A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

The Gym Group Private Equity Challenge – Group F
Capital Structure, Financial Forecast & LBO, Returns, Exit Strategy and Due Dilligence

Jan Schroff (33857)

A Project carried out on the Master in Finance Program, under the supervision of:

Prof. Luis Mota Duarte
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03/01/2020

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Abstract:
The overall goal of this thesis is the evaluation of The Gym Group's feasibility as a potential leveraged buyout target. In the beginning, the firm was inspected from different angles, the market thoroughly analyzed and the company's position in the market assessed. In the following, a comprehensive appraisal of influencing factors on its financial performance was conducted and growth drivers forecasted to come up with three different cases of how the firm might develop. This knowledge was quantified and the company subsequently valued using a comparable company, a precedent transaction, a DCF valuation method as well as an LBO model. Additionally, an investment thesis and future strategy regarding the operations of the target and the responsibilities of a PE fund, such as sourcing and an exit strategy, were developed. Finally, potential returns were calculated for the different scenarios. The third part comprises the capital structure, financial forecast, LBO, returns, exit strategy and due diligence.

Key words: Leveraged Buyout, Private Equity, Low-cost Fitness Market, UK

Disclaimer: I hereby declare that this master thesis is my own and autonomous work. All sources and aids used have been indicated as such. All used information are publicly available and/or information made available directly by the company. This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209). Full bibliographic details are given in the foot notes which also contain internet sources. This work has not been submitted to any other examination authority.

Kernen i.R., 03/01/2020,

Jan Schroff

6 I Capital Structure

A Well-Defined Capital Structure Allows for High Institutional Returns…

Leverage Structure

Comments

- As typical in Private Equity, the transaction is levered and partially financed with debt
- The debt is divided into two major seniority levels. Term loan A, B, C and the Capex facility are senior and have the highest seniority from all financing sources but are still junior to the revolver. The Revolver is the most senior facility. The Mezzanine is subordinated to all senior loans. Senior loans are characterized by cash payment interests, which are lower compared to more junior financing sources as those are exposed to higher risks
- The Revolver serves to provide the firm with short term liquidity and is majorly used to serve all debt covenants. The interest is composed of an annual interest rate of 2.45% for the draw down facility and a 2.0% interest rate p.a. for the undrawn capital committed by the bank
- The Capex facility of £95,837,000 is mainly needed to fund the planned acquisitions in year 2021 and 2022 for the implied costs to integrate the acquired gyms. It will be drawdown for 2 years and paid back the following 2 years starting from 2021 onwards. It has a higher margin than the other senior loans (4.75%) and a commitment fee of 2.38% p.a. for the draw down period
- Term loan A is amortizing and has a maturity of 6 years with a margin of 2.90% + GBP 6-month LIBOR, which is at 0.85%(1) resulting in a total yearly interest rate of 3.75% and an available amount of £51,813,000
- While term loan A is amortizing, B and C are characterized by bullet payments due in 7 and 8 years from the start of the investment horizon. They have margins of 2.90% and 3.40% respectively
- The Mezzanine debt includes a Payment In Kind (PIK) element of 6.5%-interest, which compounds over the 9 years and paid at year 6, accordingly the cash element of 7.35%-interest. This makes it the most expensive financing source, which is why it is the smallest component in the financial structure
- All senior loans will be underwritten by banks. Even though it is one of the more expensive underwriting options, underwritten deals have the highest certainty as banks guarantee the entire commitment. Additionally, those deals are characterized by a high level of confidentiality
- All loans are protected by financial covenants. As the fund will exit in 2024, no covenants will be breached. Shrinking Net Debt / EBITDA over the investment period shows a clear deleveraging effect. Interest coverage ratio throughout the years is steadily above 1.0x. This shows high credibility for The Gym Group and no concerns about the ability to service debt interest. Cash coverage ratio in year 2024 is expected to be at 17.1x EBITDA, which means there will be enough liquidity to pay off all debt related liabilities

Debt Type

Debt Structure	Term (Years)	Amort.	x EBITDA	Amount	Margin	Interest rate
Revolver	6	Revolving		12,000		2.45%
CAPEX Facility	4	Amort.		95,837		4.75%
Senior debt						
Term Loan A	6	Amort.	1.5x	51,813	2.90%	3.75%
Term Loan B	7	Bullet	1.5x	51,813	2.90%	3.75%
Term Loan C	8	Bullet	1.5x	51,813	3.40%	4.25%
Mezzanine	9	Bullet	0.8x	27,634		
PIK Element						6.50%
Cash Element					6.50%	7.35%

Covenants

Summary Credit Stats	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Cash	3,053	3,079	3,609	38,620	38,950	44,301	44,680
Cash Flow	26	26	28	34,807	330	5,352	378
Cash Cover (2)	1.0x	1.0x	1.0x	2.7x	1.0x	1.3x	1.0x
Interest Cover (3)	6.8x	8.8x	9.0x	8.6x	11.2x	17.1x	22.8x
Net Debt / EBITDA	3.5x	2.6x	2.8x	2.1x	1.3x	0.7x	0.1x

Notes: (1) Average of FY 2018; (2) Interest Cover minimum between 20% and 25% depending in the year; (3) Cash cover minimum 1.0x

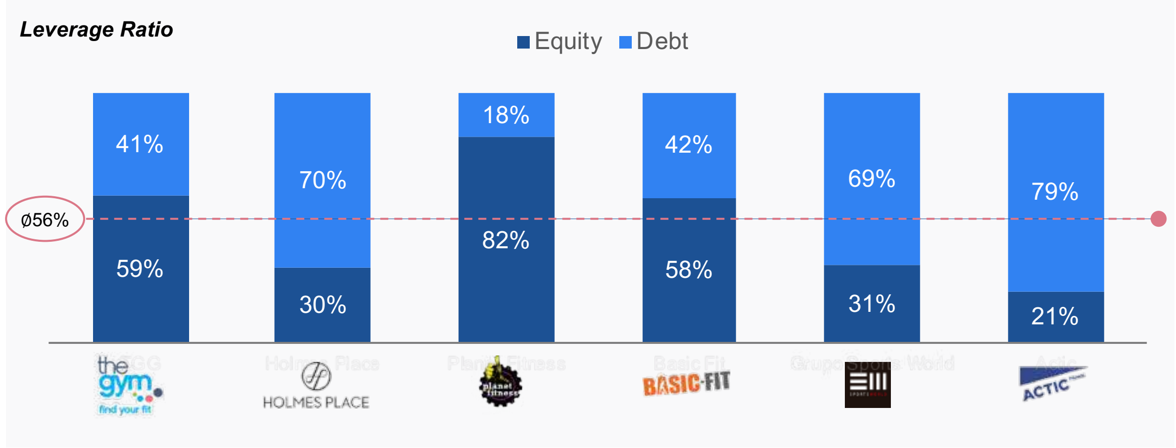
…Benchmarked against and Aligned with Comparable Companies‘ Leverage Ratios

Debt Structure Comparison

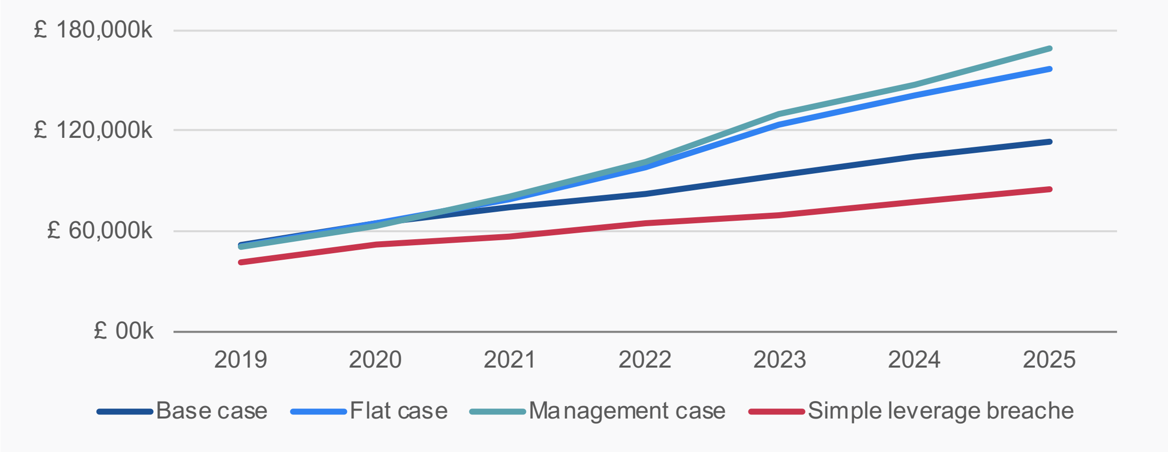
Comments

- Even though The Gym Group is intended to be acquired through a leveraged buy out, its debt to equity ratio would be still significantly below industry peers
- The leverage ratio will be 41% at acquisition date compared to the industry median of 56%
- This gives the company a competitive advantage in financing and especially in negotiations with landlords regarding conditions and auctions of property lease contracts
- The degree of leverage was determined by analyzing The Gym Groups cash flows regarding its robustness and predictability. Since the companies operations are resilient and yield significant cash generation, cash flows requirements will be satisfied. Additionally, the companies hard assets have been tested on their quality. Since The Gym Group has lease contracts over 15 years and is buying its gym equipment, those assets fulfill the required conditions and represent a good basis for collateral
- The covenant analysis clearly reflects that the cash flows of the company are sufficient enough to serve the debt well
- The bank grants the gym group an interest coverage ratio of 20% at the beginning of the investment period, which is strictly increased to 25% over the period. This financing approach shows a rather conservative approach of the bank. However, as The Gym Group will not rupture the covenants in any case
- Further covenants such as cash cover are also applied and strictly complied with. Nevertheless, the revolver is drawn regularly in the first few years, especially to maintain the cash coverage
- Despite a conservative financing level with corresponding covenants, the business case shows solid financial strength

Benchmarking towards peers



Covenants Analysis – Interest Cover



The Equity Structure is Intended to Motivate the Management and Enhance Returns

Equity Structure

Comments

- Aligning the incentives between the management and the fund is a key factor in order to successfully implement the value creation strategy. Since The Gym Group is already following a successful path, very strong incentives are required for the management to surpass expectations and excel at their performance.
- The alignment is achieved through an appropriate remuneration package which enables, in case of success, a significant cash out of the management and is in line with the funds returns. Even if the returns for management can be very high, it is encouraged to follow the compensation plan to achieve outstanding results.
- Besides having a fixed salary, The Gym Group's senior management Richard Darwin (CEO) and Mark George (CFO) will be advised to co-invest with sweet equity by rolling over 300% of their capital gains due to current equity. It is crucial for the management team to have "skin in the game" to raise the motivation levels to the highest degree possible.
- The management will be supported by the fund in investing these high amounts by being granted partial loans. If the management also believes in attractive growth opportunities for the target, they will be grateful for the opportunity to profit from the success of The Gym Group.
- Even if granting 21% of equity to the Management is fairly generous, it is believed that this is the best way to incentivize the decision makers and ensure high ambitions. The management will have to pay £520k for their stake. In the flat case, they will receive £220.4m in return with an exit in 2024.
- The overall equity structure results in £260.5m and therefore 7.5x EBITDA. It comprises c.59% of sources

Equity Structure

Equity Structure	Amount	x EBITDA	%-Distribution
Fixed Return Instrument	**257,847**	**7.5x**	
Institutional Investors	255,547	7.4x	99.108%
Management	2,300	0.1x	0.892%
Ordinary Equity	**2,600**	**0.1x**	
Institutional Investors	2,061	0.1x	79.286%
Management	19	0.0x	0.714%
Sweet Equity	520	0.0x	20.000%
Total Equity	**260,447**	**7.5x**	

Equity Envy Bridge

EV- Equity bridge	In £k
Enterprise value	414,504
- Debt	80,065
+ Cash	3,027
- Other deferred liabilities	12,082
- Warrants / Stockoptions	0
Equity Value before Employee Trust	**325,384**

Management roll-over bridge	In £k
Management cash in	1,183
Tax rate (for capital gain)	20.0%
Management cash in net taxes	946
Reivested in firm	300%
Amount reinvested in firm	2,838
Thereof sweet equity	520
Rollover	**2,318**

Equity Split	
Payment of Management for Sweet Equity	**520**
Stake as Return for Payment	**20%**
Institutional Ordinary shares	80%
Value of Ordinary shares	2080
Total Equity	**260,447**
Fixed Return instrument	**257,847**
FRI and Ordinary shares	**259,927**
FRI shares	99.2%
Ordinary shares	0.8%
Management roll-over	**2,318**
FRI shares	2,300
Ordinary shares	19
Institutional amount	**257,608**
FRI	255,547
Ordinary shares	2,061

Leading to a Comprehensive Sources and Uses Strategy

Sources and Uses

Comments on Sources

- The deal is financed with 41.3% debt and 58.7% equity
- This capital structure reflects a 5.3x leverage on 2018 EBITDA, which is suitable regarding industry average, cash flows, enterprise value and hard assets
- Term loan A, B, C are senior over the mezzanine and the equity. Those loans are characterized by low cost and low risk, since they are the most senior financing securities
- While term loan A is amortizing over 6 years tranche B, C and the mezzanine capital have a maturity of 7, 8 and 9 years respectively and include bullet payments (to be made when due)
- The equity is split in two different types. The sub-ordinated Fixed Return Instrument (FRI) and the ordinary equity, which comprises the institutional strip of 79% and the remaining 21% is sweet equity for the management
- Overall equity comprises 7.5x EBITDA
- The Debt to Equity ratio at time of acquisition is 70%

Overview

Sources of Fund	£k	x EBITDA	% EBITDA	Equity Split
Senior debt				
Term Loan A	51,813	1.5x	**11.7%**	
Term Loan B	51,813	1.5x	**11.7%**	
Term Loan C	51,813	1.5x	**11.7%**	
Subordinated debt				
Mezzanine	27,634	0.8x	6.2%	
Total debt	**183,073**	**5.3x**	**41.3%**	
Equity				
Fixed Return Instrument	**257,847**	**7.5x**		
Institutional Investors	255,547	7.4x		99.108%
Management	2,300	0.1x		0.892%
Ordinary Equity	**2,600**	**0.1x**		
Institutional Investors	2,061	0.1x		79.286%
Management	19	0.0x		0.714%
Sweet Equity	520	0.0x		20.000%
Total Equity	**260,447**	**7.5x**	**58.72%**	
Total sources	**443,519**	**12.8x**	**100.00%**	**100.00%**

Uses of Fund	% EBITDA	£k
EBITDA 2018		34,542
Multiple		12.0x
Enterprise Value		**414,504**
Fees	7.0%	**29,015**
Advisory Fee	2.0%	8,290
Banking Fee	2.0%	8,290
Due Diligence	3.0%	12,435
Total Uses	**12.8x**	**443,519.3**

Comments on Uses

- As previously mentioned within the valuation part, the company is valued at 12.0x of 2018s EBITDA at acquisition which implies an enterprise value of £414,504,000
- Besides the Acquisition price, funding needs to cover the administrative costs of the transaction
- Administrative costs comprise fees for advisory, due diligence and arrangement of debt
- Assuming typical transaction fees of 7% of the enterprise value, leads to costs of £29,015,000
- Overfunding for strategic expenses throughout the investment period is not needed since the company is expected to generate enough cash to fund those costs
- Total uses for the investment are £443,519,300

7 I Financial Forecast & LBO

General Assumptions are Inteded to Represent a Realistic Fundament

Assumptions Overview

Revenue Assumptions

- **Personal Trainer Income** is 0.7% of overall revenue in 2018 and will increase by 0.5pp p.a. until 2025, due to envisaged 1.5k+ additional personal trainers in the part-time model[(1)]. This PT income will grow from 1.2% to 4.2% of overall revenue throughout the investment period
- **Other Income** will be constantly 1% of overall revenue
- **Price increases** of 2% annually assumed for all prices and costs in order to account for expected inflation
- According to the cohortization[(2)] of incurring revenues it is assumed that a newly opened gym is a large box gym and will serve 5000 members in the 3rd year after opening. In case of an average organic opening it will it will serve 1200 members after the 1st year and 2500 after the 2nd. The implied churn rate is already considered in the conservative estimation of 5000 members in a mature gym
- Forecast for all cases: **Base Case:** Investment strategy does not apply and company is not able to gain substantial market share due to bottleneck in the pipeline of commercial real estates. **Flat Case:** Investment strategy works assuming moderate results. **Management case:** Investment strategy outperforms moderate assumptions

Inorganic Expansion Assumptions

- **Acquired EBITDA:** Costs structure between The Gym Group and acquired gyms is assumed to be similar and therefore EBITDA estimation is a result of considered to be fair proxies
- **Fit-out Capex:** According to H1 2019 report, this position is expected to be between £1.3m-1.4m per organic opened site, as the investment thesis, compromises not to improve efficiency in fit-out of new gyms
- **Site conversion Capex:** Is dependent on several factors such as size, condition and location. According to the investment thesis no efficiency improvements in conversion costs are assumed. (easyGym 312k per site, Lifestyle 470k per site)
- **Financials of acquisitions:** Since both targets do not disclose details about the gym club division, data was generated via benchmarking of former acquisitions/peers and implied via backward induction. Nevertheless, cost synergies through overhead reduction is implied and accounted for in the model. Both Acquisitions are assumed to imply goodwill and the transaction will take place in 2021 and 2022, if relevant
- Inorganically acquired gyms will be partially restructured after acquisition to be set to the The Gym Group standard and it is assumed that**, including the member roll-over, an average of 1,750 members in the 1st year and 3,500 in the 2nd year are served** within one gym

Cost Assumptions

- The number of **FTEs** will remain steady throughout all cases, 3 per gym equivalent to current ratio per gym
- **COGS:** No improvements in payment and call center costs throughout investment strategy to be realized (1.4% of revenue)
- **Wages & Salaries:** Will remain steady with a small adjustment for inflation each year. As salaries are already in the low-wage segment and further cuts would harm quality of employees tremendously
- **Cost of Inventory:** Consists out of small gym gadgets (P&L expensed and not capitalized) such as training balls etc., which will stay the same for each gym. Therefore, the median is used as a proxy and it is assumed that this ratio will maintain over the investment period (£300 per gym p.a.). All other inventory and initial fit out is incorporated in the fit-out capex with £1.3m per gym
- **Other operating costs:** Are assumed to grow in line with revenue, 18.2% of revenue consisting out core business related costs including partial overhead expenses
- **Costs for part-time Personal Trainers:** Accounted on P&L as running restructuring costs with a future estimate of £1mio. p.a. infinitely.
- **Maintenance Capex:** Is assumed to be 6.5% of revenue based on its historical value, compromising maintenance for sites/facilities and equipment
- **Expansion Capex attr. to PP&E:** Until end of 2018 split is calculated for correct PP&E calculation: From 2019 onwards it comprises conversion and fit-out of costs for newly opened gyms as well as the acquisition price, if applicable. For more detailed information please have a look into the expansion schedule within the model
- **Depreciation:** Average historic PP&E depreciation throughout the last 3 years was taken into consideration for forecasting future rates
- **Tax:** UK corporate tax rate of 19.3% is applied
- **Lease Costs:** To estimate the lease costs properly an index for an average UK large box gym is created, that accounts for a Y-o-Y price 2% increase to set off inflation. In order to receive the appropriate lease costs per annum every region in the UK a location factor is implied to account for a premium or discount of the local rent towards the UK benchmark. The **weighted average** according to the factors and the index **will lead to the appropriate portfolio lease costs**. As past acquisitions of gyms have aligned rental costs to market rent, **it is assumed that rental costs for organic and inorganic gyms are identical**
- **Other fixed property costs**, are operating asset costs and increase proportional with lease costs
- **Auditors remuneration** is a fixed rate with 0.2% of revenue

Notes: (1) The personal trainer rental income is estimated in dependence on the new PT model (employment on a 12-hour basis and option to “rent” space on top of that; (2) The cohortization refers to the initial opening of the gym and the time to envisaged maturity

Growth Opportunities are Materialized in Strong Top and Bottom Line Improvements

Income Statement

Comments

1. The fraction of members with a LiveIt membership will increase from 11.7% in 2018 to 30% in 2025 (average price per month in 2019: £22.80). The remaining members have a DoIt membership (average price per month in 2019: £17.14)
2. In the flat case, organic gym **openings of 109 facilities until 2025 are assumed**. **Additionally,** there are **45 new gyms derived from acquisiti**on activities. **Forecasted membership growth is rooted in the overall market growth of 9% and additional gain in market share** of TGG
3. **Acquired revenue in 2021 is based on the acquisitions of JD gyms and in 2022 on the asset deal with Everlast fitness**. Future revenue is incorporated within the forecast of the cohortization schedule
4. **Implied cost synergies due to acquisitions** are based on overhead reduction for redundant platform costs and are fully accounted in the year of the acquisition. Those cost solely incurred with the acquisition of JD gyms (asset deal has no platform costs) and are considered with c.£3.5m.
5. Lease rentals are dependent on the number of new gyms (through inorganic and organic growth)
6. Marketing costs are assumed to be constant at 6% of revenues. **Marketing activities are crucial to reach facility matureness in the desired period. Further, the brand awareness and emotional connection need to be increased due to higher density of facilities which leads to a higher competition between low-cost players.**
7. **EBITDA margins are increasing from 31% in 2019 to 40% in 2025. Main reasons for the improvement are the progressive maturation of newly opened gyms and the according optimization of economies of scale**

Overview

	FYE 31/12 in £k	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
	# gyms	158	175	192	241	269	284	298	312
	# members (in k)	724	748	853	994	1,155	1,306	1,399	1,472
	Revenue	**123,884**	**164,995**	**194,115**	**258,373**	**290,615**	**326,983**	**361,645**	**395,022**
	Revenue growth	35.6%	33.2%	17.6%	33.1%	12.5%	12.5%	10.6%	9.2%
1	Membership Income	121,515	161,419	188,938	226,122	269,919	313,357	344,766	374,611
	Personal Trainer Rental Income	875	1,990	3,312	5,700	7,865	10,484	13,404	16,616
	Other Income	1,494	1,585	1,865	2,483	2,792	3,142	3,475	3,796
3	Acquired revenue	-	-	-	24,068	10,038	-	-	-
	thereof natural revenue	*n.m.*	*98,106*	*101,279*	*104,906*	*108,077*	*111,414*	*115,009*	*119,435*
2	*thereof organic revenue*	*n.m.*	*37,016*	*57,559*	*79,657*	*102,127*	*125,310*	*148,426*	*173,597*
	thereof inorganic revenue	*n.m.*	*29,873*	*35,277*	*49,742*	*70,372*	*90,258*	*98,210*	*101,990*
	Cost of Sales	**(1,007)**	**(2,347)**	**(2,761)**	**(3,676)**	**(4,134)**	**(4,652)**	**(5,145)**	**(5,620)**
	Gross Profit	**122,877**	**162,648**	**191,354**	**254,697**	**286,480**	**322,331**	**356,500**	**389,403**
4	**SG&A**	**(88,335)**	**(111,579)**	**(127,035)**	**(175,040)**	**(187,411)**	**(198,268)**	**(215,961)**	**(232,269)**
	Employee Expenses	(16,784)	(22,084)	(24,714)	(31,641)	(36,024)	(38,793)	(41,520)	(44,340)
5	Lease rentals	(22,963)	(29,065)	(32,479)	(35,711)	(42,980)	(47,214)	(51,095)	(54,263)
	Cost of inventory	(46)	(59)	(65)	(81)	(90)	(95)	(100)	(105)
	Auditors remuneration	(224)	(298)	(351)	(467)	(525)	(591)	(654)	(714)
6	Marketing costs	(7,178)	(9,900)	(11,647)	(15,502)	(17,437)	(19,619)	(21,699)	(23,701)
	Other fixed property costs	(14,711)	(18,181)	(20,317)	(22,339)	(26,886)	(29,535)	(31,962)	(33,944)
	Other operating costs	(24,085)	(30,993)	(36,463)	(48,533)	(54,589)	(61,420)	(67,931)	(74,201)
	SG&A of acquisition targets	-	-	-	(16,272)	(6,787)	-	-	-
	Other operating Items	(2,343)	(1,000)	(1,000)	(4,493)	(2,093)	(1,000)	(1,000)	(1,000)
	Acquisition costs	(644)	-	-	(1,919)	(600)	-	-	-
	Integration costs	(460)	-	-	(1,574)	(492)	-	-	-
	Restructuring costs	(1,239)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
	EBITDA	**34,542**	**51,069**	**64,318**	**79,657**	**99,069**	**124,063**	**140,539**	**157,134**
7	*EBITDA margin*	27.9%	31.0%	33.1%	30.8%	34.1%	37.9%	38.9%	39.8%
	thereof natural EBITDA	*n.m.*	*30,366*	*33,558*	*32,343*	*36,843*	*42,273*	*44,694*	*47,510*
	thereof organic EBITDA	*n.m.*	*11,457*	*19,072*	*24,559*	*34,815*	*47,545*	*57,680*	*69,055*
	thereof inorganic EBITDA	*n.m.*	*9,246*	*11,689*	*15,335*	*23,989*	*34,246*	*38,165*	*40,570*
	Depreciation	(19,710)	(24,248)	(28,517)	(33,106)	(54,024)	(57,321)	(60,936)	(66,633)
	Amortization	(2,051)	(5,447)	(7,372)	(9,332)	(11,970)	(14,294)	(16,999)	(19,771)
	EBIT	**12,781**	**21,373**	**28,429**	**37,219**	**33,075**	**52,448**	**62,604**	**70,731**
	Interest Income	22	26	26	28	179	330	354	378
	Interest Expenses	(1,752)	(7,496)	(7,296)	(8,850)	(11,336)	(10,743)	(7,889)	(6,521)
	EBT	**11,051**	**13,903**	**21,159**	**28,398**	**21,918**	**42,034**	**55,069**	**64,588**
	Tax expenses	(2,127)	(2,676)	(4,073)	(5,467)	(4,219)	(8,092)	(10,601)	(12,433)
	Tax rate	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%
	Net Income	**8,924**	**11,227**	**17,086**	**22,931**	**17,699**	**33,942**	**44,469**	**52,155**

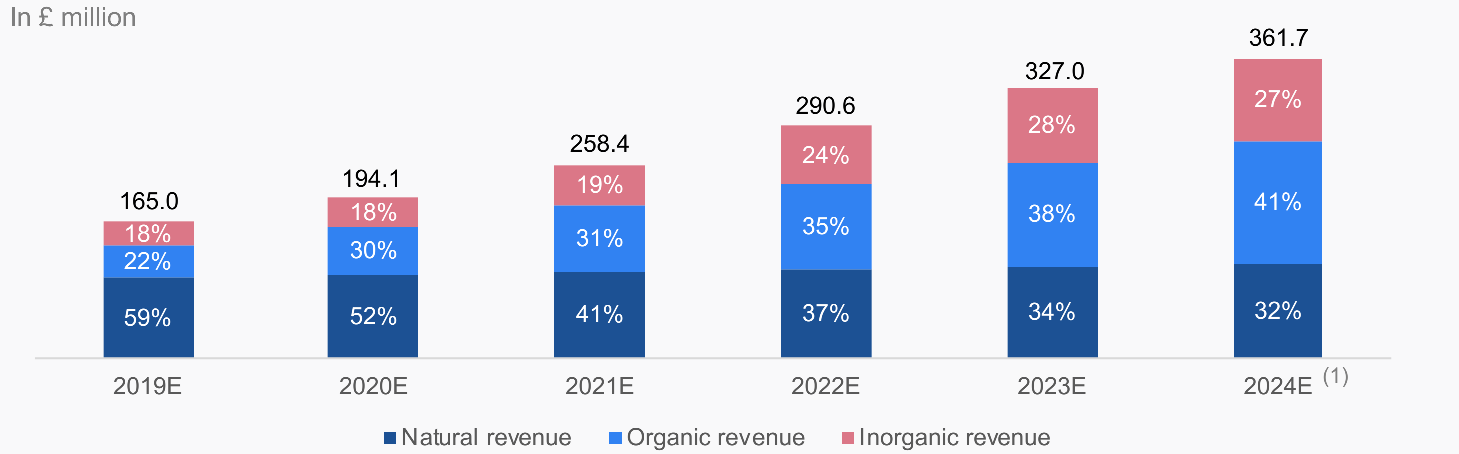
…enhanced through EBITDA Improvement Mainly Rooted in Revenue Expansion

Income Statement

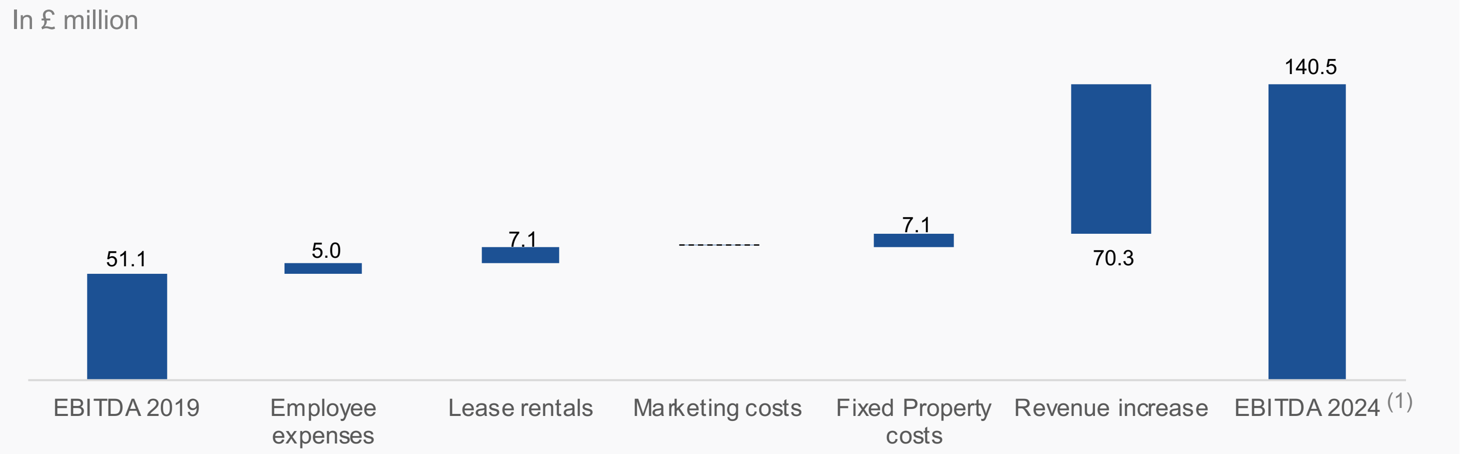
Comments

- Natural revenue comprises sales from existing gyms (prior to 2019) whereas organic revenue comes from organically opened gyms throughout the investment period. Inorganic revenue is revenue from inorganically opened gyms
- Until 2021 inorganic revenue of Lifestyle fitness and easyGym sites is stable. **From 2021 onwards, the share of sales contributed by inorganic opened sites is increasing due to the rising matureness of the acquired JD gyms and Everlast gyms. In 2024 it is expected to be 27% of revenue.**
- **As more and more additional gyms will be opened throughout the investment period, natural revenue contribution is decreasing to 32% in 2024**
- **The biggest share of sales with 41% in 2024 will be from organic opened sites as this growth approach is central to increase memberships**
- EBITDA development throughout the investment period is expected to be solid
- **The biggest contribution in the increased EBITDA is rooted in the impressive top-line growth (revenue increase)**
- **Employee expenses, lease rentals and fixed property costs (as % of revenue) are expected to decrease on average. This means that besides increased revenue, EBITDA growth also comes from operational/marginal improvement.** This is due to improved economies of scale which can be achieved through passive improved efficiency regarding costs per member per gym
- **EBITDA cumulative annual growth rate from 2019 to 2024 is projected to be around 22%**

Revenue split



EBITDA improvement



Notes: (1) 2024 is envisaged exit year

Significant Topline Growth Strengthens the Balance Sheet…

Balance Sheet

Comments

1 **Net property, plant and equipment will increase straight line according to the 14 to 17 new site openings each year and the assumed fit-out and site-conversion CAPEX per gym that mainly drives the position.** Acquisitions in 2021 and 2022 are also clearly reflected, respectively

2 **Net intangibles** increase with the take-over of The Gym Group, implying a c.**£179m goodwill in 2019 and further goodwill is respectively paid due to acquisitions in 2021 and 2022.** In addition, the balance sheet items grow steadily over the investment period, and as the customer base grows, so does the contract and customer list. The last three-year average per gym was chosen as forecast**. The constant IT CAPEX of 3.5% of revenue** also shoves net intangibles. Further parts of net intangibles are **Deferred intangibles,** which reflect current investments in future increase in customer list, contract and other net intangibles, capitalized temporarily shifted

3 **Deferred financing fees** consists out of transaction fees paid at the acquisition of the The Gym Group, they amount to c.£29k and are amortized on a straight-line basis over 5 years

4 **The CAPEX facility** indicates further capital needs to finance both acquisitions externally, whereas the organic openings can be financed majorly throughout the generated cash. The facility will be drawn from 2021 to 2022 and reimbursed by 2024

5 **Net income will be fully transferred into the retained earnings** position implying a steady increase of the companies equity and driving the pursued value creation

Overview

FYE 31/12 in £k	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
1 Net Property, plant and equipment	164,505	193,472	224,600	366,519	388,887	413,408	452,061	490,800
2 Net Intangibles	76,080	261,311	265,150	295,060	311,200	318,241	324,890	331,935
Deferred Intangibles	n.m.	18,669	41,249	6,168	39,724	59,499	59,263	59,442
Other non-current Assets	454	-	-	-	-	-	-	-
3 Deferred Financing Fees	n.m.	23,212	17,409	11,606	5,803	-	-	-
Non-current assets	**241,039**	**496,664**	**548,408**	**679,353**	**745,613**	**791,148**	**836,214**	**882,177**
Inventories	379	525	617	822	924	1,040	1,150	1,256
Trade receivables	11,912	15,865	18,665	24,844	27,944	31,441	34,774	37,983
Cash and cash equivalents	3,027	3,053	3,079	3,609	38,620	38,950	44,301	44,680
Current Assets	**15,318**	**19,443**	**22,361**	**29,275**	**67,488**	**71,431**	**80,226**	**83,919**
Total Assets	**256,357**	**516,107**	**570,770**	**708,628**	**813,102**	**862,579**	**916,440**	**966,096**
Trade and other payables	48,983	60,193	72,943	94,355	109,547	120,799	131,411	141,131
Other financial liabilities	4,295	-	-	-	-	-	-	-
Revolving credit facility	3,000	7,809	3,531	20	-	7,348	-	23,445
Provisions	679	-	-	-	-	-	-	-
Total current liabilities	**56,957**	**68,002**	**76,474**	**94,376**	**109,547**	**128,147**	**131,411**	**164,576**
Facility A	10,000	42,746	33,678	24,611	15,544	6,477	-	-
Facility B	36,000	51,813	51,813	51,813	51,813	51,813	51,813	-
Facility C	-	51,813	51,813	51,813	51,813	51,813	51,813	-
4 Capex facility	-	-	-	63,263	95,873	47,937	-	-
Mezzanine	-	29,430	31,343	33,380	35,550	37,860	40,321	42,942
Loan agreement fees	(835)	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-
Provisions and other liabilities	4,393	-	-	-	-	-	-	-
Total non-current liabilities	**49,558**	**175,802**	**168,647**	**224,880**	**250,593**	**195,900**	**143,947**	**42,942**
Total Liabilities	**106,515**	**243,804**	**245,121**	**319,256**	**360,140**	**324,047**	**275,358**	**207,519**
Own shares held	48	-	-	-	-	-	-	-
Fixed Return Instrument	(1) 159,474	290,078	326,337	367,129	413,021	464,648	522,729	588,070
Common Stock	14	14	14	14	14	14	14	14
5 Retained Earnings	(9,687)	(17,788)	(702)	22,229	39,928	73,870	118,339	170,493
Reserves	(7)	-	-	-	-	-	-	-
Total Equity	**149,842**	**272,303**	**325,649**	**389,372**	**452,962**	**538,532**	**641,082**	**758,578**

Note: (1) Fixed Return Instrument in 2018 was defined as Share Premium in historicals section, due to publicly traded shares

…And Leads to Low Working Capital Requirements…

Working Capital

Comments

1. **The payment terms of the trade and other receivables are generally 30 days** and consists out of customer contracts. Due to granted concessions this can vary slightly throughout the year
2. **Inventory and trade & other payables have payment terms up to a year**, large gym equipment suppliers such as Matrix grant payment agreements such as 10% on delivery and 90% after a further 10 months. In addition, it is standard market practice for landlords of commercial space to reimburse gym operators for up to one year's rent if they sign a 15-year lease contract. These payment arrangements have a positive effect on working capital but vanish as the entire gym portfolio grow and mature relatively
3. **Year-on-Year changes in working capital are indicating the pursued strategy of the entire investment period**. In the year of the envisaged acquisitions (2021, 2022) major hikes reflect the acquisitions. By the end investment period Y-o-Y changes decrease steady due to reduced growth expectations
4. **Trade & other receivables as well as inventory are forecasted based on their last three years average** according to their related line item, which is revenue and SG&A respectively
5. **Trade & other payables** have been fairly volatile in the past. Therefore, it is assumed that the position will **move towards their last three years median** over the next three years to mitigate major hikes in working capital

Overview(1)

FYE 31/12 in £k		2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Working Capital									
Trade & other receivables	1	11,912	15,865	18,665	24,844	27,944	31,441	34,774	37,983
Inventory	2	379	525	617	822	924	1,040	1,150	1,256
Trade & other payables		(48,983)	(60,193)	(72,943)	(94,355)	(109,547)	(120,799)	(131,411)	(141,131)
Total Operating Working Capital		**(36,692)**	**(43,804)**	**(53,660)**	**(68,690)**	**(80,678)**	**(88,318)**	**(95,487)**	**(101,892)**
+/- Δ in Working Capital	3	(2,264)	(7,112)	(9,857)	(15,030)	(11,988)	(7,640)	(7,169)	(6,405)
Line Item Break Down									
A/R as of revenue	4	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%
Inventory as of SG&A		0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
A/P as of SG&A	5	57.0%	60.0%	64.0%	68.3%	68.3%	68.3%	68.3%	68.3%

Note: (1) The working capital calculation for the forecast consists solely out of the relevant balance sheet items, a smooth alignment from the past and to the future due to other working capital as reported in the past is considered in the forecast

…As Well as Strong Cash Flows

Cash Flow Statement

Comments

1. **Increased change in Working Capital positions is mainly rooted in acquisition of JD gyms and Everlast.** Those imply increasing rentals and other accruals leading to an increased position in trade and other payables
2. Cash flows from operations are expected to grow on a resilient basis and are additionally boosted by the two strategic acquisitions in 2021 and 2022
3. **Increasing Expansion Capex in 2021 and 2022 is characterized by payments for the acquisition targets JD gyms and Everlast.** Those are estimated to cost £62m and £19m, respectively. Additionally this position comprises the conversion of acquired sites (£352k per site), the investment in IT (3.5% of revenues) and the fit-out of new organically opened sites (£1,340k per site).
4. **The Capex facility is needed to fund the acquisitions in 2021 and 2022**. The drawdown and payback periods are 2 years
5. The revolver is continuously needed to ensure short term liquidity until 2024
6. Total cash interest includes interest payments for all senior and junior loans
7. Besides the years in which the acquisitions are made, **cash flows available for debt repayments are robust and give enough security for reasonable leverage**
8. The Gym Groups cash balance is steadily positive throughout the investment period

Overview

FYE 31/12 in £k		2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net income		**8,924**	**11,227**	**17,086**	**22,931**	**17,699**	**33,942**	**44,469**	**52,155**
Depreciation & Amortization		21,761	29,695	35,890	42,437	65,994	71,615	77,935	86,404
Change in Working Capital		5,405	7,112	9,857	15,030	1 11,988	7,640	7,169	6,405
Maintenance CAPEX		(8,318)	(10,725)	(12,617)	(16,794)	(18,890)	(21,254)	(23,507)	(25,676)
Cash flow from operations	2	**27,772**	**37,309**	**50,215**	**63,604**	**76,792**	**91,943**	**106,065**	**119,287**
Expansion CAPEX		(57,551)	(28,555)	(29,574)	(105,439)	3 (54,350)	(31,544)	(31,418)	(32,586)
Cash flow from investing		**(57,551)**	**(28,555)**	**(29,574)**	**(105,439)**	**(54,350)**	**(31,544)**	**(31,418)**	**(32,586)**
Cash Flow before Financing (FCF)		**(29,779)**	**8,754**	**20,641**	**(41,835)**	**22,441**	**60,399**	**74,648**	**86,701**
Capex Facility drawdown/(repayment)		12,500	-	-	4 63,263	32,610	(47,937)	(47,937)	-
Revolver cash drawdown (repayment)	5		7,809	(4,278)	(3,511)	(20)	7,348	(7,348)	23,445
Cash flow available for debt service		**(17,279)**	**16,563**	**16,363**	**17,917**	**55,031**	**19,811**	**19,363**	**110,147**
Total Cash interest	6	-	(7,496)	(7,296)	(8,850)	(11,336)	(10,743)	(7,889)	(6,521)
Interest Income		22	26	26	28	179	330	354	378
Cash flow available for debt repayment	7	**(17,257)**	**9,093**	**9,093**	**9,096**	**43,874**	**9,397**	**11,828**	**104,004**
Debt Repayments		(1,713)	(9,067)	(9,067)	(9,067)	(9,067)	(9,067)	(6,477)	(103,626)
Adjustments (mostl. share proceeds)		21,540	-	-	-	-	-	-	-
Cash Flow		**2,570**	**26**	**26**	**28**	**34,807**	**330**	**5,352**	**378**
Opening Cash Balance		457	3,027	3,053	3,079	3,609	38,620	38,950	44,301
Cash Increase/(Decrease)	8	2,570	26	26	530	35,011	330	5,352	378
Closing Cash Balance		3,027	3,053	3,079	3,609	38,620	38,950	44,301	44,680

Reliable Suppliers Enable Predictability of Capital Expenditures

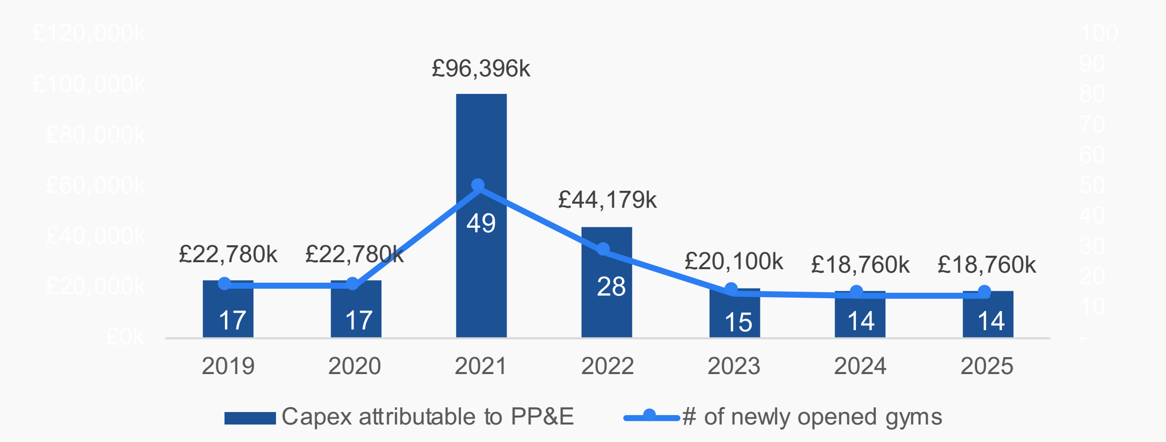
Supplier Overview

Comments

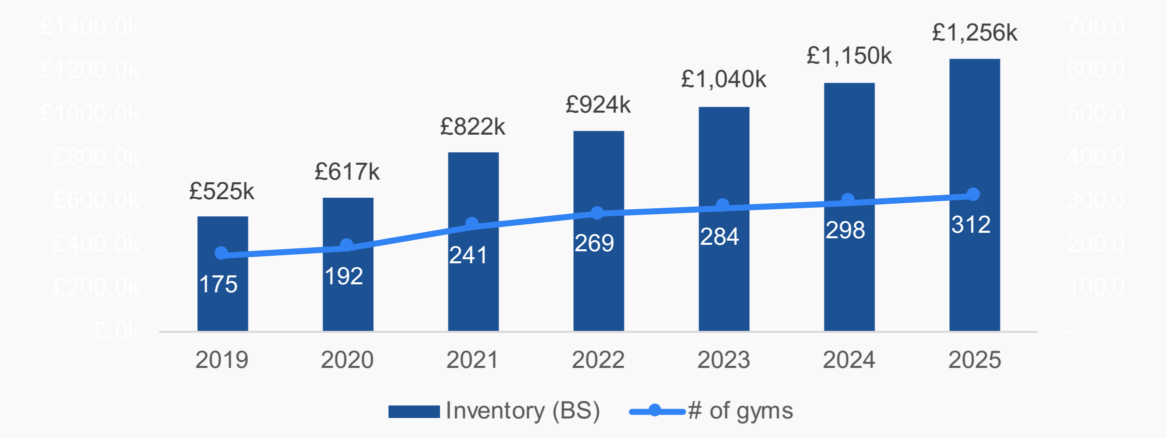
- **Gym equipment like work out and fitness machines are capitalized and listed on the Cash Flow statement (Capex attributable to PP&E) as well as on the Balance Sheet (Net PP&E)**
- Fit-out Capex is with £1,340k per newly opened gym stable over the investment period
- In 2021 and 2022 average Capex attributable to PP&E per newly opened site increases significantly, because of inorganic opened sites. **In order to convert the acquired JD gym and Everlast sites into the TGG style, conversion costs accrue. Site conversion Capex is assumed to be £352k per newly acquired site.**
- **The Gym Group expenses and capitalizes costs related to inventories. Smaller gadgets** like payments for gymnastic balls, small dumbbells or office supplies **are expensed.** Those expenses have been relatively stable and are **expected to be around £0.3k per site per annum** based on the median of historical figures. **Bigger equipment** like replaced benches and chairs **are capitalized** on the Balance sheet and are listed under inventories and on the Cash Flow statement flow into Maintenance Capex. **Average inventory expenses per gym is around £2k - £3k over the investment period**
- **The Gym Group has cooperation's with premium suppliers for fitness machines and provides similar machines in every site.** Additionally TGG outsourced the development of their own-tailored member management software to two new software partners

Suppliers

Capital expenditures for equipment



Inventory



8 I Returns

Strong Returns are Expected in All Cases

Return Overview

Comments

- The Base case does only consider natural and organic growth. M&A transactions are only considered in the Flat and Management case
- Based on conservative assumptions the Flat case leads to an equity increase of 331% after a holding period of 6 years (Entry in beginning of 2019 and Exit in 2024) with an estimated entry multiple of 12x EBITDA. This scenario is considered to be the most likely one with a probability of 70%
- The Management case is based on slightly optimistic assumptions that are still likely to occur but with a lower probability. If the influencing factors turn out beneficial, the management case will lead to an equity increase of 372% after a holding period of 6 years with an estimated entry and exit multiple of 12x EBITDA
- Even in the lower-probability Base case, the equity increase is estimated to be 212% up until 2024 with an estimated entry and exit multiple of 12x EBIDTA. This provides a comfortable situation in a way that the downside is covered as well

Base Case

EXIT WATERFALL	2019E	2020E	2021E	2022E	2023E	2024E	2025E
EBITDA	51,911	65,380	74,114	83,203	93,742	104,104	113,630
Exit Multiple	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x
EV	**622,936**	**784,560**	**889,367**	**998,442**	**1,124,904**	**1,249,249**	**1,363,565**
Net Debt	(174,010)	(155,781)	(130,312)	(101,058)	(64,533)	(17,472)	37,101
Equity	448,926	628,779	759,055	897,384	1,060,371	1,231,777	1,400,665
Fixed Return Instrument	290,078	326,337	367,129	413,021	464,648	522,729	588,070
Ordinary Equity	158,848	302,442	391,925	484,364	595,723	709,048	812,595
Sweet Equity	31,770	60,488	78,385	96,873	119,145	141,810	162,519
Management	1,133	2,158	2,796	3,456	4,251	5,059	5,798
Institutional Ords	125,945	239,795	310,744	384,035	472,328	562,179	644,278

Management Case

EXIT WATERFALL	2019E	2020E	2021E	2022E	2023E	2024E	2025E
EBITDA	50,788	64,027	80,901	102,265	129,454	147,954	169,399
Exit Multiple	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x
EV	**609,458**	**768,320**	**970,809**	**1,227,180**	**1,553,448**	**1,775,452**	**2,032,784**
Net Debt	(184,216)	(176,277)	(231,037)	(223,535)	(176,250)	(108,960)	(24,245)
Equity	425,242	592,042	739,772	1,003,645	1,377,198	1,666,492	2,008,539
Fixed Return Instrument	290,078	326,337	367,129	413,021	464,648	522,729	588,070
Ordinary Equity	135,164	265,705	372,643	590,625	912,550	1,143,763	1,420,469
Sweet Equity	27,033	53,141	74,529	118,125	182,510	228,753	284,094
Management	964	1,896	2,659	4,214	6,511	8,161	10,135
Institutional Ords	107,167	210,668	295,455	468,286	723,529	906,849	1,126,240

Flat Case

EXIT WATERFALL	2019E	2020E	2021E	2022E	2023E	2024E	2025E
EBITDA	51,069	64,318	79,657	99,069	124,063	140,539	157,134
Exit Multiple	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x
EV	**612,824**	**771,822**	**955,881**	**1,188,834**	**1,488,754**	**1,686,472**	**1,885,611**
Net Debt	(180,557)	(169,099)	(221,291)	(211,973)	(164,298)	(99,646)	(21,708)
Equity	432,266	602,722	734,590	976,861	1,324,456	1,586,827	1,863,903
Fixed Return Instrument	290,078	326,337	367,129	413,021	464,648	522,729	588,070
Ordinary Equity	142,189	276,385	367,460	563,840	859,808	1,064,098	1,275,833
Sweet Equity	28,438	55,277	73,492	112,768	171,962	212,820	255,167
Management	1,015	1,972	2,622	4,023	6,135	7,593	9,103
Institutional Ords	112,737	219,136	291,346	447,049	681,712	843,685	1,011,563

Enhanced by the Capital Structure, Significant Value is Created for the Sponsors

Return Breakdown

Comments

- Considering an entry multiple as high as the exit multiple (12x EBITDA), the enterprise value increases by £1.27bn (>200%) from 2019 to 2025
- There is a fairly high sweet equity share for the management (representing 20.0% of ordinary equity)
- Management equity incl. sweet equity comprises 1% of the overall equity in 2024 providing the management with an exit multiple of 79.3x (based on 12x EBITDA entry and exit multiple in 2024)
- Hence, institutional equity is 99% of the overall equity (accounting for 98% fixed return instrument ownership)

Exit Waterfall

EXIT WATERFALL	2019E	2020E	2021E	2022E	2023E	2024E	2025E
EBITDA	51,069	64,318	79,657	99,069	124,063	140,539	157,134
Exit Multiple	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x
EV	**612,824**	**771,822**	**955,881**	**1,188,834**	**1,488,754**	**1,686,472**	**1,885,611**
Net Debt	(180,557)	(169,099)	(221,291)	(211,973)	(164,298)	(99,646)	(21,708)
Equity	432,266	602,722	734,590	976,861	1,324,456	1,586,827	1,863,903
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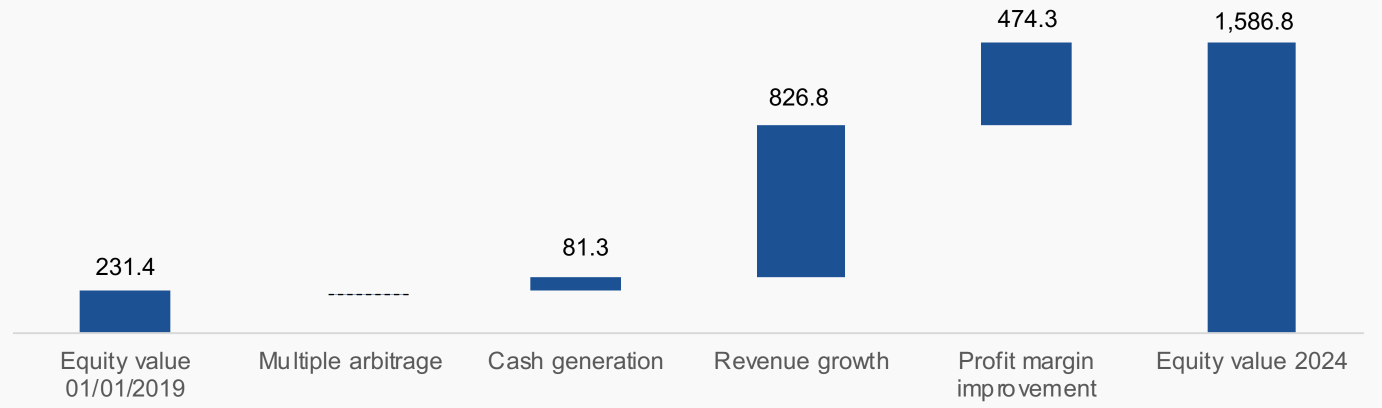
Sweet Equity	28,438	55,277	73,492	112,768	171,962	212,820	255,167
Management	1,015	1,972	2,622	4,023	6,135	7,593	9,103
Institutional Ords	112,737	219,136	291,346	447,049	681,712	843,685	1,011,563

Comments

- Since no multiple arbitrage is assumed in the model, there is no value created through this measure
- Ongoing investments are mainly financed via cash and hence only 6% of value is created through accumulation of cash (£81.3m)
- Revenue increased over the holding period by 131% (from £165.0m in 2019 to £361.6m in 2024). A huge part of the value is created here, namely 61%
- The EBITDA margin is also expected to increases by 9p.P. (2019: 31% to 2024: 40%), this creates 33% of the value (£476.4m)
- Overall equity increases by £1.14bn between 2019 and 2025

Return Breakdown (in £m)



Even with Worse than Expected Multiple Combinations the Profitability is High

Sensitivity Analysis

Comments

- Based on conservative assumptions, the Flat case returns a multiple of money of 5.3x after a holding period of 6 years (2019-2024) with an assumed entry multiple of 12x EBITDA. This scenario is considered to be the most likely one with a probability of 70%
- Taking different entry and exit multiples into account (each 9x-15x EBITDA), the multiple of money in the Flat case ranges between 2.9x and 11.2x
- The Flat case returns an IRR of 32% after a holding period of 6 years (2019-2024) with an assumed entry and exit multiple of 12x EBITDA. This indicates that under pre-mentioned assumptions and projections the transaction is favorable for all types of investors
- Applying different entry and exit multiples for the transaction (each 9x-15x EBITDA), the IRR in the Flat case ranges between 20% and 50%
- As 20% IRR is a common “hurdle rate” for PE funds to decide in favor of a potential investment, the transaction is at the higher end of an estimated return range of the fund
- Even if the target would be acquired at a multiple of 15x EBITDA and sold at 9x, the deal would still be recommendable as it could provide still sufficient returns
- As all relevant entry and exit scenarios have been considered, The Gym Group is analyzed as a solid leveraged buy out target company

MoM Sensitivity Analysis

		Entry						
	5.29x	9.0x	10.0x	11.0x	**12.0x**	13.0x	14.0x	15.0x
Exit	9.0x	6.7x	5.4x	4.6x	4.0x	3.5x	3.2x	2.9x
	10.0x	7.4x	6.0x	5.1x	4.4x	3.9x	3.5x	3.2x
	11.0x	8.2x	6.6x	5.6x	4.9x	4.3x	3.9x	3.5x
	12.0x	8.9x	7.2x	6.1x	**5.3x**	4.7x	4.2x	3.8x
	13.0x	9.7x	7.8x	6.6x	5.7x	5.1x	4.5x	4.1x
	14.0x	10.4x	8.4x	7.1x	6.2x	5.4x	4.9x	4.4x
	15.0x	11.2x	9.0x	7.6x	6.6x	5.8x	5.2x	4.7x

IRR Sensitivity Analysis

		Entry						
	0.32x	9.0x	10.0x	11.0x	**12.0x**	13.0x	14.0x	15.0x
Exit	9.0x	37%	33%	29%	26%	23%	21%	20%
	10.0x	40%	35%	31%	28%	26%	23%	22%
	11.0x	42%	37%	33%	30%	28%	25%	23%
	12.0x	44%	39%	35%	**32%**	29%	27%	25%
	13.0x	46%	41%	37%	34%	31%	29%	27%
	14.0x	48%	43%	39%	35%	33%	30%	28%
	15.0x	50%	44%	40%	37%	34%	32%	30%

Concerns can be Easily Relativized or Even Mitigated

Risks of Return Assessment

Market Concerns

Concern	Mitigants
	Market
Competition & Market Opportunity	**UK:** ▪ Low cost gym market grew 32% annually between 2013-2018 to >£500m is expected to grow with 11% until 2025 ▪ Low-cost gym penetration still low at 25% of all gym members ▪ Opportunity for c. 1,200 -1,400 low-cost gyms (vs. c. 654 in 2018) ▪ Other competitors have tried and failed to gain scale in this market (e.g. Sports Direct) **Europe:** ▪ Higher penetration (often mid-teens) ▪ Historically more widely accepted concept ▪ Only really 2 pan-European operators (McFit, Basic-Fit)
Barriers to Scale	▪ Scale, brand recognition appropriate site locations ▪ Landlord covenants ▪ Operational expertise and long successful roll-out track record ▪ In the UK, the top 3 players operate c. 70% of all facilities
Historical Sentiment towards the Sector	▪ Highly differentiated low-cost business model does not suffer from the issues which characterized legacy gyms ▪ Capital is more constrained with lenders more cautious ▪ Landlords also more discerning and sensitive around covenants

Business Model Concerns

Concern	Mitigants
	Business Model
Cash Flow Predictability	▪ Embedded EBITDA is inherent in the business model, i.e. future growth will be delivered by sites opened historically ▪ Predictable cash flows, successfully replicate new gym performance, and a reflection of the invested Capex
Quality of Roll-out	▪ Rigorous site selection process and quality of the property team ▪ Strong covenant supports ability to capture best sites
Churn	▪ The low-cost model makes churn an opportunity, not a concern ▪ Flexible offering results in high re-join rates of and a key consideration for students and first timers ▪ Attrition dynamics in low-cost gyms are fundamentally different to a traditional subscription business with a read across to other other budget sectors e.g. easyJet and Primark

9 I Exit Strategy

To Maximize Returns and Ease of Realization a Strategic Sale is Preferred

Exit Options

Exit Option	Applicability
Strategic Sale	▪ Selling all shares owned to a third party purchaser is the most favorable option since strategic buyers can usually pay higher multiples due to synergy effects ▪ One has to consider the differences between selling to a strategic buyer already operating in the UK and one outside the UK willing to enhance his footprint
IPO	▪ IPOs usually achieve the highest multiples but also come with high risks due to the duration of the sales process ▪ Taking the listed target private now and "reversing" this in a few years might send ambiguous signals to the stock market and share prices are fairly unpredictable
Secondary Sale	▪ Selling to another PE fund is another viable option for The Gym Group ▪ Secondary Sales usually achieve lower multiples than the first two options and are thus less favorable ▪ There is a high current demand for Fitness and Lifestyle clubs in the PE industry TGG could be considered e.g. an add-on for a PE backed buy-and-built activity in the market, allowing for synergies in a secondary sale
Liquidation	▪ The option of liquidation is another one which should not be pursued but gives comfort in the worst case scenario ▪ Since TGG owns most of its equipment and has long-term rent contracts for the buildings in place, the liquidation value should buffer the downside

Preference | Likelihood

Strategic Sale Options

Strategic Sale to Competitors:

Buyers would be interested, but it is hard to find a suitable one since on one hand the antitrust authorities could mitigate a large player to make the acquisition but on the other TGG's EV is unaffordable for small players. Small players operated by large parent companies are viable. Examples:

PUREGYM | SPORTSDIRECT FITNESS.COM | JD

Strategic Sale to Expanding Foreign Operator:

Large gym operators who are not currently operating in the UK could use an acquisition as market entry strategy. This is probably the most desirable exit option. Examples:

McFIT | BASIC-FIT | FITNESS HUT | JR JOHN REED FITNESS

Source: Company information, Capital IQ, own analysis

○ = low ● = high   low = ▬ = high

A Diverse Universe of Buyers would be Interested in a Potential Deal at Exit

Buyer Universe

PE Buy and Build scenario

Exemplary buyer:

Bridges Fund Management owns

energie Fitness, VIVA GYM owns FITNESS HUT

- British PE fund with health & wellbeing focus
- Already has Viva gym in its portfolio which owns Fitness Hut

- The most preferable option would be an acquisition by an PE-backed strategist as part of a buy-and-built activity
- This exit would offer the benefits of a secondary sale (e.g. negotiations with equal-minded professionals, relationship effects, same valuation methods, speed, efficiency) as well as synergy effects which probably lift the purchase price
- Since there is currently an high interest in the Fitness and Lifestyle industry, there are several Private Equity funds that have fitness club operators in their portfolio

Other examples:

KKR
- Looked into pure Gym before
- Has The Bay Club in Portfolio

CIVC PARTNERS
- Partially owns LA Fitness

Strategic Expansion Scenario

Exemplary buyer:

McFIT, HIGH 5

- Low-cost gym operator with 290 facilities in Europe (Germany, Italy, Austria, Poland and Spain)
- Has none in the UK and thus might be willing to expand into that region
- Created smaller brand “High-5”

- Another desirable exit would be selling the business to an European operator that is willing to expand to the UK without opening each branch from scratch
- Since TGG is one of the market leaders in the United Kingdom and has a strong financial profile, it represents a desirable take-over target for strategic expansions
- There are several low-cost operators who are pursuing an inorganic growth strategy and expectably even more at time of exit in 6 years

Other examples:

24 Hour Fitness
- Operates 420 clubs in the US, they might want to start a European footprint

BASIC-FIT
- Largest and fastest growing European chain, not in UK yet

Other potential buyers

Secondary

Most relevant: TPG, North Castle Partners, ROARK CAPITAL GROUP, BainCapital DOUBLE IMPACT

EQT, Partners Group, Cinven, ARDIAN, PERMIRA, Hg Capital Trust plc

Strategic

planet fitness, SPORTS DIRECT FITNESS.COM, JD, JOHN REED FITNESS, FIT X FOR ALL OF US, GoodLife FITNESS, XERCISE4LESS, GOLD'S GYM

10 I Due Diligence

Data Room Access and Further Expert Interaction are Crucial for In-Depth DDs

Due Dilligence Areas

Focus	Key Question	Deep-dive areas	Information Sources
Competition	Are the market shares assumed obtainable?	▪ What do the expansion / growth strategies of the competitors look like? ▪ Are any international players likely to enter the UK low-cost gym market in the near future (e.g. Basic Fit N.V.) ? ▪ Are any mergers / acquisitions in the pipeline / expected? ▪ How will prices develop depending on intensity of competition	▪ Expert interviews ▪ Investor relations of competitors ▪ Expert consultants (e.g. specialized advisors) ▪ Talk to investment banks (sensitive with NDAs)
Market	Is the market growth we calculated realistic?	▪ Are there any cultural differences (e.g. from the US) that would support higher / lower maturity penetration rates? ▪ What influence will a potential Brexit have on population growth? (e.g. emigration)	▪ Expert interviews ▪ Demographic comparison with high penetration countries ▪ (Public) health institutions ▪ General population survey
Customer / Demand	How is customer demand going to develop and what are the crucial differentiation factors to achieve growth targets?	▪ What do customers like about the current offering of the gym group? What makes them extend / sign a contract? ▪ Why have non-customers decided to not join TGG? (preference for competitor, no gym membership at all) ▪ How will the customer demand for a change in the near / distant future?	▪ Expert interviews ▪ Target segment survey ▪ Insights from TGG management ▪ Expert consultants (e.g. marketing agencies)
M&A	Is the M&A strategy we pursue likely to succeed?	▪ Are the current owners of identified targets willing to sell? ▪ What are the actual financials of the targets? (Assumption-based modelling) ▪ Are the multiples we assumed for the (asset deal) acquisitions feasible? ▪ Who would also be interested in acquiring these companies? ▪ Are the any cost or revenue synergies we can assume as further upside potential?	▪ Expert interviews ▪ Target management opinions ▪ Broader access to multiple sources ▪ Insights into target financials
Exit	Is the fund able to exit as planned?	▪ Are the potential buyers we identified interested and able to make an acquisition? ▪ Are there any revenue or cost synergies that would increase the purchase price if a strategic buyer was interested? ▪ Up to which size of a buyer would the antitrust authorities confirm / deny a deal? ▪ Is an IPO an option? Are there any laws / regulations that prohibit this?	▪ Expert interviews ▪ Potential buyer opinions ▪ Investor relations of pot. Buyers ▪ Legal advisers (antitrust law)

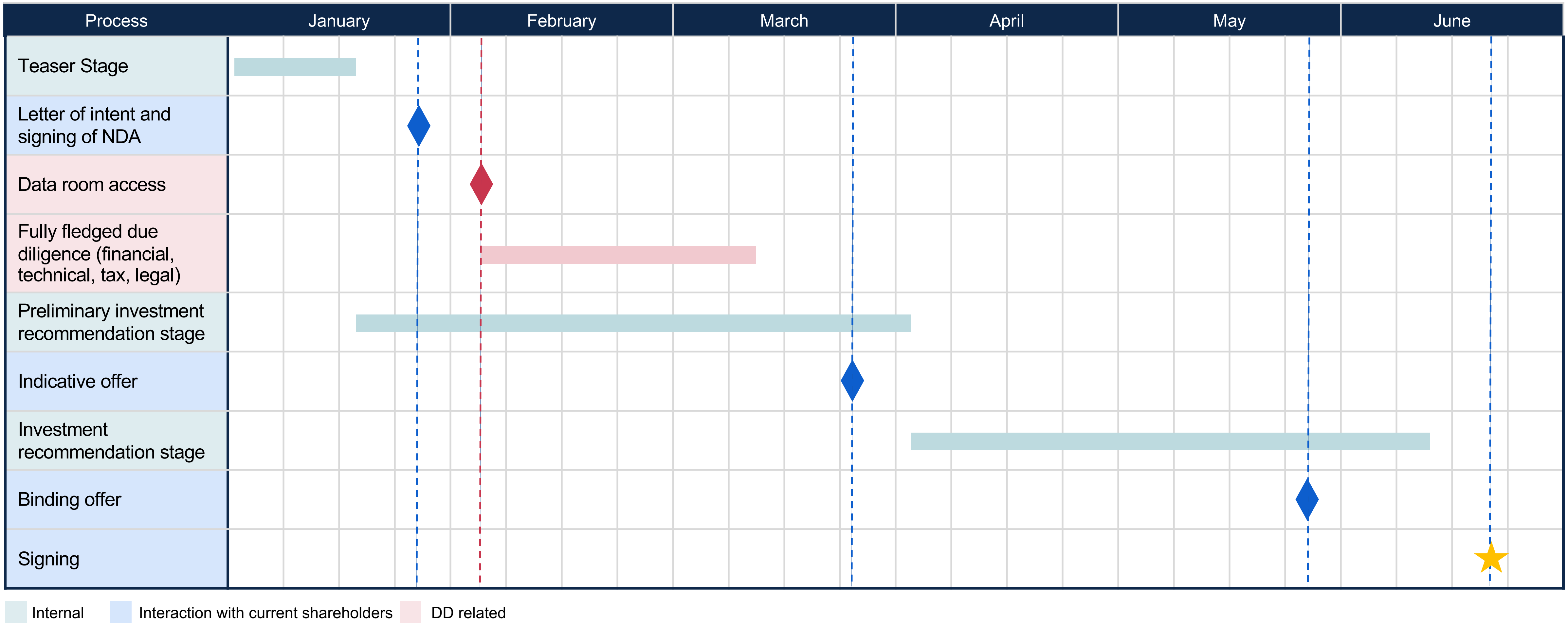
Advisers

LeisureDB, McKinsey & Company, lupton fawcett LLP, Bain & Company, WTS, HCM, FMA, CCMP Capital, BCG, GLG, World Health Organization

Efficient and Fast but Thorough Work Will Lead to Signing in June

Action Plan

Time Line for Investment Process



Individual Reflection Jan

Skills Developed

A variety of hard skills were required in the project work. On the one hand, a high degree of analytical skills was required to perform fundamental corporate finance analysis, valuations, and on the other hand, financial modelling skills were sharpened accordingly. The analytical skills had to be complemented with a conceptual way of thinking, after the company, market and trend analysis all three components had to be combined in order to strategically align and further develop the company. In addition, the relevance for focus on detail was trained as well as an acceptance that this perception varies between team members. Also soft skills were improved, especially the effect of using different management styles, the willingness to compromise and the trust in the work of others. Furthermore, the ability to have a more structured work approach has improved as well as, to question your own structures and to communicate them better. Regarding the structuring and the presentation of content, it was a good lesson to take on more often an outside perspective on my own work to see if the chosen structure can be comprehend by others in the same way as it is perceived by me. Additionally, the entire project work demanded a high degree for independent knowledge generation and to push people over and over to help you to receive the information needed. Even though knowledge provided by books and other university documents helped to have an initial idea on how to conquer a task, all of us had to get used to the material to solve problems appropriately.

Team Approach

Our team approach to project work was in theory efficient but in practice not as much as imagined. Although we had a relatively late start, we were able to structure ourselves relatively quickly and put together appropriate working packages. The company screening was taken over by everyone and a consensus was reached to decide which company should finally be "bought". Expert teams were then formed, two team members focused primarily on market research and one member was entrusted with company analysis. After the work packages were completed, each member presented their results to the team and thus shared its knowledge. The development of the model was largely approached in a team of two, with one "expert" for the market and one for the company. The other team member had taken over model-independent tasks. After the model had been created, all team members were brought back to the same level of knowledge and instructed on the function of the model and any calculation specifics, so that further work packages could be distributed again. In theory the approach was relatively efficient, but in retrospect, the knowledge transfer did not run as efficiently as expected, which is why an even distribution of tasks was not always possible. The reason for this was the susceptibility to errors in the knowledge transfer or incorrect knowledge adoption, which led to increased iteration loops. The key take away from the project in terms of team approach is, that once a team member builds expertise in a certain field it is very hard to handover this position to another member, because appropriate knowledge transfer is the biggest hurdle, while working in team. Also, a team in the framework of a master thesis is generally tightened together by common interests, which is an important matter for a team composition and has to be thought through carefully. For further projects I would try to mind out better what are the core skills and core interests of each team member to share tasks in the team more regarding capabilities and resources throughout the entire project period.

Learnings Applied

The format of the master's thesis was the right project to apply all the knowledge I had gained in the last 1.5 years to a comprehensive project and to enhance my corporate finance understanding. Before the Master in Finance I had studied civil engineering, which is different from the Nova SBE approach in terms of the approach to solve problems and the way of learning and working. Therefore I had a very steep learning curve during this time. On the one hand, the subjects Corporate Finance, Investments, Applied Corporate Finance and Private Equity have trained my understanding for companies, their strategic orientation and the analysis of markets and sectors. On the other hand, the previous knowledge was elementary for me to complete an internship at an investment banking boutique in the summer, which allowed me to expand my knowledge and to incorporate it into the work for my thesis. In terms of working in a team, the whole program at Nova SBE was very beneficial for me, as I got to know all facets of teamwork. This learning curve was crucial to keep a cool head during the master thesis, which was an intense group project.

All in all the thesis was a great project to apply the gained knowledge over the entire master journey and a good preparation for the upcoming professional life. I am happy and thankful at the same time that NovaSBE and all professors offered us the opportunity to write the thesis in such a frame and to support our entire group throughout the journey.