



February 2018 Strategic case study examination

Pre-seen material

ROYALS GYMS



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Royals Gyms

You are a Senior Manager who works in the finance team of Royals Gyms (Royals). You report directly to the Chief Finance Officer and your role includes giving advice on special projects and strategic matters.

Company Background

Royals is an unquoted company founded in 2009 by brothers Marco and Frederik King, in the country of Hylandia. Hylandia has a well-developed economy and its currency is the Hylandia dollar (H\$).

The brothers have a strong history of business ventures prior to 2009, with Frederik running a successful international property development business and Marco a profitable retail sportswear operation. They have both had a lifelong and active interest in sport and fitness.



During his international business travels, Marco experienced gym operators in other countries offering 24/7/365 (24 hours a day, seven days a week, every day of the year) access with no contractual membership commitment and he considered this to be an opportunity in Hylandia.

This offering made it very easy for Marco to maintain his fitness training whilst working overseas. Prior to

this, he had struggled to exercise when working overseas due to limited equipment and opening hours in hotels, but with this approach to fitness delivery, he could attend a well-equipped gym at any time of day, without having to worry about being tied into a contract. This made fitness very accessible and flexible to his needs.

There was nothing like this in his home country of Hylandia, where interest in health and fitness was steadily growing but where the market was dominated by high price gyms with restricted opening hours and long-term membership contracts. State-funded fitness facilities were limited and people interested in exercising in a gym had few options.

Together with his brother Frederik, Marco opened the first two 'Royals Gyms' in 2009 in the capital city of Hylandia. Through his property development contacts, Frederik was able to locate two excellent properties and Marco used a contact from his time in sportswear retail to obtain a good deal on purchasing premium fitness equipment. Together the two brothers invested an initial sum of H\$3 million. They split the share capital 50/50, issuing in total 100,000 shares in Royals.

Royals was launched with the aim to make gym-based fitness training highly accessible, by removing the obstacles to exercise and making its gyms affordable to most people, open at all times, easily accessible by public transport and providing optimum flexibility in offering non-contractual membership.

Royals operates as a 'budget gym'; a high quality, affordable, 'no frills' approach to exercise and fitness training. Royals gyms are currently very popular in Hylandia and total membership and new gym openings have grown rapidly since 2009. Royals refers to all of

its customers as 'members' even though they are not tied into any long-term contractual membership. Even customers who do not regularly use the gym are considered members.

| Year End | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Royals Gyms | 2 | 3 | 6 | 9 | 24 | 40 | 59 | 86 | 125 |
| Average members per gym | 4,502 | 4,311 | 4,328 | 4,101 | 3,598 | 3,579 | 3,527 | 3,502 | 3,514 |

Marco and Frederik have taken no dividends since 2009, investing continually in new gym openings. However, in order to facilitate a more rapid and sustainable growth strategy, Royals needed to identify external finance opportunities and in 2012 obtained investment from a Hylandia based funder, 'GEM Venture Capital' (GEM).

GEM invested H\$8million, of which H\$2million was a loan note and H\$6million was for 67,000 shares in the business, which gave it approximately 40% of the shares. There are now a total of 167,000 shares in issue. A key facet of the deal was that GEM was able to negotiate a H\$45million credit facility with the bank in addition to its H\$8million investment which could be drawn down in the future in accordance with meeting agreed covenants. After this transaction, the business had access to H\$53million of growth capital but the brothers now only owned 60% of the business between them. GEM also improved the corporate governance of the business by placing two non-executive directors on the Board of Royals.

The Hylandia health and fitness club industry

The Hylandia health and fitness club industry has grown steadily over recent years, with annual membership numbers increasing from 3.2 million in 2009 to nearly 4.5 million at the end of 2017. Hylandia has a population of 32 million which has been relatively stable for the last ten years.

The growth in health and fitness club membership in Hylandia can be attributed to a number of factors, including increased customer awareness of the benefits of an active lifestyle and various national Government initiatives to promote the health and fitness of the Hylandia population. However, industry research has indicated that potential health and fitness club members in Hylandia have, in the past, been deterred from joining health and fitness clubs due to the high cost of membership, being tied into a long-term membership contracts and inconvenient locations and opening times.

State-funded health and fitness clubs, funded by local government authorities, represent only 5% of the Hylandia health and fitness club market. Private health and fitness clubs, funded and operated by commercial enterprises, represent 95% of the health and fitness club market. Royals operates within the Hylandia private health and fitness club market.

The private health and fitness club market comprises two main types of provider: traditional and the new 'budget' gym operators. The key differentiators between traditional and budget health and fitness clubs are contract terms, level of pricing and the facilities on offer. Traditional health and fitness clubs usually require members to sign up to a fixed-term contract, which includes early termination fees. Traditional health and fitness clubs are often larger in size, with a wide range of facilities such as swimming pools, saunas, spa facilities, racquet sports and bar and dining areas. Traditional health and fitness club operators generally have higher operating costs compared to budget clubs due to their larger size, higher staff count and higher maintenance costs.

Budget health and fitness clubs (also referred to as budget gyms) normally operate a non-contract membership policy and offer a more focused product for customers who only want to pay for and use core fitness equipment, such as cardiovascular and resistance training machines, and free weights. Budget gym membership arrangements offer more flexibility than those of traditional operators, with limited or no fixed-term contracts and easy sign-up and cancellation policies. In addition to these flexible membership terms, they offer greater accessibility to gyms with longer opening hours compared to the traditional health and fitness club sector (in most cases budget gyms operate 24/7/365).

The last ten years have seen a gradual shift of gym membership in Hylandia from the traditional health and fitness club operators towards budget gym operators, as shown in the table below:

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 forecast |
|------------------------------------|-------|------|------|------|------|------|------|------|------|------------------|
| % of the population as gym members | 10% | 11% | 11% | 11% | 12% | 12% | 13% | 14% | 14% | 16% |
| Total members (millions) | 3.2 | 3.52 | 3.52 | 3.52 | 3.84 | 3.84 | 4.16 | 4.48 | 4.48 | 5.12 |
| Traditional | 99.5% | 97% | 93% | 90% | 85% | 80% | 74% | 68% | 58% | 50% |
| Budget | 0.5% | 3% | 7% | 10% | 15% | 20% | 26% | 32% | 42% | 50% |

Royals Operations

Royals provides accessible facilities in convenient locations at affordable prices with no contractual membership commitments. It keeps its operating costs low by utilising buildings located slightly outside of main city centres, such as old warehouses, where rental prices are low and property choices are plentiful. Access to excellent public transport links is also a key criterion for each location.

During the fit-out of the chosen sites, Royals rigorously manages its costs. Although the fit-out of gyms is high quality, it is simple, with open plan room structures and basic locker rooms. Royals continually invests heavily in the latest fitness equipment and uses Hylandia's premium equipment provider, TopKit, for all its cardiovascular and fitness equipment purchases. Due to the volume of purchases it makes with Topkit, Royals has obtained a significant bulk buying discount, allowing it to have state-of-the-art machinery at lower than industry average prices.



Each gym contains over 100 pieces of exercise equipment.

There are a wide variety of cardiovascular machines including running machines, exercise bikes, rowing machines, and cross trainers as well as a diverse range of core strength and conditioning machines and a sizeable free weights area.

Snacks and drinks are available from vending machines operated by external contractors.

The key to Royals success has been affordability and flexibility. The Royals Board believes that price should not be a barrier to exercise and fitness.

To promote flexibility, members can stop using Royals gym at any time. Unlike many competitors, Royals does not ask members to commit to a long-term contract period. However, most people sign-up to monthly direct debit payments of H\$15, giving them unlimited gym access for that month. Other members access the gym on a pay-as-you-use basis.

Venues are open 24 hours a day, 7 days a week, 365 days a year. Staffing levels are low, with gyms employing three Full-Time Equivalent (FTE) members of staff on average per site.

Property Management

Royals property team, headed by Frederik King, operates a rigorous property selection process to find gym sites that are likely to meet a target return on capital which is set by the Board for each gym.

There are a number of other conditions potential new gym sites must meet. They must be accessible by public transport, large enough to accommodate a high volume of training equipment and members, and offer competitive arrangements with landlords. Leases are typically 15 years long and usually these rentals are payable in advance. Frederik will also consider the size of the local population to assess whether a gym opened in that location will attract enough members to make it profitable.

Frederik uses his experience in property management to oversee all aspects of the process of new site development very effectively.

Competition in the Hylandia health and fitness club industry

Competition is highly fragmented, with over 1,500 health and fitness clubs operating throughout Hylandia at the end of 2017, and a further 150 such clubs predicted to open by the end of 2018. There is a range of health and fitness club offerings in Hylandia:

- At the top end of the health and fitness club market, are a small number of luxury spa operators that provide high quality leisure and spa facilities, including gym facilities, saunas and beauty treatments and are targeted at customers who are willing to pay a premium price for a luxury experience;
- The majority of the health and fitness club market comprises mid-range clubs, offering gym facilities and activities such as fitness classes, swimming pools and often include areas for socialising such as bars and restaurants;
- The budget gym operators, offering gym facilities and free weights areas (some offer a limited range of fitness classes).

Budget Gym operators

There are currently four main budget gym operators in Hylandia, which together held over 50% of the total budget gym membership in Hylandia, as at the end of 2017.

| | Number of gyms (end of 2017) | Number of gyms (forecast end of 2018) | Total membership (end of 2017) | Total membership (forecast end of 2018) |
|---------|---------------------------------|---|-----------------------------------|---|
| Royals | 125 | 175 | 439,250 | 630,000 |
| LoCo | 92 | 110 | 294,400 | 374,000 |
| Fit4All | 40 | 48 | 116,000 | 153,600 |
| GymGo | 34 | 50 | 170,000 | 275,000 |

LoCo

LoCo is Royals' main competitor in the budget gym sector and has grown rapidly since it was founded in 2012. Nearly 25% of LoCo's gyms are located in and around the capital city of Hylandia and all of its gyms operate 24/7/365. LoCo offers its customers exercise classes and most of its gyms have a fitness studio. LoCo runs aggressive marketing campaigns in the national and local press, particularly aimed at students and those aged between 18-23. LoCo was listed on the Hylandia stock market in 2016.

Fit4All

Fit4All is part of an international chain of budget gyms and has grown steadily in Hylandia since the first gym was opened there in 2013.

GymGo

GymGo is the most recent competitor to enter the budget gym sector in Hylandia and has grown rapidly since it was founded in 2015. GymGo's high membership numbers have been driven by its use of the latest fitness application (app) technology to deliver fitness and exercise programmes to its members.

GymGo is the first budget gym provider in Hylandia to develop a range of apps to allow its members to access exercise programmes and tailored personal training advice from their mobile devices. This has proved to be highly popular. Nearly 15% of GymGo's members are 'virtual'. That is, customers who exercise at home using purchased and downloaded GymGo apps and who do not actually use GymGo's gym facilities. GymGo is also the market leader in the use of sophisticated data analytics, which it uses in a variety of ways, including analysing customer behaviour to tailor exercise advice and programmes individually to its members.

Technology

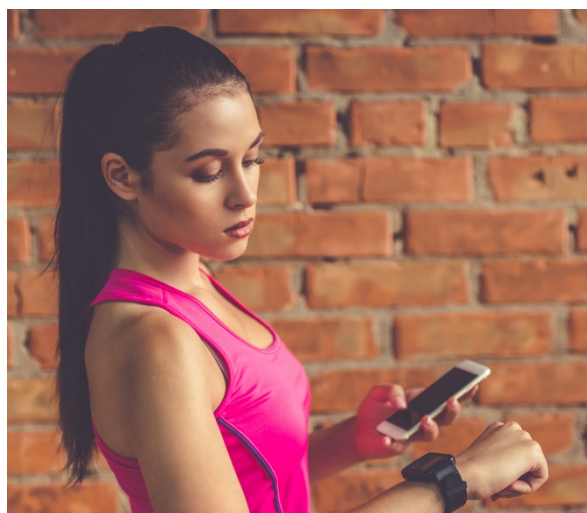
Website and social media

Royals has invested significantly in the development and maintenance of its website. All customers must register online and manage their accounts through the Royals website. The website allows customers to book and pay online for daily, weekly or monthly gym access. When customers register and then book their gym sessions, the booking system generates a unique pin code, which is emailed to the customer that then allows them access to the gym for the period of time they have paid for.

All customers have to register to become a member of Royals using a valid email address which is used to contact members with pin codes, the latest news and marketing information such as promotional offers. Once registered, customers are considered to be 'members'.

The website also contains a blog, which is used to post informational updates and articles of interest for customers such as exercise tips, workout routines to do at home and dietary tips, such as healthy eating recipes.

Royals also operates Facebook and Twitter accounts, which are used to interact with potential customers and to allow staff and members to keep in contact 24/7/365.



Once registered, members can manage their accounts and book gym sessions using their computer, tablet or smart phones. Royals uses email, SMS and social media to communicate with its members and it also maintains a comprehensive member database to constantly improve its marketing information.

Technology on site

Gyms are not staffed 24 hours a day. Therefore, to provide optimum security for its gym users, Royals operates a 24-hour CCTV surveillance system in each gym. The security

cameras and surveillance operations are outsourced to a national security company.

Members access the gym using an automated entrance system, they are required to enter their unique access pin code into the keypad on the outside door to the gym, allowing access at any time.

Royals Staff

Gym Staff



Gyms are staffed by Royals own employees 16 hours a day, between 6am and 10pm. During these hours one member of staff will be available to assist customers and offer inductions. Outside of these hours of operation, customers are assured of their safety by the CCTV system and a panic button facility, both linked to an outsourced security company. If there are any problems, the relevant help will only be minutes away.

All gym staff are qualified fitness individuals and their role is to deal with day-to-day customer questions, provide fitness and exercise advice, keep machinery clean and perform inductions for new members. They would also contact an outsourced maintenance company if a machine breaks down. Royals considers it highly important that all machines are in continual good working order and that all new members are offered an optional induction.

Staff are required to be first-aid trained before their employment commences.

Royals gyms do not have a customer reception area and therefore gym staff can be located within the gym in easily identifiable company uniforms.

Self-employed personal training staff are welcome to operate in Royals gyms. They are not paid a salary, but nor are they required to pay any commission to Royals for utilising its equipment whilst training clients. Given that both trainer and client must be registered Royals gym members, Royals sees this arrangement as an enhancement to its offering that works well both for Royals and the self-employed trainers. Royals takes no responsibility for the advice of the self-employed personal trainers and this is made clear in member registration documentation and on the Royals website.

Apart from ongoing machine cleaning performed throughout the day by the employed gym staff, Royals outsources general cleaning, machine maintenance and site security. This keeps costs low and operations straight forward.

Head office

Royals' Head office is located next door to the first Royals gym that was opened in 2009.

There is a small IT team which runs and manages the website and its development, as well as considering new ideas for utilising technology in the fitness industry. An experienced IT manager heads up a team of four IT staff.

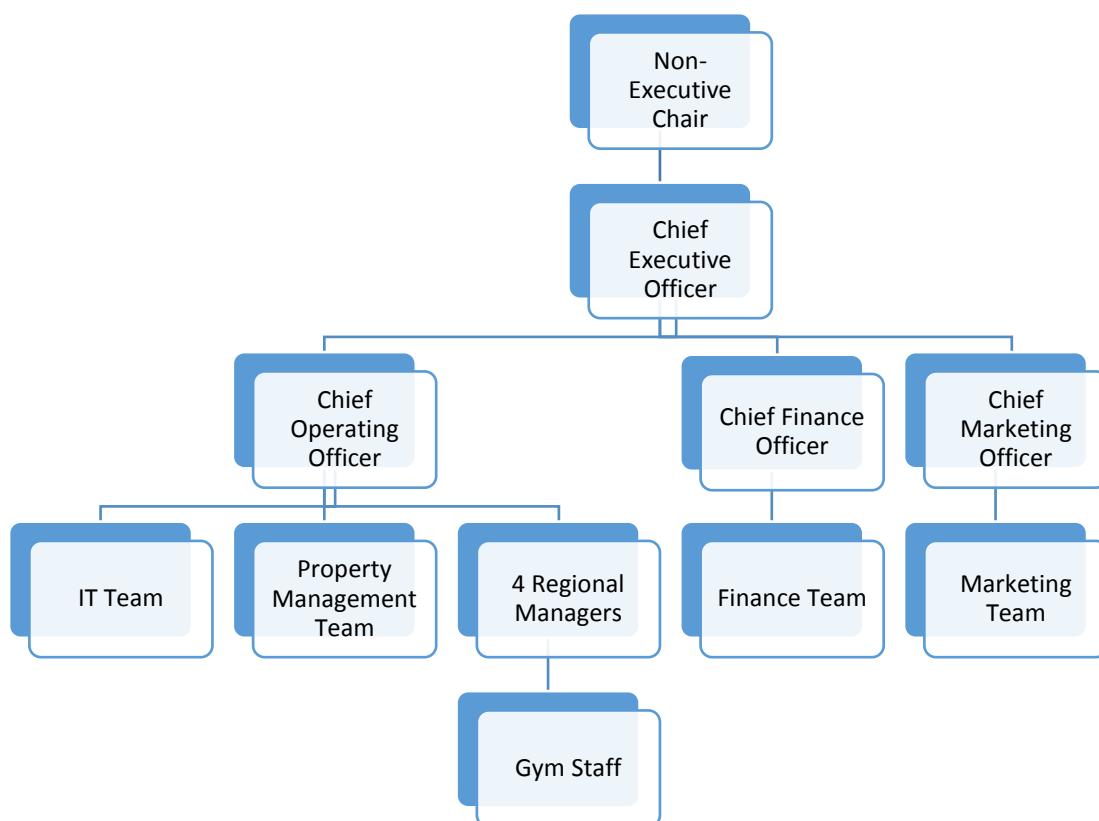
The Marketing team works closely with the IT department and has responsibility for a broad range of marketing activities including national and local advertising, PR, social media management and customer services. To sustain a good operating profit as well as growth in gyms and memberships, Royals recognises the need for investment in marketing and supports a team of eight staff headed by a Chief Marketing Officer.

The Property Management team, headed by Frederik King, is responsible for selection and acquisition of appropriate gym locations throughout Hylandia. The property team currently consists of two experienced property managers.

The finance team is headed by the Chief Finance Officer, and consists of a Senior Manager (you), a management accountant and two finance assistants.

There are also four Regional Managers who spend most of their time inspecting gyms, communicating with and training the gym staff and monitoring the performance at each gym in their region. Regional Managers are the main point of contact between gym staff and Head Office. Regional Managers are paid a moderate flat-rate salary.

Royals Organisation Chart



Extract from the Chair's Report 2017

The following are extracts from the Chair's Report for the year ended 31 December 2017:

Royals' mission is 'To provide affordable fitness to everybody, everywhere'.

Our strategic objective is to be the leading gym business in Hylandia. The achievement of that objective requires focus on the following critical success factors:

1. The Royals brand must be maintained so that we can maximise our visibility in this highly competitive market place. Our brand must strengthen our strategic position as the leading provider of accessible and affordable gym facilities.
2. Our core business of providing high quality, flexible and accessible gym facilities will not only depend on attracting customers, but also ensuring that they stay with us.
3. Maintaining focus on efficiency in maximising the utilisation of gym floor space and the use of technology whilst minimising our operational costs.

Our strategic aims for the next 3 years are:

- To increase membership numbers in every Royals gym by ensuring that we retain the customers we have and acquire new customers.
- To open more gyms in Hylandia and further afield.
- To increase our market share of the budget gym sector in Hylandia.
- To increase our operating profit performance.

Risks

The risk factors identified below are those which the Board of Royals believes are currently the most significant to the success of our business model and which may prevent us from achieving our strategic aims. All of these risks are regularly monitored.

The economic environment

The state of the economic environment impacts directly on customers' willingness to spend their disposable income on non-essential items such as gym membership and other leisure activities. The recent economic recession was in fact a positive influence on the growth in popularity of the budget gym sector but we must be aware that any further or sustained economic pressure on consumers could impact on our business in the future.

The competitive environment

Royals may face increased pressure from new competitors entering the budget gym market and this may impact on our pricing decisions. Our ability to maintain our affordable pricing policy may be challenged by the pricing decisions of our competitors. In the last five years, the budget gym sector has seen several new entrants offering similar facilities in similar locations meaning that customer retention will be a significant challenge for Royals.

Information Technology dependency

Membership enrolment, account management, payment processing, gym access and customer communications are all dependant on the successful operation of our information systems. Disruption or failure of any of these systems would have a serious negative impact on our daily operations and could have reputational consequences.

Data security

Royals holds a significant amount of confidential customer information and critical operational business data electronically. A failure or breach of our data security systems is a key risk. Unauthorised access or loss of information could lead to legal claims, disruption to operations and reputational damage.

Retention of key staff

The loss of key staff, both at gym level and managerial level could lead to a lack of experienced and motivated staff which would impact on our customer experience and on other central business functions.

Customer experience

Failure to provide our customers with a high quality, affordable and accessible service would result in a decrease in customer numbers and revenue and would also damage Royals' reputation.

Health and safety

Failure to provide customers with a safe environment in which to exercise and failure to provide staff a safe environment to work within would likely result in accidents and injuries which would have serious reputational consequences. It would also result in potential litigation which could impact on our financial performance.

Outsourcing

We outsource a number of our non-core business processes, such as security, maintenance and cleaning. Failure to meet the high standards expected of these outsourced operators would impact on the customer experience and potentially their overall safety in our gyms. This could result in a reduction in customer numbers and a loss of revenue.

Bank Facility

Royals has built strong relationships with our key financial providers, including our venture capital partners and the bank. The credit facilities offered by the bank have provided us with the opportunity to grow and develop into the leading budget gym operator in Hylandia. If this growth is to be maintained, then we must ensure that our relationship with our key funding partners remains strong and that we do not put at risk our long-term access to this facility. A withdrawal of funding would be a serious risk to the continued operations of the business.

ROYALS GYMS



Royals Board

Non-Executive Chair – Eliza Vardy

Eliza has had a long and successful career in the fitness industry. She started in the health and fitness industry almost 30 years ago, after retiring from a highly successful career as a professional athlete. She was the Director of Operations of a large chain of leisure clubs in the United States for over 15 years until she moved back to Hylandia to take up her present position with Royals in 2011. Eliza has recently announced her intention to retire from the Board of Royals within the next year.

Chief Executive Officer - Marco King

Marco is the co-founder of Royals. Prior to founding Royals in 2009, he was a successful businessman running his own retail sportswear company, MK Sports, for over 25 years. MK Sports was floated on the Hylandia stock market in 2006, and Marco became the non-executive Chair. Whilst travelling the world in his business capacity for many years, he noted the lack of affordable gym facilities in his home country, compared to other countries he regularly visited.

Chief Operating Officer – Frederik King

Frederik is the younger brother of Marco and the co-founder of Royals. Prior to becoming the Chief Operating Officer of Royals in 2009, Frederik was a highly successful entrepreneur and co-owner of an international property development business. He has extensive experience of international business management. He is also a keen amateur triathlete, competing in triathlons all around the world for the past 20 years.

Chief Finance Officer - Karl Judd

Karl is a professionally qualified accountant. He holds a Bachelor of Arts degree in Accounting and Finance and a Master of Science degree in Management. Karl joined the Board of Royals in 2010 after working in a number of senior roles in the public sector of Hylandia, including the Ministry of Health.

Chief Marketing Officer – Anika Sohal

Anika holds a Bachelor of Art degree in Marketing and a Master's degree in Digital Marketing Systems. She has served in a variety of different enterprises. She was Director of Sales and Marketing at a major telecommunications company before she joined the Royals Board in 2014.

Non-Executive Director – Claud Cantona

Claud was appointed a non-executive director in 2012. Claud has a background in banking and has held senior managerial positions with a number of financial institutions, serving on the Board of one of Hylandia's largest commercial banks before stepping down from full-time employment in 2011.

Non-Executive Director – Maria Maldini

Maria was appointed a non-executive director in 2012. She has significant experience in the health and fitness industry, having worked for one of Europe's largest hotel and spa chains for nearly 30 years. She also sits on the Board as a non-executive director of one of Hylandia's top soccer clubs.

The two non-executive directors who were appointed by GEM in 2012 act as its representatives on the Royals Board.

ROYALS GYMS



Extracts from Royals financial statements

Statement of comprehensive income

| | Year ended 31 December 2017 H\$000 | Year ended 31 December 2016 H\$000 |
|--------------------------|---|---|
| Revenue | 77,384 | 53,686 |
| Operating expenses: | | |
| Site Costs | 47,686 | 32,915 |
| Head Office Costs | 7,584 | 5,315 |
| Depreciation | 12,128 | 8,346 |
| Total operating expenses | 67,398 | 46,576 |
| Operating profit | 9,986 | 7,110 |
| Finance costs (net) | (1,862) | (1,340) |
| Profit before tax | 8,124 | 5,770 |
| Tax expense | (1,219) | (866) |
| Profit after tax | 6,905 | 4,904 |

Statement of financial position

| | Year ended 31 December 2017 H\$000 | Year ended 31 December 2016 H\$000 |
|-------------------------------|---|---|
| Non-current assets | 72,444 | 51,422 |
| Current assets | | |
| Inventory | 125 | 86 |
| Trade receivables | 4,375 | 3,010 |
| Cash and cash equivalents | 1,309 | 1,432 |
| Total current assets | 5,809 | 4,528 |
| Total assets | 78,253 | 55,950 |
| Current liabilities | | |
| Trade payables | 13,125 | 9,030 |
| Short term bank loans | 6,900 | 4,710 |
| Tax | 1,219 | 866 |
| Total current liabilities | 21,244 | 14,606 |
| Non-current liabilities | | |
| Long term bank loans | 27,600 | 18,840 |
| VC loan notes | 2,000 | 2,000 |
| Total non-current liabilities | 29,600 | 20,840 |
| Net sssets | 27,409 | 20,504 |
| Equity | | |
| Share capital | 167 | 167 |
| Share premium | 8,833 | 8,833 |
| Retained earnings | 18,409 | 11,504 |
| Total equity | 27,409 | 20,504 |

Statement of cash flows

| | Year ended 31 December 2017 | |
|---|--------------------------------|----------|
| | H\$000 | H\$000 |
| Cash flows from operating activities: | | |
| Profit before taxation | | 9,986 |
| Adjustments: | | |
| Depreciation | | 12,128 |
| (Increase) / decrease in Inventories | (39) | |
| (Increase) / decrease in Trade receivables | (1,365) | |
| Increase / (decrease) in Trade payables | 4,095 | |
| | | 2,691 |
| Finance costs paid | (1,862) | |
| Taxes paid | (866) | |
| | | (2,728) |
| Cash generated from operating activities | | 22,077 |
| Cash used in investing activities: | | |
| Purchase of non-current assets | | (33,150) |
| Cash flows from financing activities: | | |
| Drawdown of bank loan | | 10,950 |
| Net decrease in cash and cash equivalents | | (123) |
| Cash and cash equivalents at 31 December 2016 | | 1,432 |
| Cash and cash equivalents at 31 December 2017 | | 1,309 |

ROYALS GYMS



Royals' KPIs

| | 2018 forecast | 2019 forecast | 2020 forecast |
|---|------------------|------------------|------------------|
| Revenue H\$000 | 114,120 | 162,975 | 220,806 |
| Membership numbers per gym | 3,600 | 3,750 | 3,900 |
| Number of gyms | 175 | 235 | 305 |
| Average number of gyms ¹ | 150 | 205 | 270 |
| Operating profit margin % | 17% | 20% | 23% |
| Earnings before interest, taxes depreciation and amortisation (EBITDA) H\$000 | 36,258 | 55,453 | 78,575 |
| ROCE % | 27% | 34% | 36% |

Note 1: Average number of gyms is calculated as an average of the number of gyms at the start of each year and the number of gyms at the end of each year

3-year cash flow forecast

| | 2018 | 2019 | 2020 |
|-----------------------------|---------|----------|----------|
| | H\$000 | H\$000 | H\$000 |
| Increase/(decrease) in cash | (8,941) | (5,222) | (1,186) |
| Cash brought forward | 1,309 | (7,632) | (12,854) |
| Cash carried forward | (7,632) | (12,854) | (14,040) |

A Royal success for the King of fitness

Hylandia Health and Fitness Journal

By Letitia Fox

An interview with Marco King, CEO of Royals Gyms



Marco King is the 63 year-old co-founder of Royals Gyms, the largest budget gym operator in Hylandia. Royals, which was founded in 2009 with two gyms on the outskirts of the capital city, operated 125 gyms across all the major towns and cities of the country at the end of 2017. It aims to open a further 50 gyms in 2018 and has a target of over 300 gyms operational by the end of 2020.

Why did you invest in the budget gym sector?

The budget gym sector was nothing new in other countries across the world in 2009, particularly in the USA and Scandinavia. But here in Hylandia, we were dominated by the very traditional mid-market and top-end luxury health club chains. So I, together with my brother Frederik, saw a real opportunity for the budget provider at this point in time. We saw the opportunity to exploit this gap in the Hylandia fitness market, based on the successes of low-cost providers in other industries such as budget airlines, hotels and supermarkets.

Can the budget gym sector continue to grow in Hylandia at the rate it has recently?

I don't see why not. At the end of 2017 only 14% of Hylandia's population were regular gym members, but industry experts are predicting that Hylandia will see a growth in total gym members of approximately 2% per year over the next 2 to 3 years. This would then bring us in line with other countries, similar to Hylandia, where gym participation is currently much higher, and as many as 18% of the population are regular gym users.

Therefore, we believe there is still room for growth in the Hylandia market. Although competition in our industry is largely about attracting each other's customers, I also believe that we should be trying to nurture new ones. At the end of 2017 there were 1,500 health and fitness clubs operating in Hylandia, with only about 600 of those being budget gyms. We've seen a real move of members towards the budget gym sector in the last five years and I predict that the market will undoubtedly continue to move in this direction. I also believe that the gym market will polarise between the top-end and bottom-end providers and those in the middle will become no longer viable.

What is next for Royals?

Obviously, our organic growth strategy will be our main focus in the coming years, but that might change if the right opportunity comes along. Also, as competition grows, the pressure on competitors grows. I believe the gym market in Hylandia will inevitably consolidate as smaller businesses struggle to maintain their low-cost focus. If the right opportunity arises as the market consolidates, then Royals will take it.

However, we need to keep an eye on the competitions regulator, as has happened in other countries, consolidation of the health and fitness market has been blocked.

As I said before, we should be looking to increase the Hylandia gym membership participation rate and this will mean encouraging more people to get up and get fit. I believe there is still so much more room for growth in this industry, particularly for budget providers and Royals intends to be at the forefront of this exciting market.



Ministry of Health

Hylandia.moh.hy



Make Hylandia Healthy- a new initiative funded by the Ministry of Health

Hylandia Health Minister calls on the nation to get active and get healthy.

More than a quarter of the adult population of Hylandia are not doing even 30 minutes of exercise a week and are putting their health at risk, Health Minister Valerie Mahrez warned yesterday at the launch of the National Government Initiative – Make Hylandia Healthy.

This latest statistic is prompting a call for everyone to get up and get active. To encourage this, the Hylandia Ministry of Health yesterday announced up to H\$9 million of funding to encourage both children and adults to exercise more. This will include:

- H\$5 million investment to encourage patients with long-term weight problems to take part in physical activities.
- H\$2 million investment in the promotion of healthy eating initiatives.
- H\$2 million investment in school sports initiatives.

Health Minister Valerie Mahrez said:

“It’s fantastic that more than half of Hylandian adults are doing the recommended amount of physical activity, but I am shocked that more than a quarter are not getting even 30 minutes of exercise a week.

We want to do everything we can to help people lead longer, healthier lives, which is why, for the first time, we’ve given local hospitals and doctors increased budgets to tackle public health issues, in particular lack of exercise, in their local area.

Also, we intend to work with a range of private sector partners including food manufacturers, health and fitness providers and supermarkets to assist us in actively engaging the population in a range of health and fitness initiatives. As a government, we are determined to make Hylandia a healthier, fitter country and with the help of large businesses we are confident that we can achieve our aims.”

The changing face of fitness

Hylandia Mercury

By Taran Andrew



Are you ready to work out? It seems the likely answer for Hylandia residents is now a resounding ‘yes!’

We’ve all experienced it – a number of reasons why we cannot go to the gym. No time, no energy, not enough money perhaps? Well, now one of those reasons is no longer applicable to the residents of Hylandia.

Since the launch of budget gyms nearly 10 years ago, gym membership has soared, and you can see why. At

a very reasonable average of H\$20 per month, gym membership is now an affordable option for many, and Hylandians are making the most of the opportunity. So, can we say budget gyms are an unmitigated success story?

Unfortunately not – it seems that some of those entering the market with hopes to replicate the early success of leader ‘Royals’ have failed to consider the fundamentals.

We have seen some high-profile failures over the last few years. Cheepies stands out. Certainly, it made a good start back in 2011 with an impressive marketing campaign and high initial membership numbers. However, an attempt last year to increase membership prices to cover its ever-increasing costs led to a rapid attrition of members. It wasn’t long before the operation failed. Cheepies isn’t the only casualty; smaller niche gyms are struggling to become known and consolidation in the industry is commonplace, the bigger companies picking up individual gyms to expand their empires.

Will failures and consolidation harm the industry, or dampen the enthusiasm of Hylandians for exercise? Are Cheepies’ members resigned now to a life without a gym? Unlikely. There are many competitors ready to snap them up. There is a tendency for customers to be less loyal, less committed than perhaps the gym operators would like and, as long as they have a local budget gym to work out in, the name above the door perhaps means very little. There has never been so many gyms and there is still a lot of choice.

So, it seems the only way is up for the budget gym market in Hylandia, but with a word of caution – failure is likely for those who get their offering wrong.