Pinnacle Bidco PLC

Annual report and consolidated financial statements
for the year ended 31 December 2020

PUREGYM

Contents

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Business Overview

Pinnacle Bidco PLC and its subsidiaries form the PureGym Group ("the Group"), which is the second largest gym and fitness operator in Europe (by number of sites). At its pre COVID-19 peak in February 2020, the combined business had approximately 1.9 million members across circa 500 gyms.

The Group provides high quality, low cost, flexible physical fitness facilities and has market leading positions across the UK, Denmark and Switzerland operating under the PureGym, Fitness World and Basefit brands respectively.

While the 2020 financial performance of the Group has been impacted by the worldwide COVID-19 crisis, the business entered the pandemic from a position of real financial strength. This was further enhanced by a significant equity injection, increase in facilities and covenant relaxation in September 2020. These changes together with management's swift actions and controls ensured that the Group ended the year with available liquidity of £236 million (as at 31 December 2020) and has no further leverage or interest cover covenant tests until August 2024.

Strategy and business model

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

The Group has a powerful and highly disruptive customer proposition, which is differentiated from traditional gym operators and appeals to a broad range of consumers. The group's strategy is to occupy market leading positions in the value segment, whilst delivering profitable growth for our stakeholders. Key elements of the proposition include low cost membership fees, no obligation to sign a 'locked in' contract, excellent standards of hygiene and cleanliness and "24x7" access to high quality, well maintained gyms. The proposition is underpinned by the Group's differentiated capital efficient and technology-enabled gym operating model, which enables our gyms to support high levels of membership, operate on low costs, and generate strong unit economics, cash flow conversion, and ROCE.

Our brands...

PureGym

PureGym is the UK's largest private gym operator, both by number of gyms and members. As of 31 December 2020 the company operated 274 gyms (2019: 263 gyms). Despite the impact of COVID-19 the member volumes have remained robust, with 970,000 members at the year end (2019: 1,138,000).

PUREGYM

274 gyms

Fitness World

Fitness World is the leading operator in Denmark, both by number of gyms and members. As of 31 December 2020 the company operated 179 gyms (2019: 185 gyms) with 408,000 members (2019: 486,000). Fitness World is a household name, with membership accounting for close to 10% of the adult population in Denmark.

FITNESS WORLD

179 gyms

Basefit

Basefit is the second largest gym operator and the leading high value low cost operator in Switzerland. In 2019, Basefit was the first player in the Swiss market to offer a flexible monthly membership option. As at 31 December 2020, Basefit operated 39 gyms (2019: 39 gyms) with 77,000 members (2019: 79,000).

basefit.ch

39 gyms

Business Overview continued

While we have been taking a cautious approach during the COVID-19 crisis, we will continue to roll out new gyms in geographies where we can achieve our targeted return on capital, and we will continue to drive the operational and financial performance of our existing gym estate.

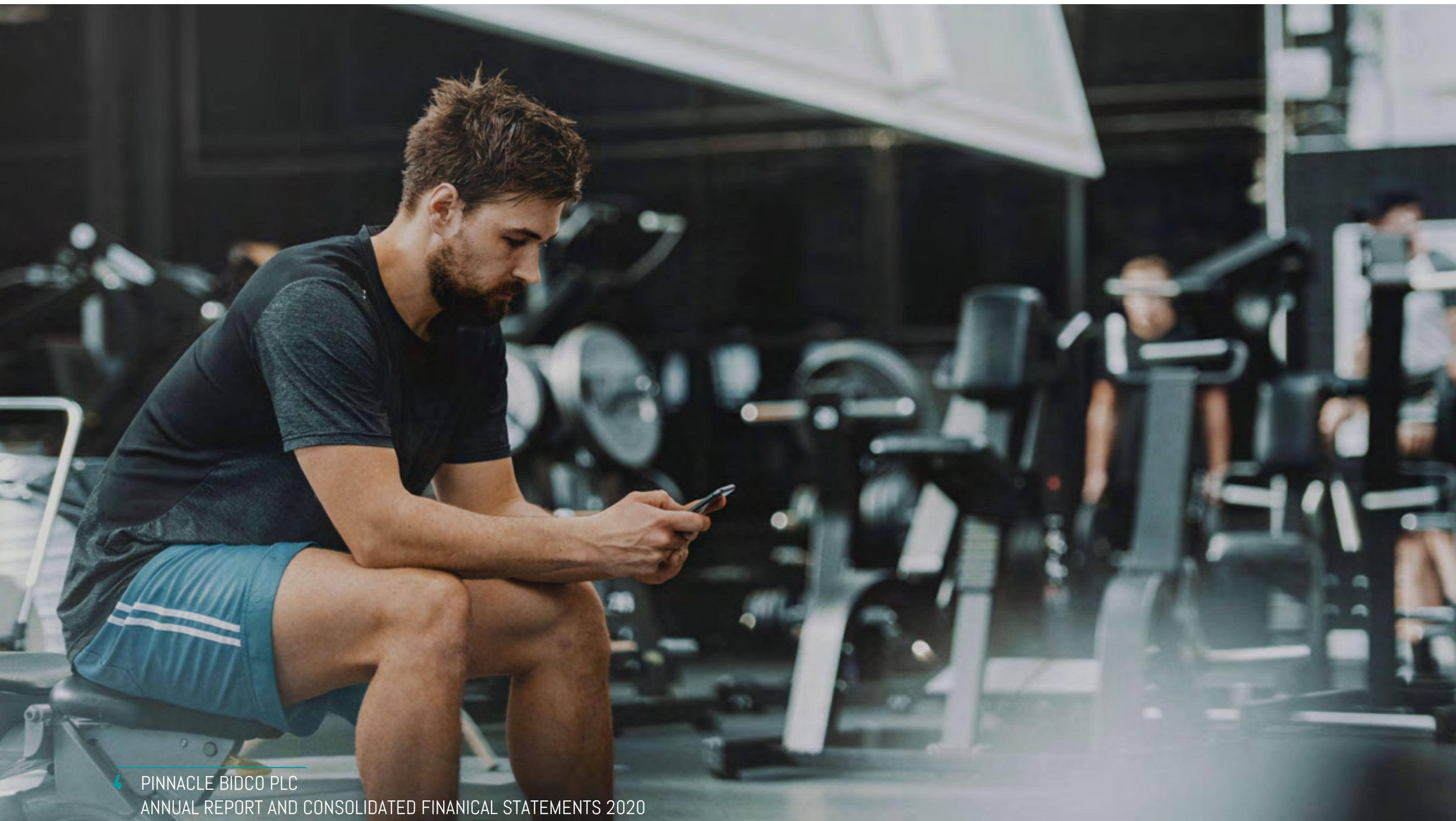
Our ability to deliver on this strategy is underpinned by a strong business model:

- The world's population is more aware than ever of the importance of looking after physical and mental health, avoiding conditions such as obesity and ensuring a good immune system. In a post COVID-19 world we therefore believe that there will continue to be attractive and resilient fitness markets with significant growth opportunities in the value segment.
- The merit to consumers of having access to a fully-equipped, conveniently-located, always-open, well-maintained, safe and secure shared use facility are very considerable and this merit is close to impossible for most consumers to replicate at home or in any other way.
- Benefits from being a diversified, scale operator with sites spread across countries and continents.
- Strong, differentiated customer proposition supported by technology which both improves the effectiveness from a consumer point of view and reduces operating costs.
- Low cost, capital efficient, technology-enabled operating model.
- Strong and experienced leadership team.
- Significant financial capacity to support ongoing expansion and estate rollout.

The fitness market

The Group operates in the value segment of the fitness market, which has grown quickly over the past several years. The expanding footprint of value gyms has increased the availability of fitness facilities to a larger proportion of the population.

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



Chief Executive Officer's Statement

Humphrey Cobbold

The Group entered 2020 in a strong financial position with high expectations for the year following the acquisition of Fitness World and record January and February trading. This trajectory was turned upside down by the emergence of COVID-19.

Against this extremely challenging background I am extremely proud of how our colleagues, members and financial stakeholders have responded to the rapidly evolving environment over the past 12 months.

We have navigated our way through the crisis with a combination of resilience, discipline and skill. We are now incredibly well placed to succeed in the post COVID-19 trading environment, with a very strong financial base, a now battle-hardened management team and an extremely well positioned member proposition.

A strong operational and financial response to Covid-19

In March 2020, the governments of the countries in which we operate imposed total lockdown measures to control the spread of COVID-19 and in doing so forced the temporary closure of all our gyms. These measures have then continued in various forms throughout 2020 and well into 2021.

Our first priority was to take care of our colleagues and our members. We reacted quickly as the situation developed, following government guidance in each territory and implementing changes effectively to protect the health and wellbeing of all concerned.

From this starting point, our COVID safe operating protocols have continued to evolve to reflect best practice as we gain further insight. We partnered with subject matter experts (such as exercise physiologists, ventilation experts and doctors) early on and played a key role in the development of safe operating protocols for the industry. When we were allowed to reopen, our environment resonated well with members, who were quick to gain confidence upon re-opening and this underlines how important fitness was to their health and mental wellbeing.

Alongside the very effective operational changes, we have had a rigorous focus on business risk mitigation and cash management in the constantly changing COVID-19 environment. As we moved in and out of different lockdowns across 2020 we have proven our ability to reduce the Group's cash burn rate very quickly as required, preserving cash and maximising liquidity.

In September we successfully structured a deal with our shareholders and bankers to recapitalise the business. This deal provided an additional £150 million of liquidity headroom and a strong financial platform from which to rebuild the business going forward.

Along with large sections of society we have had to absorb the full force of the lockdowns and, although through the actions above we have established a secure platform for the future, the impact of COVID-19 should not be underestimated. It has set back the business's plans significantly and we have had to rely on the significant support provided by stakeholders to cope with some of the damage.

Across 2020 we suffered a £178 million (40%) drop in revenue versus 2019,[1] with the Group closed for approximately 37% of trading days in the year (44% of days closed in the UK, 29% in Europe). Despite strong cost reduction initiatives and £48 million of Government support across the Group, we have seen a net cash outflow of £62 million in 2020 before factoring in the recapitalisation, and we exit the year with over £37 million of deferred payments due to 3rd parties (which continue to build during the Q1 2021 lockdown). The commercial resolution of these deferments will continue to influence how quickly the business can recover. In particular, we continue negotiations with landlords to reach an equitable resolution to the situation.

Further details on how COVID-19 is affecting our business and how we are responding to it as it evolves can be found at https://corporate.puregym.com.

Strong underlying market dynamics for the Group

Looking to the future I am very positive about the trading prospects for the Group. PureGym was forged in the shadow of the global financial crisis in the late 2000's. Likewise, once the pandemic passes, we believe that the Group will be well placed to succeed. Those businesses, such as the PureGym Group, with very strong management and access to capital will be well placed to benefit from pent-up demand and anticipated changes in the underlying supply dynamics.

Overall demand for fitness is likely to be strong as people focus on health, mental and physical well-being with the now-widespread recognition that activity and exercise is a key part of the solution. This is likely to be particularly prevalent in the younger demographics where our brands are most strongly represented and have highest awareness.

Over the past few years our business model has benefited from a more health-conscious population and from government and health sector initiatives designed to promote healthy living and active lifestyles. While COVID-19 has clearly boosted alternatives to gyms through digital, at home, and "alt fitness" propositions, research suggests that most people who were gym goers expect to return to the gym and many people who have never been gym members are aiming to become members. Indeed, we see people increasingly moving towards fitness and activity as part of a broader regime of well-being and we remain committed to supporting people in pursuit of that goal.

1 On a proforma basis including Fitness World

Chief Executive Officer's Statement continued

Economic times will be tough for the foreseeable future and we believe that people will trade down from mid-market, premium and studio operators (high price) to budget sector (low price, flexible, high standards). This will be especially true for those gyms that offer a "no compromise experience" on health/hygiene or exercise, and it is likely that operators with higher priced, not socially-distanced, small sites or high real estate cost models will struggle as a result.

COVID-19 has hit the sector very hard and all gym operators are under pressure. This has already been too much for some in the commercial/private sector in all the geographies within which we operate and it is expected that capital will only flow to those with the strongest market positions and scale to survive. The Group is therefore well placed globally, as one of the top 5 low cost, high value operators, to benefit from this dynamic.

It is likely that there will be limited capital available to recapitalise mid-market and struggling businesses, so it is probable that business failures will continue. Even if some operators manage to stay open, they will have insufficient capital to maintain all their facilities and their relative value proposition will decline overtime unless they can secure investment.

In summary, better known, better invested operators with good reputations for hygiene & safety, space and with effective controls for social distancing are expected to be the preferred option for consumers. Against this backdrop we are extremely well placed and see this as a significant opportunity for further growth following the reopening of our gyms.

A positive, sustainable business accessible by all

Helping people make a real and positive difference to their lives through being healthier and more physically active is deeply rooted in our values as a business and at the heart of all we do as a valued service to society. The challenges created by the COVID-19 pandemic has made this even more pertinent and important.

A key part of the successful growth of the Group has been built around providing a sustainable and accessible business for all. Consistently guided by our core mission of inspiring a healthier nation, we continually review our approach and seek out new opportunities to improve the wellbeing and sustainability of the communities within which our gyms operate and the environment in which we live and work.

Our people and members

I am very proud of all our colleagues and how they have reacted to the impact of COVID-19. While it has been a very difficult year, the talent, commitment, energy, and resilience of our colleagues has been truly exceptional across our business in all geographies.

We are continually focused on providing our people with a safe place to work at all times. This year there was a clear focus on COVID-safe operating procedures alongside the necessary skills and training needed to develop as individuals and to augment the customer experience for our members. The Group encourages and facilitates employees to communicate effectively, raise issues with senior management and its whistle blowing policy is supported by our experienced HR team.

Providing a safe working and training environment at our gyms for colleagues and members has always been a high priority; we have built upon this policy further during 2020 to provide a robust COVID-19 secure space. The clubs have implemented and followed strict protocols, including enhanced cleaning regimes to NHS non-clinical standards. Our investment in technology, both frontline and back-office, plays a critical role in maintaining this safe environment, ranging from access control through to member updates identifying how busy their gym is.

Our facilities remain Covid-secure and low risk places for people to work or to workout, with strong supporting evidence of a low prevalence of COVID-19 across both colleagues and members. This is demonstrated in the UK where, for the period when we were reopened in 2020 (July 2020 up to full closure on 4th January 2021), we had over 20 million member visits. In this time, we had a recorded rate of only 1 case per 8,000 hours worked by our colleagues in the gyms and a rate of just 2 cases per 100,000 visits by members.

Chief Executive Officer's Statement continued

Our members recognise our focus on delivering a safe environment during the last reopening, with 91% of members surveyed now showing a willingness to return to the gym (4 March 2021). This is up significantly from 70% towards the end of the first lockdown (12 June 2020) and highlights that our rigorous approach has provided members with the increased confidence to return.

We are proud to have supported our colleagues during the COVID-19 crisis, both from a mental health and a financial perspective. Focused communications, check-ins and innovative team challenges have all helped to ensure underlying engagement, while a dedicated hardship fund provided directly by our shareholders has helped alleviate financial pressures for some of our most adversely impacted colleagues.

Promoting inclusion and diversity is an important part of our culture and is reflected in the diversity of our colleagues across the Group (50% female) and the social and economic diversity of our membership.

Our community and the environment

Our gyms are an important part of the local community and we actively empower local gym management to support causes in their local communities. Never has this been more important than during the wider disruptions caused by COVID-19, and I am pleased with how our colleagues rose to the challenge in many ways, ranging from preparing food hampers for ambulance crews through to contact events such as weekly 'cook-alongs'. The strength of the link between our gyms and the local community is further reinforced by a dedicated vaccination centre being established in our Nuneaton gym during the Q1 2021 lockdown.

PureGym is committed to reducing energy consumption in its gyms and we monitor energy consumption individually at each gym. With the input of external consultants, we have a structured program to systematically review energy consumption and develop strategies to reduce our carbon emissions and environmental impact through improvements in both the design and operation of our gyms.

As a result, trials in energy saving and "green" features have delivered a 27-37% reduction in the energy usage at the trial sites. Post COVID-19, we will be looking to roll these schemes out across the estate where appropriate.

Wherever possible we incorporate LED energy-saving lighting, water-saving bathroom and shower facilities, and energy-efficient fitness equipment, and we recycle building materials in our new gyms.

Looking forward

Despite the obvious challenges of COVID-19, I believe that we have managed these challenges extremely well. It is fair to say that in many ways the pandemic has underscored the resilience of the Group's business model and its potential for the future. Indeed, I am very confident in the future and strongly believe that the Group is well placed to benefit from the market dynamics as they evolve post COVID-19. The combination of our flexible business model, focused on a high quality but low-cost proposition, and the significant financial capacity provided by our financial stakeholders is a very powerful blend.

While careful stewardship and risk management will remain at the heart of all our strategies, we will actively explore plans for further expansion, as and when appropriate, and continue to invest in our proposition to ensure we remain at the leading edge of fitness provision.

And finally, a business is nothing without its people. I am extremely proud of how colleagues across the Group have tackled the challenges thrown at them this year. Their exceptional dedication and resilience mean we are excellently positioned to regain the ground lost due to COVID-19 and underpins my confidence in the future success of our Group.

Humphrey Cobbold
Chief Executive Officer

PureGym Nuneaton: COVID-19 vaccination centre

Chief Financial Officer's Statement

Alex Wood

While we had an excellent trading start to 2020, the COVID-19 crisis has had a material impact on the business and our normal performance metrics.

The focus in 2020 has therefore been on robust cash management, protecting the long-term future of the business and maximising liquidity to provide a solid and well controlled financial platform for the Group from which we can bounce back strongly in the post COVID-19 trading environment.

I am particularly pleased that, against the backdrop of an extremely difficult year for all leisure operators, we have successfully and impressively delivered against those objectives. We have proven our ability to manage cash well in a challenging environment and successfully concluded a suite of comprehensive financing deals.

Combined, this protects us from further COVID-19 lockdown aftershocks and gives us long term certainty and visibility. It is with confidence that, as directors, we can therefore conclude there is no material uncertainty that the Group will continue as a going concern and we are very excited about the prospects once we are allowed to reopen the operations in each of our geographies.

Future prospects underpinned by a comprehensive recapitalisation

The Group successfully completed a number of strategic funding deals in September 2020, resulting in £236 million of available liquidity as at 31 December 2020. Principle components of the deals comprised:

- £100m of new Equity provided by the shareholders, Leonard Green and Partners.
- The existing banking facilities extended by £50m to provide £145m of available and undrawn Revolving Credit Facility.
- All leverage and cash cover covenant tests waived until August 2024.

In addition to the financing raised in the 2020 year, a further €45 million (£40m equivalent) was raised from Bondholders in March 2021 to substantially replace the financial headroom eroded by the lockdown at the start of 2021. Liquidity as of 31 March 2021 was £231 million.

Established strong cash flow focus and management

Cashflow and liquidity have been a core focus during 2020. The business has proved its ability to pivot from fine control over capital deployment and returns to tight control over cash and liquidity in a matter of weeks.

Our people reacted rapidly across the businesses to minimise unnecessary operational cash outflows, including mothballing gyms quickly and safely. In all geographies we furloughed the workforce where possible, paused all non-essential Capex and utilised the full range of government support available to us. We have additionally proactively managed suppliers through improved terms and negotiations with landlords for rent abatement and deferrals.

As a result of our discipline and strong financial control we were able to reduce Group unmitigated cash outflows by over 50% from £9.0 million per week to under £4.5 million per week on an underlying basis (excluding further cash flow benefits of any deferment activity or cash collections) during the closure periods.

Proven robustness upon reopening

We have two key commercial benefits that underpin the robustness of the business and allow a quick rebound as gyms open back up; we operate a membership revenue model and our underlying member base is generally young in age. These factors combine and deliver a rapid return to revenue generation, as proven in the strong trajectories after the first lockdown. Upon reopening in July 2020 our like-for-like UK paying membership base was quickly back to 80% (of the equivalent 2019 period) and following a period of full closure we quickly advanced to generating monthly Adjusted Group EBITDA of between £8 and £9m before closures were imposed once again.

£236m
Available liquidity

1.5m
Closing members

492
Gyms

Chief Financial Officer's Statement continued

Successful integration of Fitness World

Fitness World is a strategically important addition to the Group and, although naturally slowed by the impact of COVID-19, the integration of operations in both Denmark and Switzerland is progressing very well and we now have a new senior management team in place. We are excited about the underlying potential in Denmark and Switzerland and we are still confident that the operational synergies will be realised once the business is fully trading again.

As part of the Fitness World acquisition several gyms were acquired in Poland. These were considered non-core and subsequently exited by the Group through a sale completing on 15 December 2020.

A solid platform for 2021 and beyond

We know that the pandemic will continue to impact on both wider society and the Group throughout 2021 and we have modelled an extensive range of potential closure and reopening scenarios to reflect this. The output from these, combined with our strong cash management, provides me with comfort that not only will the Group successfully navigate the COVID-19 crisis but also has the capacity, desire, and expertise to bounce back strongly post COVID-19 and return to the underlying growth trajectory evidenced in previous years.

Our colleagues have been incredible throughout the crisis and I would like to thank them again for their ongoing support and commitment.

Alex Wood
Chief Financial Officer

2020 Financial Results

Impact of Covid-19 on the financial statements

COVID-19 has had a material impact on our performance in 2020, distorting both financial and other key performance indicators (KPIs) normally utilised by management to evaluate the results of the Group. As a result, although certain KPIs within this strategic report are included for completeness, management believe that they provide limited insight into the true underlying performance of the business when trading, no comparability against past performance nor useful reference points for future expectations.

Fitness World results have been included in the Group's 2020 results since the acquisition on 14 January 2020. Given the scale and contribution from Fitness World operations to the total Group performance, the 2019 comparatives in this section have therefore been set out to include Fitness World on a proforma basis. This provides better visibility of the true underlying business, albeit distorted significantly in the 2020 results by the impact of COVID-19. The 2019 Proforma Group results are based on the underlying 2019 separately audited accounts but the combined results for that period, which include expected synergies of the combined group, have not been audited as part of these financial statements.

Summary KPIs

The consolidated statement of comprehensive income on page 30 shows our results for the year ended 31 December 2020. The Group made an operating loss of £86 million and a loss for the year of £198 million (2019: proforma unaudited Group operating profit of £76 million and loss for the year of £40 million).

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

For the twelve months ended 31 Dec £m	2020 Group (audited)	2019 Proforma Group (unaudited)	2019 (pre-Fitness World) (audited)
Members (number 000's)	1,455	1,724	1,135
Gyms (number)	492	504	263
Revenue (£m)	269.9	447.5	254.9
Group Reported EBITDA[1] (£m)	87.9	209.1	125.2
Group Adjusted EBITDA[1,2] (£m)	10.9	131.6	89.1
Group Run-Rate Adjusted EBITDA (unaudited)[1,2,3] (£m)	**37.7**	**161.2**	**104.5**

[1] Group Reported EBITDA is defined as earnings before net finance cost, taxation, depreciation, amortisation, profit/loss on sale of property, plant & equipment, impairment, profit/loss on lease modifications and exceptional items. A reconciliation to operating profit is set out on page 13.
[2] Group Adjusted EBITDA is defined as Group Reported EBITDA less Share Based Payments, Pre-Opening Expenses, and the Cash Rent Adjustment. A reconciliation to operating profit is set out on page 13.
[3] Group Run-Rate Adjusted EBITDA is defined as Group Adjusted EBITDA plus the Run-Rate adjustment which reflects the expected performance improvement from the maturity of those gyms which are less than three years old at the end of the reporting period. A reconciliation to operating profit is set out on page 13.

Adjusted EBITDA and Run-Rate Adjusted EBITDA are KPIs typically used within the industry as they better represent the underlying results of the Group's trade from ongoing gyms. Adjusted EBITDA takes account of contractual cash rental costs and adds back new site pre-opening costs. Run-Rate Adjusted EBITDA reflects the expected maturation of new and immature gyms (less than 3 years old).

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

2020 Financial Results continued

Operating results

£m	2020 Group (audited)	2019 Proforma Group (unaudited)	2019 (pre-Fitness World) (audited)
Revenue	269.9	447.5	254.9
Operating expenses (exc. separately disclosed items)	(182.4)	(238.4)	(129.7)
Group Reported EBITDA (exc. discontinued ops)[1]	**87.5**	**209.1**	**125.2**
Depreciation, amortisation and impairment	(167.3)	(127.6)	(57.0)
Loss on disposal of PPE	(2.5)	(0.2)	(0.4)
Profit on lease modifications	0.1	0.4	0.4
Exceptional items	(3.8)	(6.2)	(8.3)
Operating (loss) / profit	**(86.1)**	**75.4**	**59.9**
Net finance cost	(128.5)	(115.0)	(83.4)
Loss before tax	(214.6)	(39.5)	(23.5)
Income tax credit / (charge)	20.8	(0.2)	(3.4)
Loss for the year from continuing operations	(193.8)	(39.6)	(26.9)
Loss from discontinued operation	(4.6)	-	-
Loss for the year	**(198.4)**	**(39.6)**	**(26.9)**

Note: Fitness World results have been included in the Group 2020 results since the acquisition on 14 January 2020. The 2019 Proforma Group comparatives in this table include Fitness World on a proforma basis.

[1] 2020 Group Reported EBITDA presented in this table excludes Group Reported EBITDA contributed by the discontinued operation (£0.4 million).

Revenue

Revenue was materially impacted by the closure of the gyms at various times across 2020, with a drop in revenue of £178 million (40%) on proforma 2019 levels. Within this, membership income comprised £244 million, vending income £14 million and income from the sale of day passes, personal trainers and promotional income was £11 million.

Operating Expenses (exc. separately disclosed items)

Operating expenses were down £55 million for the full year (versus the proforma position) at £182 million reflecting both the hard work of our colleagues in minimising costs while closed and the benefits of Government support across all territories.

UK Government payroll support (Job Retention Scheme benefits) of £8 million has been offset against payroll, while Business Rates Relief savings of £17 million are a direct reduction in normal costs. In Denmark the government support consisted of a combination of payroll support (£7 million) and contribution towards fixed costs of £15 million. Payroll support in Switzerland totalled £1.0 million. More details are provided in note 25.

Depreciation, amortization and impairment

Depreciation, amortisation and impairment of £167 million is up £40 million on the prior year pro forma, primarily due to impairment losses recognised in 2020 of £31 million. Of this, £12 million of impairment arose following the business reaching a conclusion on its choice of technology infrastructure for the newly combined group after the acquisition of Fitness World. A further £13 million of impairment arose against goodwill in the Danish and Swiss businesses due to the impact of the COVID-19 lockdowns on cash flows forecast for those businesses in the short term.

Also included within depreciation, amortisation and impairment in 2020 is £60 million of depreciation on the Group's leased properties, and £19 million of amortisation of customer lists and brands recognised following the Group's acquisitions.

2020 Financial Results continued

Exceptional items

Exceptional items of £4 million are due to a combination of integrating and restructuring the Fitness World operations (£2 million), other major internal restructuring projects (£3 million), one-off costs reacting to the COVID-19 crisis (£3 million) and continuing to invest for the future through the exploration of strategic opportunities (£1 million). These costs are partially offset by the benefit arising on settlement of a break lease at one of our sites (£5 million). More details are provided in note 7.

Net finance costs

Net finance costs comprise £49 million of interest and commitment fees on the Group's borrowing facilities and £12 million of amortisation of arrangement fees incurred in entering into these arrangements. A further £45 million relates to costs associated with the Group's property rentals. A proportion of property rental costs are recorded as interest under IFRS 16 with the remaining expense recognised as depreciation.

Also included within net finance costs is a £13 million foreign exchange loss, primarily due to adverse exchange movements on the Group's Euro-denominated borrowings, which act as a natural hedge against the translated value of the Group's non-UK subsidiaries. A further £30 million of finance cost relates to interest accruing on loans from group undertakings which represent the pass down of the proceeds of issues of preference shares by the Group's ultimate UK parent company, Pinnacle Topco Limited. The preference shares have no fixed date of repayment and are only repayable under specific circumstances.

These finance costs are partially offset by £20 million of exceptional finance income arising on the refinancing of the bridging loan to the Euro Notes in November 2020 (see note 10).

Tax charge

Our income tax credit of £12m is primarily a result of the large losses made in 2020.

2020 Financial Results continued

Reconciliation of Operating (Loss) / Profit to Run-Rate Adjusted EBITDA

£m	**2020 Group (audited)**	2019 Proforma Group (unaudited)	2019 (pre-Fitness World) (audited)
Operating (Loss) / Profit	**(86.1)**	**75.4**	**59.9**
Operating Loss from discontinued activities	(1.8)	-	-
Deprecation and impairment of PPE	120.6	109.2	54.1
Amortisation and impairment of intangible assets	49.0	18.4	2.9
Loss on disposal of PPE	2.5	0.2	0.4
Profit on lease modifications	(0.1)	(0.4)	(0.4)
Exceptional items	3.8	6.2	8.3
Group Reported EBITDA [1]	**87.9**	**209.1**	**125.2**
Other extraordinary items [2]	-	0.8	-
Pre-opening costs [3]	1.6	3.6	3.5
Cash rent adjustment [4]	(78.9)	(82.1)	(39.9)
Share based payment charge [5]	0.4	0.3	0.3
Adjusted EBITDA	**10.9**	**131.6**	**89.1**
Fitness World pre-acquisition Adjusted EBITDA (unaudited) [6]	1.4	-	-
Synergies on acquisition (unaudited) [7]	-	4.5	-
Run-Rate adjustment (unaudited) [8]	25.3	25.1	15.4
Run-Rate Adjusted EBITDA (unaudited)	**37.7**	**161.2**	**104.5**

Note: Fitness World results have been included in the Group 2020 results since the acquisition on 14 January 2020. The 2019 Group comparatives in this table include Fitness World on a proforma basis.

[1] Group Reported EBITDA is defined as earnings before net finance cost, taxation, depreciation, amortisation, profit/loss on sale of property, plant & equipment, impairment, profit/loss on lease modifications and exceptional items.
[2] Other extraordinary items includes the net impact of various one-off items not included in "Exceptional items"
[3] Pre-opening costs represent the total of all gym site operating costs incurred prior to the opening of a new gym and primarily consist of staff costs, marketing and rent expense.
[4] Under IFRS 16, most lease costs are excluded from Group Reported EBITDA. To produce a comparable and more relevant EBITDA figure, the contractual property rent payments due during the accounting period are deducted and any property rent-related expenses included in Group Reported EBITDA are added back. Management believes that adjusting EBITDA to reflect cash rent is a better reflection of actual earnings.
[5] The share based payment charge relates to shares in the ultimate parent company, Pinnacle Topco Limited, issued to directors and certain employees. See note 9 of the financial statements.
[6] Fitness World pre-acquisition Adjusted EBITDA represents Adjusted EBITDA for the Fitness World Group for the period 1 January 2020 to 13 January 2020, prior to the acquisition by the Group. This is added to Run-Rate Adjusted EBITDA as it represents the pro forma "last 12 months" results of the Group.
[7] The 2019 Proforma Group Run-Rate EBITDA includes £4.5 million of synergy benefits. Management still believe that these synergies will be delivered but in the context of reporting on the COVID impacted year can no longer be separated out from the underlying operations of the combined group.
[8] The Run-Rate adjustment reflects the impact of those gyms which are less than three years old at the end of the reporting period. These adjustments replace the Adjusted EBITDA earned by these sites in the last twelve month period with the projected Adjusted EBITDA for their third year of operation. Run-Rate Adjusted EBITDA therefore seeks to reflect the anticipated mature Adjusted EBITDA potential of those gyms which were trading at the end of the relevant period. Management forecasts EBITDA on a gym-specific basis and updates forecasts quarterly based on current and anticipated performance, taking into account seasonality and location-specific factors.

2020 Financial Results continued

Cashflow and Liquidity

£m	2020 Group (audited)	2019 (pre-Fitness World) (audited)
Net cash generated from operating activities	**(18.0)**	**69.5**
Net cash used in investing activities	(271.2)	(69.4)
Net cash generated from financing activities	327.2	28.2
Net increase in cash and cash equivalents	**38.0**	**28.3**
Cash and cash equivalents on the first day of the period	51.6	23.3
Effect of exchange rates on cash held	1.5	-
Cash and cash equivalents at end of period	**91.1**	**51.6**
Undrawn RCF Facility (including overdraft)	145.0	60.0
Available liquidity at 31 December	**236.1[1]**	**111.6**

Note: Fitness World results have been included in the 2020 Group results since the acquisition on 14 January 2020.
[1] Subject to a £30 million minimum liquidity test at each quarter end.

Net cash (used in) / generated from operating activities

Net cash used in operating activities totalled £18 million, which represents an £88 million adverse movement versus 2019. This excludes £24 million of additional rent payments year on year which are included within net cash generated from financing activities and the deferral of £37 million of payments (as at 31 December 2020) principally related to the moratorium on rents to landlords and agreed deferment of payments to tax authorities and suppliers. These combined items represent an illustrative adverse COVID impact on cash of £149 million in 2020.

The cost of the COVID impact would have been worse without the positive cash contribution from Government support packages in each of our territories (totalling £48 million).

Net cash used in investing activities

The net cash used in investing activities consists of £226 million relating to the Fitness World acquisition on 14 January 2020 and £46 million of investments in Capex.

The level of Capex is materially below our normal expected levels (£82 million in 2019 on a proforma basis) and reflects the careful approach taken by the Group to, where not committed, minimise cash outflow during the COVID-19 crisis. We opened 12 new PureGyms in the UK in the year, a further 5 gyms were opened in Denmark and continue to invest in technology systems and infrastructure for the long- term interests of the business.

Net cash generated from financing activities

The Fitness World acquisition was initially financed through a bridging loan that was subsequently refinanced during the year. This generated an inflow of £381 million. In addition, the Group's ultimate UK parent company, Pinnacle Topco Limited, issued a total of £101 million of preference shares as part of the recapitalisation of the Group by the shareholders to replace financial capacity eroded by the COVID-19 lockdown. This cash flow was passed down to Pinnacle Bidco PLC in the form of intercompany borrowings.

Offsetting this inflow of £482 million was a £118 million repayment of Fitness World debt on the acquisition and £37 million of lease capital payments. These lease capital payments represent a proportion of the property rental costs as accounted for under IFRS 16, with the remaining rental cost accounted for within net cash used in operating activities.

Cash and liquidity

As at 31 December 2020 the Group had cash and cash equivalents of £91 million and access to undrawn facilities of £145 million, providing total liquidity headroom of £236 million entering 2021. Liquidity as at 31 March 2021 was £231 million.

Cash flow - capital expenditure

The following table shows our cash flows from capital expenditure for the periods indicated.

£m	2020 Group (audited)	2019 Proforma Group (unaudited)
Expansionary Capital Expenditure	36.5	57.6
Maintenance and Refurbishment Capital Expenditure	9.8	24.5
Total Capital Expenditure	**46.3**	**82.2**

Note: Fitness World results have been included in the Group 2020 results since the acquisition on 14 January 2020. The 2019 Group comparatives in this table include Fitness World on a proforma basis.

2020 Financial Results continued

Funding

The Group has £430 million of Senior Secured Notes ("the Sterling Notes") and €445 million of Senior Secured Notes ("the Euro Notes") in issue as at the period end (together, "the Notes"). The Notes are listed on The International Stock Exchange, for which Pinnacle Bidco PLC is the Issuer and certain subsidiaries of the Group are guarantors. Interest on the Sterling Notes accrues at a rate of 6.375% and interest on the Euro Notes accrues at a rate of 5.500% both payable at half-yearly intervals. The Notes are due to be repaid in full on 15 February 2025.

On 4 March 2021 a further €45 million of Euro Notes were issued on the same terms, taking the total Euro Notes in issue to €490 million at the date of these accounts.

In addition, the Group has a revolving credit facility (the "RCF Facility") with eight international institutions. On 14 January 2020, the terms of the RCF Facility were amended to increase the facility from £60 million to £95 million and this was increased further to £145 million on 18 September 2020. Included within the total RCF Facility is a £10 million overdraft facility. In addition, the repayment date of the RCF Facility was extended during the year from 30 November 2023 to 15 August 2024. As at 31 December 2020 and 31 December 2019, the facility was undrawn.

Following amendments to the terms of the RCF Facility on 18 September 2020, and further amendments on 7 January 2021, the Lenders granted a waiver of the pre-existing financial covenants on the facility for the remainder of the term. The financial covenant is replaced with a £30 million minimum liquidity test on the last day of March, June, September and December each year.

The RCF Facility and covenant environment provides protection from the impact of ongoing COVID-19 disruption, headroom for the Group's working capital requirements and additional capacity for the roll out of new gyms post COVID-19, in line with the Group's underlying strategy.

Further details are provided in note 18.

Principal Risks and Uncertainties

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

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

Economic Conditions (inc. Pandemic Risk)	Our business may be adversely affected by macro-economic conditions and other factors affecting levels of disposable income and consumer confidence. The COVID-19 outbreak has resulted in an unprecedented shut down of all of our gyms and localised restrictions. The impact will result in a significant loss of revenue and liquidity and therefore, if not addressed, represents a material uncertainty in the Group's ability to continue as a going concern. The Group's gym equipment and certain other fixtures and fittings are manufactured overseas and therefore factors such as COVID-19 and Brexit could disrupt the supply chain in certain geographies or cause an increase in cost due to currency movements.	• A robust financial position, with access to £236 million of liquidity as at 31 December 2020, very limited financial covenants until August 2024 & a further €45 million raised in Q1 2021. • Tight management control over cash, with 13 week cash flow forecasting implemented across the Group & closure cash burn rates minimized to under £4.5 million per week. • COVID-19 safety and social distancing policies well embedded to enhance both member and staff confidence in the trading environment. • Various short and medium terms actions continue to be proactively reviewed to allow the business to react to emerging circumstances as appropriate. • As part of Brexit planning, the stock required to meet the Group's requirements for the next 6 months was purchased in advance. • Close supply relationships maintained, active monitoring of the macro-economic environment for supply chain risk.
Competitors	Although the environment will have changed, we may face increased competition from other operators taking aggressive pricing action or opening new sites near our existing locations. This could put pressure on our pricing strategy and result in a reduction in members, revenue and profitability.	• Rigorous focus on selecting the best sites for our gyms • Continued investment and innovation of our model to provide a premium offering • Sophisticated and dynamic pricing strategy.
International Markets	The group acquired Fitness World (a European operator) in early 2020 and is in the early stages of exploring other markets. Expanding into new markets creates additional challenges and risks which could impact upon overall group performance, growth and profitability.	• Significant international experience on the main Board and high quality, experienced senior leadership teams at Fitness World in Denmark and Switzerland. • Clear focus on the markets in which we operate to ensure the product and proposition is appropriate for the locality. • Focused investment in the infrastructure, people, and technology of our international subsidiaries. • Monitoring and detailed diligence of potential new opportunities for growth in strategically identified locations.
Member Experience	The success of our business depends on our ability to attract and retain members, while maintaining sustainable and profitable memberships. We generate almost all of our revenue from membership fees and if we are unable to attract and retain members, it could result in a reduction in members, revenue and profitability.	• Continued investment and innovation of our model to provide a premium offering. • Ongoing monitoring of gym and equipment utilisation to maximise member experience. • Focus on member satisfaction and feedback.

Principal Risks and Uncertainties

Risk	Description and potential impact	Mitigation
Data Protection	In the course of business, we collect personal information and maintain a large membership database electronically, which could be subject to a breach of security. Unauthorised access, loss or disclosure of this information may lead to legal claims, regulatory penalties, disruption of operations and reputational damage.	• All member data is held by a secure third party member management system and subject to ISAE 3402 reporting. • Personnel access to the member management system is reviewed monthly. • All member financial data is encrypted and all documents are stored in 256-bit encryption. • Card payment processing is carried out by PCI-DSS compliant third party provider, Adyen. • All website pages are HTTPS. • Regular third party cyber security audits and penetration testing carried out to ensure our systems remain robust.
Acquisition and Integration	The Group acquired Fitness World in 2020 and may identify and pursue the acquisition of other operators as part of our growth strategy. If we fail to successfully integrate acquisitions into the Group or to achieve the benefits anticipated from the enlarged Group then it could have an impact on overall Group performance and profitability.	• Significant M&A experience on the main Board with proven track record of integrating significant acquisitions into the business including LA Fitness in 2015 and Soho Gyms in 2018. • Despite the impact of COVID-19, a well progressed integration of Fitness World led by an experienced project team.
Regulatory Compliance	The Group is exposed to regulatory and legislative requirements, including those relating to the Bribery Act, Modern Slavery Act, tax evasion, health & safety, employment law, General Data Protection Regulation ("GDPR"), the environment and the Listing Rules of The International Stock Exchange, planning regulations, noise abatement and advertising and marketing regulations. Failure to comply with regulations could lead to financial penalties and reputational damage.	• The Board has oversight of the management of regulatory risk and compliance, and delegates specific responsibilities to senior management. • A number of policies and codes in place across the business, including a code of conduct that incorporates an anti-bribery & corruption policy, outlining the mandatory requirements within the business. These policies are communicated to all the staff and made available to anyone joining the Group. • Expert opinion sought where relevant. • Legal advice taken to ensure systems, processes and documentation conform with the Data Protection Act. • Internal periodic health and safety assessments supplemented by third party health and safety risks assessments and audits. • Employment and continuous training and development of appropriately qualified staff

Going Concern

In light of the on-going impact of Covid-19 on the performance of the Group, the Directors have carefully evaluated the Going Concern basis of preparation.

The Group meets its day to day working capital requirements, capex and funding of new sites through its cash reserves and credit facilities, being an RCF facility of £145 million which includes an overdraft of £10 million. As at 19 April 2021, the date of signing the financial statements, the Group's forecasts and projections (to 30 April 2022) taking account of reasonably possible changes in trading performance and potential future lockdowns, showed that the Group should be able to operate within its existing facilities. This assessment included the impact of the 2021 national lockdowns, no extension of Government support and the expectation of continued COVID-19 disruption on core trading across 2021.

On an unmitigated basis the Group has a weekly cash burn of approximately £9.0 million per week, including interest and tax. By factoring in known government mitigation measures across all territories and management mitigation measures, total weekly cash burn (including interest and capex) has been reduced to approximately £4.5 million.

Government mitigations include payroll support, fixed cost contributions and grants whilst management mitigations include reducing all unnecessary activity, tight cost control and the delay of planned investments. The actions taken have been designed to protect the medium and long term prospects of the business and, with available liquidity of £236 million (as at 31 December 2020) and the further raise of circa €45 million (circa £40 million) in March 2021, the Directors consider that the Group has sufficient facilities to withstand over 14 months of full Group closure from the start of 2021. Liquidity as at 31 March 2021 stood at £231 million.

Based on these forecasts, and with no leverage or cash flow covenants until 2024, the Directors have concluded there is no material uncertainty that the Group has adequate resources to continue to remain a going concern for the foreseeable future and have therefore adopted the going concern basis in preparing its financial statements.

Renewable Energy and Carbon Reporting

The UK gyms in which we have direct control of supply have been purchasing 100% renewable power since entering a new supplier contract in October 2020, with this supply agreement now in place until September 2023. As a result of this contract, our controllable supply is now fully provided from renewable, UK wind.

UK Greenhouse gas (GHG) emissions for the year ended 31 December 2020 have been measured as required under the Large and Medium-Sized Companies and Groups (Account and Reports) Regulations 2008 as amended in 2013.

The main activities which release GHG include usage of purchased gas and electricity to power our gyms. We have used the GHG Protocol Corporate Accounting and Reporting Standards (revised edition), and data gathered to fulfil the requirements under the CRC Energy Efficiency Scheme to calculate the disclosures.

For 2021, as our supply for the full year will be 100% wind generated, we expect to disclose our emissions from electricity consumption as zero under GHG protocol Scope 2.

Consumption and Emissions

	2020 Consumption (KWh 000's)	2020 Emissions tCO_2e
Direct from Operations – Gas (Scope 1)	11,186	2,057
Indirect from Energy Purchased – Electricity (Scope 2)	38,574	8,993
Direct from Operations – Transport (Scope 3)	1,719	482
Total	**51,479**	**11,532**
Intensity Metric (tCO_2e per gym)		**42**

Employees and Diversity

At 31 December 2020 the group had 7,255 employees (31 December 2019: 1,413) and these are analysed as follows:

	Male	Female	Total
Company Directors	2	-	2
Senior Managers	5	3	8
Other employees	3,652	3,593	7,245
Total	3,659	3,596	7,255

Section 172 Statement

The directors consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 December 2020. Those matters include having regard for the following, which are cross-referenced to further details given elsewhere in either the Strategic Report or Directors' Report:

a) the consequences of the decisions we take in the long term (Strategy and business model (pages 3 and 4))
b) the interests of the Group's employees (Our people and members (pages 6 and 7), Employees (page 19))
c) the need to foster the Group's business relationships with suppliers, customers and others (Stakeholder engagement (pages 20 and 21))
d) the impact of the Group's operations on the community and the environment (Our community and the environment (page 7))
e) maintaining a reputation for high standards of business conduct (throughout Strategic Report); and;
f) the need to act fairly between members of the company (Stakeholder engagement (pages 20 and 21))

I would like to extend our thanks to all our employees, both at the gyms and at the support centre, for their support and resilience in a very challenging year.

On behalf of the Board

A Wood
Director
19 April 2021

Directors' Report

The directors present their Annual Report and audited, consolidated financial statements of Pinnacle Bidco PLC and subsidiaries (together "the Group") for the year ended 31 December 2020.

A review of the performance of the Group's business during the year, the principal risks and uncertainties facing the Group and its future prospects are included in the discrete Strategic Report set out on pages 3 to 19 which should be read in conjunction with this Directors' report.

As permitted by legislation, some of the matters normally included in the Directors' report, including disclosures regarding greenhouse gas emissions, have instead been included in the Strategic report (pages 3 to 19) as the Board considers them to be of strategic importance.

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

Principal activities

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

The activities of the Group are discussed in the strategic report on pages 3 to 9. The Group made a loss for the year of £198,414,000 (2019: £26,948,000), and had net liabilities at 31 December 2020 of £313,734,000 (2019: £127,412,000). The directors are not able to recommend payment of a dividend (2019: £nil).

Likely future developments of the Group are discussed within the Strategic report on pages 7 and 9.

Principal risks and uncertainties

Principal risks and uncertainties are discussed within the Strategic report on pages 16 and 17 in accordance with the provisions of s414C (11) of the Companies Act 2006.

Directors

The directors who served the Group during the year and up to signing the financial statements, were as follows:

H Cobbold

A Wood

Certain directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Going Concern

The Group meets its day to day working capital requirements through its cash reserves and borrowing facilities (as detailed in note 18).

As set out in the Strategic report on page 18, the Directors have a reasonable expectation that the Group has adequate resources to continue to remain a going concern for the foreseeable future and therefore continues to adopt the going concern basis in preparing its financial statements

Post Balance Sheet Events

As set out in the Strategic report on pages 3 to 4, at the date of signing these financial statements, the Group continues to be impacted by the COVID-19 crisis. At 31 December 2020, all gyms in Denmark and Switzerland, and most UK gyms, were closed as a result of COVID-19 lockdowns, with the remaining 42 UK gyms forced to close on 4 January 2021.

Subsequently, the Group re-opened 240 of its English gyms on 12 April 2021 (including 10 new sites), and all gyms in Switzerland re-opened on 19 April 2021. In all of the Group's other geographies the COVID-19 situation is improving as at the date of signing these financial statements and all remaining gyms are expected to have re-opened by mid-May 2021.

As set out in the Strategic report on page 15, the Group raised €45 million Senior Secured Notes on 4 March 2021 to provide additional liquidity and financial capacity to continue the growth plans once reopened.

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year.

Financial instruments

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

Stakeholder engagement

The Group has multiple stakeholders including its shareholders, customers, suppliers and employees.

The Board directly engages with its shareholders regularly through both formal, monthly Board meetings and more regular ad hoc interactions in order to maintain strong working relationships and agree on commercial, operational and financial objectives.

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

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

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

Directors' Report (continued)

Throughout 2021 the Board will continue to review and challenge how the Group can improve engagement with its employees and stakeholders.

Employees

Management policies seek to ensure that both the recruitment and career development of employees are determined solely on merit and aptitude regardless of age, sex, ethnic origin, religious belief or disability. The company endeavors to ensure that all employees benefit from its training and career development programmes.

Applications for employment by persons with disabilities are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a person with a disability should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of the company as a whole. Communication with all employees continues through company meetings, briefing Groups and electronic communications.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;

- make judgements and accounting estimates that are reasonable and prudent; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and company will continue in business.

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Group and company's auditors are unaware; and

- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group and company's auditors are aware of that information.

Independent auditors

In the absence of any notice proposing to terminate their appointment, PricewaterhouseCoopers LLP will be deemed to be reappointed for the next financial year. PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

On behalf of the Board

A Wood

Director

19 April 2021

Independent auditors' report to the members of Pinnacle Bidco PLC

Report on the audit of the group financial statements

Opinion

In our opinion, Pinnacle Bidco PLC's group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and financial statements (the "Annual Report"), which comprise: the Consolidated statement of financial position as at 31 December 2020; the Consolidated statement of comprehensive income, the Consolidated cash flow statement and the Consolidated statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Audit scope

- Our significant components were determined in relation to their contribution to the group's financial result or the group's financial position.
- The group audit consisted of three significant components; Pinnacle Bidco PLC, Pure Gym Limited and Fitness World A/S and specified audit procedures over contract liabilities - membership income and trade receivables in Basefit.ch AG.
- In addition, centrally managed functions, including the group consolidation, were audited at the head office by the group engagement team

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

Key audit matters

- Risk of impairment of goodwill and intangible assets
- Risk of impairment of right-of-use assets and property, plant and equipment
- Risk of misstatement from lease accounting
- Risk of misstatement from acquisition accounting
- Risk of misstatement from consolidation
- Covid-19

Materiality

- Overall materiality: £3,850,000 (2019: £2,900,000) based on 2.5% of a 3-year average EBITDA of the proforma Pinnacle Topco group from 2018 to 2020 (i.e. including Fitness World).
- Performance materiality: £2,887,500.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to compliance with relevant accounting standards, tax legislation and the criteria for claiming under the UK government's Coronavirus Job Retention Scheme ('CJRS'), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the overstatement of assets, through over-optimistic assumptions underpinning the recoverable amounts of the relevant assets, the misclassification of items of expenditure as exceptional, or items of exceptional income not as exceptional, or missing or incomplete disclosures. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- enquiring with management and those charged with governance to understand the relevant laws and regulations applicable to the company, and their assessment of fraud related risks.
- identifying and testing journal entries using a risk-based targeting approach for unexpected account combinations or unusual words or phrases in the journal description.
- obtaining management prepared value-in-use models to support the carrying value of non-current assets and critically assessing the key assumptions, including long term growth rate, discount rate and capital expenditure.
- testing government grants, on a sample basis, to assess compliance with the criteria attached to the grants; and.
- reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations, including testing the appropriate classification of items of income and expenditure as exceptional or otherwise.

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

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

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Risk of misstatement from acquisition accounting, Risk of misstatement from consolidation, and Covid-19 are new key audit matters this year. Going Concern, which was a key audit matter last year, is no longer included because of its inclusion as part the Covid-19 key audit matter. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Risk of impairment of goodwill and intangible assets The Group holds £846 million of goodwill and intangible assets on the balance sheet at the year end (FY19: £515 million), which has increased significantly for FY20 due to the acquisition of the Fitness World group. Management is required to perform an annual impairment assessment of goodwill, plus test for impairment of other intangible and tangible fixed assets where there are indicators of impairment, in line with IAS 36, using a discounted cash flow ('DCF') forecast of the principal cash generating units ('CGUs'). We focused on this area because the determination as to whether or not goodwill is impaired involved subjective judgements and estimates about the future results and cash flows of the business. We also considered the heightened risk as a result of the impact of the Covid-19 pandemic on the performance of the CGUs.	• We have understood management's process for budgeting and forecasting and have obtained management's CGU impairment model for each CGU. • We tested the mathematical accuracy of the impairment model and agreed the carrying value of non current assets being assessed for impairment to the balance sheet. • We challenged management's calculated discount rate used for discounting future cash flows within the impairment model, utilising PwC valuation specialists to assess the discount rate for each CGU. • We evaluated management's short term cash flow forecasts, obtaining industry reports to challenge management's assumptions, whilst also considering the impact of Covid-19 on the reopening and recovery of the business. • We performed sensitivity analyses to ascertain the impact of reasonable possible changes in key assumptions to quantify the downside changes needed to trigger an impairment, or to increase the impairment charges recognised. • We also assessed the disclosures made with respect to the sensitivity of the key assumptions.

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

Key audit matter	*How our audit addressed the key audit matter*
Risk of impairment of right-of-use assets and property, plant and equipment The Group holds a significant amount of right-of-use assets ('RoU') and other property, plant and equipment ('PPE') on the balance sheet, amounting to £717 million at the year end (FY19: £475 million). The challenging trading environment for the gym sector as a result of COVID-19 has meant that the possibility of impairment of RoU assets and other PPE remains a significant risk. The various restrictions and lockdowns in place at the financial year end represented an impairment trigger. As such, an impairment review is required to be carried out to assess the need for potential downwards adjustments to carrying values.	• We have understood management's process for budgeting and forecasting and have obtained management's impairment model for each. • We tested the mathematical accuracy of the impairment model and agreed the carrying value of non current assets being assess for impairment to the balance sheet. • We challenged management's calculated discount rate used for discounting future cash flows within the impairment model, utilising PwC valuation specialists to assess the discount rate for each CGU. • We evaluated management's short term cash flow forecasts, obtaining industry reports to challenge management's assumptions, whilst also considering the impact of Covid-19 on the reopening and recovery of the business. • We performed sensitivity analyses to ascertain the impact of the reasonable possible changes in key assumptions to quantify the downside changes to increase the impairment charges recognised. • We also assessed the disclosures made with respect to the sensitivity of the key assumptions.
Risk of misstatement from lease accounting The Group transitioned to accounting for leases under IFRS 16 for the first time in FY19. IFRS 16 lease accounting remains a significant risk for our audit for FY20 for two main reasons; • the acquisition of the Fitness World Group and required remeasurement of leases in accordance with both IFRS 16 and IFRS 3; and • to focus on the classification and presentation of the lease liability on the balance sheet given the impact of Covid-19 rent deferrals	• We have performed sample testing on the lease liability, right of use assets, interest and depreciation balances. This involved testing key inputs from lease agreements and recalculating the relevant balances on a sample basis. • We performed sample testing over rent deferrals to ensure the completeness of the closing lease liability. • We challenged management's assessment of the remaining lease life of the Danish gym estate, taking into account Danish law protections for lessees and their option to extend leases. • We involved our PwC Valuations specialists to assess the Danish Incremental Borrowing rate used to discount future lease payments on the initial recognition of the Danish leases on acquisition.
Risk of misstatement from acquisition accounting During January 2020, the Group acquired 100% of the issued share capital of Forward Topco A/S (known as the Fitness World Group), for cash consideration of £233 million. The acquisition was material to the Group and involved management judgement and estimation in establishing the fair values of assets and liabilities acquired, in particular intangible assets identified separately from goodwill.	• We have obtained management's report on the purchase price allocation and we engaged with our PwC valuations specialists to ensure the methodologies used when valuing intangible assets identified are reasonable and appropriate. • We have also assessed other inputs, such as growth rates and contributory asset charges for reasonableness. • We have used our valuations specialists to assess the discount rate used in the valuation model. • We tested the mathematical integrity of the valuation model.

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

Key audit matter	*How our audit addressed the key audit matter*
Risk of misstatement from consolidation This is a new risk for the FY20 audit arising as a result of the enlarged group. We identified three specific areas of heightened risk, being; a largely excel-driven consolidation process, reliance on the Group accounting function to perform a number of accounting adjustments and no formalised group accounting manual.	• We have obtained management's consolidation models and tested for mathematical accuracy. • We have tied the in-scope component figures from the consolidation to their respective reporting packages or trial balance. • We have tested consolidation adjustments to supporting documentation and evidence, as well as considering the completeness of adjustments. • We have reviewed selected working papers of our component audit teams. • We have held discussions with our component auditors to evaluate whether consistent accounting policies were being applied across the group.
Covid-19 Covid-19 is considered as a significant risk and key audit matter as a result of the ongoing global pandemic. Our assessment of the risk is focused on: • the resilience of the business to withstand the uncertainty and potential for future periods of lockdown; • narrative reporting in light of the significant impact of Covid-19; • accounting for government support schemes, and; • classification as 'exceptional' amounts arising as a result of Covid-19 This key audit matter contains our assessment of the Group's ability to continue as a going concern which was a separate key audit matter in the prior period.	• We have obtained the Directors' assessment of the business as a going concern, covering the period to 30 April 2022. • We understood the cash forecasting process and tested the key assumptions for reasonableness. This included assessment of forecast cash flows, considering management's expectation of the speed and timing of the Group's recovery from the 2021 global lockdowns and comparing those cash flows with existing liquidity and unused facilities and forecast compliance with banking covenants. • We have also performed additional sensitivity analyses to ascertain the impact of reasonably plausible changes in key assumptions that would result in a breach of the banking covenants or the group exceeding its available facilities. We have also assessed management's disclosures regarding their going concern assessment, banking facilities and sensitivity of the key estimates and judgements. • We have reviewed the Strategic Report and Directors' Report to assess its consistency with the Group's performance reported in the financial statements • We have obtained details of government support recognised as income and performed sample testing of inputs. • We have consulted with internal subject matter experts in assessing the Group's compliance with government schemes. • We have obtained a listing of costs and income classified as exceptional and assessed against latest regulatory guidance.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which it operates.

We scoped the audit with three significant components. This included the two largest trading entities, which contribute the majority of the trading results. We also included in our scope one holding company which has issued the group's external borrowings, and has the associated interest expense. We also scoped specified audit procedures over contract liabilities - membership income and trade receivables in Basefit.ch AG. In addition, centrally managed functions, including the group consolidation, were audited at the head office by the group engagement team.

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

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£3,850,000 (2019: £2,900,000).
How we determined it	2.5% of a 3-year average EBITDA of the proforma Pinnacle Topco group from 2018 to 2020 (i.e. including Fitness World)
Rationale for benchmark applied	EBITDA is a key financial performance measure used by management in monitoring the Group's performance. The benchmark chosen takes into account two specific impacts in the current year; firstly we use an average measure from the past 3 years given that the Covid-19 pandemic has significantly affected the performance measures in the current year; secondly we considered the magnitude of the enlarged group as a result of the Fitness World acquisition.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £3,450,000 and £1,750,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £2,887,500 for the group financial statements.

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £192,500 (2019: £145,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Obtaining the Directors' Group level going concern assessment paper and cash flow forecasts to April 2022. We tested the cash flow forecasts for mathematical accuracy;
- Assessing the group's banking facilities, associated banking covenant requirements in the going concern assessment period and banking covenant waivers received prior to the year end;
- Challenging management on their contingency plans for potential future lockdowns, and the resilience of the business to withstand additional periods of closure;
- Assessing the reasonableness of management's expectations for membership level recoveries upon the reopening of the group's gym portfolio; and
- Performing multiple sensitivity analyses for plausible downside scenarios, to assess the group's liquidity position in the review period and compliance with relevant banking covenants, should such downsides play out.

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

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

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

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

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- certain disclosures of directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the company financial statements of Pinnacle Bidco PLC for the year ended 31 December 2020.

Tom Yeates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
19 April 2021

Consolidated statement of comprehensive income
for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Revenue	5	**269,941**	254,940
Cost of sales		**(9,907)**	(4,495)
Other administrative expenses		**(342,320)**	(182,274)
Exceptional administrative expenses	7	**(3,821)**	(8,294)
Administrative expenses		**(346,141)**	(190,568)
Operating (loss) / profit	6	**(86,107)**	59,877
Exceptional finance income	10	**19,961**	-
Other finance income	10	**562**	424
Finance income	10	**20,523**	424
Finance costs	10	**(149,037)**	(83,829)
Loss before income tax		**(214,621)**	(23,528)
Income tax credit / (charge)	11	**20,832**	(3,420)
Loss for the period from continuing operations		**(193,789)**	(26,948)
Loss from discontinued operation	31	**(4,625)**	-
Loss for the period		**(198,414)**	(26,948)

Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss		
Exchange differences on translation of discontinued operation	**(44)**	-
Foreign operations – foreign currency translation differences	**11,779**	-
Other comprehensive expense for the period, net of tax	**11,735**	-
Total comprehensive expense for the period	**(186,679)**	(26,948)

Consolidated statement of financial position

as at 31 December 2020

	Note	**2020 £'000**	2019 £'000
Non-current assets			
Intangible assets	12	**846,913**	515,330
Property, plant and equipment	13	**717,556**	475,337
Deferred tax assets	11	**31,069**	10,600
Other receivables	15	**7,216**	1,450
		1,602,754	1,002,717
Current assets			
Inventories	14	**4,388**	1,952
Trade and other receivables	15	**37,554**	21,923
Income taxes receivable		**686**	-
Cash and cash equivalents		**91,134**	51,626
		133,762	75,501
TOTAL ASSETS		**1,736,516**	1,078,218
Current liabilities			
Trade and other payables	16	**(143,646)**	(90,794)
Lease liabilities	17	**(96,430)**	(21,621)
Provisions	19	**(2,500)**	-
Income taxes payable		**(1,290)**	(1,332)
		(243,866)	(113,747)
Non-current liabilities			
Deferred tax liabilities	11	**(37,572)**	(12,890)
Other liabilities		**(2,013)**	-
Lease liabilities	17	**(491,652)**	(315,343)
Borrowings	18	**(1,264,661)**	(763,650)
Provisions	19	**(10,486)**	-
		(1,806,384)	(1,091,883)
TOTAL LIABILITIES		**(2,050,250)**	(1,205,630)
NET LIABILITIES		**(313,734)**	(127,412)
Equity			
Share capital	22	**50**	50
Share premium	22	**3,863**	3,863
Translation reserve		**11,779**	-
Accumulated losses		**(329,426)**	(131,325)
TOTAL EQUITY		**(313,734)**	(127,412)

Consolidated statement of financial position
as at 31 December 2020 (continued)

The notes on pages 35 to 73 are an integral part of these financial statements. The financial statements of Pinnacle Bidco PLC, registered number 11038720, on pages 30 to 73 were approved by the board of directors and authorised for issue on 19 April 2021 and were signed on its behalf by:

A Wood
Director

Consolidated cash flow statement

for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Cash generated from operations	23	**96,305**	129,155
Exceptional costs paid		**(13,746)**	(3,639)
Bank interest and similar charges paid		**(19,492)**	(659)
Bank interest received		**680**	277
Senior secured notes interest paid		**(27,412)**	(25,437)
Interest element of lease liability payments		**(30,671)**	(29,001)
Issue costs from borrowings		**(20,986)**	(477)
Corporation tax paid		**(2,524)**	(687)
Net cash used in operating activities of discontinued operation	31	**(191)**	-
Net cash (used in) / generated from operating activities		**(18,037)**	69,532
Cash flows from investing activities			
Purchase of subsidiary undertakings, net of cash acquired	30	**(226,350)**	-
Purchase of trade and assets		**-**	(2,828)
Purchase of property, plant & equipment		**(35,450)**	(66,627)
Purchase of intangible assets		**(10,823)**	-
Proceeds from disposal of property, plant & equipment		**2,204**	41
Proceeds from disposal of subsidiary undertakings, net of cash disposed		**59**	-
Net cash used in investing activities of discontinued operation	31	**(823)**	-
Net cash used in investing activities		**(271,183)**	(69,414)
Cash flows from financing activities			
Drawdown of bridging loan	18	**380,911**	-
Repayment of bridging loan		**(379,253)**	-
Issue of senior secured notes		**379,253**	40,000
Drawdown on revolving credit facility		**135,000**	-
Repayment of revolving credit facility		**(135,000)**	-
Premium received on issue of senior secured notes		**-**	800
Capital element of lease liability payments		**(37,034)**	(12,764)
Repayments of bank borrowings		**(117,963)**	-
Proceeds from intercompany borrowings		**100,689**	152
Net cash generated from financing activities of discontinued operation	31	**636**	-
Net cash generated from financing activities		**327,239**	28,188
Net increase in cash and cash equivalents		**38,019**	28,306
Cash and cash equivalents at start of period		**51,626**	23,320
Effect of exchange rate changes on cash held		**1,489**	-
Cash and cash equivalents at end of period		**91,134**	51,626

Consolidated statement of changes in equity
for the year ended 31 December 2020

	Share capital £'000	Share premium £'000	Translation reserve £'000	Accumulated losses £'000	Total £'000
Balance as at 1 January 2019	50	3,863	-	(104,683)	(100,770)
Loss and total comprehensive expense for the year	-	-	-	(26,948)	(26,948)
Credit to equity for equity settled share-based payments	-	-	-	306	306
Balance as at 31 December 2019	**50**	**3,863**	**-**	**(131,325)**	**(127,412)**
Loss for the year	**-**	**-**	**-**	**(198,414)**	**(198,414)**
Other comprehensive expense for the year	**-**	**-**	**11,735**	**-**	**11,735**
Credit to equity for equity settled share-based payments	**-**	**-**	**-**	**357**	**357**
Reclassification of translation reserve on disposal of discontinued operation	**-**	**-**	**44**	**(44)**	**-**
Balance as at 31 December 2020	**50**	**3,863**	**11,779**	**(329,426)**	**(313,734)**

Notes to the consolidated financial statements

1 General information

The principal activity of the Group during the year was the provision of facilities for physical fitness and is expected to remain so for the foreseeable future. Pinnacle Bidco PLC ("the Company") and its subsidiaries are limited by shares and are incorporated and domiciled in England. The address of the Company's registered office is Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY.

2 Summary of significant accounting policies

Basis of accounting

The Group financial statements have been prepared on the going concern basis and in accordance with International Accounting Standards, in conformity with the requirements of the Companies Act 2006. The Group financial statements have been prepared under the historical cost convention, as modified for the revaluation of financial assets and financial liabilities at fair value through profit and loss. The Group financial statements are presented in thousands of pounds sterling ("£'000") except when otherwise indicated. Accounting policies have been consistently applied to all financial periods presented.

The preparation of the Group financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's reasonable knowledge of the amount, event or actions, actual results may differ from those estimates.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2020. The results of subsidiaries acquired are consolidated for the period from the date on which control passed. Acquisitions are accounted for using the acquisition method. Uniform accounting policies are applied throughout the Group, unless otherwise stated.

Segmental reporting

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker, identified as the Executive Management Team of the Group. The Executive Management Team primarily consider the business from a geographical perspective, by country of operation. The Group's operations consist solely of the provision of high quality health and fitness facilities and associated services and consequently, it is not necessary to segregate operating segments by service or product. The Executive Management Team use the measures of Revenue and Adjusted EBITDA as key performance indicators in assessing the performance of the operating segments. A definition of Adjusted EBITDA is included in note 6.

Following the acquisition of the Fitness World group in January 2020 (see note 30), the Group's material reportable segments are the United Kingdom and Denmark. The results from operations in all other countries in which the Group operates are included in "All other segments", as they are deemed to be individually immaterial.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

Going Concern

In light of the on-going impact of Covid-19 on the performance of the Group the Directors have carefully evaluated the Going Concern basis of preparation.

The Group meets its day to day working capital requirements, capex and funding of new sites through its cash reserves and credit facilities, being an RCF facility of £145 million which includes an overdraft of £10 million. As at 19 April 2021, the date of signing the financial statements, the Group's forecasts and projections (to 30 April 2022) taking account of reasonably possible changes in trading performance and potential future lockdowns, showed that the Group should be able to operate within its existing facilities. This assessment included the impact of the 2021 national lockdowns, no extension of Government support and the expectation of continued COVID-19 disruption on core trading across 2021.

On an unmitigated basis the Group has a weekly cash burn of approximately £9.0 million per week, including interest and tax. By factoring in known government mitigation measures across all territories and management mitigation measures, total weekly cash burn (including interest and capex) has been reduced to approximately £4.5 million. Government mitigations include payroll support, fixed cost contributions and grants whilst management mitigations include reducing all unnecessary activity, tight cost control and the delay of planned investments. The actions taken have been designed to protect the medium and long term prospects of the business and, with available liquidity of £236 million (as at 31 December 2020) and the further raise of €45 million (c. £40 million) in March 2021, the Directors consider that the Group has sufficient facilities to withstand over 14 months of full Group closure from the start of 2021.

Based on these forecasts, and with no leverage or cash flow covenants until 2024, the Directors have concluded there is no material uncertainty that the Group has adequate resources to continue to remain a going concern for the foreseeable future and have therefore adopted the going concern basis in preparing the Group's financial statements.

Revenue

Revenue primarily represents sales of services provided in the period and non-refundable joining fees received during the period, exclusive of value added tax. Member income includes membership subscriptions and joining fee income. Membership subscriptions are received in advance of the period to which they relate and are recognised as contract liabilities. The performance obligation attached to membership subscriptions is satisfied over time, on a straight-line basis over the membership period as this best represents the timing of services provided.

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

Revenue from vending income and the sale of consumables is recognised at the point of sale. Other income includes various ancillary revenue streams, which are recognised in the period to which they relate.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

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

Goodwill is not amortised, instead impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU, or group of CGUs, containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Intangible assets acquired in business combinations

The Group recognises intangible assets acquired as part of business combinations at fair value at the date of acquisition. The determination of these fair values is based upon management's judgement utilising valuation expertise and includes assumptions on the timing and amount of future incremental cash flows generated by the assets and the selection of an appropriate cost of capital. Furthermore, management must estimate the expected useful life of intangible assets and charge amortisation on these assets accordingly, the value of which is shown within administrative expenses. The useful life estimated for assets acquired in business combinations varies based on the characteristics of the particular asset, and are set out in note 12. Intangible assets acquired in business combinations include customer relationships and brands. For the purpose of impairment testing, intangible assets acquired in a business combination are allocated to each of the CGUs, or groups of CGUs, expected to benefit from the synergies of the combination.

(c) Software

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

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

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

Inventories

Inventories primarily relate to goods for resale and are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Inventories are valued on a first in, first out basis.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

Property, plant and equipment

All property, plant and equipment is initially recorded at cost, including those costs that were directly attributable to bringing the assets into working condition. Any capital contribution by a landlord towards leasehold fitting out works is deducted from the cost of property, plant and equipment within that leasehold. After initial recognition, property, plant and equipment is stated at cost less provisions for depreciation and impairment.

Depreciation is calculated so as to write off the cost of an asset (less residual value) over the useful economic life of that asset as follows:

Right-of-use assets	Straight line over the life of the lease
Leasehold costs	Straight line over the life of the lease
Leasehold improvements	Straight line over the shorter of 3-15 years or remaining lease life
Fixtures and fittings	Straight line over 3-10 years
IT equipment	Straight line over 3-5 years

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

Leases as a lessee

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

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. More information on the determination of the lease term is included in note 3.

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

The Group determines its incremental borrowing rate using the interest rates from recent third party funding, with adjustments appropriate for the lease term and security to make it specific to a particular lease.

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

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

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

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

Leases as a lessee (continued)

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

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

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

Leases as a lessor

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

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

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

Financial instruments

Financial liabilities

The Group initially recognises financial liabilities at fair value where applicable (net of any transaction costs) and subsequently they are measured at amortised cost using the effective interest method. Where the Group has borrowings, transaction costs are amortised using the effective interest method over the life of the loan. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire. Any gain or loss on derecognition is recognised as finance income or finance cost in the statement of comprehensive income.

Derivative financial instruments

The Group sometimes uses derivative financial instruments such as interest rate swaps and caps or foreign currency forward contracts to hedge risks associated with interest rate movements or foreign exchange. The Group initially recognises such instruments at fair value where applicable and subsequently remeasures at each balance sheet date.

Financial assets

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

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

Financial assets (continued)

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

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

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

Impairment of financial assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. This is deemed to occur when the cash generating unit to which the asset belongs is performing below expectation. For property, plant and equipment this is generally deemed to be when the CGU to which it belongs is loss making for more than three years after opening.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). The Group's CGUs consist of either individual gyms or groups of gyms. Multiple gyms are combined to form a single CGU when a significant number of members of a particular gym receive access to multiple gyms for a single price.

Goodwill is assessed at the group of CGUs level in the case of the UK, where each gym represents a CGU. Denmark and Switzerland are considered to be individual CGUs at the territory level. No CGU or group of CGUs for goodwill monitoring purposes is at a level higher than an operating segment.

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

Property, plant and equipment is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where it is not possible to isolate cash flows generated by a specific item of property, plant and equipment, impairment is tested at the CGU level, representing a gym or group of gyms. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions

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

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

Government grants

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate and recognised in the same line item in the statement of comprehensive income.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are non-recurring material items of income or expense that have been shown separately due to the significance of their nature or amount. Examples of items included within exceptional items are restructuring and transformational costs, and costs relating to acquisitions or certain expansion projects. Management consider, on a case by case basis, whether costs are exceptional based on the specific circumstances.

New and amended standards

The Group has elected to adopt the following standard amendment early:

- Covid-19-Related Rent Concessions – amendments to IFRS 16

The amendment listed above impacted the current year financial statements and is expected to impact the standards in future years. No other new or amended accounting standards had an impact on the financial statements in the current year.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Estimates

Fair values of intangible assets acquired in business combinations

The Group has made estimates of the fair value of customer relationships and brands acquired on acquisition of the Fitness World group on 14 January 2020. Customer relationships were valued using an excess earnings approach based on management's forecasts and applying an estimated attrition rate of existing customers of between 35% and 37%. An increase in the attrition rate by 500 bps would decrease the valuation of customer relationships at acquisition by £9.1m. Brands were valued using a relief from royalty approach based on management's forecasts and applying a royalty rate of 2%. A decrease in the royalty rate by 100 bps would decrease the valuation of the brands at the acquisition date by £16.1m. Further details of the fair values recognised on business combinations are included in note 30.

Notes to the consolidated financial statements (continued)

3 Critical accounting estimates and judgements (continued)

Impairment of non-financial assets

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment based on the recoverable amount of its cash-generating units ('CGUs'). The Group also assesses whether any events have occurred which would trigger an impairment review of non-financial assets with finite useful lives such as intangible assets other than goodwill and property, plant and equipment, including the expected impact of COVID-19 on the short to medium term profitability of each CGU. Where this is the case, the recoverable amount of the CGU or group of CGUs being assessed is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a pre-tax discount rate in order to calculate the present value of the cash flows. Management also consider whether reasonably possible changes in key assumptions may cause an impairment of the non-financial assets. A summary of the key assumptions used, and the possibility of impairment, should reasonably possible changes in those key assumptions occur, is included in note 12.

Provisions for leasehold dilapidations

Provisions are made for dilapidations of leasehold improvements in leased properties. Management make estimates of the amount and timing of future payments in relation to the restoration of leased properties based on contractual obligations, historic experience and the views of experts. Where it is assessed that the likelihood of an outflow of resources to settle a restoration obligation on leased premises is probable, a provision is made for the expected future outflow, discounted to present value using a discount rate of between 0.5% and 2% to reflect the time value of money.

As at 31 December 2020, management have determined that a provision is required for 213 out of its 492 leased premises. Details of the provision recorded are included in note 19. If the future cost of restoration for a site where a provision has been recorded were to increase by 10%, the provision at 31 December 2020 would increase by £1,002,000.

Incremental borrowing rate for discounting of lease liabilities

The Group uses its incremental borrowing rate to discount lease payments in the calculation of lease liabilities. The use of this method requires estimates of interest rates which would be available to the Group if it were to borrow funds, over a similar term and with a similar security, necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Management utilise internal and external information to determine an appropriate rate. This includes evidence arising from the Group's recent third party borrowings, publicly available borrowing rates for companies with similar characteristics to the Group, and risk-free interest rates applicable in the relevant geographies in which the Group operates. IBRs applied to leases across the Group range from 4.9% to 9.5%. Details of the lease liabilities recognised are included in note 17.

Recoverability of deferred tax assets

The Group recognises deferred tax assets only if it can be regarded as more likely than not that there will be taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Management makes an estimate of the future taxable profits of the Group and compares this to the available losses, taking into account applicable tax laws in the relevant geographies. Estimation uncertainty increases in later years of the forecast period due to the inherent uncertainty in forecasting future profits. Detail of the tax charge and deferred tax asset are set out in note 11.

Notes to the consolidated financial statements (continued)

3 Critical accounting estimates and judgements (continued)

Judgements

Lease terms on leased properties

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

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

At 31 December 2020, for gyms which include such clauses the average difference between lease term and contractual term is one year.

4 Operating segments

Following the acquisition of Fitness World group in January 2020, the group's material reportable segments in the current period are the United Kingdom and Denmark. The results from operations in all other countries in which the Group operates are included in "All other segments". Segmental information presented to the Executive Management Team for the year is presented in the below table:

	2020					
	United Kingdom £'000	**Denmark £'000**	**All other segments £'000**	**Total from continuing operations £'000**	**Discontinued operations £'000**	**Total £'000**
Revenue	**142,405**	**103,232**	**24,304**	**269,941**	**3,352**	**273,293**
Adjusted EBITDA	**7,361**	**4,083**	**(40)**	**11,404**	**(478)**	**10,926**

Revenue and Adjusted EBITDA for the year ended 31 December 2019 of £254,940,000 and £89,084,000 respectively relates wholly to the United Kingdom.

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

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

The Adjusted EBITDA KPI is typically used within the industry as it is more effective than operating profit in representing the results of the Group's trade and, as such, is a key focus of our stakeholders, including our investors, our bondholders and our banking partners. A reconciliation from operating profit to Adjusted EBITDA is included in note 6.

Notes to the consolidated financial statements (continued)

5 Revenue

Revenue is analysed by service or product as follows:

	2020 **£'000**	2019 £'000
Member income	**244,071**	235,607
Vending and consumables income	**14,402**	7,328
Other income	**11,468**	12,005
	269,941	254,940

The Fitness World group was acquired on 14 January 2020 (see note 30) and, as a result, reported revenue would ordinarily have been expected to increase significantly compared to the prior period. However, as a result of the COVID-19 pandemic, the Group has been forced to close some or all of its gyms across the estate at varying times throughout the current year and this has caused a significant reduction in revenue for the enlarged group during the closure period. All gyms in the estate initially closed between 12 and 21 March 2020. By the end of August 2020 all gyms across the estate had re-opened, but a resurgence of COVID-19 infections across Europe in the autumn and winter led to further localised and national lockdowns with associated gym closures.

For members in the United Kingdom and Denmark, during the closure periods, all memberships were automatically frozen meaning that no payments for gym subscriptions were taken from members during this time.

In Switzerland, our Basefit business operates a subscription model. Under this model, amounts paid by members in advance for any closure period were deferred such that revenue for gym subscriptions was only recognised when gyms were open. Where membership renewals fell within the closure period, payment was taken from members as usual, but an extended membership term provided to cover the closure periods.

The majority of member income is recognised over time to reflect the period over which the member receives the services provided. Vending and consumables income is recognised at a point in time. Other income includes revenue from personal trainers, recognised over time to reflect the period over which the personal trainer is operating, and sales of day passes to non-members and personal training services which are both recognised at a point in time.

Notes to the consolidated financial statements (continued)

6 Operating (loss) / profit

	2020 **£'000**	2019 £'000
Operating (loss) / profit is stated after charging / (crediting):		
Amortisation of intangibles	**24,234**	2,933
Depreciation of property, plant & equipment		
- owned assets	**47,124**	32,952
- right of use property assets	**59,058**	19,695
- right of use equipment assets	**5,538**	1,087
Variable lease payments on property leases	**-**	54
Loss on disposal of property, plant & equipment	**2,514**	445
Impairment of intangible assets (note 12)	**24,491**	-
Impairment of property, plant and equipment (note 13)	**6,898**	331
Profit on lease modifications	**(120)**	(394)
Exceptional costs (note 7)	**3,821**	8,294

	2020 **£'000**	2019 £'000
Operating loss from discontinued activities is stated after charging:		
Amortisation of intangibles	**228**	-
Depreciation of property, plant & equipment		
- owned assets	**901**	-
- right of use property assets	**1,110**	-

Notes to the consolidated financial statements (continued)

6 Operating (loss) / profit (continued)

A reconciliation from operating (loss) / profit to Group EBITDA and Adjusted EBITDA is as follows:

	2020 £'000	2019 £'000
Operating (loss) / profit	**(86,107)**	59,877
Operating loss from discontinued activities (note 31)	**(1,763)**	-
Amortisation (note 12)	**24,462**	2,933
Depreciation (note 13)	**113,731**	53,734
Loss on disposal of property, plant and equipment	**2,514**	445
Impairment of intangible assets (note 12)	**24,491**	-
Impairment of property, plant and equipment (note 13)	**6,898**	331
Profit on lease modifications	**(120)**	(394)
Exceptional costs (note 7)	**3,821**	8,294
Group Reported EBITDA [1]	**87,927**	125,220
Pre-opening costs [2]	**1,561**	3,479
Cash rent adjustment [3]	**(78,919)**	(39,921)
Share based payment charge [4]	**357**	306
Adjusted EBITDA	**10,926**	89,084

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

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

[3] Under IFRS 16, most lease costs are excluded from Group Reported EBITDA. To produce a comparable and more relevant EBITDA figure, the contractual property rent payments due during the accounting period are deducted and any property rent-related expenses included in Group Reported EBITDA are added back. Management believes that adjusting EBITDA to reflect cash rent is a better reflection of actual earnings.

[4] The share based payment charge relates to shares in the ultimate parent company, Pinnacle Topco Limited, issued to directors and certain employees. See note 9 of the financial statements.

7 Exceptional administrative expenses

Items that are material either because of their size or their nature, and that are non-recurring are considered as exceptional items and are presented within the line items to which they best relate. These items are analysed further below:

	2020 £'000	2019 £'000
Costs relating to acquisitions	**(40)**	4,787
Integration, transition and restructuring costs	**4,894**	2,166
One-off costs related to the COVID-19 pandemic	**3,030**	-
Exploration of acquisition and expansion opportunities	**956**	1,341
Settlement on break of lease	**(5,019)**	-
	3,821	8,294

Notes to the consolidated financial statements (continued)

7 Exceptional administrative expenses (continued)

Costs relating to acquisitions represent the costs associated with the acquisition of the Fitness World group by PureGym, which completed on 14 January 2020 (see note 30).

Integration, transition and restructuring costs include the costs associated with the integration of Fitness World into the Group and major internal restructuring projects. It includes £2,257,000 relating to a programme aimed at optimising the Danish estate and operating model and maximising profitability of the Fitness World group. A more efficient structure was implemented, which impacted 328 employees but improved member experience through a more skilled and smaller group of managers and by centralising functions at the head office.

One-off costs related to the COVID-19 pandemic were incurred either in the process of closing gyms during the pandemic or in the preparation for and reopening of the gyms in line with government guidance. These costs include one-off deep cleans of gyms at the end of the closure period, fees for consultants engaged to provide advice on safe operation, and reviews of ventilation in gyms to ensure that they comply with our COVID-19 TrainSafe protocols.

On 3 November 2020, the landlord of one site exercised their lease break option and agreed settlement consideration of £10,950,000. The settlement was paid at the break date of the lease on 8 March 2021. The settlement is being recognised on a straight line basis over the period from the activation of the break clause to the break date of the lease.

Exploration of acquisition and expansion opportunities relates to cost incurred in exploring opportunities for mergers and acquisitions, organic expansion or diversification. The directors remain focussed on the success of the existing business in the Group's core geographies while being open to opportunities which would contribute to and complement that success.

All projects ongoing at 31 December 2020 are expected to complete in 2021.

8 Auditors' remuneration

The remuneration of the auditors is analysed as follows:

	2020 £'000	2019 £'000
Audit of the parent company and Group financial statements	**72**	8
Audit of subsidiary financial statements	**362**	165
Other assurance-related services	**526**	67
Legal services	**6**	-
Tax services	**29**	-
Other services	**5**	-
Other services relating to 2019	**50**	-
	1,050	240

Notes to the consolidated financial statements (continued)

9 Employees and directors

	2020 **£'000**	2019 £'000
Wages and salaries	**72,920**	30,799
Social security costs	**4,162**	2,965
Other pension costs	**3,039**	834
	80,121	34,598

In reaction to the gym closures required as a result of the COVID-19 pandemic in 2020, the Group took advantage of available government support schemes in each of its geographies, including contributions towards wages and salaries of £16,422,000 in the year ended 31 December 2020 (2019: £nil). Grants received have been netted off the related costs in the statement of comprehensive income.

The Group operates multiple defined contribution pension schemes for all employees using master trust (occupational trust-based) pension schemes. The total cost expensed in the year was £3,039,000 (2019: £834,000) and outstanding pension contributions at the year-end were £418,000 (31 December 2019: £nil).

The Directors and certain employees hold ordinary A1 and A2 shares in the Company, which have service and vesting conditions attached and are therefore in the scope of IFRS 2 'Share based payments'. The directors have applied a valuation model to calculate a grant date fair value of these shares for IFRS 2 purposes as £2.39 per share. Consequently, a charge of £357,000 has been recognised during the year (2019: £306,000) and is included within wages and salaries.

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

	2020 **No.**	2019 No.
Central support	**567**	322
Operations	**6,263**	890
	6,830	1,212

Total emoluments relating to Directors are as follows:

	2020 **£'000**	2019 £'000
Aggregate emoluments	**1,093**	1,238
Contributions to defined contribution schemes	**10**	9
	1,103	1,247

One director was a member of the defined contribution schemes as at 31 December 2020 (31 December 2019: one).

The amounts set out above include emoluments in respect of the highest paid director totalling £688,000 (2019: £860,000).

The key management of the Group are deemed to be the same as the directors of the Group, therefore no additional disclosure of key management compensation has been provided.

Notes to the consolidated financial statements (continued)

10 Finance income and costs

	2020 £'000	2019 £'000
Gain on extinguishment of bridging loan	**19,961**	-
Exceptional finance income	**19,961**	-
Bank interest received	**150**	277
Interest income on finance lease receivables	**140**	147
Other interest received	**272**	-
Total finance income	**20,523**	424

	2020 £'000	2019 £'000
Interest on bank loans and overdrafts	**18,152**	-
Interest payable on lease liabilities	**45,445**	29,148
Commitment fees	**758**	600
Unwind of discount on provisions	**307**	-
Amortisation of capitalised finance costs	**11,511**	1,283
Unwind of discount on issue of senior secured notes	**471**	-
Interest on senior secured notes	**30,163**	26,400
Interest payable to Group undertakings	**29,530**	26,106
Foreign exchange loss	**12,700**	283
Other	**-**	9
Total finance costs	**149,037**	83,829

Interest and finance charges paid for financial liabilities not at fair value through profit or loss totalled £136,337,000 (2019: £83,546,000).

Notes to the consolidated financial statements (continued)

11 Income tax

	2020 **£'000**	2019 £'000
Current tax:		
- Corporation tax on loss for the period	**(1,186)**	1,314
- Adjustment in respect of prior periods	**(240)**	208
Total current tax (credit) / charge	**(1,426)**	1,522
Deferred tax:		
- Origination and reversal of timing differences	**(17,199)**	1,871
- Adjustment in respect of prior periods	**(863)**	225
- Effect of changes in tax rates	**(1,344)**	(198)
Total deferred tax (credit) / charge	**(19,406)**	1,898
Total tax (credit) / charge in the consolidated statement of comprehensive income	**(20,832)**	3,420

The corporation tax on loss for the period in the year ended 31 December 2020 relates to losses carried back to the year ended 31 December 2019.

The tax (credit) / charge for the year is higher (2019: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2020 of 19% (2019: 19%). The differences are explained below:

	2020 **£'000**	2019 £'000
Loss on continuing activities before tax	**(214,621)**	(23,528)
Tax on loss on continuing activities at standard UK corporation tax rate of 19% (2019: 19%)	**(40,778)**	(4,470)
Effects of:		
- Fixed asset differences	**(1,139)**	971
- Lease differences	**310**	-
- Expenses not deductible for tax purposes	**7,586**	1,832
- Adjustment in respect of prior periods	**(1,103)**	433
- Non-qualifying depreciation	**1,245**	-
- Income not taxable	**(1,042)**	(78)
- Impact of rate differences	**154**	(198)
- Unrecognised tax losses and other deductions	**8,696**	-
- Group relief surrendered for nil consideration	**5,610**	4,960
- Capital receipts	**954**	-
- Overseas tax rate differences	**(1,944)**	-
- Disposal of subsidiary	**623**	-
- Other reliefs	**(4)**	(30)
Total tax (credit) / charge for the period	**(20,832)**	3,420

Notes to the consolidated financial statements (continued)

11 Income tax (continued)

The standard rate of corporation tax in the UK was 19% throughout the year (2019: 19%) and accordingly the Group's profits for this period are taxed at this rate. Deferred tax has been measured at 19% (2019: 17%) in these financial statements as that is the rate at which the timing differences are expected to reverse.

In the March 2021 UK Budget, the Chancellor of the Exchequer announced an increase in the UK standard rate of corporation tax to 25% from 1 April 2023. The legislation was not enacted during the year ended 31 December 2020, so deferred tax has been provided using the enacted rate of 19%. If deferred tax was calculated using the 25% rate the net deferred tax liability recognised at the balance sheet date would be increased from £6,503,000 to £8,557,000.

Deferred tax assets

The movement in deferred tax assets is as follows:

	£'000
At 1 January 2019	13,695
Adjustment in respect of prior periods	(225)
Income statement charge	(2,870)
At 31 December 2019	**10,600**
Acquired through business combinations	**3,784**
Adjustment in respect of prior periods	**784**
Foreign exchange movement	**122**
Disposal of subsidiary	**(28)**
Income statement credit from discontinued operation	**28**
Income statement credit from continuing operations	**15,779**
At 31 December 2020	**31,069**

The deferred tax assets comprise temporary differences attributable to:

	2020 £'000	2019 £'000
Property, plant and equipment	**4,400**	3,216
Leases	**10,927**	7,135
Trading differences	**94**	-
Provisions	**2,201**	249
Losses	**13,447**	-
	31,069	10,600

At the year end, the Group had losses from certain group companies carried forward for which a deferred tax asset has not been recognised. These losses totalled £46,258,000 (2019: £12,412,000) and the unrecognised deferred tax asset totalled £8,789,000 (2019: £2,110,000). The asset has not been recognised as the directors are of the opinion that it is unlikely that suitable taxable profits will arise in those entities in the foreseeable future.

Notes to the consolidated financial statements (continued)

11 Income tax (continued)

Deferred tax liabilities

The movement in deferred tax liabilities is as follows:

	£'000
At 1 January 2019	14,087
Income statement credit	(1,197)
At 31 December 2019	**12,890**
Acquired through business combinations	**26,489**
Foreign exchange movement	**1,206**
Adjustment in respect of prior periods	**(79)**
Income statement credit from discontinued operation	**(42)**
Disposal of subsidiary	**(127)**
Income statement credit from continuing operations	**(2,765)**
At 31 December 2020	**37,572**

The deferred tax liabilities comprise temporary differences attributable to:

	2020 £'000	2019 £'000
Non-qualifying assets acquired through business combinations	**3,757**	3,956
Property, plant and equipment	**4,753**	-
Intangible assets	**29,062**	8,934
	37,572	12,890

12 Intangible assets

	Goodwill £'000	**Brands £'000**	**Customer Relationships £'000**	**Total £'000**
Cost				
1 January 2019	460,215	58,669	8,204	527,088
Acquired through business combinations	2,557	-	-	2,557
31 December 2019	462,772	58,669	8,204	529,645
Accumulated amortisation				
1 January 2019	-	3,178	8,204	11,382
Charge for the period	-	2,933	-	2,933
31 December 2019	-	6,111	8,204	14,315
Net book value				
1 January 2019	460,215	55,491	-	515,706
31 December 2019	462,772	52,558	-	515,330

Notes to the consolidated financial statements (continued)

12 Intangible assets (continued)

	Goodwill £'000	Brands £'000	Customer Relationships £'000	Development Projects in Progress £'000	Software £'000	Total £'000
Cost						
1 January 2020	462,772	58,669	8,204	-	-	529,645
Transfer from property, plant and equipment (note 13)	-	-	-	-	5,952	5,952
Acquired through business combinations (note 30)	239,134	32,621	66,527	1,619	7,151	347,052
Additions	-	-	-	7,387	5,496	12,883
Disposals	-	-	-	-	(6)	(6)
Disposal of subsidiary (note 31)	-	(502)	(387)	-	(36)	(925)
Foreign exchange differences	12,988	1,738	3,588	194	422	18,930
31 December 2020	714,894	92,526	77,932	9,200	18,979	913,531
Accumulated amortisation						
1 January 2020	-	6,111	8,204	-	-	14,315
Transfer from property, plant and equipment (note 13)	-	-	-	-	3,013	3,013
Charge for the period	-	4,949	13,889	-	5,624	24,462
Impairment	12,949	-	-	9,070	2,472	24,491
Disposals	-	-	-	-	-	-
Disposal of subsidiary (note 31)	-	(96)	(124)	-	(8)	(228)
Foreign exchange differences	145	24	180	130	86	565
31 December 2020	13,094	10,988	22,149	9,200	11,187	66,618
Net book value						
31 December 2020	**701,800**	**81,538**	**55,783**	**-**	**7,792**	**846,913**

Development Projects in Progress and Software consist of capitalised development costs, being an internally generated intangible asset. In the year ended 31 December 2020, Software assets and associated accumulated depreciation were transferred from property, plant and equipment to intangible assets.

The Group continues to invest in technology to evolve and improve the quality of its product offering to members and to optimise the efficiency of its operating model. During the year ended 31 December 2020, the business concluded on its choice of technology infrastructure for the newly combined group. This convergence decision resulted in the recognition of an impairment charge in relation to Fitness World's existing Development Projects in Progress and Software totalling £11,542,000 (2019: £nil).

Notes to the consolidated financial statements (continued)

12 Intangible assets (continued)

Brands encompass the PureGym, Fitness World, and Basefit brands acquired as part of business combinations and valued at fair value at the date of acquisition. The remaining amortisation periods of the brands are:

PureGym:	17 years
Fitness World:	19 years
Basefit:	9 years

Customer Relationships represent the fair value of customer relationships held in Denmark and Switzerland at the time of the acquisition of the Fitness World group in January 2020. These assets have a useful life of 5 years and a remaining amortisation period of 4 years.

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

The Group acquired the Fitness World group on 14 January 2020 (see note 30) recognising goodwill on acquisition of £239,134,000 in relation to the operations in Denmark and Switzerland. The subsequent impact of the COVID-19 pandemic on operations across all of the Group's geographies limited the ability of the businesses to generate the expected revenues during 2020 and is expected to continue to have an impact going forward as a result of the lockdowns imposed across Europe in the first few months of 2021. While management expect the value of these businesses to recover to their pre-pandemic levels in due course, an impairment has been recognised in 2020 to reflect this expected short-term impact on cash flows totalling £6,622,000 and £6,327,000 in Denmark and Switzerland respectively.

The below table sets out key assumptions applied in the value-in-use calculations for each significant group of CGUs.

	31 December 2020		
	UK	**Denmark**	**Switzerland**
Annual capital expenditure on existing estate from 2022 (£m)	24	9	3
Long-term growth rate (%)	2.0	1.8	1.1
Pre-tax discount rate (%)	10.4	10.0	8.9
Months of full lockdown assumed as at 1 January 2021	4	3	3

	31 December 2019		
	UK	**Denmark**	**Switzerland**
Annual capital expenditure on existing estate (£m)	25	-	-
Long-term growth rate (%)	2.0	-	-
Pre-tax discount rate (%)	9.1	-	-

Notes to the consolidated financial statements (continued)

12 Intangible assets (continued)

Average annual capital expenditure is determined based on historical experience of management and current plans for site refurbishments. The amount included in the table above relates to capital expenditure from 2022 onwards, as capital expenditure in 2021 is distorted by the COVID-19 pandemic and is not a key assumption. The pre-tax discount rates reflect specific risks relating to the Group and the markets in which it operates. The long-term growth rates are determined based on a combination of industry and country-level forecasts.

If the long-term growth rate in Denmark and Switzerland is 10 basis points lower than management's estimate (at 1.7% and 1.0% respectively), the Group would have to recognise an additional impairment against the goodwill associated with those CGUs of £2.7m and £1.1m respectively.

If the pre-tax discount rate in Denmark and Switzerland had been 10 basis points higher than management's estimate (at 10.1% and 9.0%), the Group would have to recognise an additional impairment against the goodwill associated with those CGUs of £4.2m and £1.4m respectively.

If the current COVID-19 related lockdowns in Denmark and Switzerland were to be extended by 1 month to 4 months, the Group would have to recognise an additional impairment against the goodwill associated with those CGUs of £3.7m and £1.5m respectively.

There are no reasonably possible changes in assumptions which would result in an impairment to the UK CGU in either the current or prior year.

13 Property, plant and equipment

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

Notes to the consolidated financial statements (continued)

13 Property, plant and equipment (continued)

	Right of use assets	Leasehold costs	Leasehold improv-ements	Assets under constru-ction	Fixtures & fittings	IT equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
1 January 2020	269,580	9,661	189,062	-	74,712	9,038	552,053
Transfer to intangible assets (note 12)	-	-	-	-	-	(5,952)	(5,952)
Transfers	-	-	1,702	(1,702)	-	-	-
Additions	48,468	1,730	23,456	3,306	14,148	2,023	93,131
Acquired through business combinations (note 30)	221,981	-	21,843	1,702	24,698	1,670	271,894
Disposals	(708)	(117)	(5,652)	-	(4,641)	(39)	(11,157)
Disposal of subsidiary (note 31)	(5,164)	-	(3,131)	-	(1,696)	-	(9,991)
Foreign exchange differences	11,655	(46)	1,122	47	1,258	89	14,125
31 December 2020	**545,812**	**11,228**	**228,402**	**3,353**	**108,479**	**6,829**	**904,103**
Accumulated depreciation							
1 January 2020	20,782	1,277	28,275	-	22,697	3,685	76,716
Transfer to intangible assets (note 12)	-	-	-	-	-	(3,013)	(3,013)
Charge for the year	65,706	765	25,068	-	20,222	1,970	113,731
Impairment	5,104	45	1,569	-	175	5	6,898
Disposals	(686)	(43)	(3,030)	-	(2,652)	(32)	(6,443)
Disposal of subsidiary (note 31)	(1,110)	-	(319)	-	(582)	-	(2,011)
Foreign exchange differences	579	-	46	-	42	2	669
31 December 2020	**90,375**	**2,044**	**51,609**	**-**	**39,902**	**2,617**	**186,547**
Net book value							
1 January 2020	248,798	8,384	160,787	-	52,015	5,353	475,337
31 December 2020	**455,437**	**9,184**	**176,793**	**3,353**	**68,577**	**4,212**	**717,556**

Notes to the consolidated financial statements (continued)

13 Property, plant and equipment (continued)

In the year ended 31 December 2020, Software assets and associated accumulated depreciation were transferred from property, plant and equipment to intangible assets.

An impairment loss of £6,898,000 has been recognised for the year (2019: £331,000) which is included within administrative expenses in the consolidated statement of comprehensive income. Of this, £3,901,000 has been recognised in relation to gyms in Denmark which have been closed as part of the Group's strategy to optimise the Danish estate following the acquisition of Fitness World by the Group in January 2020.

A further £2,997,000, which has been allocated proportionately across asset classes, relates to a small number of gyms in the United Kingdom that have a potential value in use below the carrying amount of their non-financial assets. A value in use valuation has been determined to result in a higher recoverable amount for the CGU than a fair value less costs of disposal valuation. An impairment indicator was identified during the year for less profitable gyms which had been impacted significantly by the COVID-19 lockdowns. The value in use of these gyms is based on estimated cashflows forecast to be generated post 1 January 2021. Forecast cashflows are significantly impacted by the COVID-19 pandemic during this period due to the closure of gyms in the United Kingdom throughout winter of 2020/2021 and the short-term impact of this on profitability in the proceeding months is expected to impact cash flows temporarily while the business builds back to pre-pandemic levels. Management expect that the value in use of these gyms will increase in future periods following the re-opening phase.

Had the discount rate used in the value in use calculations for the United Kingdom gyms been 1% higher than that used, the impairment recognised would have increased by £840,000. No reasonably possible changes in other assumptions would result in a material change to the recognised impairment charge.

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

	2020 £'000	2019 £'000
Properties	**435,767**	246,149
Equipment	**19,670**	2,649
Total net book value	**455,437**	248,798

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

	2020 £'000	2019 £'000
Properties	**60,168**	19,695
Equipment	**5,538**	1,087
Total	**65,706**	20,782

Notes to the consolidated financial statements (continued)

14 Inventories

	2020 £'000	2019 £'000
Finished goods and goods for resale	**4,388**	1,952

Inventories recognised as an expense during the year ended 31 December 2020 amounted to £8,778,000 (2019: £3,808,000). These were included in cost of sales. Inventories written off during the year ended 31 December 2020 totalled £534,000 (2019: £nil).

15 Trade and other receivables

Current

	2020 £'000	2019 £'000
Trade receivables	**8,997**	865
Loss allowance	**(287)**	-
Trade receivables – net	**8,710**	865
Prepayments	**7,056**	15,643
Other debtors	**21,686**	5,324
Finance lease receivable	**102**	91
	37,554	21,923

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

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance on trade receivables and other debtors as at 31 December 2020 is £287,000 (2019: £nil) as all trade receivables and other debtors are current and the expected loss rate for the Group is 3% (2019: 0%). Trade receivables written off in the year totalled £nil (2019: £nil).

Non-current

	2020 £'000	2019 £'000
Finance lease receivable	**1,350**	1,450
Other debtors	**5,866**	-
	7,216	1,450

Notes to the consolidated financial statements (continued)

15 Trade and other receivables (continued)

Lease receivables

Lease receivables arise where the Group has sub-leased property as a lessor which is presented as part of right of use assets (note 13) and where that sub-lease has been classified as a finance lease. The following table sets out a maturity analysis of lease receivables showing the undiscounted lease payments to be received after the reporting date. Income receivable from finance leases is presented within finance income (note 10).

	2020 £'000	2019 £'000
Less than one year	**231**	229
One to two years	**231**	231
Two to three years	**231**	231
Three to four years	**231**	231
Four to five years	**231**	231
More than five years	**1,028**	1,259
Total undiscounted lease receivable	**2,183**	2,412
Unearned finance income	**(731)**	(871)
Net investment in the lease	**1,452**	1,541

16 Trade and other payables

	2020 £'000	2019 £'000
Trade creditors	**29,515**	14,584
Other taxation and social security	**6,839**	872
Other liabilities	**2,519**	2,217
Accruals	**52,693**	53,656
Contract liabilities – membership income	**49,337**	13,704
Derivative financial instrument	**-**	265
VAT payable	**2,743**	5,496
	143,646	90,794

Revenue recognised during 2020 that was included in the contract liabilities balance at the beginning of the period totalled £13,704,000 (2019: £11,705,000). The amounts included in contract liabilities at 31 December 2020 are expected to be recognised in revenue during the next reporting period.

Contract liabilities – membership income has increased by £35,633,000 between 31 December 2019 and 31 December 2020. Of this increase, £30,274,000 relates to the acquisition of the Fitness World group. The remaining increase relates primarily to the impact of gym closures and frozen memberships on revenue recognition at 31 December 2020.

Notes to the consolidated financial statements (continued)

17 Leases

	2020 £'000	2019 £'000
Current lease liabilities	**96,430**	21,621
Non-current lease liabilities	**491,652**	315,343
	588,082	336,964

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

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

The total cash outflow for leases during the year was £67,705,000 (2019: £41,765,000).

During the year, the Group has applied the practical expedient to rent concessions as permitted in the COVID-19-Related Rent Concessions amendment to IFRS 16. Included within administrative expenses for the period is a credit of £13,926,000 relating to Danish government contributions towards rent received in the year and rent concessions agreed in the year.

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

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

18 Borrowings

	2020 £'000	2019 £'000
€445m 5.500% Senior Secured Notes at principal value	**399,899**	-
Discount on issue of Senior Secured Notes	**(19,524)**	-
€445m 5.500% Senior Secured Notes	**380,375**	-
£430m 6.375% Senior Secured Notes	**430,000**	430,000
Capitalised issue costs	**(16,837)**	(7,254)
Senior secured notes net of issue costs	**793,538**	422,746
Amounts owed to Group undertakings	**471,123**	340,904
	1,264,661	763,650

Notes to the consolidated financial statements (continued)

18 Borrowings (continued)

Of the amounts owed to Group undertakings, £369,166,000 (2019: £340,904,000) accrue interest at 8% and £101,957,000 (2019: £nil) accrue interest at 4.375%. All amounts owed to Group undertakings are repayable on 30 November 2027.

Financing

The Group has £430 million of Senior Secured Notes ("the Sterling Notes") and €445 million of Senior Secured Notes ("the Euro Notes") in issue as at the period end (together, "the Notes"). The Notes are listed on The International Stock Exchange, for which Pinnacle Bidco PLC is the Issuer and certain subsidiaries of the Group are guarantors. Interest on the Sterling Notes accrues at a rate of 6.375%, payable half yearly in February and August and interest on the Euro Notes accrues at a rate of 5.500%, payable half yearly in May and November. The Notes are due to be repaid in full on 15 February 2025.

On 14 January 2020, the Group acquired Fitness World for a consideration of DKK 2,037,110,000 (£233 million) and the acquisition was funded with a €445 million (£381 million) Senior Secured bridge facility (the "Bridge Facility"), which was also used to repay pre-existing Fitness World debt of DKK 1,029,797,000 (£117,963,000). On 17 November 2020, the Bridge Facility was refinanced with the Euro Notes.

The Euro Notes were recognised at fair value of €422,750,000 on the date of issue, representing a discount on issue of the Euro Notes of €22,250,000. The difference between the carrying value of the Bridge Facility and the fair value of the Euro Notes has been recognised as a gain within finance costs in the statement of comprehensive income. The Euro Notes are subsequently held at amortised cost with changes in the carrying amount recognised within finance cost as an unwind of discount on issue of senior secured notes.

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

In addition, the Group has a revolving credit facility (the "RCF Facility") with eight international institutions (Barclays Bank PLC, Jefferies Finance LLC, Royal Bank of Canada, Credit Suisse AG, Credit Suisse International, ING Bank N.V. Lloyds Bank plc and Danske Bank A/S, collectively "the Lenders").

On 14 January 2020, the terms of the RCF Facility were amended to increase the facility from £60 million to £95 million and this was increased further to £145 million on 18 September 2020. Included within the total RCF Facility is a £10 million overdraft facility. In addition, the repayment date of the RCF Facility was extended during the year from 30 November 2023 to 15 August 2024. During the year ended 31 December 2020, drawings were made on the facility to a total level of £135 million. As at 31 December 2020 and 31 December 2019, the facility was undrawn.

The Notes and the RCF Facility are secured by fixed and floating charges over the assets and undertakings of certain subsidiaries of the Group. Until 18 September 2020, the RCF Facility was subject to a financial covenant of net leverage ratio lower than or equal to 7.7 when amounts drawn down on the facility were greater than 40% at the testing date (being the last day of March, June, September and December each year). Following amendments to the terms of the RCF Facility on 18 September 2020, and further amendments on 7 January 2021, the Lenders granted a waiver of the pre-existing financial covenants on the facility for the remainder of the term. The financial covenant is replaced with a £30 million minimum liquidity test on the last day of March, June, September and December each year.

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

Notes to the consolidated financial statements (continued)

19 Provisions

	Non-current		Current	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Dilapidations provision	**9,903**	-	**-**	-
Other provisions	**583**	**-**	**2,500**	-
	10,486	**-**	**2,500**	-

Movements in each class of provision during the year are set out below:

	Dilapidations provision £'000	Other provisions £'000	Total £'000
Carrying amount at 1 January 2020	**-**	**-**	**-**
Acquired through business combinations	**4,937**	**3,524**	**8,461**
Additions during the year	**4,466**	**-**	**4,466**
Unwind of discount	**307**	**-**	**307**
Utilisations during the year	**(101)**	**(624)**	**(725)**
Foreign exchange movements	**294**	**183**	**477**
Carrying amount at 31 December 2020	**9,903**	**3,083**	**12,986**

Explanations of the nature of material provisions are included in note 2. Outflows related to other provisions are expected to occur in the next 1 to 2 years. Outflows related to dilapidations provisions are expected to materialise over the next 2 to 25 years, depending on the length of the Group's lease terms.

Notes to the consolidated financial statements (continued)

20 Financial instruments

	2020 £'000	2019 £'000
Financial assets measured at amortised cost		
Cash and cash equivalents	**91,134**	51,626
Trade receivables	**8,710**	865
Other debtors	**27,552**	5,324
Finance lease receivable	**1,452**	1,541
	128,848	59,356
Financial liabilities measured at amortised cost		
Trade creditors	**29,515**	14,584
Other liabilities	**3,857**	2,217
Accruals	**52,693**	53,656
Lease liabilities	**588,082**	336,964
Amounts owed to Group undertakings	**471,123**	340,904
Senior secured notes	**810,375**	430,000
	1,955,645	1,178,325
Financial liabilities measured at fair value through profit and loss		
Derivative financial instruments	**-**	265
	-	265

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

Fair value hierarchy

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

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

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

Notes to the consolidated financial statements (continued)

20 Financial instruments (continued)

	Carrying value		Fair value	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Financial liabilities				
€445m 5.500% Senior Secured Notes	**380,375**	-	**396,220**	-
£430m 6.375% Senior Secured Notes	**430,000**	430,000	**425,657**	448,813

21 Financial risk management objectives and policies

The Group has exposure to the following risks from its use of financial instruments: liquidity risk, credit risk, and market risk arising from interest rate risk.

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

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The key market risks affecting the Group are interest rate risk and foreign exchange rate risk. Financial instruments affected by market risk include certain borrowings and deposits. Financial instruments affected by exchange rate risk include the Euro Notes. At 31 December 2020, the €445 million Euro Notes had a carrying amount of £380,375,000 based on an amortised cost of €423,274,000 and an exchange rate of 0.899.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. During the period, the Group's exposure to the risk of changes in market interest rates related primarily to the Group's bank borrowings with floating interest rates.

As at 31 December 2020 and 31 December 2019, the Group had 100% of its borrowings in fixed rate instruments by way of senior secured loan notes, preference shares and finance leases. The Group has access to a £145m revolving credit facility with floating interest rates but was not drawn down on this facility at the end of the period.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, matching the maturity profiles of financial assets and operational liabilities and by maintaining adequate cash reserves. The table below summaries the maturity profile of the Group's financial liabilities and includes contractual future interest payments:

Notes to the consolidated financial statements (continued)

21 Financial risk management objectives and policies (continued)

	2020				
	Within 1 year £'000	**Between 1-5 years £'000**	**More than 5 years £'000**	**Total contractual cash flows £'000**	**Carrying amount £'000**
Trade and other payables	84,052	2,013	-	**86,065**	**86,065**
Lease liabilities	124,201	336,805	438,248	**899,254**	**588,082**
Borrowings	49,285	977,801	778,455	**1,805,541**	**1,281,498**
Total financial liabilities	**257,538**	**1,316,619**	**1,216,703**	**2,790,860**	**1,955,645**

	2019				
	Within 1 year £'000	Between 1-5 years £'000	More than 5 years £'000	Total contractual cash flows £'000	Carrying amount £'000
Trade and other payables	70,457	-	-	70,457	70,457
Derivative financial instruments	265	-	-	265	265
Lease liabilities	47,108	189,480	345,457	582,045	336,964
Borrowings	27,413	109,650	1,084,261	1,221,324	770,904
Total financial liabilities	145,243	299,130	1,429,718	1,874,091	1,178,590

In the 2019 maturity analysis for Borrowings in the table above, the previously reported contractual cash flow figures have been restated to include future interest payments. No adjustment has been made to the carrying amount of financial liabilities.

Credit risk

The Group's principal financial assets are bank balances and cash, and trade receivables. The Group's credit risk is low as it has limited trade receivables. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. Quantitative data is included in the consolidated statement of financial position and in note 16.

22 Share capital and premium

	2020 £'000	**2020 No.**	2019 £'000	2019 No.
Allotted, authorised, called up and fully paid				
Ordinary shares of £0.01	**50**	**5,000,002**	50	5,000,002

Each ordinary share entitles the holder to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number of and amounts paid on the shares held. Each ordinary share entitles the holder to one vote.

Notes to the consolidated financial statements (continued)

23 Reconciliation of loss before tax to cash generated from operations

	2020 £'000	2019 £'000
Loss before income tax	**(214,621)**	(23,528)
Adjustments for:		
Net finance cost	**128,514**	83,405
Depreciation	**111,720**	53,734
Amortisation	**24,234**	2,933
Impairment of property, plant and equipment	**6,898**	331
Impairment of intangible assets	**24,491**	-
Share based payments charge	**357**	306
Loss on disposal of property, plant and equipment	**2,514**	445
Profit on lease modifications	**(120)**	(394)
Non-cash adjustment to lease liabilities due to rent concessions	**(1,100)**	-
Exceptional costs	**3,821**	8,294
Changes in working capital		
Inventories	**1,638**	(674)
Trade and other receivables	**4,205**	(9,409)
Trade and other payables	**4,274**	13,712
Provisions	**(520)**	-
Cash generated from operations	**96,305**	129,155

Notes to the consolidated financial statements (continued)

24 Analysis of net debt

	1 January 2019 £'000	Cash flow £'000	Non-cash £'000	31 December 2019 £'000
Cash at bank and in hand	23,320	28,306	-	51,626
Lease liabilities – property	(295,888)	11,701	(50,083)	(334,270)
Lease liabilities - equipment	(3,534)	1,063	(223)	(2,694)
Senior secured notes	(390,000)	(40,000)	-	(430,000)
Intercompany loans capital	(288,581)	(152)	-	(288,733)
Intercompany loans accrued interest	(26,065)	-	(26,106)	(52,171)
	(980,748)	918	(76,412)	(1,056,242)

	1 January 2020 £'000	**Acqui-sitions £'000**	**Dispo-sals £'000**	**Cash flow (continuing) £'000**	**Cash flow (discon-tinued) £'000**	**Non-cash £'000**	**31 December 2020 £'000**
Cash at bank and in hand	51,626	7,000	-	31,397	(378)	1,489	**91,134**
Lease liabilities – property	(334,270)	(203,675)	4,316	30,720	903	(65,479)	**(567,485)**
Lease liabilities - equipment	(2,694)	(16,767)	87	6,314	8	(7,545)	**(20,597)**
Sterling notes	(430,000)	-	-	-	-	-	**(430,000)**
Euro notes	-	-	-	(379,253)	-	(1,122)	**(380,375)**
Bridging loan	-	-	-	(1,658)	-	1,658	**-**
Term loan	-	(117,963)	-	117,963	-	-	**-**
Intercompany loans capital	(288,733)	-	-	(100,689)	-	-	**(389,422)**
Intercompany loans accrued interest	(52,171)	-	-	-	-	(29,530)	**(81,701)**
	(1,056,242)	**(331,405)**	**4,403**	**(295,206)**	**533**	**(100,529)**	**(1,778,446)**

25 Government grants

Government grants recognised in the statement of comprehensive income during the year are as follows:

	2020 £'000	2019 £'000
Government contributions towards wages and salaries	**16,422**	-
Government compensation towards fixed costs	**14,885**	-
Other government grants	**267**	-

Government compensation towards fixed costs was provided to compensate the Danish business for non-salary related costs incurred while gyms were closed.

Grants related to property rental costs are recognised as a credit in administrative expenses in the statement of comprehensive income. All other grants received are recognised as a credit to the related expense in the statement of comprehensive income.

Notes to the consolidated financial statements (continued)

25 Government grants (continued)

In addition to the grants included in the above table, the Group received relief from payment of business rates, resulting in a total benefit for the year ended 31 December 2020 of £16,624,000 (2019: £nil).

26 Capital and other commitments

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

	2020 £'000	2019 £'000
Contracts for future capital expenditure not provided	**2,791**	1,423

27 Controlling party

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

The largest Group into which the results of this Group are consolidated for the year ended 31 December 2020 are those headed by Pinnacle Topco Limited, a company incorporated in the UK. These financial statements, which are publicly available, can be obtained from the registered office: Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY.

The ultimate controlling party is Leonard Green & Partners LP, 11111 Santa Monica Boulevard, Suite 2000, Los Angeles, California 90025, United States of America.

28 Interests in other entities

In the opinion of the directors, the Group has three principal subsidiaries at 31 December 2020 being Pure Gym Limited, Fitness World A/S and Basefit.ch. At 31 December 2019, the only principal subsidiary was Pure Gym Limited. The subsidiaries are 100% owned by the Group, are incorporated in the United Kingdom, Denmark and Switzerland respectively, and all have the principal activity of the provision of facilities for physical fitness.

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

29 Related party transactions

As at 31 December 2020, amounts owed to fellow Group companies includes £470,865,000 owed to the immediate parent company, Pinnacle Midco 2 Limited, repayable on 30 November 2027 (31 December 2019: £340,635,000), and £258,000 owed to the ultimate UK parent company, Pinnacle Topco Limited (2019: £269,000). Associated interest charged to the income statement in the year totalled £29,528,000 (2019: £26,106,000).

Notes to the consolidated financial statements (continued)

30 Business combinations

On 14 January 2020, the Group acquired 100% of the issued share capital of Forward Topco A/S (known, together with its subsidiaries, as "the Fitness World group") for DKK 2,037,110,000 (£233,350,000). The principal activity of the Fitness World group is the provision of physical fitness facilities in Denmark and Switzerland.

The goodwill of £239,134,000 arising from the acquisition is attributable to the acquired workforce, and anticipated future earnings from future new customers. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for Forward Topco A/S and the fair value of assets and liabilities acquired:

	14 January 2020 **Fair value** **£'000**
Cash paid	**233,350**
Total consideration	**233,350**

Recognised fair value of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	**7,000**
Property, plant and equipment	**271,894**
Intangibles (software, customer relationships and brands)	**107,918**
Other non-current assets	**5,685**
Inventories	**3,954**
Trade and other receivables	**16,881**
Trade and other payables	**(48,841)**
Provisions	**(8,461)**
Borrowings	**(117,963)**
Lease liabilities	**(220,442)**
Other non-current liabilities	**(704)**
Net deferred tax liabilities	**(22,705)**
Total identifiable net liabilities	**(5,784)**
Residual goodwill arising on acquisition	**239,134**

Revenue included in the Consolidated Statement of Comprehensive Income for the year contributed by the Fitness World group was £127,536,000 and loss for the period from continuing operations was £69,104,000 over the same period. Loss from discontinued operations contributed by the Fitness World group was £4,625,000.

Had the Fitness World group been consolidated from 1 January 2020 then the Consolidated Statement of Comprehensive Income would include revenue of £134,661,000, loss for the period from continuing operations of £74,152,000 and loss from discontinued operations of £4,628,000.

Notes to the consolidated financial statements (continued)

30 Business combinations (continued)

Acquisition-related costs charged to administrative expenses in the Consolidated Statement of Comprehensive Income for the year were a credit of £40,000, and acquisition-related costs of £4,507,000 were charged to administrative expenses in the Consolidated Statement of Comprehensive Income in the year ended 31 December 2019.

Acquisitions in the year ended 31 December 2019

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

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

	£'000
Consideration paid in cash	**2,828**
Property, plant and equipment	271
Total identifiable net assets	**271**
Residual goodwill arising on acquisition	**2,557**

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

31 Discontinued operation

On 15 December 2020, the Group sold its Polish subsidiary, Fitness World sp. z o. o. following a strategic decision by the Group to withdraw from the Polish market. The results of the subsidiary, which was acquired as part of the Fitness World acquisition on 14 January 2020, are reported as a discontinued operation.

The financial performance and cash flow information set out below relates to the period from 14 January 2020 to 15 December 2020. No comparative information is provided as the operation was not part of the Group in the prior year.

Notes to the consolidated financial statements (continued)

31 Discontinued operation (continued)

	2020 £'000
Revenue	3,352
Administrative Expenses	(5,115)
Operating loss	(1,763)
Finance costs	(358)
Loss before income tax	(2,121)
Income tax credit	70
Loss after income tax of discontinued operation	(2,051)
Loss on sale of the subsidiary after income tax	(2,574)
Loss from discontinued operation	**(4,625)**
Exchange differences on translation of discontinued operation	(44)
Total comprehensive expense for the period	**(4,669)**
Net cash used in operating activities	(191)
Net cash used in investing activities	(823)
Net cash generated from financing activities	636
Net cash used by the subsidiary	**(378)**

Financial information related to the sale of the subsidiary is detailed below.

	2020 £'000
Consideration received in cash	-
Carrying amount of net assets sold	(1,271)
Impairment of amount receivable from discontinued operation	(941)
Expenses incurred on sale of discontinued operation	(362)
Loss on sale before income tax and reclassification of foreign currency translation reserve	(2,574)
Reclassification of foreign currency translation reserve	44
Income tax credit on loss	-
Loss on sale after income tax	**(2,530)**

Notes to the consolidated financial statements (continued)

31 Discontinued operation (continued)

The carrying amounts of assets and liabilities as at the date of sale were:

	15 December 2020 £'000
Intangible assets	697
Property, plant and equipment	7,980
Inventories	114
Trade and other receivables	714
Cash	-
Total assets	**9,505**
Borrowings	(2,720)
Deferred tax liability	(99)
Lease liabilities	(4,403)
Trade and other payables	(1,012)
Total liabilities	**(8,234)**
Net assets	**1,271**

32 Events after the end of the reporting period

On 4 March 2021, the Group issued an additional €45 million of Euro Notes on the same terms as the existing Euro Notes, bringing the total repayment value of Euro Notes in issue to €490 million. The proceeds are intended to be used for general corporate purposes, providing additional liquidity to protect against any further lockdowns initially, and facilitating a return to growth when the timing is right.

At the date of signing these financial statements, the Group continues to be impacted by the COVID-19 crisis. At 31 December 2020, all gyms in Denmark and Switzerland, and most UK gyms, were closed as a result of COVID-19 lockdowns, with the remaining 42 UK gyms forced to close on 4 January 2021.

Subsequently, the Group re-opened 240 of its English gyms on 12 April 2021 (including 10 new sites), and all gyms in Switzerland re-opened on 19 April 2021. In all of the Group's other geographies the COVID-19 situation is improving as at the date of signing these financial statements and all remaining gyms are expected to have re-opened by mid-May 2021.

COMPANY FINANCIAL STATEMENTS

Independent auditors' report to the members of Pinnacle Bidco PLC

Report on the audit of the company financial statements

Opinion

In our opinion, Pinnacle Bidco PLC's company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and financial statements (the "Annual Report"), which comprise: the company statement of financial position as at 31 December 2020; the company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Audit scope

- Our scope included all material financial statement line items.

Key audit matters

- Risk of impairment of investments in subsidiaries and intercompany receivables
- Covid-19

Materiality

- Overall materiality: £1,500,000 (2019: £1,500,000) based on 1% of total assets, capped below Group materiality as part of our component materiality allocations.
- Performance materiality: £1,125,000.

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

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to compliance with relevant accounting standards and tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the overstatement of assets, through over-optimistic assumptions underpinning the recoverable amounts of the relevant assets, or missing or incomplete disclosures. Audit procedures performed by the engagement team included:

- enquiring with management and those charged with governance to understand the relevant laws and regulations applicable to the company, and their assessment of fraud related risks;
- identifying and testing journal entries using a risk-based targeting approach for unexpected account combinations or unusual words or phrases in the journal description;
- obtaining management prepared models to support the carrying value of investments and intercompany receivable balances and critically assessing the key assumptions; and.
- reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations.

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

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Covid-19 is a new key audit matter this year. Going Concern, which was a key audit matter last year, is no longer included because of going concern considerations are included in our Covid-19 key audit matter. Otherwise, the key audit matters below are consistent with last year.

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

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

Risk of impairment of investments in subsidiaries and intercompany receivables
The company has investments in subsidiaries amounting to £308.2m and amounts due from Group undertakings of £889.2m. Management consider whether there are any indicators of impairment given the financial performance and position of the subsidiary companies, particularly in light of the impact of the Covid-19 pandemic. No impairment charge has been recorded by management in the year. We focused on these balances given their size, the performance of the company's investments in the year and the judgements and estimates required to forecast future financial performance. Management have assessed whether there are indicators of impairment to investments and intercompany receivables by preparing a value-in-use model, including the following:

Forecast cash flows for the next four years;
A long-term (terminal) growth rate applied beyond the end of the four year forecast period; and
A discount rate applied to the model.

There were no indicators of impairment identified by management.</td><td>

We understood and evaluated management's budgeting and forecasting process.
We obtained management's value-in-use model review and tested the reasonableness of the key assumptions, including the following:

We tested the mathematical accuracy of the impairment model and agreed the carrying value of the investments in subsidiaries and intercompany receivables being assessed for impairment to the balance sheet;
We challenged management's calculated discount rate used for discounting future cashflows within the impairment model, including involving valuation specialists to assess the cost of capital for the Group and comparable organisations;
We traced the forecast financial information within the model to the latest Board approved budget and considered the accuracy of previous forecasts;
We challenged management to provide support to corroborate trading assumptions and support for the amount and timing of future capital expenditure;
We evaluated management's short term growth rate implied in the cash flows for the distinct four year period, obtaining external industry reports to challenge management's assumptions;
We performed sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions and to quantify the downside changes needed before an impairment would be required; and
We also assessed the disclosures made with respect to the sensitivity of the key assumptions.

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Covid-19
Covid-19 is considered as a significant risk and key audit matter as a result of the ongoing global pandemic. Our assessment of the risk is focused on the resilience of the business to withstand the uncertainty and potential for future periods of lockdown. This key audit matter contains our assessment of the Company's and Group's ability to continue as a going concern which was a separate key audit matter in the prior period. See also our impairment related key audit matters as a result of Covid-19 above.</td><td>

We have obtained the Directors' assessment of the business as a going concern, covering the period to 30 April 2022.
We understood the cash forecasting process and tested the key assumptions for reasonableness. This included assessment of forecast cash flows, considering management's expectation of the speed and timing of the Group's recovery from the 2021 global lockdowns and comparing those cash flows with existing liquidity and unused facilities and forecast compliance with banking covenants.
We have also performed additional sensitivity analyses to ascertain the impact of reasonably plausible changes in key assumptions that would result in a breach of the banking covenants or the group exceeding its available facilities.
We have also assessed management's disclosures regarding their going concern assessment, banking facilities and sensitivity of the key estimates and judgements.
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Independent auditors' report to the members of Pinnacle Bidco PLC (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Our work was focused on the company's material financial statement line items, in particular investments, amounts due from group undertakings and the company's borrowings.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£1,500,000 (2019: £1,500,000).
How we determined it	1% of total assets, capped below Group materiality as part of our component materiality allocations
Rationale for benchmark applied	We believe that total assets is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark due to it being a holding company.

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

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

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £75,000 (2019: £75,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Obtaining the Directors' going concern assessment paper and cash flow forecasts to April 2022, covering the group of which the company is part. We tested the cash flow forecasts for mathematical accuracy.
- Assessing the group's banking facilities, associated banking covenant requirements in the going concern assessment period and banking covenant waivers received prior to the year end;
- Challenging management on their contingency plans for potential future lockdowns, and the resilience of the business to withstand additional periods of closure.
- Assessing the reasonableness of management's expectations for membership level recoveries upon the reopening of the group's gym portfolio; and
- Performing multiple sensitivity analyses for plausible downside scenarios, to assess the group's liquidity position in the review period and compliance with relevant banking covenants, should such downsides play out.

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

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

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

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

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the group financial statements of Pinnacle Bidco PLC for the year ended 31 December 2020.

Tom Yeates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
19 April 2021

Company statement of financial position
as at 31 December 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Investments	6	**308,236**	308,236
Other receivables	7	**899,284**	412,354
		1,207,520	720,590
Current assets			
Other receivables	7	**39**	1,083
		39	1,083
TOTAL ASSETS		**1,207,559**	721,673
Current liabilities			
Other payables	8	**(14,537)**	(12,358)
		(14,537)	(12,358)
Non-current liabilities			
Borrowings	9	**(1,264,403)**	(763,381)
		(1,264,403)	(763,381)
TOTAL LIABILITIES		**(1,278,940)**	(775,739)
NET LIABILITIES		**(71,381)**	(54,066)
Equity			
Share capital	10	**50**	50
Share premium		**3,863**	3,863
Accumulated losses		**(75,294)**	(57,979)
TOTAL EQUITY		**(71,381)**	(54,066)

Loss and total comprehensive expense for the year is £17,315,000 (2019: £23,508,000).

The notes on pages 83 to 91 are an integral part of these financial statements. The financial statements of Pinnacle Bidco PLC, registered number 11038720, on pages 81 to 91 were approved by the board of directors and authorised for issue on 19 April 2021 and were signed on its behalf by:

A Wood

Director

Company statement of changes in equity
for the year ended 31 December 2020

	Share capital £'000	Share premium £'000	Accumulated losses £'000	Total £'000
Balance as at 1 January 2019	50	3,863	(34,471)	(30,558)
Loss and total comprehensive expense for the year	-	-	(23,508)	(23,508)
Balance as at 31 December 2019	**50**	**3,863**	**(57,979)**	**(54,066)**
Loss and total comprehensive expense for the year	-	-	**(17,315)**	**(17,315)**
Balance as at 31 December 2020	**50**	**3,863**	**(75,294)**	**(71,381)**

Notes to the company financial statements

1 General Information

Pinnacle Bidco PLC is an intermediate holding company within the Leonard Green & Partners LP Group (the "Leonard Green group") and is expected to remain as such for the foreseeable future. The Company is a private company limited by shares and is incorporated and domiciled in the UK. The address of its registered office is Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of preparation

The financial statements are presented in sterling, rounded to the nearest thousand. They are prepared on a going concern basis and under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below, and, unless otherwise stated, these policies have been consistently applied to all the periods presented.

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial Reporting Standard 101 "Reduced Disclosure Framework (FRS 101) and, the Companies Act 2006 (the Act). FRS 101 sets out a reduced disclosure framework for a "qualifying entity" as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of International Accounting Standards, in conformity with the requirements of the Companies Act 2006.

In accordance with the exemption allowed by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account, however has made a loss for the financial year of £17,315,000 (2019: £23,508,000).

The principle disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- IFRS 7 financial instrument disclosures;
- IAS 1 information on management of capital;
- IAS 8 disclosures in respect of new standards and interpretations that have been issued but which are not yet effective;
- IAS 24 disclosure of key management personnel compensation;
- IAS 24 disclosures in respect of related party transactions entered into between fellow group companies;
- Roll-forward reconciliations in respect of share capital (IAS 1) and property, plant and equipment (IAS 16); and
- IAS 7 and IAS 1 exemption from preparing a cash flow statement and related notes.

Investments

Investments in subsidiaries are held at cost, less provision for impairment. Gains and losses are recognised in the income statement as and when the investments are impaired.

Notes to the company financial statements (continued)

2 Summary of significant accounting policies (continued)

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in years different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Financial assets

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

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

Impairment of financial assets

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all intercompany balances. To measure the expected credit losses, intercompany receivables are grouped based on shared credit risk characteristics and the days past due.

Going concern

In light of the on-going impact of Covid-19 on the performance of the Group, of which the Company is a part, the Directors have carefully evaluated the Going Concern basis of preparation.

The Group meets its day to day working capital requirements, capex and funding of new sites through its cash reserves and credit facilities, being an RCF facility of £145 million which includes an overdraft of £10 million. As at 19 April 2021, the date of signing the financial statements, the Group's forecasts and projections (to 30 April 2022) taking account of reasonably possible changes in trading performance and potential future lockdowns, showed that the Group should be able to operate within its existing facilities. This assessment included the impact of the 2021 national lockdowns, no extension of Government support and the expectation of continued COVID-19 disruption on core trading across 2021.

On an unmitigated basis the Group has a weekly cash burn of approximately £9.0 million per week, including interest and tax. By factoring in known government mitigation measures across all territories and management mitigation measures, total weekly cash burn (including interest and capex) has been reduced to approximately £4.5 million. Government mitigations include payroll support, fixed cost contributions and grants whilst management mitigations include reducing all unnecessary activity, tight cost control and the delay of planned investments. The actions taken have been designed to protect the medium and long term prospects of the business and, with available liquidity of £236 million (as at 31 December 2020) and the further raise of circa €45 million (circa £40 million) in March 2021, the

Notes to the company financial statements (continued)

2 Summary of significant accounting policies (continued)

Going concern (continued)

Directors consider that the Group has sufficient facilities to withstand over 14 months of full Group closure from the start of 2021. Liquidity as at 31 March 2021 stood at £231 million.

Based on these forecasts, and with no leverage or cash flow covenants until 2024, the Directors have concluded there is no material uncertainty that the Group has adequate resources to continue to remain a going concern for the foreseeable future and have therefore adopted the going concern basis in preparing its financial statements.

3 Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment of investments

The Company considers on an annual basis, whether investments have suffered any impairment based on the recoverable amount of its cash-generating units ('CGUs'). The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a pre-tax discount rate in order to calculate the present value of the cash flows. More information, including carrying values of investments, is included in note 6.

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

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

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

4 Auditors' remuneration

Fees payable to the Company's auditors for the audit of the annual statutory financial statements were £72,000 (2019: £8,000). These are borne by Pure Gym Limited.

Fees payable to the Company's auditors (and its associates) for non-audit services can be found in the consolidated financial statements.

Notes to the company financial statements (continued)

5 Employees and directors

Employees

The Company had no employees throughout the year (2019: nil), and directors are remunerated for their services by fellow group undertakings.

Directors

No directors received any remuneration in respect of their services to the Company (2019: nil). The key management of the Group are deemed to be the same as the directors of the Group, therefore no additional disclosure of key management compensation has been provided.

6 Investments

	2020 **£'000**	2019 £'000
At 1 January and 31 December	**308,236**	308,236

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

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

Company name	Principal activity	Registered office address
Gym Topco Limited *	Intermediate holding company	Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Gym Midco Limited	Intermediate holding company	Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Gym Midco 2 Limited	Intermediate holding company	Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Gym Bidco Limited	Intermediate holding company	Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Pure Gym Limited	Provision of physical fitness facilities	Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Pinnacle Europe Holdings Limited	Intermediate holding company	Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Ovalhouse Limited	Property holding subsidiary	Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Pure Gym (Dudley) Limited	Dormant	Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Tolmers Newco 1 Limited	Dormant	Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Tolmers Newco 2 Limited	Dormant	Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK

Notes to the company financial statements (continued)

6 Investments (continued)

Company name	Principal activity	Registered office address
LA Fitness Limited	Dormant	Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
LA Leisure Limited	Property holding subsidiary	Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
LA Westminster Limited	Dormant	Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
CS Leisure Limited	Dormant	Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Pinnacle US Holdings LLC	Intermediate holding company	1209 Orange Street, County of Newcastle, Wilmington, Delaware, 19801, USA
PureFitness LLC	Provision of physical fitness facilities	1209 Orange Street, County of Newcastle, Wilmington, Delaware, 19801, USA
Forward TopCo A/S	Intermediate holding company	Egegårdsvej 61, 2610 Rødovre, Denmark
Fitness World Group A/S	Intermediate holding company	Egegårdsvej 61, 2610 Rødovre, Denmark
Fitness World A/S	Provision of physical fitness facilities	Egegårdsvej 61, 2610 Rødovre, Denmark
Functional Supply A/S	Development and resale of sports nutrition products	Egegårdsvej 61, 2610 Rødovre, Denmark
Fitness Institute ApS	Provision of training and development services	C.F. Richs Vej 107, 3., 2000 Frederiksberg, Denmark
Basefit.ch AG	Provision of physical fitness facilities	Grabenwisstrasee 5, 8604 Volketswil, Switzerland

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

Notes to the company financial statements (continued)

7 Other receivables

Non-current

	2020 £'000	2019 £'000
Amounts due from group undertakings	**899,284**	412,354
Loss allowance	**-**	-
Amounts due from group undertakings - net	**899,284**	412,354

Of the amounts due from group undertakings £403,657,000 accrue interest at 8% (2019: £340,962,000) and are due for repayment on 30 November 2027, £395,830,000 accrue interest at 4.375% (2019: £nil) and are due for repayment on 30 November 2027, and £99,797,000 (2019: £nil) accrue interest at 4.375% and are due for repayment on 14 January 2030. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all amounts due from group undertakings. Through reference to credit rating agency ratings of the Pinnacle Bidco Group throughout the life of the loans, the Company was able to conclude that for £503,440,000 of loans there has not been a significant increase in credit risk since the loans were initially recognised. As such, for these loans, the Company has determined an expected credit loss rate of 0%.

A loan of £395,830,000 due from Pinnacle Europe Holdings Limited was determined to have experienced a significant increase in credit risk between the loan's inception in January 2020 and the year end of 31 December 2020 as a direct consequence of the impact of the COVID-19 pandemic on the Group's operations. However, the Company determined that an expected credit loss rate of 0% was appropriate as they expect that the loan could be repaid ahead of its due date using cash generated by Pinnacle Europe Holdings.

In the year ended 31 December 2019, the Company determined that the expected credit loss rate attached to the amounts due from Group undertakings was 0%.

Current

	2020 £'000	2019 £'000
Prepayments	**39**	1,083

8 Other payables

	2020 £'000	2019 £'000
Accruals	**13,862**	11,521
Other creditors	**675**	837
	14,537	12,358

Notes to the company financial statements (continued)

9 Borrowings

	2020 £'000	2019 £'000
€445m 5.500% Senior Secured Notes at principal value	**399,899**	-
Discount on issue of Senior Secured Notes	**(19,524)**	-
€445m 5.500% Senior Secured Notes	**380,375**	-
£430m 6.375% Senior Secured Notes	**430,000**	430,000
Capitalised issue costs	**(16,837)**	(7,254)
Senior secured notes net of issue costs	**793,538**	422,746
Amounts owed to Group undertakings	**470,865**	340,635
	1,264,403	763,381

Of the amounts owed to Group undertakings, £368,908,000 (2019: £340,635,000) accrue interest at 8% and £101,957,000 (2019: £nil) accrue interest at 4.375%. All amounts owed to Group undertakings are repayable on 30 November 2027.

Financing

The Group, of which the Company is the parent, has £430 million of Senior Secured Notes ("the Sterling Notes") and €445 million of Senior Secured Notes ("the Euro Notes") in issue as at the period end (together, "the Notes"). The Notes are listed on The International Stock Exchange, for which Pinnacle Bidco PLC is the Issuer and certain subsidiaries of the Group are guarantors. Interest on the Sterling Notes accrues at a rate of 6.375%, payable half yearly in February and August and interest on the Euro Notes accrues at a rate of 5.500%, payable half yearly in May and November. The Notes are due to be repaid in full on 15 February 2025.

On 14 January 2020, the Group acquired Fitness World for a consideration of DKK 2,037,110,000 (£233 million) and the acquisition was funded with a €445 million (£381 million) Senior Secured bridge facility (the "Bridge Facility"), which was also used to repay pre-existing Fitness World debt of DKK 1,029,797,000 (£117,963,000). On 17 November 2020, the Bridge Facility was refinanced with the Euro Notes.

The Euro Notes were recognised at fair value of €422,750,000 on the date of issue, representing a discount on issue of the Euro Notes of €22,250,000. The difference between the carrying value of the Bridge Facility and the fair value of the Euro Notes has been recognised as a gain within finance costs in the statement of comprehensive income. The Euro Notes are subsequently held at amortised cost with changes in the carrying amount recognised within finance cost as an unwind of discount on issue of senior secured notes.

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

In addition, the Group has a revolving credit facility (the "RCF Facility") with eight international institutions (Barclays Bank PLC, Jefferies Finance LLC, Royal Bank of Canada, Credit Suisse AG, Credit Suisse International, ING Bank N.V. Lloyds Bank plc and Danske Bank A/S, collectively "the Lenders").

Notes to the company financial statements (continued)

9 Borrowings (continued)

On 14 January 2020, the terms of the RCF Facility were amended to increase the facility from £60 million to £95 million and this was increased further to £145 million on 18 September 2020. Included within the total RCF Facility is a £10 million overdraft facility. In addition, the repayment date of the RCF Facility was extended during the year from 30 November 2023 to 15 August 2024. During the year ended 31 December 2020, drawings were made on the facility to a total level of £135 million. As at 31 December 2020 and 31 December 2019, the facility was undrawn.

The Notes and the RCF Facility are secured by fixed and floating charges over the assets and undertakings of certain subsidiaries of the Group. Until 18 September 2020, the RCF Facility was subject to a financial covenant of net leverage ratio lower than or equal to 7.7 when amounts drawn down on the facility were greater than 40% at the testing date (being the last day of March, June, September and December each year). Following amendments to the terms of the RCF Facility on 18 September 2020, and further amendments on 7 January 2021, the Lenders granted a waiver of the pre-existing financial covenants on the facility for the remainder of the term. The financial covenant is replaced with a £30 million minimum liquidity test on the last day of March, June, September and December each year.

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

10 Share capital

	2020 £'000	**2020 No.**	2019 £'000	2019 No.
Allotted, authorised, called up and fully paid				
Ordinary shares of £0.01	**50**	**5,000,002**	50	5,000,002

Each ordinary share entitles the holder to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number of and amounts paid on the shares held. Each ordinary share entitles the holder to one vote.

11 Related party transactions

Advantage has been taken of the exemption in IAS 24 not to disclose transactions between Pinnacle Topco Limited and its subsidiaries.

12 Controlling party

The immediate parent company of Pinnacle Bidco PLC is Pinnacle Midco 2 Limited. The ultimate UK parent company is Pinnacle Topco Limited.

The largest Group into which the results of this Group are consolidated for the year ended 31 December 2020 is that headed by Pinnacle Topco Limited, a company incorporated in the UK. These financial statements, which are publicly available, can be obtained from the registered office: Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY.

The ultimate controlling party is Leonard Green & Partners LP, 11111 Santa Monica Boulevard, Suite 2000, Los Angeles, California 90025, United States of America.

Notes to the company financial statements (continued)

13 Events after the end of the reporting period

On 4 March 2021, the Company issued an additional €45 million of Euro Notes on the same terms as the existing Euro Notes, bringing the total repayment value of Euro Notes in issue to €490 million. The proceeds are intended to be used for general corporate purposes, providing additional liquidity to protect against any further lockdowns initially, and facilitating a return to growth when the timing is right.

PureGym
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