under the Lifestyle Fitness brand. The property lease agreements in respect of ten of these gyms were transferred to the Group which were rebranded to operate under The Gym brand. In respect of the eight other gyms, the property leases were not immediately transferred to the Group and these gyms were operated using the Lifestyle Fitness brand under a concession agreement with the vendor whereby the Group would pay a royalty based upon a percentage of revenue together with a recharge equal to the vendor's lease rentals. The concession agreement also included an option fee totalling £1.25 million for the Group to terminate the concession agreement in respect of each gym and transfer the leasehold. During 2018 the concession agreement was terminated and the eight gyms were converted to The Gym brand. The £1.25 million option fee paid by the Group has been recognised as a contract intangible asset.

On 24 November 2017, the Group acquired the trade and assets of a single gym based in Aylesbury. The consideration for the Aylesbury acquisition included an element of contingent consideration which was payable upon the number of members at the site reaching a predetermined level. This was recognised at fair value on initial recognition using discounted cash flow ('DCF') techniques. The inputs into the DCF valuation were the undiscounted deferred consideration (£0.2 million), the discount rate (5.4%) and the payment date derived from an estimation of the date on which the membership target for the gym was achievable. During 2018 the consideration was renegotiated: £0.1 million was paid in cash and the remaining liability was released to profit and loss.

During the year ended 31 December 2018, the Group finalised the fair values of the assets and liabilities of these business combinations and has restated the 2017 amounts as shown below. The adjustments made in finalising fair values primarily relate to the recognition of provisions at acquisition.

	Lifestyle Fitness as previously reported £'000	**Adjustments £'000**	**Aylesbury £'000**	**Total £'000**

Net assets acquired:				
Intangible assets	1,880	-	72	1,952
Property, plant and equipment	10,283	-	476	10,759
Provisions	(295)	(470)	-	(765)
Deferred tax	(1,242)	-	-	(1,242)
Net assets	10,626	(470)	548	10,704
Goodwill	9,874	470	436	10,780
Total consideration	**20,500**	**-**	**984**	**21,484**
Satisified by:				
Cash consideration	20,500	-	800	21,300
Contingent consideration	-	-	184	184
Total consideration	**20,500**	**-**	**984**	**21,484**
Net cash outflow arising on acquisition:				
Cash consideration	20,500	-	800	21,300
Net cash outflow	**20,500**	**-**	**800**	**21,300**

The goodwill is attributable to the workforce and the profitability of the acquired businesses where relevant. It will not be deductible for tax purposes.

9. Standards issued not yet effective

IFRS 16 'Leases' ('IFRS 16') specifies the recognition, measurement, presentation and disclosure of leases and will be applied for the first time in the Consolidated Financial Statements for the year ended 31 December 2019. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or fewer or the underlying asset has a low value. Given the significant leasing arrangements within the Group, the adoption of this standard will have a material impact on the Consolidated Financial Statements.

The Group will apply IFRS 16 using the full retrospective application method.

It is anticipated that on restatement of the results for the year ended 31 December 2018, the reported results will change as follows:

- the present value of the Group's operating lease commitments will be recognised on the balance sheet as a right-of-use asset (presented in property, plant and equipment) together with a corresponding finance lease liability;
- the application of the full retrospective method will result in the restatement of goodwill and intangible assets arising from historic business combinations (included in intangible assets);
- operating lease rentals currently included within administration expenses are expected to decrease to a negligible amount;
- depreciation included within administration expenses will increase in respect of the depreciation of the right-of-use assets over the term of the leases;
- finance costs will increase as a result of the discount applied to the finance lease liability; and
- tax relief will be obtained on the interest and depreciation expenses.

There will be no impact on cash flows, although the presentation of the cash flow statement will change significantly. In addition to the recognition and measurement impacts above, there will also be significantly increased disclosures when the Group adopts IFRS 16.

	As reported £'000	Effect £'000	Restatement under IFRS 16 £'000
Property, plant and equipment	164,505	202,442	366,947
Intangible assets	76,080	10,538	86,618
Current assets	15,318	(3,427)	11,891
Current liabilities	(56,957)	22,607	(34,350)
Finance lease liabilities	-	(243,184)	(243,184)
Deferred tax liabilities	(3,248)	3,605	357
Administration expenses	(111,180)	6,962	(104,218)
Finance costs	(1,752)	(10,929)	(12,681)
Tax charge	(2,761)	688	(2,073)

The effect on adjusted profit before tax and adjusted earnings is as follows:

	As reported £'000	Effect £'000	Restatement under IFRS 16 £'000
Group Adjusted EBITDA	**36,813**	**21,685**	**58,498**
Long term employee incentive costs	(1,012)	-	(1,012)
Depreciation of property, plant and equipment	(19,710)	(14,801)	(34,511)
Finance income	22	-	22
Finance costs	(1,752)	(10,929)	(12,681)
Adjusted profit before tax	**14,361**	**(4,045)**	**10,316**

Tax charge	(2,761)	688	(2,073)
Tax effect of above items	(370)	-	(370)
Adjusted Earnings	**11,230**	**(3,357)**	**7,873**

Five year record

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Revenue	123,884	91,377	73,539	59,979	45,480
Group Adjusted EBITDA	36,813	27,963	22,691	17,016	14,688
Group Adjusted EBITDA before Pre-Opening Costs	39,305	30,598	24,888	19,681	16,668
Group Operating Cash Flow	33,972	24,677	24,944	18,616	16,514
Operating Cash Flow Conversion	92.3%	88.2%	109.9%	109.4%	112.4%
Expansionary Capital Expenditure	57,551	52,453	20,922	28,230	20,335
Net Debt	45,973	37,543	5,178	7,140	49,205
Net Debt to Group Adjusted EBITDA	1.25x	1.34x	0.23x	0.42x	3.35x
Adjusted Earnings	11,230	9,527	7,153	(1,107)	(4,452)
Basic adjusted earnings per share (p)	8.4	7.4	5.6	(1.8)	(9.1)
Total number of gyms (number)	158	128	89	74	55
Total number of members ('000)	724	607	448	376	293
Average Revenue per Member per Month (£)	14.89	14.41	14.31	14.08	13.98
Number of Mature gyms in operation (number)	89	74	55	40	32
Mature Gym Site EBITDA	39,181	34,082	26,161	18,828	16,244

Responsibilities statement

The following statement will be contained in the 2018 Annual Report and Accounts:

We confirm that to the best of our knowledge:

- the Group Financial Statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and results of the Group;
- the Strategic Report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

Mark George
Chief Financial Officer and Company Secretary
19 March 2019