Ocean Wall

The Gym Group (LON:GYM)

Going from Strength to Strength

March 2025

Author

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Contents

Executive Summary

- **Impressive New Management Team**
- **Structural Growth for the low-cost players-** a near duopoly market produces good pricing power
- **Operational Leverage Enhanced by Improving Portfolio Quality** – Leaving long-term margins potentially underestimated.
- **Forecasted Long-Term Revenue Growth of 8%** – Driven by a 4% volume increase from new openings and a 5% price increase (or £1/month/member).
- **Margins expected to expand by 540 Basis Points Over 4 Years** – This will be driven by economies of scale and portfolio improvements.
- **Strong free cash flow generation** – With a cash conversion rate around 35%.
- **Attractive valuation** – Currently trading at a discount to today's replacement value. It's trading at 1x P/Sales, 6x EV/EBITDA, and a cash flow yield of 13%. As operational gearing comes through it trades on c 0.8x P/S, 4.1x EBITDA and a free cash yield of 19%.
- **Margin Analysis for 2028** – By 2028, The Gym Group could generate an additional £36m in EBITDA (post-rent) based on a 2024 base of £47.7m.
- **Long-Term Perspective Recommended** – A combination of significant self-help to drive margins plus internally funded expansion will allow the company to return increasing amounts of capital from 2026 onwards.

Share price	130.72
Number of shares *(Millions)*	176.8
Market cap *(Millions)*	231

	2022A	2023A	2024A	2025E	2026E	2027E	2028E
Sales	172.90	204.00	226.30	243.53	265.94	290.40	317.12
EBITDA ajd before rent	71.3	75.5	87.3	96.1	108.3	122.3	139.4
EBITDA ajd after rent	38.0	38.5	47.7	52.6	60.8	71.0	84.0
EBIT	10.60	15.60	23.80	26.60	32.18	38.91	48.03
Net Debt	76.0	66.3	61.3	64.6	68.4	59.8	34.5
Net Debt including leases							
EV	307	297	292	296	300	291	266
EV/Sales	**1.8**	**1.5**	**1.3**	**1.2**	**1.1**	**1.0**	**0.8**
EV/EBITDA	**8.1**	**7.7**	**6.1**	**5.6**	**4.9**	**4.1**	**3.2**
Net debt/EBTIDA		**1.7**	**1.3**	**1.2**	**1.1**	**0.8**	**0.4**
Free Cashflow	16.7	27.0	37.5	32.9	39.4	47.7	58.7
Free Cashflow yield	**7%**	**12%**	**16%**	**14%**	**17%**	**21%**	**25%**
Cashflow per share	9.4	15.3	21.2	18.6	22.3	27.0	33.2
P/cflow	**13.8**	**8.6**	**6.2**	**7.0**	**5.9**	**4.8**	**3.9**

Powerful Socio-Economic Trends Driving Growth

The UK's low-cost gym market is flexing serious muscle, powered by a health-conscious, value-driven younger crowd. Over half of The Gym Group's members are under 30, with the majority aged 16-34 — digital natives who now rank fitness and wellbeing above holidays, fast food, subscriptions, and even nights at the pub. Fitness is no longer a drag, it's part of one's identity.

With 2 million current low-cost gym members and another 3 million considering joining, growth potential is clear. Mental health awareness, social media-fuelled body image goals, and a need for convenience all feed into this momentum. PwC even sees capacity for an additional 1,000 low-cost gyms across the UK.

The Gym Group is seizing the moment: accelerating site openings (12 new gyms in 2024, 14-16 more planned for 2025), investing in tech and data, and delivering solid free cash flow to fuel further expansion, capitalising on strong macro consumer trends that are driving structural growth in the sector.

The Six Drivers Behind the Growth:

1. **Fitness IQ:**
   Awareness around fitness benefits is at an all-time high. Members aren't just lifting weights — they're lifting their knowledge, broadening how they engage with gym equipment and wellness routines.
2. **Mental Health:**
   Physical fitness is now as much about peace of mind as it is physique. Members see the gym as a key tool for managing mental wellbeing, making workouts a natural antidote to modern life stresses.
3. **Body Image:**
   The cultural narrative is shifting — it's no longer about "thin," it's about "strong." Strength training is in, cardio-only mindsets are out, driving deeper, longer-lasting gym engagement and requiring specialist equipment.
4. **Social Media:**
   Fitness isn't just personal, it's shareable. Social platforms amplify body goals and feed a community vibe, turning gym sessions into social currency.
5. **Rise of No Frills:**
   In an age of squeezed budgets, value-for-money wins. The stripped-back, no-nonsense gym model continues to attract, while mid-market operators feel the pinch.
6. **Convenience & Immediacy:**
   Flexibility is everything. Whether it's 24/7 access or no-contract models, today's gym-goers demand fitness on their terms — no waiting, no barriers.

Value Gyms Gaining Significant Market Share

Gyms are seeing similar market share trends that we have seen in hotels, airlines and supermarkets. The offer of clean, well equipped gyms that are convenient in location and opening times all for as little as £5/week is a compelling proposition.

It is estimated by PWC that by number of sites, the Value operators hold a 10% market share, which is expected to rise to 16% by 2027, giving scope to open 1000+ more sites before reaching market saturation. By number of members the Value operators have an estimated 28% share of the gym market representing 4.5% of the total population. Astonishingly this entire market has really developed since 2012.

Market share shift to low cost sector & new site openings underpins our like for like forecast of 4-5% pa.

Duopoly Ensures Price Discipline

The UK value gym market is effectively a two-horse race, dominated by Pure Gym and The Gym Group, who together control around 80% of market share, with Pure operating roughly 390 sites and The Gym Group, 245. Pure Gym has distinguished itself through its international expansion — spanning Denmark, Switzerland, the Middle East, and now the US — a strategy underpinned by its Private Equity backing. However, this has come at the cost of higher leverage, with Pure Gym carrying a Debt/EBITDA ratio of 4-5x, compared to The Gym Group's more conservative 1.3x.

With KKR now entering their fourth year of ownership at Pure Gym, and considering the elevated debt levels, it's reasonable to expect price discipline to hold firm. Both operators are confident in their ability to raise prices in the UK market without triggering significant member churn, suggesting a rational, stable pricing environment going forward.

Under the new management Gym Group has worked hard to refine its price elasticity models increasing pricing in 2024 across 540,000 members and data testing the impact of price rises and or reducing promotional activity and closing the gap with the mid-priced gyms, which are still on average twice the price. With more data derived from the App on frequency of visits it becomes easier to optimise pricing – data is crucial to a subscription model business.

As at 4th March 2024	Gym Gp plc	PURE	JD Sports
Nottingham centtral			
Off Peak	£15.99 + £10 join	£19.99 + £15 join fee	n/a
Core	£23.99+£10 join	£23.99+£15 join	£26.99 (1st month £10)
Premium	£23.99+10 join	£25.99 + £15 join fee	£29.99 (first month £10)
Cheapest site in Nottingham			
Off Peak	£10.49	£17.99 +£15 join	n/a
Core	£15.39	£22.99+£15 join	
Premium	£19.60	£22.99+£15 join	
Premium	£28.69 no join fee	£37.99 plus £20 join	
Manchester			
Off Peak	£15.99 to £19.99 plus £10 join	£15.99 to £20.99 plus £15 join	n/a
Core	£19.99 to 27.99 + £10 join	£22.99 to 26.99 plus £15 join	£28.99 first month £10
Premium	£19.99 to 27.99 + £10 join	£22.99 to 26.99 plus £15 join	£35 first month £10

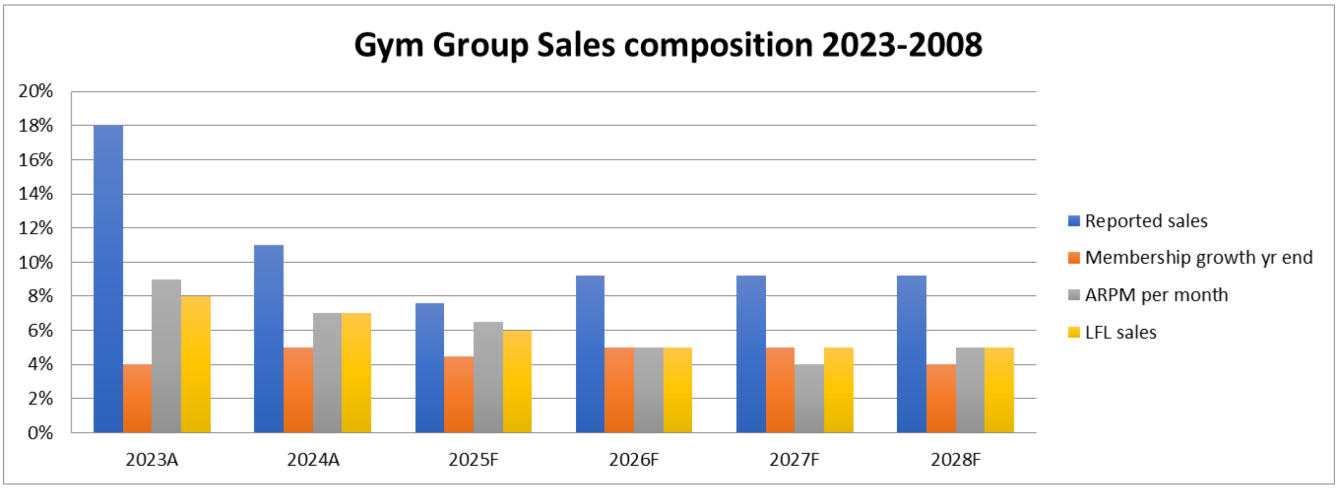
This supports the theory that competition on price is very unlikely.

Price Increases Likely For Next 3 Years

Consumer analysis suggests that in an economic downturn the gym membership is less likely to be cut from spending budgets than clothing, media subscriptions, restaurants and holidays. Although behaviour can be unpredictable, the value for money suggests that low cost gyms are less vulnerable.

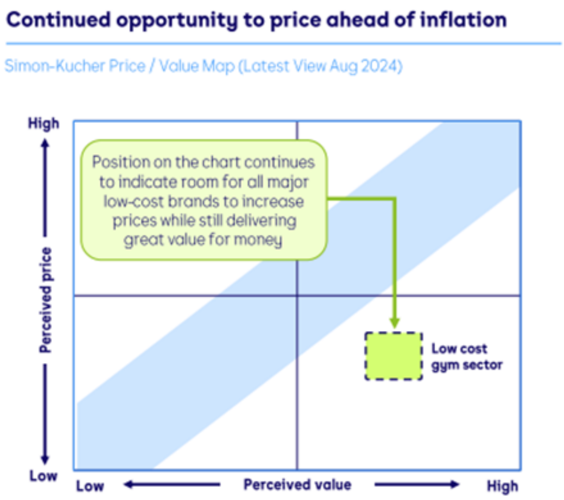
In 2023 when the UK consumer was faced with rising interest/mortgage rates & a cost of living crisis ARPM increases of 8/9% were implemented with no impact on volume. Price increases in 2024 have continued at 7% with and encouraging steady increase in premium customers to about one third of the total.

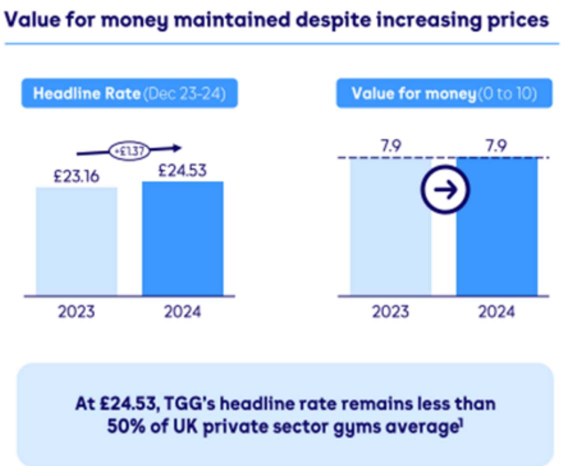
The introduction of new Off Peak membership offers proved additive not substitutional i.e. there was no trading down. Off peak members have tended to be older age group who are new to gyms – evidence of additive contribution.



With the Gym Group App, a more targeted & localised marketing approach is helping deliver greater marketing efficiency & effectiveness.

Going forward we believe that the market will move away from concern regarding failure to return to pre-covid membership volumes and focus on pricing power and lower churn.





Our forecasts presume price increases of 4-5% for the next 3 years with no impact on churn or volume growth.

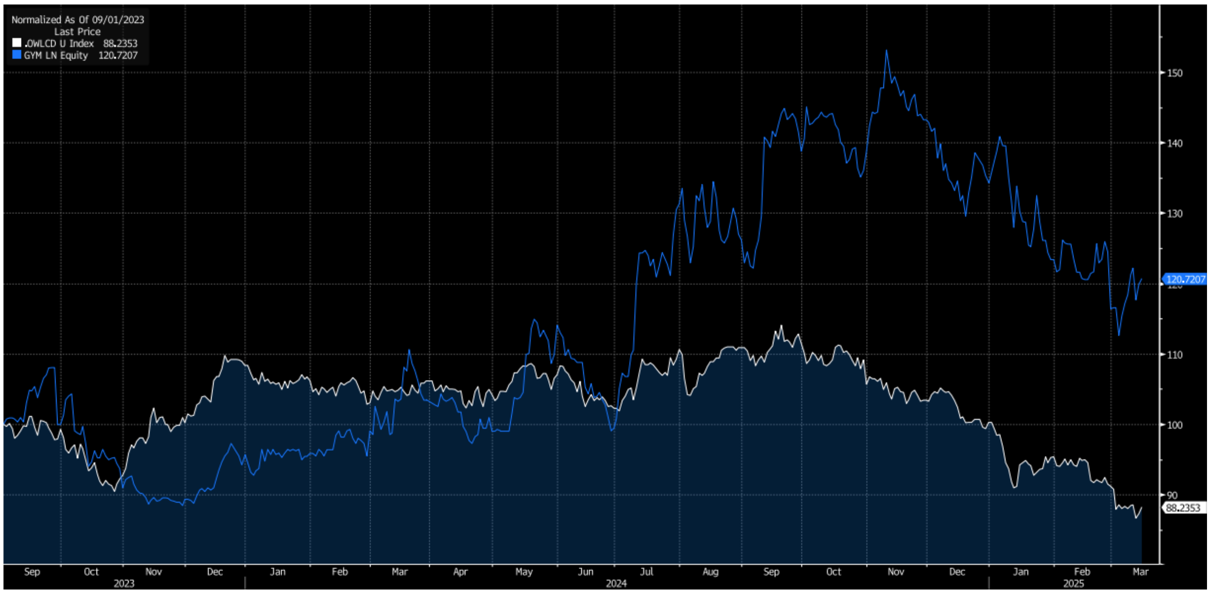
Strong New Management Team

Will Orr took the helm as CEO in September 2023, joining from Times Media where he honed his expertise in subscription-based revenue models. He brings a wealth of experience in driving sustainable customer growth, with a strong track record across pricing, proposition development, digital marketing, and retention strategies. His focus on operational excellence and customer experience is well-aligned with The Gym Group's growth ambitions.

Luke Tait joined in the Winter of 2022 as CFO to baptism of fire with rising insurance utility costs and the post covid restructuring. A year of total overhaul and integrating past acquisitions was followed by a year of establishing credibility and trust with the market on forecasts.

In October 2024, Tina Koehler was appointed to augment the marketing team and we believe we will hearing more from this side of the business in 2025 after a much more confident presentation in the 2024 results on the branding and advertising strategy.

The new management team is already delivering and beating expectations. Over the last 12+ months we have seen a series of upgrades to earnings expectations, despite the tough consumer backdrop. Since the appointment of Wil Orr in September 2023, The Gym Group shares have outperformed our UK consumer discretionary basket by +37%, reflecting the efforts of the new management team.



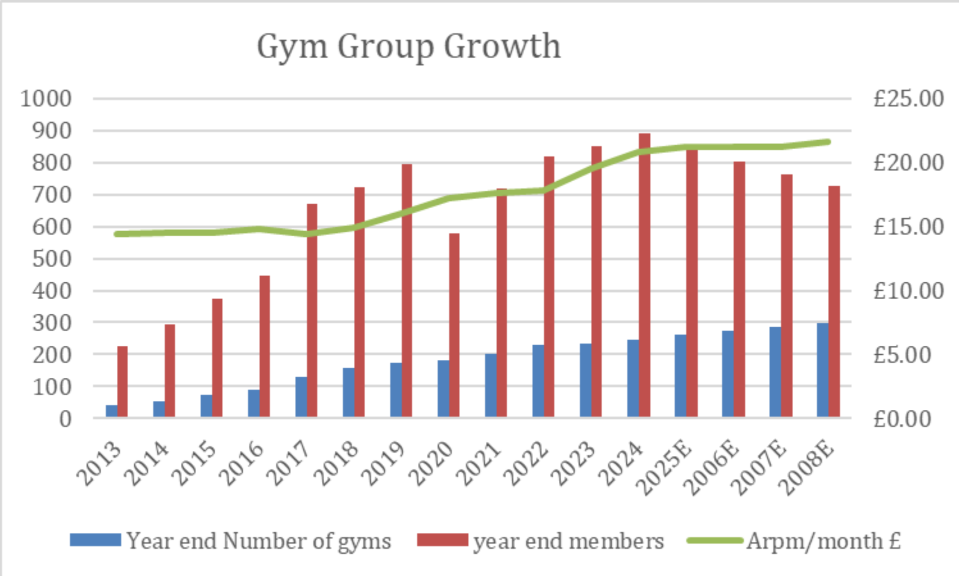
We believe the new management team is highly credible, experienced and of exceptional quality.

Long Term Opportunity for Corporate Membership Growth

Corporate membership currently accounts for just 2% of the customer base, presenting a clear opportunity for growth, especially as the portfolio shifts further towards urban locations. Partnering with health insurers could also unlock an attractive avenue for member acquisition, tapping into the growing focus on employee wellbeing and preventative healthcare.

New Site Openings – Quality not Quantity

The management have indicated they aim to roll out c.50 sites every three years but are totally focused on finding the best sites that will achieve their ROIC targets rather than volume for the sake of it. Experience tells them that the old motto of "location, location, location" is totally correct.



We forecast 15 new sites in 2025, 19 in 2026 and 16 in 2027 contributing 5-7% top line volume growth smoothed over 3 years.

Strong Operational Gearing & Cashflow Generation, Long Term Margins Underestimated

The operational gearing is substantial as once fixed costs are covered economies of scale create exponential operational leverage. Despite the impact of increased wages and National Insurance charges, the forecasts for 2024 required consistent and significant upgrades as the impact of price rises and improvements to the portfolio were underestimated.

A £1/month/client increase in price results in £8m or 16% upgrade to sales. 2024 results showed a £22m increase in sales of which approximately £16m was LFL growth (price increases /yield management) and £6m volume growth from new sites. The £11.8m increase in EBITDA before rent we estimate came almost entirely from LFL growth. In other words we estimate that approximately 70% of the increase in like for like increases dropped through to the EBITDA line.

The quality of the portfolio has also been steadily improving with better marketing and cost efficiencies. The highlight of 2024 results was the 400 basis point improvement in ROIC on risen from 29% for 172 gyms in 2023 to 33% for 172 gyms. As the portfolio matures the tailwind from new openings and 13 underperforming locations where workforce has never returned post covid reduces. With target EBITDA margins of 38% possible on the majority of the portfolio it is possible to model a theoretical margin expansion of over 5% over the next 4 years. In other words by 2028 incremental sales of £90m over 2024 levels could produce over £50m of incremental EBITDA before rent or £36m after rent. Adding 46 high quality sites to a base of 245 whilst improving underperforming sites makes this seem a reasonable assumption.

Valuation

- Our forecasts project top-line growth of 8% to 9% through to 2028, supported by new space expansion of 5% to 7% and price increases of 4% to 5% (equivalent to approximately £1 per customer per month).
- Margin improvement is driven by economies of scale, as IT, marketing, and central costs are spread across a larger portfolio. This is further reinforced by our sales mix analysis across the estate.
- The real value of this growth story lies in the longer term. By 2028, we estimate incremental EBITDA post-rent of £36 million, building on a 2024 base of £47.7 million, supported by an additional £90 million in sales.
- Free cash yields, pre expansion capex, rising from 13% to 23% over the next 4 years.
- Between 2025 and 2027, we believe the group could self-finance 50 new sites, adding to the current base of 245. Beyond that, it should be feasible to open 12 new sites annually, while still generating enough cash to repurchase up to 11% of the share capital.

Key Risks

- The UK consumer backdrop remains challenging, with rising unemployment posing the most immediate risk.
- In a severe downturn, expansionary capex can be scaled back; however, maintenance capex and HQ costs are less flexible. Leases include 10-year break clauses, meaning underperforming sites must be actively managed over the long term rather than easily exited.
- The balance sheet remains solid though shareholder returns may be delayed in a harsh consumer downturn.
- As with many small/midcap shares, daily liquidity remains a challenge.
- In a theoretical worst-case scenario — assuming no price increases and a 5% annual decline in membership — net debt to EBITDA would still sit comfortably at 1.2x, while free cash flow would remain healthy at around 8% due to reduced expansionary capex. Even in such conditions, the balance sheet avoids distressed territory.

Financial Model

Year end Dec	2022A	2023A	2024A	2025E	2026E	2027E	2028E
Number of sites	229	233	245	260	279	295	307
Net new sites added	27	4	12	15	19	16	12
Y on y %	*13%*	*2%*	*5%*	*6%*	*7%*	*6%*	*4%*
Average number members	808,000	872,000	906,000	937,710	975,218	1,014,227	1,054,796
Y on y %		*8%*	*4%*	*3.5%*	*4%*	*4%*	*4%*
Year end number of members	821,000	850,000	891,000	922,185	954,461	987,868	1,022,443
Y on y %		*4%*	*5%*	*3%*	*3%*	*3%*	*3%*
Av rev/sub/month	**£17.8**	**£19.5**	**£20.8**	**£21.6**	**£22.7**	**£23.9**	**£25.1**
Y on y %		***9%***	***7%***	***4%***	***5%***	***5%***	***5%***
Membership income	162.50	193.10	214.90				
Y on y %		*19%*	*11%*				
Income from PTs	7.80	7.70	8.20	8.45	8.70	8.96	9.23
Y on y %		*-1%*	*6%*	*3%*	*3%*	*3%*	*3%*
P&L	**2022A**	**2023A**	**2024A**	**2025E**	**2026E**	**2027E**	**2028E**
Revenue	**172.9**	**204.0**	**226.3**	**243.5**	**265.9**	**290.4**	**317.1**
Y on y %		***18%***	***11%***	***8%***	***9%***	***9%***	***9%***
LFL y on y %		*8%*	*7%*				
COGS	-2.00	-2.80	-2.90	-3.13	-3.38	-3.65	-3.95
Gross profit	170.90	201.20	223.40	240.40	262.55	286.75	313.17
Other income (Govt grants)	0.80	0.30	0.1	0	0	0	0
Share based payments	-1.40	-2.40	-3.40	-3.40	-3.40	-3.40	-3.40
Site costs	-85.00	-105.00	-109.70	-116.28	-125.00	-132.50	-140.45
Central costs	-15.40	-21.00	-26.50	-28.01	-29.25	-31.94	-33.30
Total Expenses	-101.80	-128.40	-139.60	-147.69	-157.66	-167.85	-177.15
Y on y %		*26%*	*9%*	*6%*	*7%*	*6%*	*6%*
y on y site costs %		*24%*	*4%*	*6%*	*8%*	*6%*	*6%*
Y on y central costs %		*36%*	*26%*	*6%*	*4%*	*9%*	*4%*
REPORTED EBITDA (preSBP)	**71.30**	**75.50**	**87.30**	**96.11**	**108.30**	**122.30**	**139.42**
Repoted EBITDA margin	41.2%	37.0%	38.6%	39.5%	40.7%	42.1%	44.0%
Y on y %		*6%*	*16%*	*10%*	*13%*	*13%*	*14%*
EBITDA	**69.90**	**73.10**	**83.90**	**92.71**	**104.90**	**118.90**	**136.02**
EBITDA margin	40.4%	35.8%	37.1%	38.1%	39.4%	40.9%	42.9%
Y on y %		*5%*	*15%*	*11%*	*13%*	*13%*	*14%*
Cash rent costs	-33.30	-37.00	-39.60	-43.56	-47.48	-51.28	-55.38
Y on y %		*11%*	*7%*	*10%*	*9%*	*8%*	*8%*
Adjd EBITDA after rent	**38.00**	**38.50**	**47.70**	**52.55**	**60.82**	**71.02**	**84.04**
EBITDA (after rent) margin	**22.0%**	**18.9%**	**21.1%**	**21.6%**	**22.9%**	**24.5%**	**26.5%**
Y on y %		*1%*	*24%*	*10%*	*16%*	*17%*	*18%*
D&A	-59.30	-57.50	-60.10	-66.11	-72.72	-79.99	-87.99
EBIT	**10.60**	**15.60**	**23.80**	**26.60**	**32.18**	**38.91**	**48.03**
ebit margin	**6%**	**8%**	**11%**	**11%**	**12%**	**13%**	**15%**
Y on y %		*47%*	*53%*	*12%*	*21%*	*21%*	*23%*
Bank Loan	-2.80	-6.00	-5.20	-5.35	-5.65	-5.45	-4.01
Lease interest	-13.30	-15.40	-15.50	-15.81	-16.13	-16.45	-16.78
Other financial		0.30	0.50				
Total financial	-16.10	-21.10	-20.20	-21.16	-21.78	-21.90	-20.78
PBT	**-5.50**	**-5.50**	**3.60**	**5.44**	**10.40**	**17.01**	**27.25**
Exceptional costs	-12.90	-1.50	-0.40				
Exceptional adjustments		-0.80	-0.50				
Exeptional finance	-1.00	-0.50	-0.20				
Total exceptional	-13.90	-2.80	-1.10	0.00	0.00	0.00	0.00
Tax	-1.40	-0.60	1.80	0.00	0.00	-7.25	-6.81
Exceptional tax	1.50	0.50	0.10				
Total tax	0.10	-0.10	1.90	0.00	0.00	-7.25	-6.81
P& L to shareholders	**-19.30**	**-8.40**	**4.40**				
Number of shares	177.3	178.5	184.7	184.7	184.7	184.7	184.7
Reported EPS			2.4				
Adjusted EPS	**-3.89**	**-3.42**	**2.92**	**0.00**	**0.00**	**0.00**	**0.00**
% sales							
COGS	1.2%	1.4%	1.3%	1.3%	1.3%	1.3%	1.2%
Employees	20.9%	20.2%	20.4%	19.9%	19.2%	18.4%	17.7%
Site costs	**49.2%**	**51.5%**	**48.5%**	**47.7%**	**47.0%**	**45.6%**	**44.3%**
Central costs	**8.9%**	**10.3%**	**11.7%**	**11.5%**	**11.0%**	**11.0%**	**10.5%**
Running costs	34.3%	38.3%	38.0%	36.2%	36.2%	35.8%	35.4%
HQ	2.9%	3.0%	3.0%	3.1%	3.1%	3.1%	3.1%
Cash rent	19.3%	18.1%	17.5%	17.9%	17.9%	17.7%	17.5%
D&A	34.3%	28.2%	26.6%	27.1%	27.3%	27.5%	27.7%

Cashflow	2022A	2023A	2024E	2025E	2026E	2027E	2028E
Loss / profit before tax	10.60	15.60	23.80				
Depreciation PP&E	26.4	24	24.6				
Depreciation right of use assets /leases	28.1	28	29.4				
Depreciation of intangibles	4.8	5.5	6.1				
Share based payments	1.40	2.40	3.40				
working capital	-0.50	5.00	8.70				
Other	-6.20	-1.00	-0.90				
Tax	0.8	0	0	0.0	0.0	(7.3)	(6.8)
Cashflow from operations	**65.4**	**79.5**	**95.1**	**96.1**	**108.3**	**122.3**	**139.4**
Maintenace capex	(8.8)	(10.3)	(12.2)	(13.4)	(14.6)	(16.0)	(17.4)
Lease payments made	(37.1)	(37.0)	(39.6)	(43.6)	(47.5)	(51.3)	(55.4)
Bank & non property leases	(2.8)	(5.2)	(5.8)	(6.3)	(6.8)	(7.3)	(7.9)
Free cashflow before investments	**16.70**	**27.00**	**37.50**	**32.89**	**39.43**	**47.74**	**58.71**
New Site Capex	-31.70	-10.70	-19.60	-24.00	-30.40	-25.60	-19.20
Tech & Data capex	-8.80	-5.50	-8.20	-8.82	-9.43	-10.09	-10.80
Brand Relaunch	-2.50	-0.20	0.00	0.00	0.00	0.00	0.00
Expansionary capex	**-43.00**	**-16.40**	**-27.80**	**-32.82**	**-39.83**	**-35.69**	**-30.00**
Total Capex	**-51.80**	**-26.70**	**-40.00**	**-46.21**	**-54.46**	**-51.66**	**-47.44**
Total capex as % sales		***13%***	***18%***	***19%***	***20%***	***18%***	***15%***
Cashflow	**-26.30**	**10.60**	**9.70**	**0.08**	**-0.41**	**12.05**	**28.71**
Shares issued or bought back	0.00	0.00	-3.80	-3.40	-3.40	-3.40	-3.40
refinance fees		-1.00	-0.80				
Dividends paid	0	0					
Change in net debt	-26.30	9.60	5.10	-3.32	-3.81	8.65	25.31
Maintenance capex	5.1%	5.0%	5.4%	5.5%	5.5%	5.5%	5.5%
Expansionary capex	24.9%	8.0%	12.3%	13.5%	15.0%	12.3%	9.5%
Total capex	30.0%	13.1%	17.7%	19.0%	20.5%	17.8%	15.0%

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