Registration number: 11385914

# Deuce Midco Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2020

# Deuce Midco Limited

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# Deuce Midco Limited

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| | PJ Burrows |
| | SA Lloyd |
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| **Registered Number** | 11385914 |
| **Bankers** | Bank of Scotland<br>Level 3 City Mark<br>150 Fountainbridge<br>Edinburgh<br>EH3 9PE |
| **Auditor** | Deloitte LLP<br>Statutory Auditor<br>London<br>United Kingdom |

## Deuce Midco Limited

## Strategic Report for the Year ended 31 December 2020

The directors present their strategic report on the Group for the year ended 31 December 2020.

Deuce Midco Limited ("the Company") is the holding company for David Lloyd Leisure Limited ("DLL") and other subsidiaries (together "the Group"). David Lloyd Clubs is Europe's leading health, sport and leisure group (by revenue), with 113 clubs - 99 clubs in the UK (including 3 Harbour Clubs) and a further 14 across the Republic of Ireland and mainland Europe.

Our clubs provide the perfect destinations to stay fit and healthy as a family. Facilities include state-of-the-art gyms, heated indoor and outdoor pools, top-class racquets facilities, well-equipped group exercise studios and luxurious spas. If you need a place to meet with friends or enjoy a bite to eat, our clubs also feature large and inviting spaces to work, relax and socialise.

We're proud to welcome more than 570,000 members and currently employ over 7,500 people, including leading experts in fitness, racquet sports and swimming.

The COVID-19 pandemic meant that 2020 was the most challenging year in our history. Our clubs all closed on or before 20 March 2020 as required by UK and European governments during the first lockdown period of the COVID-19 pandemic. Since then, our clubs have periodically been open and closed again according to the rules of each government in the country in which they operate. Refer to pages 6 to 10 in which we discuss the impact and our response to COVID-19.

**Business model**

At David Lloyd Clubs, we believe that a balance of exercise, nutrition, mindfulness and sociability are the keys to wellness and to sustaining a positive and healthy life. We provide a highly differentiated offering to our members with a unique breadth of facilities and services. Our clubs help to promote physical and mental wellbeing for our members. Across our clubs, members can enjoy:

- Clubiness - vibrant club rooms, varied social events and an extensive range of "clubs within clubs" fostering a community;
- Family - unique mix of facilities and services along with kids' structured programmes and tuition;
- Wellness - relaxing spa facilities, dedicated mind and body studios and a healthy and nutritious menu;
- Sports - racquets, swimming and sports facilities of unrivalled quality in the market along with tuition from leading professional coaches;
- Fitness - innovative group exercise programme, extensive studio facilities and state of the art gyms; and
- @home - digital touch points, coupled with partnerships with ancillary service providers and provision of the @home service tailored to local members.

Our highly differentiated offering and size give us a significant competitive advantage. New entrants face high barriers to entry and significant challenges to replicate our proposition. Few catchment areas can support more than a single club with a comparable offering to a typical David Lloyd club and there is a lack of available sites.

Our business model is underpinned by diversified and affluent members who are loyal and generate significant recurring subscription income. More than 75% of the Group's revenues are generated through member subscriptions with most members on 12 month rolling contracts requiring them to provide 3 months' notice to leave.

Membership income, the economic engine of our business, is driven by three fundamental levers: yield, new member sales and attrition. All three levers are highly dependent, with a change in one typically having consequential impact on the others. All three levers depend on member satisfaction, which sits at the heart of our operating model. Our investment into our staff and club facilities has improved member satisfaction, reducing attrition, providing scope for yield enhancements, and attracting new high-quality members.

# Deuce Midco Limited

## Strategic Report for the Year ended 31 December 2020

**Our history**

David Lloyd Clubs was founded in 1984 by former professional tennis player David Lloyd, who sought to create high-quality fitness destinations suitable for the whole family. He recognised that the UK had very few indoor sport and leisure facilities, so created a pioneering concept of combining fitness and tennis in a family-friendly environment.

The very first David Lloyd Club to open its doors was David Lloyd Heston - a club which is still open and operating today. By 1995 there were 18 clubs in the UK, at which point the business was bought by British leisure giant Whitbread. David Lloyd Leisure was purchased by private equity firm TDR in 2013, and since then our total number of clubs has increased from 90 to 113 through a combination of acquisition and new builds.

**Our Vision and Values**

Our vision is "My Club for My Life" which we characterise as "Nobody builds a sense of belonging like David Lloyd Clubs. We can be your me-time and your together-time, your work, rest and play time. Just your workout or your second home. However you use us, we can improve your life for all of your life, and we will make you feel part of your Club."

We're passionate about making our clubs a comfortable and welcoming place to come together with friends, family and fellow members to maintain physical and mental health and wellness. We seek to create an environment where all members develop a real sense of belonging to their local clubs and where the clubs become an integral part of members' lives, throughout their lives.

Modern lives are now busier than ever and finding meaningful time for those we care about the most can be difficult. Even when we do, we are still competing for full attention with the likes of social media and easy access to film and TV. At David Lloyd Clubs, we believe that we can provide the perfect place for 'We Time' - precious, quality time spent together with friends and family in a positive, active environment.

Our clubs are also a place to relax and socialise and we encourage the sense of community and belonging that being part of a club can generate. Whether that's with some quiet time in our serene spa facilities, getting to know new people by regularly attending a group exercise class, chatting to fellow members in the spa, or using our Clubrooms to meet as a group for coffee, at David Lloyd Clubs, we're much more than just a gym.

Our ability to deliver "My Club for My Life" is supported by six values:

- Passion To Serve - We all have genuine passion, enthusiasm and energy to serve our members and make a real difference. We lead the business by seeing it through our customers' eyes and actively seeking opportunities to listen and take action.
- Will To Win - We work together to deliver stunning results, and by bringing our A-game every day we find ways to make winning happen.
- Freedom To Succeed - We make the best decisions for the business close to the customer. We give each other the confidence, trust and support to succeed and fail.
- Edge - We do the right thing, not the easiest thing.
- We Play - We create a positive, energetic environment and actively seek out ways to have fun whilst working with each other and with members.
- Thank You - We recognise great performance and team members who have gone the extra mile. We thank our teams and individuals personally and we celebrate success.

Management place an emphasis on creating an environment of local autonomy, empowering local teams to make decisions for local members, which has driven both employee engagement and service quality. The Group builds value by growing member count through the delivery of service excellence, by enhancing member engagement, investing in high quality club facilities and the expansion of the club portfolio both in the UK and Europe.

**Strategies - Delivering My Club For My Life**

To deliver My Club for My Life the 'transformation group' created six strategies and new key performance indicators for FY 2020 to measure performance against these strategies. KPIs were significantly disrupted by the COVID-19 pandemic and thus 2020 reporting is limited.

**1. Brilliant Basics**

To deliver the operational basics brilliantly, every time, everywhere, every day by everybody.
This is measured by:

- > 85% monthly mystery visit (customer feedback)

Our mystery member programme was significantly impacted by COVID-19 and was temporarily suspended in March 2020. Scores for January and February were 86% and 90.1% respectively.

**2. Us**

To find, keep and progress the best people who live our values and develop great leaders at every level.
This is measured by:

- > 86% engagement index.

Employee engagement - measures the extent to which our employees feel passionate about their jobs, are committed to the business and put discretionary effort into their work. This KPI was not formally measured in the period due to the disruption caused by COVID-19. However, we were named for the 4th year in a row one of "The Sunday Times 25 Best Big Companies" to work for 2020, in 16th position.

As a result of clubs being closed, many of our team members were furloughed. We continued to engage with our team members primarily through the Group's employee app 'Kitbag'. Our CEO also ran several live webcasts to all team members providing a business update and providing an opportunity for team members to ask questions.

To do the right thing by our team members, we topped up their salary to 100% for March and April. We recognised that the COVID-19 pandemic caused considerable financial hardship for our team members and created a hardship fund for which team members and self-employed professionals could apply.

**3. Help Me Belong**

To help everyone feel it's their Club, however they want to use us, so that they feel at home and welcomed throughout their journey.

This is measured by:

- > 75% Usage - % of penetration of members by month.

This KPI has been significantly impacted due to club closures and the impact of COVID-19 on member behaviour.

The Group has driven a material improvement in levels of member retention in recent years through investments in facilities, a focus on service excellence and addressing the core reasons members chose to leave.

Management has recognised that the business needed the flexibility to adapt its offering on a club-by-club basis to respond to local member needs and that service excellence needed to sit at the heart of everything David Lloyd does.

Founded on the principle of providing local clubs with the "Freedom to Succeed" general managers are given greater autonomy to adapt service delivery to respond to local member feedback.

"MAT Attrition" records the rate of turnover of members, focusing efforts on long-term member retention. This is measured against a target to reduce attrition to below 32%. Attrition is calculated by dividing the number of leavers by the opening count. In 2020, attrition was 38.5% (2019: 32.6%) reflecting the significant impact of COVID-19. Health concerns related to COVID-19 led to membership levels starting to fall during March 2020 as the impact of COVID-19 started to become widespread.

Driving down attrition is a key focus for the Board with a number of initiatives implemented to reduce the rate of members leaving:

- Targeting low usage members through the "Kickstart" and "Re-Start" programmes which seek to actively encourage new joiners and existing members to develop and maintain a regular exercise habit, reducing attrition and helping members to achieve their goals;
- Increasing engagement with members;
- Improving facilities and introducing new classes; and
- Responding to members' feedback.

**4. We Are International**

To become an international company with an international mindset whilst keeping the local touch.
This is measured by:

- An average of at least four openings a year including UK and Europe

The number of clubs opened measures the Group expansion. The target is to open four new clubs per year.

In January 2020, we opened a stand-alone Blaze studio in Birmingham, which represents our first boutique studio in the UK.

On 30 January 2020, DLL Greenwich GmbH, an entity outside the Group, but related by virtue of a common ultimate controlling party, purchased the entire issued share capital of Meridian Spa & Fitness Deutschland GmbH and its subsidiaries (known as the "Meridian Group") which consists of eight health and spa clubs from leasehold premises in Germany.

On 30 September 2020, Meridian Spa & Fitness Deutschland GmBH, an entity outside of the Group, but related by virtue of a common ultimate controlling party, acquired Geneva Country Club for CHF 11.5m.

The Group has also developed a strong pipeline of sites that underpin the roll-out programme for the next three years and has carried out extensive analysis to identify white space in target towns and cities, generating 50 potential catchment areas in the UK and over 150 in Continental Europe. We remain well on track to achieve our target of 150 clubs by 2026.

**5. Premium Experience**

To continually innovate and broaden our product range, developing the little touches that make our members feel special. Providing a service that helps improve our members' lives and overall wellbeing.
This is measured by:

- > 83.5% App satisfaction - % overall experience

The Group has continued to develop its product range to deliver an overall premium health and wellness experience. DL bespoke products include Blaze, Battlebox, Spirit and Ignite.

2019 saw the launch of 'Spa retreats' new luxurious super-spas with a focus of 'Relax, Repair and Energise'. COVID-19 has disrupted the build of new Spa retreats as all major capital expenditure projects were halted to preserve cash where possible.

Our number one priority is the health and well-being of our members. We developed COVID-secure operating protocols to keep our members safe and give them confidence to return to our clubs. Upon re-opening our member satisfaction scores reached new highs as members were impressed with the safety procedures we had implemented and appreciated the physical and mental well-being benefits of being back in our clubs.

**6. Commercial**

Unlock the potential from existing revenue streams. Develop and launch new opportunities.
This is measured by:

- > £15.84 In-Club income per member
- > 46% EBITDARR margin % per club

EBITDARR is defined as Earnings Before Interest, Tax, Depreciation, Amortisation, Rent and Rates. The increased levels of local club autonomy demanded a step change in the level of accountability expected from local management teams, who would now be expected to take full ownership of the financial and operational performance of their clubs. Senior club managers are encouraged to be more entrepreneurial and to seek to capitalise on incremental profit opportunities while driving service excellence in everything they always do and prioritising health and safety.

This KPI was significantly impacted by COVID-19 due to club closures and was not reported on.

Impact of COVID-19

David Lloyd entered the pandemic from a position of strength. 2020 was on track to be an excellent year of EBITDA growth. In the first two months of the year revenue was up £5.5m (6.5%) and we closed February 2020 with over 629,000 members. The impact of the COVID-19 pandemic was significant, as the Group's clubs were required by the UK and European Governments to close on or before 20 March 2020. Our clubs in England re-opened on 25 July with clubs in Wales opening on 10 August 2020 and clubs in Scotland opening on 31 August 2020. Our European clubs re-opened in June 2020.

A second wave of COVID-19 in Autumn 2020 led to increased government restrictions resulting in further club closures. Our clubs have periodically been open and closed again according to the rules of each government in the country in which they operate. Across the estate, our clubs were closed for on average for 5.5 months in total for the year-ended 31 December 2020 and for at least the first 3.5 months of 2021. At the date of issue of this report 101 of the Group's clubs have opened indoor facilities.

Our Response to COVID-19

Our response to COVID-19 focussed on preserving cash, member engagement and implementing COVID-secure re-opening procedures.

Liquidity

Our immediate response to the enforced closure of our clubs was to reduce our cost base and mothball the entire club estate to minimise cash leakage. We appreciate the support from all of our key stakeholders in achieving this. Suppliers furloughed their staff to ensure contractual costs were minimised and agreed to payment deferrals. Landlords adopted a pragmatic approach to our situation. Upon closure, we engaged with landlords to manage rent obligations through securing rent-free periods/rent deferrals.

To further boost liquidity, the Group took the following measures:

- In March 2020 we fully drew our £40m revolving credit facilities (RCFs) and these facilities were successfully extended (notwithstanding our clubs being closed) for a period of 12 months until July 2021.
- On 15 December 2020, the Group completed the sale and leaseback of our Emersons Green club generating net proceeds of £20.5m.
- Stopped all discretionary spend and implemented enhanced financial controls over expenditure approval.
- Halted capital expenditure projects where this was practical.

Our current liquidity position is explained on page 60 to 61.

*Government support*

Many Governments in the countries in which we operate announced the implementation of assistance measures which mitigated some of the impact of the COVID-19 pandemic on our results and liquidity. We are grateful for their support. Specifically, we utilised the following support measures:

- UK Coronavirus Job Retention Scheme. This grant support covered up to 80% of salary costs of anyone not working due to Coronavirus but whose job has been retained (up to a maximum of £2,500 per month). During the year-ended 31 December 2020 we recognised £34.3m within 'Other Income' in relation to this scheme.
- Receipt of 100% business rates relief between 1 April 2020 and 31 March 2021. This equated to £20.7m in the year-ended 31 December 2020.
- The UK Government's VAT deferral new payment scheme relating to VAT payments due between 20 March 2020 and 30 June 2020. This equated to £10.4m being our Q1 2020 VAT liability. We will pay this over eight equal instalments, interest free commencing June 2021. We have separately agreed with HMRC to defer our Q4 2020 VAT liability of £6.8m under a Time to Pay arrangement.
- The reduced 5% VAT rate for hospitality for supplies that are made between 15 July 2020 and 30 September 2021. Our F&B offering benefited by £1.2m in the year ended 31 December 2020.
- £0.8m from participation in the UK Government's Eat Out to Help Out' scheme in August 2020.
- European employee support schemes across the European territories in which we operate. This amounted to £2.3m in the year-ended 31 December 2020. Furthermore, for Belgium, Spain and Italy employees were paid directly by the local Government for periods they did not work.

Member Engagement

Doing the right thing for our members was a key priority for us and we communicated with them throughout the pandemic. We did not charge customers when our clubs were closed and provided members with health concerns relating to COVID-19 the ability to freeze memberships. We used lockdown to accelerate our digital transformation to keep members engaged. Within three days of Lockdown 1 we had developed @home training, resulting in member satisfaction reaching an all-time high. Our David Lloyd app provides access to 1,500 pieces of David Lloyd content, from yoga and meditation to unique David Lloyd signature classes. 50% of our members used @home during lockdown and an additional 6,000 of non-members use the app weekly.

Our summer 2020 re-opening showed our focus on ensuring the best for our members was the correct strategy. We experienced record new member sales months for August (28k), September (31k) and October (26k) demonstrating the pent-up demand for our product.

We ended the year with 10% less members than we started, whilst many of our industry competitors have lost 20-30% of members.

Our outdoor facilities across England, Scotland and Wales re-opened in late March 2021. Many of our clubs have generous outdoor facilities, which a lot of our competitors simply do not have, allowing us a competitive advantage in attracting new members. New Member Sales (NMS) for March 2021 were strong at 14k and the Group achieved a new sales record with 36k NMS in April 2021, despite continuing closures and English clubs only being allowed to open indoors from 12 April 2021.

Stay Safe

Since re-opening in England on 25 July 2020, gyms and leisure facilities have continued to follow strict government guidance, ensuring social distancing among staff and customers, proper ventilation throughout, and comprehensive cleaning protocols. The sector worked closely with the Government to develop the guidance for reopening safely, including UKActive facilitating visits to a range of facilities for the Deputy Chief Medical Officer and SAGE representatives. UKActive data from 2,000 operators shows prevalence of the virus among visitors who have used facilities remains extremely low an overall rate of just 1.7 cases per 100,000 visits, measured from 75 million visits across the UK (25 July to 27 December 2020) (Source: UKActive report published 17 February 2021).

The health and well-being of members and team members is our number one priority. We have introduced new procedures to keep everyone safe, well and active.

*Social Distancing*

We are closely following government guidelines in each country we operate in and are also working with the industry body UKActive in the UK. Our members can maintain social distancing from each other in all areas of our Clubs, including our Group Exercise Studios where we've created 2.5m spaces for all class participants. We can help to facilitate social distancing via the following measures:

- Reduced capacity in our gyms and have increased the space between equipment to 2m, as well as adding a one-way system.
- Additional gym space, with individual workout areas of 3m x 3m.
- Limiting bookings for group exercise classes to adhere to social distancing guidelines.
- Limiting the number of members in our pools and asking swimmers to swim at 5m intervals.
- Reducing the number of members in certain areas of the Club at any one time to ensure everyone can practice social distancing.
- Plastic screens introduced to reception desks to protect both members and our team members.
- Using signage and clear floor markings to help members to remain a safe distance apart and team members are on hand throughout our Clubs to support.

*Cleaning*

Our cleaning schedules and procedures have been greatly enhanced to maintain a high level of hygiene across all our Clubs. Our new cleaning procedures include:

- All cleaning is carried out with a fully viricidal disinfectant cleaner, certified to kill enveloped viruses within 60 seconds.
- We have increased the number of cleaning staff we employ, allowing us to increase the volume of cleaning across the Club, with particular attention being paid to areas of high traffic.
- We have introduced sanitisation stations across the Club and have increased the amount of sanitiser spray and disposable blue paper available to members to further encourage them to wipe down and clean equipment before and after use.
- We have introduced extra time between classes to allow us to fully clean all areas ahead of the following class.
- All team members have been trained on our new ways of working for cleaning and social distancing and are responsible for cleaning and sanitising around the Club.

*Team Member Safety*

We're doing everything we can to ensure our team members are kept safe.

- We have completed COVID-19 workshops so the whole team is on board and understand what is required of them for us to safely run our Clubs.
- Team members have been told they should not leave home if they display any of the symptoms associated with COVID-19.
- The team are washing their hands before their shifts, after completing cleaning tasks and frequently throughout shifts.
- All team members will be wearing face coverings in Club.
- Personal protective equipment (PPE) has been provided for team members if they feel the need to wear it. Disposable gloves and aprons are being worn when completing any cleaning.
- Social distancing rules apply to team members too. We have re-organised offices and rotas to ensure social distancing can be achieved.

Well Positioned for the Post COVID-19 World

We took the right actions during COVID-19 and are well positioned for the post COVID-19 world. The COVID-19 pandemic has demonstrated the importance of physical activity for all of the UK population. In November 2020, the Chief Medical Officer, Professor Chris Whitty, outlined the lead role the physical activity sector will play in supporting the nation's recovery from COVID-19 at the UKActive National Summit. The Government has recognised that because of the impact of COVID-19 it will have to intensify its efforts in getting the nation active and launched the 'Better Health Campaign' in July 2020.

Whilst having a short-term negative impact on the health and fitness sector, COVID-19 will increase gym usage in the medium and longer term as awareness of the positive impact exercise has on the immune system and general well-being increases.

Well Positioned for the Post COVID-19 World (continued)

Pent up consumer demand for the David Lloyd proposition is likely to be significantly stronger than the summer 2020 reopening where considerable fears over an inevitable winter resurgence remained. Specifically:

- More affluent segments were relatively less impacted during the pandemic and increased household savings rate should support a sustained period of increased leisure spending.
- 28% of DL members are in the vulnerable >50 years old category and most will have been offered the vaccine by the time the Clubs re-open.
- Restrictions on international travel means it is likely that fewer families will take foreign holidays in 2021, increasing the pull towards David Lloyd's wider leisure offering including outdoor pools.
- The appeal of David Lloyd's suburban locations should increase with people spending an increased proportion of time working from home post-pandemic, due to a structural shift in working habits.

COVID-19 had a short-term negative impact on the Group's member base, which we expect to recover to pre-COVID-19 levels within 12 months from re-opening. Furthermore, the Directors remain confident in our business model and consider there to be substantial opportunity in the medium to longer term in the UK and European Health & Fitness Market and that the Group is very well placed to take advantage of this.

**Economic Environment**

As well as having serious implications for people's health and the NHS, the coronavirus (COVID-19) pandemic continues to have a significant impact on businesses and the economy.

In the latest IMF World Economic Outlook, the UK was estimated to have experienced the largest decline in GDP last year of all the major economies the IMF included in its latest forecast, except for Spain. UK GDP is estimated to have fallen by 10% in 2020 due to consumer spending (going to the cinema, to restaurants etc) being particularly hit by COVID restrictions.

The UK economy grew by 1% in Q4 2020, exceeding expectations as businesses and people continue to adapt to restrictions. However, GDP is still 8.6% smaller than it was at the end of 2019 and the labour market remains under pressure (Source: PwC UK Economic Update February 2021).

Prior to COVID-19, the European fitness sector served over 64.8 million consumers, generated 28.2 billion Euro in revenues, employed 750,000 people, and consisted of approximately 64,000 facilities (Source: EuropeActive/Deloitte Market Report 2020). The UK health and fitness industry has evolved over the last three decades into a relatively mature yet still attractive and growing market. The Leisure Database Company estimates the fitness market (private and public) to be worth c. £5 billion. Prior to the pandemic, the UK private fitness market was showing year on year growth across all four-key metrics: penetration rate, market value, number of members and clubs.

The COVID-19 pandemic had a significant impact on the fitness and leisure industry as gyms were forced to close. European fitness operators will face increased consolidation, accelerated digitalisation and the new reality of creating hybrid models due to the COVID-19 pandemic (Source: Deloitte report: impact of COVID-19 on the European fitness market, 30 September 2020). UKActive projections show the latest lockdown and closure of gyms and leisure centres affects more than 7,000 facilities across the UK, serving more than 17 million people, including more than 10 million members. The economic cost of lockdown for the sector is £90 million in lost revenue every week, based on lost membership fees despite the Government's furlough and business rate support. UKActive estimates that 2,800 facilities are at risk of permanent closure, along with 100,000 jobs in fitness and leisure.

**Economic environment (continued)**
However, there is reason for optimism. According to PwC's Consumer Sentiment Index, consumer confidence is at its highest level since before the financial crisis as consumers prepare to spend. Improvements in consumer confidence have been seen across all demographic groups and all UK regions with the over-65s demographic driving the increase, reflecting the vaccine effect.

The UK Government's vaccine programme is making excellent progress with c.45 million people in the UK having received at least one dose of a coronavirus vaccine. This provides confidence that the end of the pandemic is in sight and that there is an expectation that the UK industry will bounce back to pre-COVID levels relatively quickly.

**Financial review of the business**
The impact of the COVID-19 pandemic was significant, as the Group's clubs were required by the UK and European Governments to close on or before 20 March 2020. The clubs all re-opened in Summer 2020, but a second wave of COVID-19 in Autumn 2020 led to increased government restrictions resulting in further club closures. The Group's clubs have periodically been open and closed again according to the rules of each government in which they operate. Across the estate, the Group's clubs were closed for 5.5 months in total for the year-ended 31 December 2020.

*Statutory measures*

On a statutory basis, the Group recorded revenue of £267.9m (2019: £519.5m) a decrease of £251.6m (48%). During the period clubs were closed, members were not charged a monthly subscription and as a result no subscription revenue was earned during the closed period. Membership levels started to fall during March as the impact of COVID-19 started to become widespread and we continued to see additional cancellations after our clubs were closed on or before 20 March 2020. In total 241,068 members left in the year ended 31 December 2020 (2019: 198,522). As at 31 December 2020 our closing member count was 563,408 (2019: 626,120) a decrease of 62,712 (10%).

The significant decline in revenue coupled with a largely fixed cost base resulted in the Group recording an operating loss for the year of £75.5m (2019: operating profit £95.0m) which was £170.5m (179%) down on prior year. Operating loss was also driven by exceptional items of £37.8m. This primarily consisted of an impairment charge of £28.8m, stamp duty land tax of £5.3m arising on lease extensions and business restructuring costs of £2.5m. Offsetting this was £37.7m recognised in other income relating to government grants.

Net finance costs were £7.7m (5%) higher than prior year driven by £7.4m additional interest on the loan and RCFs.

The consolidated loss after taxation for the year is £210.3m (2019: loss of £51.6m). This includes a tax credit of £21.7m (2019: credit of £2.1m) on the underlying loss before taxation for the year.

**Financial review of the business (continued)**
*Non-statutory measures*

Adjusted EBITDA (pre-IFRS16) is considered the key measure of profitability and is a non-statutory financial measure. It is considered by management to be the most appropriate measure to understand the underlying trading and financial performance of the Group and is the measure used to report performance to both the board and external lenders.

Adjusted EBITDA (pre-IFRS16) represents loss or profit for the financial year, before net finance cost, taxation, depreciation, amortisation, profit/loss on sale of property, plant & equipment, exceptional items (as defined in these financial statements), share based payment charges, pre-opening costs, closed club costs, monitoring fees and rent expense on a pre-IFRS 16 basis.

This non-statutory financial measure has been reconciled to the loss for the financial year in the table below:

| | 31 December 2020<br>£ 000 | 31 December 2019<br>£ 000 |
|---|---|---|
| **Loss for the financial year** | **(210,287)** | **(51,649)** |
| Tax credit on ordinary activities | (21,728) | (2,056) |
| Net finance costs | 156,467 | 148,736 |
| **Operating (loss)/profit** | **(75,548)** | **95,031** |
| Depreciation of PP&E and amortisation | 49,964 | 55,598 |
| Depreciation of right of use assets | 31,157 | 32,768 |
| Profit on disposal of PP&E | (5,256) | (1,369) |
| Exceptional items (note 7) | 37,766 | 14,352 |
| Pre-opening costs | 661 | 3,230 |
| Monitoring fees and non-exec director fees | 2,116 | 2,216 |
| Long-term incentive scheme and non-recurring redundancies | 1,434 | 4,138 |
| Closed club costs | 183 | 175 |
| Acquisition and aborted expenses | 556 | - |
| Insurance proceeds for damage to PP&E | - | (1,535) |
| IFRS16 transition and other due diligence costs | - | 977 |
| Foreign exchange difference | 414 | 176 |
| Rent expense | (71,318) | (70,747) |
| **Adjusted EBITDA (pre-IFRS16)** | **(27,871)** | **135,010** |

***Definitions***
*Pre-opening costs* - the total of all gym site operating costs incurred prior to the opening of a new gym, primarily consisting of staff costs and marketing costs.
*Monitoring fees and non-exec director fees* - recurrring fees relating to directors and shareholders.
*Long-term incentive scheme and non-recurring redundancies* - share based payment charges in relation to management incentive schemes and redundancies not in the ordinary course of business.
*Closed club costs* - ongoing costs in relation to clubs that are permanently closed, excluding clubs that were closed as a result of local or national lockdowns due to COVID-19.
*Rent expense* - rental costs that would have been recognised in the income statement on a pre-IFRS16 basis.

The Group recorded an adjusted EBITDA (pre-IFRS16) loss of £27.9m (2019: adjusted EBITDA (pre-IFRS16) profit of £135m ) which was a decrease of £162.9m (121%) on prior year. This result reflects the significant disruption caused by COVID-19. The UK and European governments required our clubs to be closed for half the year during which time we had no ability to generate income.

**Financial position including capital structure**
The Group has net liabilities of £648.6m (2019 restated: £441.4m) and net current liabilities of £132.7m (2019: £66.9m) at the balance sheet date.

| | 31 December 2020<br>£ 000 | Restated<br>31 December 2019<br>£ 000 |
|---|---|---|
| Non-current assets | 1,569,526 | 1,564,826 |
| Current assets (excluding cash) | 28,425 | 14,899 |
| Cash and cash equivalents | 76,143 | 26,706 |
| Current liabilities excluding loans and lease liabilities | (165,461) | (99,105) |
| Non-current liabilities excluding loans and lease liabilities | (187,061) | (176,780) |
| Lease liabilities | (913,676) | (827,673) |
| Loans and borrowings | (1,056,538) | (944,237) |
| Total net liabilities | (648,642) | (441,364) |

Significant movements in the statement of financial position include trade and other receivables, and trade and other payables. Trade and other receivables have increased by £15.0m. This is principally driven by prepayments up £15.2m. This increase is driven by deferred rent payments (£17.3m) which have been recorded within prepayments under IFRS 16.

Trade and other payables have increased by £66.1m. This is principally driven by trade payables (up £30.7m), accrued expenses (up £10.7m), social security and other taxes (up £10.1m), and contract liabilities (up £12.9m). Increase in trade payables primarily relates to invoices from landlords and suppliers where payment has been deferred. Increase in accrued expenses relates to increases in multiple other accruals including PIK interest accrual, monitoring fees, labour and utility accruals. Increase in social security and other taxes is driven by the Q1 2020 VAT liability of £10.4m. This has been deferred in accordance with the UK Government's VAT deferral new payment scheme. This will be paid over eight equal instalments, interest free commencing June 2021. Increase in contract liabilities is driven by member credits relating to subscriptions that had been taken prior to the clubs closing.

The outstanding balance of the loan notes increased to £1,018.9m from £947.2m reflecting the PIK interest that was rolled annually into the principal in October 2020. The loan notes are listed on the International Stock Exchange and have an expiry date in December 2024. In addition, the Group has access to £40m in revolving credit facilities ("RCFs"), consisting of two separate £20m RCFs from the Group's relationship banks. The RCFs have expiry dates in July 2021 with the option to extend for a further 12 months (subject to counterparty agreement). The loan and other finance facilities do not have any financial covenants attached.

On 20 March 2020 we were required by the UK Government to close our clubs. We faced an extended period of closure with no revenue and with no visibility of when clubs would be allowed to re-open. At the end of March 2020, the Group had drawn its £40 million RCFs in full and they remain drawn at the date of this report. Given the historic support provided by the lending banks and the super-senior nature of these facilities, the Directors are confident that the facilities will be renewed again in July 2021.

The Group sought additional sources of liquidity to ensure viability could be safeguarded in the event of further sustained periods of closure. On 15 December 2020, the Group completed the sale and leaseback of our Emersons Green club generating net proceeds of £20.5m.

# Deuce Midco Limited

## Strategic Report for the Year ended 31 December 2020

**Financial position including capital structure (continued)**
The key terms of the Group's borrowing facilities at 31 December 2020 are summarised below:

| | Facility | Maturity | Interest | Amount drawn |
|---|---|---|---|---|
| Loan notes issued | £1,018.9m | 20/12/2024 | 10% | £1,018.9m |
| Revolving Credit Facility | £20.0m | 21/07/2021 | 3% + LIBOR | £20.0m |
| Revolving Credit Facility | £20.0m | 21/07/2021 | 3% + LIBOR | £20.0m |

Interest on loan notes issued is payable quarterly over the term which commenced 9 April 2019, with 5% cash interest payable and 5% PIK which is rolled annually into the loan principal from 9 October 2019 and on every anniversary of this date. Interest is payable every one, three or six months on the revolving credit facilities. The loan notes do not have any financial covenants.

The Group has a gearing ratio of 149% (2019: 133%) based on its total borrowings over total equity and borrowings.

**Net debt reconciliation**
Net debt is defined as total borrowings (being loans and borrowings) plus lease liabilities less cash and cash equivalents.

| | 31 December 2019 £ 000 | Cash flows £ 000 | Non-cash movement £ 000 | 31 December 2020 £ 000 |
|---|---|---|---|---|
| Cash and cash equivalents | 26,706 | 49,723 | (286) | 76,143 |
| Loans and borrowings | (944,237) | (40,000) | (72,301) | (1,056,538) |
| **Net debt (excl. IFRS 16 lease liabilities)** | **(917,531)** | **9,723** | **(72,587)** | **(980,395)** |
| Lease liabilities | (827,673) | 44,385 | (130,388) | (913,676) |
| **Net debt** | **(1,745,204)** | **54,108** | **(202,975)** | **(1,894,071)** |

Net debt has increased by £148.9m reflecting the increase of loans and borrowings and lease liabilities. The increase in loans and borrowings was driven by the 5% PIK rolled into the loan principal and the draw down of the £40m RCF. The increase in lease liabilities was driven by the remeasurement as a result of lease modifications.

The Group's closing cash position is £76.1m (2019: £28.2m). Increase is driven by draw down of the RCF of £40m and net proceeds of £20.5m generated from the sale and leaseback of our Emersons Green club.

**Tax strategy**
The Group's tax strategy is underpinned by principles of full compliance, transparency and sound risk management. The Group acts lawfully and with integrity. The CFO is the Board member with responsibility for tax matters and day-to-day management of the tax affairs delegated to the Head of Tax.

The Group manages tax risks and tax costs in a manner consistent with applicable regulatory requirements and with shareholders' best long term interests, taking into account operational, economic and reputational factors. The Group seeks to reduce the level of tax risk arising from its operations as far as is reasonably practicable by ensuring that reasonable care is applied in relation to all processes which could materially affect compliance with its tax obligations.

The Group's approach to taxation is reviewed periodically in light of changes to the general business environment, our business operations, tax laws and regulations and emerging business and tax risks.

**Tax strategy (continued)**
The Group has established and maintains robust policies and compliance processes and controls to ensure the integrity of its tax returns and the timely and accurate payment of tax. The Group maintains documented tax policies and procedures in relation to key tax processes which are continually reviewed.

The Group manages tax risks to ensure compliance with legal requirements in a manner which ensures payment of the right amount of tax. At all times the Group seeks to comply fully with its regulatory and other obligations and to act in a way which upholds its reputation as a responsible corporate citizen.

**Principal risks and uncertainties**
The risks and uncertainties of the Group remain largely unchanged from those previously reported. The impact of COVID-19 and resulting risks continue to be significant. We are continually monitoring the impact of the pandemic and the health and well-being of members and team members continues to be our number one priority. We are closely following government guidelines in each country we operate in and are also working with the industry body UKActive in the UK.

The UK Government's vaccine programme is making excellent progress with c.45 million people in the UK having received at least one dose of a coronavirus vaccine. This provides confidence that an end to the pandemic may be in sight and that our clubs in the UK will remain open and that we will be able to recover previous levels of membership. However, there remains uncertainty on the continuing impact of COVID-19 on the future financial performance and cash flows of the Group.

**Principal risks - financial**
The Group's activities expose it to several financial risks. The Board is responsible for identifying financial risks and for agreeing and reviewing policies to manage these risks. The most important components of financial risk impacting the Group are as follows:

Liquidity risk
Liquidity risk arises from the Group's management of working capital, loan facilities and the finance charges on its debt instruments and being able to pay them as they fall due. To ensure that the Group always has sufficient cash to meet its liabilities, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements by performing detailed cash flow forecasts and monitoring this monthly.

The impact of COVID-19 on the Group's liquidity was significant. The Group's liquidity in the next eighteen months will be influenced by the debt facilities available to the Group as well as i) the trading performance of clubs and (ii) any periods of club closure because of future waves of COVID-19.

During periods of closure, the Group has no income and operates with a monthly cash burn of around £5m. The future impact on the Group of the COVID-19 outbreak has been considered as part of the Group's adoption of the going concern basis. The Group and Company's 'going concern' review is set out in detail in note 2 on pages 60 to 61.

Price risk
The Group is exposed to increases in the price of electricity and gas. The Group manages its exposure by purchasing its utility requirements in advance through industry leading advisers. For 2021, 75% of the UK electricity volumes and 63% of the UK gas volumes have been purchased. Unused utility volumes are sold back to the market with the Group liable for any losses due to lower pricing. We have recently extended our electricity supply contract to October 2022.

Price risk (continued)
Inflation risk is the risk that the cost of key services and products procured by the Group will rise with inflation and affect the Group's margin. A large proportion of the Group's leasehold rents are subject to RPI or CPI increases which presents an ongoing risk. The Group has comprehensive cost control processes in place to ensure these inflation driven risks are minimised.

If membership price changes do not reflect market sensitivities and elasticities, this may result in decreased revenue and profit through increased attrition or eroded margins. The Group has a comprehensive pricing policy which is reviewed annually to ensure this risk is mitigated.

The Group's UK employees are subject to the Working Time Regulations which controls the hours they are legally allowed to work. In addition, on 1 April 2020 the national living wage increased to £8.72 for those aged 25 and over and increases to £8.91 for those aged 23 and over, effective from 1 April 2021. The Group introduced a minimum hourly rate above the national minimum wage and national living wage. From 1 April 2020, our minimum wage increased to £8.82 for all hourly paid employees regardless of age. From 1 April 2021, our minimum wage increased to £9.00 for all hourly paid employees. This minimizes the Group's exposure to further increases in the national living wage.

Interest rate risk
The Group's sensitivity to changes in the interest rate is limited as the loan notes have a fixed interest rate of 10%. The revolving credit facilities are fully drawn with interest at a variable rate related to LIBOR. The Group monitors interest rates and reacts accordingly.

Exchange rate risk
Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group's policy is, where possible, to allow Group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where Group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, which are made where there is evidence of a reduction in the recoverability of the cash flows.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating "A" are accepted. The Group assesses the credit quality of customers, taking into account their financial position, past experience and other factors. The credit risk of the Group is minimised due to a large number of customers who generally pay by direct debit in advance.

**Principal risks - non-financial**
The Group is exposed to a variety of non-financial risks which could materially affect the financial results of operations. The Board is responsible for identifying non-financial risks and for agreeing and reviewing policies to manage these risks. The most important non-financial risks are:

Coronavirus (COVID-19)
Extended periods of closure due to the COVID-19 pandemic would result in a loss of revenue and a decrease in membership numbers. Over an extended period, a loss of revenue coupled with the inability of the Group to remove certain of its cost base in a closure scenario means this could lead to a material uncertainty in the Group's ability to continue as a going concern.

We have identified and implemented proven measures to quickly mothball our estate, preserve cash and reduce discretionary spend during a period when all of the Group's clubs are closed, and to be able to reopen quickly to minimise revenue loss. We have performed appropriate modelling to support the assessment of the business as a going concern with the material uncertainty from COVID-19.

Injury of club members
Any injury or death of a member could impact the Group's reputation and value. Failure to manage this risk could result in reputational damage, criminal fines, civil damages and regulatory fines. The key risks for the Group are safety around the swimming pools, child safeguarding within the DL Kids programmes and safe use of the gym equipment. Effective procedures have been put in place to prevent their occurrence including prominent signage around swimming pools, establishing remote pool monitoring outside lifeguarding hours and fully documented procedures and operating practices for the supervision of children within the DL Kids programme. These policies are under continuous review. The Group also takes out comprehensive insurance against these risks where this is possible.

Legislation
The Group is subject to a broad range of environmental, health and safety and other laws, regulations, standards and best practices which affect the way the Group operates and give rise to significant compliance costs and potential legal liability exposure. Compliance with laws and regulations is monitored.

UK's decision to leave the European Union
On 31 December 2020, the transition period for the UK to withdraw from the European Union otherwise known as "Brexit," expired. This was replaced with the Trade & Cooperation Agreement ("TCA") which came into provisional effect at 11pm GMT on 31 December 2020 and establishes the commercial and regulatory arrangements between the EU and the UK. Goods moving between the UK and EU are now subject to customs declarations and a new UK Border Operating Model is in place. This impacts supply chains and buyer behaviours, not only between the UK and EU, but also between Great Britain and Northern Ireland. Employing EU nationals without settled status is now more complicated and costly for UK businesses.

The Board assessed the potential impact that Brexit could have on the Group. The key risk identified was a temporary supply chain issue regarding the delivery of food into our clubs. Other risks identified include employee recruitment and retention, due to the number of employees from the EU working in the UK. To date the business has incurred minimal disruption because of Brexit.

Data Protection
The Group holds business critical and confidential information electronically. Unauthorised access, loss or disclosure of this information may lead to regulatory penalties, disruption of operations, reputational damage, and legal claims. A cyber security steering group assesses the risks posed by cyber threats and makes changes to its technologies, policies, and procedures to mitigate identified risks. Insurance policies have been taken out against this risk. Systems are protected by anti-virus software and firewalls, which are regularly kept up to date.

Asset security
A substantial proportion of the Group's value lies in its property interests and capital equipment. The buildings are at risk of being destroyed or damaged through fire or misuse and the equipment is also at risk of theft. All properties are fitted with appropriate fire protection and security systems. Insurance policies have been taken out to replace damaged or destroyed assets and to insure against business interruption.

Information technology dependency
The Group depends on accurate, timely information from key software applications to manage its day-to-day operations. Disruption to critical IT systems could cause operational disruption as well as our ability to collect revenue leading to financial loss. To mitigate the risk our primary data systems are hosted by fully qualified organisations in suitable data centres. All memberships and business information is backed up and robust disaster recovery and business continuity plans are in place.

**Health and safety**
As well as providing a fantastic experience for our members David Lloyd is also committed to a high standard of health and safety. Clubs are assessed on a regular basis on food safety, fire safety, legionella, licensing, and health and safety. The majority of clubs attain our expected standards and the minority that do not are provided with the coaching, advice and guidance to achieve the required standards. Every club has multiple audit visits and support visits every year to drive standards, foster continual improvement and imbed safety culture. 96% of clubs have a UK Food Standards Agency (FSA)/Food Standards Scotland (FSS) grading of good or very good (pass in Scotland) with 91 clubs achieving the highest grading.

| **Internal Health and Safety Audit Scores** | **2020***<br>**Number of visits** | **2019**<br>**Number of visits** |
|---|---|---|
| Audits during the period | 14 | 113 |
| Scoring over 80% | 5 | 72 |
| Scoring 70% to 80% | 9 | 33 |
| Scoring under 70% | - | 8 |

*The audit programme was significantly reduced in 2020 due to the COVID-19 pandemic.

**Environmental, Social and Governance Performance Management**
The Group recognises the importance of its role and responsibility in contributing to a healthy society and a sustainable environment.

Our key objective remains constant; that doing the right thing by our members, our team and the communities in which we operate is integral to our future success as a sustainable business.

We are equally committed to actions and initiatives that support our other Corporate Social Responsibility (CSR) principles. This includes doing our utmost towards combating climate change by reducing our clubs' waste and using sustainable raw materials.

The Group constantly strives to improve its environmental performance and we are currently working with key stakeholders to update and further develop our long-term group sustainability strategy.

We are proud to have secured the Carbon Trust Double Standard accreditation for carbon and water reduction performance. Awarded in January 2020, the Carbon Trust Standard is the world's leading independent certification of an organisation's achievements in acting on climate change and managing and reducing water usage.

Since the end of 2018, the Group has invested £8m to deliver a number of utility related initiatives. These incorporated a mixture of well-established and new technologies, such as further LED upgrades to tennis court lighting, upgrades to BMS systems, and improvements to other heating and cooling infrastructure.

From 1 January 2020, the Group began purchasing renewable electricity for its group UK contract. This will support our ongoing commitment to reduce our carbon footprint.

**Environmental, Socail and Governance Performance Management (continued)**
Our waste diverted from landfill remains above 99%, and we have been working through removing single use items from our clubs such as plastic straws and wet kit bags. We are now working towards collaborating with our supply chain and implementing initiatives to reduce our total waste volumes and increase our recycling rates.

We measure our carbon footprint per member visit and are proud to have reduced our $CO_2$ emissions per visit by 30% from 2013 to 2019. For further information please refer to our Energy and carbon reporting on page 32 of these financial statements.

Doing the right thing by our members, our employees, and the communities in which we operate is something we are passionate about. In April 2019, we introduced 'DL Giving', giving our team members the opportunity to give something back to the local community through charity volunteering and fundraising. On 30 May 2020 we held our first DL Giving charity day and raised £12,522 for NHS Together, comfortably beating our £10,000 target.

In April 2020 we launched a partnership with Change Please, an award-winning coffee company with a difference; a social enterprise supporting people out of homelessness through Life Changing Coffee. Members in all our UK clubs are now enjoying Change Please coffee with 100% of the profits going towards reducing homelessness. This partnership enables Change Please to expand their training programme nationally and help more people across the UK.

We recognised that the COVID-19 pandemic caused considerable significant hardship in our communities. Upon our clubs being required to close, we donated all excess perishables to local NHS teams and vulnerable groups. For our team members and self-employed professionals, we created a hardship fund to support those in most financial need.

Sense of a community and a desire to belong will continue to grow in 2021. Across lockdown, the David Lloyd community came alive online, best illustrated through DL Run Club, a Facebook community group for runners of all abilities.

We also use our expertise to motivate and inspire schools, higher education institutions and other organisations. As an employer we understand the importance of supporting local causes and we want to lead the way and become Europe's most environmentally aware health and fitness operator.

There is increasing consumer demand to know what is in their food. We have a comprehensive allergen menu which is on our website, a dedicated app and at point of sale. This highlights the fourteen major allergens in all the food we serve. Our menu proposition remains committed to enabling members to make informed decisions around health and wellness as well as providing balance and choice. We offer a menu with suitable dietary needs for vegetarians, vegans and under 600 calories. We offer a selection of drinks exempt from the sugar tax levy due to being under the threshold.

**Our People**
Our people make us who we are. The Group aims to provide a happy, inviting and safe culture where our team members feel comfortable and are able to thrive. We're really passionate about our people and creating a great place to work and are proud to have won a spot in The Sunday Times 25 Best Big Companies to work for four years in a row. This accolade is awarded on the back of a survey of our team members so reflects just how valued and engaged our team members feel at David Lloyd Clubs.

**Employee involvement**
Employee engagement is measured twice a year (going forward three times a year) by way of an online employee survey to ensure the Group is listening and responding to its employees' needs. Action plans are prepared by each department to improve engagement on an ongoing basis. Due to COVID-19 and our clubs being closed no formal engagement surveys happened in 2020.

Celebrating success underpins our value of 'Thank You' and is something which lives and breathes in our clubs. One of the ways we celebrate success is through our Team Member of the Month scheme, which runs across all of our clubs. At the end of the year each club identifies their Team Member of the Year who is then invited to attend an all-expenses-paid trip overseas with their fellow winners. Unfortunately, the 2020 trip had to be cancelled because of COVID-19 restrictions.

The leadership team continue to recognise the importance of career progression and personal development and we continue to promote internally through our 'Step up to General Manager' and 'Step to up HoD' development programmes. Our E-learning Management System allows all team members to access a range of e-learning training and development modules. The leadership team continue to invest in our highly popular company induction for all new or newly promoted managers which promotes our company Vision, Values and Strategies and is presented directly by the CEO and Directors.

**Employee consultation**
The Group places considerable value on communicating with its employees and has continued to keep them informed on matters affecting the performance of the Group. This is achieved through formal and informal meetings, the Group's employee app 'Kitbag' and a quarterly business communication from the CEO.

This engagement continued throughout lockdown when many of our team members were furloughed. Our CEO ran several live webcasts to all team members providing a business update and providing an opportunity for team members to ask questions.

All new employees receive an induction and any relevant job training, giving them the opportunity to learn about the Group and understand their job and what is expected of them. All employees have regular opportunities to discuss their role and responsibilities and commit to honest two-way feedback. In addition, performance is reviewed against annual objectives and personal development plans are discussed on a formal basis once a year. These form the four "HR Non-negotiables", which ensures that every employee has an induction, objectives, regular one-to-ones, and an end of year performance review.

**Employee reward**
The Group is proud to offer pay that exceeds the National Living Wage to all our UK team members, as well as ensuring our pay is highly competitive. From 1 April 2021, our minimum wage will increase to £9.00 per hour for all hourly paid employees regardless of age. We also offer benefits including Wagestream, allowing our team members the flexibility to get paid earlier than their normal monthly pay date, a contributory pension scheme and company funded Life Assurance.

To do the right thing by our team members, we topped up their salary to 100% for March and April. We recognised that the COVID-19 pandemic caused considerable financial hardship for our team members and created a hardship fund for which team members and self-employed professionals could apply.

All our team members receive complimentary membership at our clubs to encourage a healthy and active lifestyle, as well as significant discounts on our healthy-eating menu in our clubs, while our flexible benefits scheme allows our team to choose benefits that are important to them in a tax-efficient way. We offer a free and confidential Employee Advice Line to help our team members and their family deal with challenges that might adversely impact their health, wellbeing, or work performance.

**Employee reward (continued)**
Every employee has personal objectives that should be aligned to the strategies and key performance indicators. Individual contribution to the business is recognised through the Group's bonus scheme, which is available to all eligible salaried employees and payable upon Group and individual performance.

**Employment of disabled persons**
Applications for employment by disabled persons are always fully considered, bearing in mind the 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 Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

**Employee health and safety**
The Group is committed to taking all reasonable steps to provide a safe and healthy workplace and working environment for all team members. The assistance and training necessary for all team members to competently fulfil their duties and responsibilities is provided. The responsibility for implementing health and safety policies lies with all directors, managers and team members.

In response to COVID, we are doing everything we can to ensure our team members are kept safe. Please refer to pages 8 to 9 for the safety procedures we have put in place.

**Diversity**
David Lloyd Clubs is an equal opportunities employer committed to providing equal opportunities to all employees regardless of personal status and to prohibit all forms of discrimination. Alongside a commitment to promote talent from within, recruiting people from outside industry is important to us, as it brings fresh ideas and alternative views. This is done without regard to sex, race, disability, national origin, ethnicity, sexual orientation, age or marital status. To inspire older people to exercise more, the Group has committed to having at least one Fitness Trainer aged 55 or over on average at each of its clubs by the end of 2022.

*Gender diversity*
The table below provides a breakdown of the gender of directors, senior managers and employees:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | Male | Female | Male | Female |
| Directors | 9 | - | 7 | - |
| Senior managers | 132 | 61 | 116 | 59 |
| Employees (Headcount) | 3,130 | 4,278 | 3,639 | 4,896 |
| Total | 3,271 | 4,339 | 3,762 | 4,955 |

A director is defined as a statutory director of the Company or non-executive director that attends the board meetings. A senior manager is defined as someone who is a general manager, a regional manager, a regional sales manager, a senior position within club support, a direct report to the executive board or a member of the executive board. This group of senior managers are defined as the 'transformation group'.

Appointments to the Board are made on merit considering the combination of skills, background, experience and knowledge required to give constructive challenge and achieve effective decision-making.

**Gender pay**
In accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, the Group’s gender pay reporting for 2020 is published on the website www.davidlloyd.co.uk.

Currently, there is a gender pay gap of 11.4% which means that the average pay of male team members is 11.4% higher than the average pay of female team members. This is 9.2% lower than in 2019 and we are pleased with the progress the Group has made. To enable more women to move into senior leadership roles we continue to focus on our key senior leadership role of General Manager where we have a higher representation of males.

**Anti-bribery and anti-corruption**
The Group has anti-bribery and anti-corruption policies in place which are available to all employees via the intranet. All giving and receiving of gifts, hospitality and entertainment are logged on the gift, hospitality and entertainment register and any issues are reported to the designated Bribery Act Compliance Officer. In addition, employees are required to complete mandatory training on anti-bribery and anti-corruption via the learning management system.

**Human rights: Modern Slavery Act 2015**
The Group is fully committed to respecting the human rights of our employees and to compliance with all applicable laws. David Lloyd Clubs has a zero tolerance approach to modern slavery and is committed to acting ethically and with integrity in all its business dealings and relationships to ensure that modern slavery is not taking place in the business or supply chains.

In accordance with section 54(1) of the Modern Slavery Act 2015, the Group's slavery and human trafficking statement for the financial year ended 31 December 2020 has been published on our website: www.davidlloyd.co.uk.

**Section 172(1) statement**
Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. This statement sets out how the Directors have complied throughout 2020 with the requirements of Section 172 of the Companies Act 2006.

**The Role of the Board**
The Board's principal responsibility is to promote the long-term success of the Group through creating shareholder value and contributing to a healthy society and a sustainable environment. The Board's key objective remains constant; that doing the right thing by our members, our team and the communities in which we operate is integral to our future success as a sustainable business.

The COVID-19 pandemic has required us to work more closely with our key stakeholders. We have kept them informed of the decisions we have taken because of the pandemic and how it affects them.

The Board sits at the Deuce Midco Limited level (referred to as "the Board" throughout) and consists of seven directors and two non-executive directors. As is normal for large companies, the Deuce Midco Limited Board delegates authority for day-to-day management of the Company and its subsidiaries to the Executive Board and then engages management in setting, approving and overseeing execution of the business strategy and related policies. The corporate governance structure and group policies are set by the Board of Deuce Midco Limited. The Board ensure that when they are applying these group policies, they have due regard to our fiduciary duties and responsibilities.

The Board meets monthly and is advised of stakeholder views in several different ways, including:

• The CEO's Board Report;
• Health and Safety, Strategy and Finance Packs;
• Employee survey reports;
• Annual conference;
• The Annual Budget and Business planning process and;
• Corporate governance, and regulatory development updates.

During 2020, the Board met virtually for several meetings as a result of the COVID-19 pandemic. All formal Board meetings are minuted and these minutes are formally approved at the following meeting.

| | |
|---|---|
| a. The likely consequences of any decisions in the long-term. | The Board's decision making is focused around ensuring that the Company is sustainable in the long term. Each year, the Board considers our three year Business Plan, which assesses the opportunities and risks for the Group over this timeframe.<br><br>Each year the Board considers the Group's strategy and key performance indicators and how we will achieve our goal. This is communicated and discussed with the wider transformation group at an annual conference. Unfortunately, the 2020 conference had to be cancelled because of COVID-19 restrictions.<br><br>Significant capex investment appraisals potential acquisitions and disposals are reviewed and subsequently approved/declined by the Board. In making these decisions, the Board considers the financial merits of each proposal and whether it is aligned to our strategy and premium offering.<br><br>In 2020, the Board signed-off the decision to complete the sale and leaseback of the Emersons Green club plus completed the acquisitions of the Meridian Group and Geneva Country Club.<br><br>During 2020, the Board's priority was managing the business during the COVID-19 pandemic. Our response to COVID-19 focussed on preserving cash, member engagement and implementing COVID-secure re-opening procedures. The Board took great care in ensuring the decisions they made struck the right balance between protecting the interest of the Group and its stakeholders in the short term and longer-term. |
| b. The interests of the company's employees. | The Board places considerable value on communicating with its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, the Group's employee app 'Kitbag' and periodic business communications from the CEO.<br><br>Employee engagement is measured twice a year (going forward three times a year) by way of an online employee survey to ensure the Board is listening and responding to its employees' needs. Due to COVID-19 and our clubs being closed no formal engagement surveys happened in 2020.<br><br>The Board recognised that the COVID-19 pandemic caused considerable financial hardship for our team members and created a hardship fund for which team members and self-employed professionals could apply.<br><br>The Board spends a good proportion of time on people matters with regular discussions on Health and Safety, employee engagement, talent, and succession planning. Read more on our engagement with employees on pages 20 to 21 of the strategic report. |
| c. The need to foster the company's business relationships with suppliers, customers and others | The Board recognises the importance of its role and responsibility in contributing to a healthy society and a sustainable environment in addition to its responsibilities to members, employees, suppliers and shareholders.<br><br>Members - Our vision "My Club For My Life" seeks to create an environment where our members develop a real sense of belonging to their local clubs and where the clubs become an integral part of members' lives, throughout their lives. |

c. The need to foster the company's business relationships with suppliers, customers and others (continued)

Doing the right thing for our members was a key priority for us and we communicated with them throughout the pandemic. We did not charge customers when our clubs were closed and provided members with health concerns relating to COVID-19 the ability to freeze memberships. We used lockdown to accelerate our digital transformation to keep members engaged. Within three days of the first lockdown we had developed @home training, resulting in member satisfaction reaching an all-time high.

The Board developed COVID-secure operating protocols to give our members confidence to return to our clubs. Specifically, our members can maintain at least a 2m distance from each other in all areas of our Clubs, including our Group Exercise Studios where we've created 2.5m spaces for all class participants. Our cleaning schedules and procedures have been greatly enhanced to maintain a high level of hygiene across all our Clubs.

Feedback from our members is monitored continuously through multiple channels. Read more on our engagement with members on page 8 of the strategic report.

Investors - We are responsible to the Group's shareholders and key stakeholders for the proper conduct and success of the business through setting the strategy, values, and culture of the Group. Shareholders are represented on the Board and thus engaged through the monthly board meetings.

Suppliers – We recognise the importance of our supply chains and invest in our relationships with them to ensure that they are treated in a fair and consistent way. Upon closure of the clubs due to COVID-19, we engaged with landlords to manage rent obligations through securing rent-free periods/rent deferrals. We have also worked with our key suppliers through the pandemic to minimise contractual costs and to discuss revisions to payment terms. We are grateful for their support. During the year, the Board received updates on our payment practices and on our supply chain, where relevant, from our business line leaders.

d. The impact of the company's operations on the community and environment.

The Board recognises the importance of its role and responsibility in contributing to a healthy society and a sustainable environment. The Board is committed to actions and initiatives that support our other Corporate Social Responsibility (CSR) principles. This includes doing our utmost towards combating climate change by reducing our clubs' waste and using sustainable raw materials.

From 1 January 2020, DLL began purchasing renewable electricity for its group UK contract. The Board monitors on a quarterly basis the Group's performance against key Environmental, Social and Governance metrics which are also benchmarked against other portfolio businesses. Read more in the Environmental, Social and Governance Performance Management section in the Strategic report on page 18 to 19.

| | |
|---|---|
| e. The desirability of the company maintaining a reputation for high standards of business conduct. | The Board take the reputation of the Group seriously and is committed to a high standard of health and safety. Clubs are assessed on a regular basis on food safety, fire safety, legionella, licensing and health and safety. The majority of clubs attain our expected standards and the minority that do not are provided with the coaching, advice and guidance to achieve the required standards. Refer to page 18 of the Strategic Report for our health and safety internal audit scores.<br><br>The Board is fully committed to respecting the human rights of our employees and to compliance with all applicable laws. David Lloyd Clubs has a zero-tolerance approach to modern slavery and is committed to acting ethically and with integrity in all its business dealings and relationships to ensure that modern slavery is not taking place in the business or supply chains.<br><br>All new team members are required to complete a compulsory online training module on 'Modern Slavery' to drive awareness and understanding.<br><br>In accordance with section 54(1) of the Modern Slavery Act 2015, the Group's slavery and human trafficking statement for the financial year ended 31 December 2020 has been published on our website: www.davidlloyd.co.uk. |
| f. The need to act fairly between members of the company. | The Board seeks to act fairly between all members of the Group by seeking to align the interests of the majority shareholders (TDR) and minority shareholders (Management). The Board is represented by all parties and the Board culture allows for healthy and constructive debates. |

Approved by the Board on 30 June 2021 and signed on its behalf by:

.........................................
PJ Burrows
Director

# Deuce Midco Limited

## Directors' Report for the Year ended 31 December 2020

The directors present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

**Principal activity**
The principal activity of the Company is that of a holding company for David Lloyd Leisure Limited ("DLL") and other subsidiaries (together "the Group"). During the year, the Group engaged in the operation of health, sport and leisure clubs in the United Kingdom and Europe, principally under the David Lloyd Clubs brand name. As at 31 December 2020, the Group operated 99 clubs in the United Kingdom, and 14 in Europe.

**Ownership**
The ultimate parent of the Company is Deuce Holding S.a r.l. and the ultimate controlling party is a group of investment funds managed by TDR Capital LLP (registered in the UK). TDR Nominees Limited holds the investment on behalf of the following fund Partnerships: TDR Capital III Holding LP (74%) and TDR Capital Deuce Co-investment L.P. (26%). TDR Capital is a leading private equity firm with over €5 billion of committed capital. TDR invests in medium-sized, European businesses and partners with them to develop and grow their operations.

TDR Capital acquired the Group from UK-based property company London Regional Properties Limited and Caird Capital LLP, the manager of Bank of Scotland's legacy Integrated Finance portfolio in November 2013. Following the acquisition of the business TDR undertook a major capital investment programme, making significant improvements in the style and range of facilities available to members across the estate. TDR have also worked with management to improve all aspects of the member experience in order to cement the Group's position as a market leader in premium family leisure.

TDR have supported David Lloyd's new site development programme in the UK and Continental Europe through the acquisition of small portfolios as well as standalone sites. With the initial focus on the UK, the Group acquired 14 racquet clubs from Virgin Active in May 2017 and has opened seven individual new clubs. The current focus of the new club strategy is on expansion in Continental Europe where to date the Group has acquired four individual clubs in Spain, Italy, Germany and France as well as completing the acquisition of Meridian Spa & Fitness, an estate of eight clubs in Germany. The Group is executing an accretive capital expenditure programme across the acquired estate and transforming the customer proposition.

**Directors of the Group**
The directors, who held office during the year, and up to the date of signing the consolidated financial statements are given below:

MA Stephens
BJ Magnus
DG Earlam
PJ Burrows
SA Lloyd
PW Philipson
M Dale (resigned 12 May 2021)
MJ Evans (appointed 1 April 2020)
R Barnes (appointed 25 September 2020)

**Directors of the Group (continued)**

Mark Stephens
Mark joined TDR Capital in September 2012. Prior to joining TDR, Mark worked at Morgan Stanley in London as an Associate in its Private Equity fund and previously as an Analyst in its UK Investment Banking team. He received a degree in Business and Legal Studies, with first class honours, from University College Dublin.

Brian Magnus
Brian joined TDR Capital in September 2012. Prior to joining TDR, he was a Managing Director at Morgan Stanley where he was European Head of Morgan Stanley Private Equity, and formerly Head of UK Investment Banking. He joined Morgan Stanley in 2000 having previously worked in the Corporate Finance Division of Schroders, a company later acquired by Citigroup. Brian graduated from the University of Manchester with a degree in Management Sciences and qualified as a Chartered Accountant with PriceWaterhouse. External appointments include: directorships at Stonegate Pubs and Montagu.

Manjit Dale
Manjit founded TDR capital with Stephen Robinson in 2002, with whom he had previously worked at DB Capital partners. He has over 25 years experience in private equity, leveraged finance and consulting. Previously Manjit was Managing Director and Head of DB Capital Partners Europe and predecessor firm BT Capital Partners, which he joined in 1994. External appointments include: directorships at Stonegate Pubs, Seacon Group Limited and Pandora Express Limited.

Peter Philipson
Peter spent the first 20 years of his career in a range of international marketing and general management positions within Gilette and Diageo. In 2001 he was appointed CEO of Tussauds Group under the ownership of Charterhouse. He subsequently held various private equity backed Board roles, including Chairman of Merlin Entertainments, Saga Group, NEC Group, and Forest Holidays. He joined the Board of David Lloyd Leisure in 2015. He has worked with businesses backed by Charterhouse, Blackstone, LDC, TDR, Sovereign, Montagu, Kings Park Capital and August Equity.

Scott Lloyd
Scott was the Cheif Executive Officer (CEO) of DLL until June 2015, at which point he became the non-executive Deputy Chairman of the Group. Scott launched Next Generation Clubs business in 1999 and led the acquisition of DLL by London & Regional and HBOS from Whitbread in August 2007. Scott was CEO of the integrated businesses from 2007.

Glenn Earlam - Chairman
Glenn has over 20 years of experience in the leisure sector having joined DLL in June 2015 from Merlin Entertainments Plc where he was Managing Director of Midway Attractions, the largest operating business within Merlin. Post year-end, Glenn has become Chairman with Russell Barnes replacing him as CEO.

Russell Barnes - Chief Executive
Russell joined David Lloyd Leisure in September 2015 having previously been responsible for 48 attractions across Europe for Merlin Entertainments. His experience includes successfully opening Merlin businesses in Asia including China, Japan and Korea as well as North America. He also was responsible for leading Alton Towers Resort through a period of brand change and repositioning. He has over 25 years of operational experience including a period residing in the U.S. Post year-end, Russell has been appointed CEO.

**Directors of the Group (continued)**

Patrick Burrows - Chief Financial Officer

Patrick joined David Lloyd as Chief Financial Officer in September 2017 from London City Airport having been involved in the £2.4bn sale of the business. Prior to London City Airport Patrick worked at New Look and Tesco.

Martin Evans - Innovation and Product Development Director

Martin has a total of 15 years of experience with David Lloyd Leisure and over 20 years of experience in the leisure sector. He has held previous positions in sales, marketing and operations for First Leisure, Whitbread, DeVere and Esporta.

**Senior Managment Team (excluding Directors)**

Bruce Gardner - New Clubs Director

Bruce is the Group’s New Clubs Director having previously held the position of Group IT Director of DLL. Bruce’s previous roles include IT Director at NSL Services, a part of NCP and IT Director of Whitbread's pub division. Bruce joined DLL in 2011 as Group IT Director.

Andrea Dearden - Marketing Director

Andrea has over 20 years experience in the leisure industry, joining David Lloyd Leisure in February 2017 from Merlin Entertainments where she was responsible for heading up the marketing of the London and European attractions portfolio.

Michelle Luxford - Human Resources Director

Michelle joined DLL as HR Director in March 2013 having previously been involved with DLL during her 20 year career with Whitbread where she held senior HR roles in many parts of the Whitbread portfolio of brands, including working as HR Director for Premier Inn. Michelle also acted as an HR Consultant to DLL leading on a number of HR Projects when it merged with the Next Generation business.

Mia Manson-Bishop - Member Experience Director

Mia joined David Lloyd Leisure in March 2013 as part of the operational team and joined the senior leadership team in September 2015 as Member Experience Director. Mia brings great David Lloyd Leisure operational experience as well as over 15 years senior leadership experience in customer service, marketing and operations with national and global brands including Wyndham Worldwide, Esporta and Sitel.

James Dent - Sales Director

James joined David Lloyd in 2008 initially working in sales and operations roles in several different clubs. Having previously been a General Manager, a Regional Sales Manager and Head of UK sales for the Group, James was appointed Sales Director in April 2019. James has worked in the industry for over twenty years with Holmes Place and Esporta before joining David Lloyd.

**Directors' liabilities**
The Company maintains liability insurance for its directors and officers. Following shareholder approval, the Company has also provided an indemnity for its directors and the company secretary, which is a qualifying indemnity provision for the purposes of the Companies Act 2006. This provision was in force during the financial year and onwards, including the date of approval of the financial statements.

**Future developments**
There are no significant changes planned to the existing estate and operations of the Group. The Group's future strategy will focus on building the DL membership base, New club acquisition and integration, and DL Digital. The aim of building the Group's membership base is to increase membership of existing clubs. Acquisition and Integration is to grow the estate through new acquisitions and successfully integrating them into the David Lloyd operational and business model. DL Digital is the continuation of the development of @home and production of a first-class whole lifestyle app that enhances our members lives.

**Employees**
Consultation with employees and consideration for disabled employees have been discussed in the Strategic Report on pages 20 to 21 of these financial statements. The Strategic Report forms part of this Directors' Report and is incorporated into it by cross-reference.

**Dividends**
The Group paid out no dividends during the year (2019: £nil)

**Political donations**
The Group made no political donations during the year (2019: £nil).

**Branches outside the UK**
The Group operates one branch in Milan, Italy.

**Going concern**
The Group and Company's 'going concern' review is set out in detail in note 2 on pages 60 to 61. In preparing the Group's financial statements the directors have considered the forecast cash flows of the Group and the liquidity available over an eighteen-month period to December 2022. These forecasts indicate that the Group will have sufficient cash and operate with a satisfactory level of headroom. The directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for at least 12 months and for the foreseeable future thereafter. Accordingly, the directors continue to adopt the going concern basis in preparing the annual reports and financial statements.

**Prior year adjustment**
During the year, the directors identified that the Group had understated both deferred tax asset balances and reserves at 31 December 2019 by £21m. As a result, a prior year adjustment has been made and is reflected in the restated 2019 balances as presented.

The Group adopted IFRS 16 Leases retrospectively from 1 January 2019 but did not restate comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The adjustments arising from the new leasing rules were therefore recognised in the opening balance sheet on 1 January 2019. There were no errors related to the adoption of IFRS 16 itself. The error was restricted to the deferred tax calculation. The misstatement of the deferred tax balances related to the complexities of the adoption of IFRS 16 Leases retrospectively from 1 January 2019.

**Prior year adjustment (continued)**
There is no impact on the prior year income statement and the effect of the prior year adjustment is to increase the opening 1 January 2019 deferred tax asset by £21m and to reduce accumulated losses at 1 January 2019 by £21m. This is the adjustment that should have been recorded in the prior year financial statements should the error never have arisen in the first place.

**Post balance sheet events**
Please refer to note 30 of these financial statements for details of post balance sheet events.

**Supplier payment policy**
The Group complies with regulations made under section 3 of the Small Business, Enterprise and Employment Act 2015, these can be found at www.legislation.gov.uk. The Group typically pays all its suppliers between 30 and 45 days. The Group makes weekly payment runs to clear supplier bank accounts each Friday. The payment run parameters are set to select all undisputed invoices that are due for payment up to and including the Friday clearing date based on the supplier payment terms held within the supplier master record.

The average time taken to pay invoices for the period 1st July 2020 to 31st December 2020 was 37 days (2019: 25 days) and 31 days (2019: 26 days) for the period 1st January 2020 to 30th June 2020. The increase in average time taken to pay invoices is driven by the significant impact on the Group of COVID-19.

Variations to these standard payment terms are by exception only:

- F&B Partner - all undisputed invoices received in the month are paid by no later than the 16th of the following month,
- Self-employed professionals - all undisputed invoices relating to previous month’s activity are paid weekly upon receipt,
- Landlords - all rental invoices are paid as contractually agreed. As a response to COVID-19, we engaged with landlords to manage rent obligations through securing rent-free periods/rent deferrals.

**Guidelines for Disclosure and Transparency in Private Equity**
The Directors consider the annual report and financial statements to comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity.

**Statement on engagement with employees**
As a UK company incorporated under the Companies Act 2006 with a monthly average number of UK-based employees that exceeds 250 we are required to explain:

i) how the directors have engaged with employees; and
ii) how the directors have had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company during the financial year.

We have set this out in our Section 172(1) statement (see section b) on page 23 of the Strategic Report. Further disclosure on how the Board engages with employees can be found on pages of 19 to 20 of the Strategic Report.

**Statement on engagement with suppliers, customers and others in a business relationship with the Group**
As a qualifying large company under the Companies Act 2006, we are required to summarise how the directors have had regard to the need to foster the company’s business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year.

We have set this out in our Section 172(1) statement (see section c) on pages 23 to 24 of the Strategic Report.

# Deuce Midco Limited

## Directors' Report for the Year ended 31 December 2020

**Statement of corporate governance arrangements**
For the year ended 31 December 2020, the Group has voluntarily applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (FRC) in December 2018.

The Wates Principles provide a framework for the Board to monitor corporate governance of the Group and see where governance standards can be raised to a higher level across the business.

**Wates Principle 1 Purpose and leadership**
We believe that a balance of exercise, nutrition, mindfulness and sociability are the keys to wellness and to sustaining a positive and healthy life. Our purpose is to provide facilities, services, equipment and social spaces which help to promote physical and mental wellbeing for our members.

Our vision “My Club For My Life” seeks to create an environment where our members develop a real sense of belonging to their local clubs and where the clubs become an integral part of members’ lives, throughout their lives.

Our culture is about making our clubs a comfortable and welcoming place to come together with friends, family and fellow members to maintain physical and mental health and wellness. The Board monitors the Group’s culture through member feedback. Employee engagement is also measured twice a year (going forward three times a year) by way of an online employee survey to ensure the Group is listening and responding to its employees’ needs. Due to COVID-19 and our clubs being closed no formal engagement surveys happened in 2020.

The Board recognised that the COVID-19 pandemic caused considerable financial hardship for our team members and created a hardship fund for which team members and self-employed professionals could apply.

Our values and strategies that we have embedded to underpin them and the measures that we have used to monitor our performance against them are set out in the Strategic report on pages 2 to 6.

**Wates Principle 2 Board composition**
The Board sits at the Deuce Midco Limited level and consists of seven directors and two independent non-executive directors (one of who is designated the Chairman). Biographies of the board members can be found in the Directors’ Report on pages 26 to 27.

Appointments to the Board are made on merit considering the combination of skills, background, experience and knowledge required to give constructive challenge and achieve effective decision-making.

We consider the size and composition of the Board to be appropriate for our business. The two non-executive Directors bring challenge, experience, and offer different perspectives.

As is normal for large companies, the Deuce Midco Limited Board delegates authority for day-to-day management of the Company and its subsidiaries to the Executive Committee.

The Executive Committee comprises the Chief Executive, Chief Financial Officer, Chief Operating Officer, Innovation and Product Development Director, Property Director, New Clubs Director, HR Director and Member Experience Director.

The Board has established an Audit Committee with responsibility for the appointment of auditors and review of the scope and results of the external audit.

**Statement of corporate governance arrangements (continued)**

**Wates Principle 2 Board composition (continued)**
The Board and the Executive Committee together comprise 85% men and 15% women. We acknowledge that there is a relative lack of diversity on the Board and this is not reflective of the mix in the business. Page 21 of the strategic report analyses the gender diversity of the Group.

Directors and Executive Committee members update their knowledge of the business by frequent visits to Clubs and meetings with senior management.

Both the Board and the Executive Committee meet monthly. Attendance and proceedings at meetings are recorded with action points noted and followed up. Following the outbreak of COVID-19, the Board and the Executive Committee adapted their ways of working by moving to virtual working and meeting online. The Executive Committee held more regular informal meetings to manage the business through the pandemic.

**Wates Principle 3 Directors' responsibilities**
The Board typically meets ten times a year. The Board receives regular and timely information (at least monthly) on all key aspects of the business including the financial performance of the business, health and safety, performance against the Group's strategies and key performance indicators and capex investment appraisals and potential acquisitions.

Key financial information is collated from the Group's various accounting systems. The Group's finance function is appropriately qualified to ensure the integrity of this information and is provided with the necessary training to keep up to date with accounting changes. The Group's statutory financial statements are externally audited by Deloitte LLP on an annual basis.

The Group has developed policies that provide clear lines of accountability and responsibility for effective decision making. The Board delegates authority for day-to-day management to the Executive Committee.

Independent non-executive directors have no material business relationships with the Group which may influence their judgment or their ability to provide independent challenge. Directors are required to declare any conflict of interest in advance of any discussion.

**Wates Principle 4 Opportunity and risk**
The Board seeks out opportunities while mitigating risk. The Group's key financial and non-financial risks and mitigations are described in the 'Principal risks and uncertainties' section of the Strategic Report on pages 15 to 18.

The Executive Committee (as delegated by the Board) also considers further risks as part of the day to day management of the business.

The Board's priority has been managing the business during the COVID-19 pandemic. Our response to COVID-19 focussed on preserving cash, member engagement and implementing COVID-secure re-opening procedures. The Board considered the impact of the COVID-19 pandemic on the cash flows and liquidity of the Group as well as assessing the Group and Company's ability to adopt the going concern basis of accounting in preparing the financial statements.

The Board considers significant capex investment projects and potential acquisitions and approves them before any bids are made or contracts exchanged. During the year, the Board approved the sale and leaseback of Emersons Green.

The Board appointed an Innovation and Product Development Director with primary responsibility to consider and assess how the Group should create value in the medium to long term. The Property Director's principal focus is the opportunity for expansion both within and outside the UK.

**Statement of corporate governance arrangements (continued)**

**Wates Principle 4 Opportunity and risk (continued)**
The Board and Executive Committee have established an internal control framework designed to manage risk. The clubs are required to comply with both a compliance framework and a finance policy and procedures manual. The clubs are subject to regular health & safety and finance audits by group risk and the internal audit function. Red audit revisits are reported to the Executive Committee who monitor both the results and remediation action plan.

**Wates Principle 5 Remuneration**
Remuneration of directors and senior management is reviewed and set by the shareholder directors.

During the year, each of the statutory directors that are directly remunerated by the Group took a 25% reduction in their salary for the period April to July 2020 in response to the pandemic. The non-executive directors took a 100% salary reduction for the same period.

The directors, senior management and operational management participate in an equity-based incentive plan which is linked to shareholder value. More detail is given in Note 25 “Share based payments” on page 97 of these financial statements.

We report on Gender Pay on page 21 of the strategic report. The Board’s focus is to close the gap by increasing the proportion of females in our leadership roles.

**Wates Principle 6 Stakeholder relationships and engagement**
The Board’s principal responsibility is to promote the long-term success of the Group through creating shareholder value and contributing to a healthy society and a sustainable environment. The Board’s key objective remains constant; that doing the right thing by our members, our team and the communities in which we operate is integral to our future success as a sustainable business.

The Section 172(1) Statement on pages 22 to 25 of the Strategic Report explains how the Board engages with its employees, members and fosters effective stakeholder relationships aligned to the Group’s purpose.

**Energy and carbon reporting**
We have reported on all sources of GHG emissions and energy usage as required under The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended.

*GHG emissions and energy usage*

| GHG emissions and energy usage data for period 1 January 2020 to 31 December 2020 | | | |
|---|---|---|---|
| | | UK and offshore | |
| **Energy Use** | **Units** | **2020** | 2019 |
| Gas consumption | MWh | 298,569 | 391,533 |
| Purchased electricity consumption | MWh | 37,298 | 48,757 |
| | | | |
| **Greenhouse Gas (GHG) Emissions** | | | |
| Total gas | t/CO2e | 54,898 | 71,983 |
| Total fuel (gas oil) | t/CO2e | 238 | 277 |
| Total transport | t/CO2e | 9 | 25 |
| Total fugitive | t/CO2e | 1,190 | 239 |
| Total purchased electricity | t/CO2e | 8,696 | 12,462 |
| | | | |
| **Greenhouse Gas (GHG) Emissions** | | | |
| Direct emissions (Scope 1) | 000t/CO2e | 56,334 | 72,524 |
| Indirect emissions from electricity (Scope 2) | 000t/CO2e | 8,696 | 12,462 |
| Total CO2 emissions (location based) | t/CO2e | 65,030 | 84,986 |
| Total CO2 emissions (market based) | t/CO2e | 56,334 | 72,524 |
| | | | |
| **Total Greenhouse Gas (GHG) Emissions** | **Units** | **2020** | 2019 |
| Direct emissions (Scope 1) | 000t/CO2e | 56 | 73 |
| Indirect emissions from electricity (Scope 2) | 000t/CO2e | 9 | 12 |
| Total CO2 emissions (location based) | 000t/CO2e | 65 | 85 |
| Procured renewable energy | 000t/CO2e | 9 | - |
| Total C02 emissions (market based approach) | 000t/CO2e | 56 | 85 |
| | | | |
| **Intensity ratio** | **Units** | **2020** | 2019 |
| Total emissions per visit | kg/CO2e | 2.93 | 1.94 |

**Methodology**
This report covers all UK operations and the methodologies used are in accordance with the WBCSD/WRI GHG Protocol Corporate Accounting and Reporting Standard (Revised Edition), and conversions into CO2e have been calculated using the most recent government conversion factors https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2020 .

Direct (Scope 1) emissions include gas and fuel consumption, business travel in company owned or controlled assets, and fugitive emissions. Indirect (Scope 2) emissions relate to our purchased electricity consumption.

**2020 vs 2019 Review**
GHG emissions are from operationally controlled activities using the UK government 2020 greenhouse gas reporting conversions factors. The reduction in emissions from 2019 to 2020 is largely due to our club closures for a significant proportion of 2020 as a result of the COVID-19 pandemic. Scope 2 market-based emissions reduced as a result of transitioning to a UK group electricity renewable purchasing contract.

Intensity ratio is based on number of member visits. Our emissions per visit increased during 2020 as a result of club closures and no member visits, however energy was still consumed albeit at reduced levels.

**Energy efficiency action**
David Lloyd Leisure (DLL) has achieved the Carbon Trust Standard certification for Carbon and Water. Awarded in January 2020, the Carbon Trust Standard recognises organisations that follow best practice in measuring, managing, and reducing their environmental impact, achieving year-on-year reductions. Between 2017 and 2018 a 7.7% carbon emissions reduction was achieved.

Since the end of 2018, the Group has invested £8m to deliver a number of utility related initiatives. These incorporated a mixture of well-established and new technologies, such as further LED upgrades to tennis court lighting, upgrades to BMS systems, and improvements to other heating and cooling infrastructure.

From 1 January 2020, DLL began purchasing renewable electricity for its group UK contract.

**Statement of Directors' Responsibilities**
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 “Reduced Disclosure Framework”.

Under company law the 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 company and of the profit or loss of the Company for that period.

In preparing the parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

**Disclosure of information to the auditor**

Each of the persons who is a director at the date of approval of this report confirms that:

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

• the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

**Reappointment of auditors**

The auditors, Deloitte LLP, have indicated their willingness to continue in office and appropriate arrangements have been put in place concerning their re-appointment in the absence of an Annual General Meeting.

Approved by the Board on 30 June 2021 and signed on its behalf by:

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PJ Burrows

Director

Deuce Midco Limited

## Independent Auditor's Report to the members of Deuce Holdco Limited

#### 11.2. Audit response to risks identified

As a result of performing the above, we identified classification of refurbishment expenditure versus capital expenditure for clubs with material additions and impairment of fixed assets (PPE, ROU assets and goodwill) as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to these key audit matters.

In addition to the above our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

### 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### 13. Matters on which we are required to report by exception

#### 13.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### 13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

## 14. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Darren Longley, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
30 June 2021

## Deuce Midco Limited

## Consolidated Income Statement for the Year ended 31 December 2020

| | Note | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|---|
| Revenue | 5 | 267,854 | 519,535 |
| Cost of sales | | (108,584) | (130,154) |
| Gross profit | | 159,270 | 389,381 |
| Other income | 6 | 37,688 | - |
| Administrative expenses | | (44,026) | (48,751) |
| Other operating expenses | | (233,736) | (246,968) |
| Profit on disposal of PP&E | 8 | 5,256 | 1,369 |
| Operating (loss)/profit | 9 | (75,548) | 95,031 |
| Finance income | | 31 | 99 |
| Finance costs | | (156,498) | (148,835) |
| Net finance costs | 13 | (156,467) | (148,736) |
| Loss on ordinary activities before taxation | | (232,015) | (53,705) |
| Income tax credit on ordinary activities | 14 | 21,728 | 2,056 |
| Loss for the financial year | | (210,287) | (51,649) |

The above results were derived from continuing operations.

## Deuce Midco Limited

## Consolidated Statement of Comprehensive Income for the Year ended 31 December 2020

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|
| Loss for the financial year | (210,287) | (51,649) |
| **Items that may be reclassified subsequently to profit and loss** | | |
| Exchange differences arising on the translation of foreign operations | 2,116 | (2,771) |
| Total comprehensive loss for the financial year | (208,171) | (54,420) |

# Deuce Midco Limited

## (Registration number: 11385914)
## Consolidated Statement of Financial Position as at 31 December 2020

| | Note | 31 December 2020 £ 000 | Restated 31 December 2019 £ 000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | 309,701 | 343,688 |
| Right-of-use assets | 17 | 895,449 | 883,076 |
| Intangible assets | 18 | 211,199 | 217,356 |
| Deferred tax assets | 27 | 153,177 | 120,706 |
| | | 1,569,526 | 1,564,826 |
| **Current assets** | | | |
| Inventories | | 541 | 1,648 |
| Trade and other receivables | 20 | 27,884 | 12,851 |
| Income tax asset | | - | 400 |
| Cash and cash equivalents | 21 | 76,143 | 26,706 |
| | | 104,568 | 41,605 |
| Total assets | | 1,674,094 | 1,606,431 |
| **Current liabilities** | | | |
| Trade and other payables | 22 | (165,115) | (99,059) |
| Income tax liability | | (304) | - |
| Loans and borrowings | 23 | (40,000) | - |
| Provisions | 26 | (43) | (46) |
| Lease liabilities | 17 | (31,853) | (9,415) |
| | | (237,315) | (108,520) |
| **Non-current liabilities** | | | |
| Loans and borrowings | 23 | (1,016,538) | (944,237) |
| Provisions | 26 | (611) | (720) |
| Contract liabilities | 5 | (643) | (886) |
| Deferred tax liabilities | 27 | (185,807) | (175,174) |
| Lease liabilities | 17 | (881,823) | (818,258) |
| | | (2,085,422) | (1,939,275) |
| Net liabilities | | (648,643) | (441,364) |

## Deuce Midco Limited

## (Registration number: 11385914)
## Consolidated Statement of Financial Position as at 31 December 2020

| | Note | 31 December 2020 £ 000 | Restated 31 December 2019 £ 000 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | 28 | - | - |
| Share premium | | 271,336 | 271,336 |
| Capital contribution reserve | | 3,550 | 3,550 |
| Merger Reserve | | (530,000) | (530,000) |
| Foreign currency translation reserve | | (2,072) | (4,188) |
| Share based payment reserve | | 5,970 | 5,078 |
| Accumulated losses | | (397,427) | (187,140) |
| Total shareholders' deficit | | (648,643) | (441,364) |

The comparative information has been restated as a result of the prior year adjustment as discussed in note 4.

Approved by the Board on 30 June 2021 and signed on its behalf by:

.........................................
PJ Burrows
Director

# Deuce Midco Limited

## (Registration number: 11385914)
## Parent Company Statement of Financial Position as at 31 December 2020

| | Note | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments | 19 | 665,030 | 664,138 |
| **Current assets** | | | |
| Trade and other receivables | 20 | 516,320 | 483,895 |
| Total assets | | 1,181,350 | 1,148,033 |
| **Current liabilities** | | | |
| Trade and other payables | 22 | (27,918) | (24,297) |
| Loans and borrowings | 23 | (40,000) | - |
| | | (67,918) | (24,297) |
| **Non-current liabilities** | | | |
| Loans and borrowings | 23 | (1,016,538) | (944,237) |
| Net current assets | | 448,402 | 465,225 |
| Net assets | | 96,894 | 179,499 |
| **Equity** | | | |
| Share premium | | 271,336 | 271,336 |
| Share based payment reserve | | 5,030 | 4,138 |
| Retained earnings | | (179,472) | (95,977) |
| Total shareholders' funds | | 96,894 | 179,497 |

Approved by the Board on 30 June 2021 and signed on its behalf by:

.........................................
PJ Burrows
Director

The Company made a loss after tax for the financial year of £83,495,000 (2019: £75,991,000).

# Deuce Midco Limited

## Consolidated Statement of Changes in Equity for the Year ended 31 December 2020

| | Share capital £ 000 | Share premium £ 000 | Capital contribution reserve £ 000 | Merger reserve £ 000 | Foreign currency translation £ 000 | Share based payment reserve £ 000 | Accumulated losses £ 000 | Total shareholders' deficit £ 000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2020 | - | 271,336 | 3,550 | (530,000) | (4,188) | 5,078 | (208,140) | (462,364) |
| Effect of prior year restatement (note 4) | - | - | - | - | - | - | 21,000 | 21,000 |
| Adjusted balance at 1 January 2020 | - | 271,336 | 3,550 | (530,000) | (4,188) | 5,078 | (187,140) | (441,364) |
| Loss for the financial year | - | - | - | - | - | - | (210,287) | (210,287) |
| Other comprehensive income | - | - | - | - | 2,116 | - | - | 2,116 |
| Total comprehensive income/(expense) for the financial year | - | - | - | - | 2,116 | - | (210,287) | (208,171) |
| Share based payment transactions | - | - | - | - | - | 892 | - | 892 |
| At 31 December 2020 | - | 271,336 | 3,550 | (530,000) | (2,072) | 5,970 | (397,427) | (648,643) |

## Deuce Midco Limited

## Consolidated Statement of Changes in Equity for the Year ended 31 December 2019

| | Share capital £ 000 | Share premium £ 000 | Capital contribution reserve £ 000 | Merger reserve £ 000 | Foreign currency translation £ 000 | Share based payment reserve £ 000 | Accumulated losses £ 000 | Total shareholders' deficit £ 000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2019 | - | 271,336 | 3,550 | (530,000) | (1,417) | 940 | (221,880) | (477,471) |
| Effect of adoption of IFRS 16: Leases | - | - | - | - | - | - | 65,389 | 65,389 |
| Effect of prior year restatement (Note 4) | - | - | - | - | - | - | 21,000 | 21,000 |
| Restated at 1 January 2019 | - | 271,336 | 3,550 | (530,000) | (1,417) | 940 | (135,491) | (391,082) |
| Loss for the financial year | - | - | - | - | - | - | (51,649) | (51,649) |
| Other comprehensive expense | - | - | - | - | (2,771) | - | - | (2,771) |
| Total comprehensive expense for the financial year | - | - | - | - | (2,771) | - | (51,649) | (54,420) |
| Share based payment transactions | - | - | - | - | - | 4,138 | - | 4,138 |
| At 31 December 2019 | - | 271,336 | 3,550 | (530,000) | (4,188) | 5,078 | (187,140) | (441,364) |

## Deuce Midco Limited

## Parent Company Statement of Changes in Equity for the Year ended 31 December 2020

| | Share capital £ 000 | Share premium £ 000 | Share based payment reserve £ 000 | Retained earnings £ 000 | Total shareholders' equity £ 000 |
|---|---|---|---|---|---|
| At 1 January 2020 | - | 271,336 | 4,138 | (95,977) | 179,497 |
| Loss for the financial year | - | - | - | (83,495) | (83,495) |
| Total comprehensive expense for the financial year | - | - | - | (83,495) | (83,495) |
| Share based payment transactions | - | - | 892 | - | 892 |
| At 31 December 2020 | - | 271,336 | 5,030 | (179,472) | 96,894 |

The notes on pages 59 to 102 form an integral part of these financial statements.

# Deuce Midco Limited

## Parent Company Statement of Changes in Equity for the Year ended 31 December 2019

| | Share capital £ 000 | Share premium £ 000 | Share based payment reserve £ 000 | Retained earnings £ 000 | Total shareholders' equity £ 000 |
|---|---|---|---|---|---|
| At 1 January 2019 | - | 271,336 | - | (19,986) | 251,350 |
| Loss for the financial year | - | - | - | (75,991) | (75,991) |
| Total comprehensive expense for the financial year | - | - | - | (75,991) | (75,991) |
| Share based payment transactions | - | - | 4,138 | - | 4,138 |
| At 31 December 2019 | - | 271,336 | 4,138 | (95,977) | 179,497 |

The notes on pages 59 to 102 form an integral part of these financial statements.

# Deuce Midco Limited

## Consolidated Statement of Cash Flows for the Year ended 31 December 2020

| | Note | Year ended 31 December 2020 £ 000 | Year ended 31 December 2019 £ 000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss for the year | | (210,287) | (51,649) |
| Adjustments to cash flows from non-cash items: | | | |
| Depreciation and amortisation | 9 | 81,121 | 88,366 |
| Finance income | 13 | (31) | (99) |
| Finance costs | 13 | 156,498 | 148,835 |
| Share-based payment transactions | | 892 | 4,138 |
| Impairment charges | 7 | 27,784 | 12,229 |
| Impairment of joint venture loan | | - | 605 |
| Impairment of intangible assets | | 1,004 | - |
| Profit on disposal of property, plant and equipment | 8 | (5,256) | (1,369) |
| Tax credit | 14 | (21,728) | (2,056) |
| Other provision movements | | (308) | - |
| Senior management incentive plan | | 138 | - |
| Reclassification of insurance proceeds relating to property, plant and equipment | | - | (1,535) |
| | | 29,827 | 197,465 |
| Working capital adjustments (including impact of acquisition): | | | |
| Decrease/(increase) in inventories | | 1,102 | (13) |
| (Increase) in trade and other receivables | | (14,737) | (2,439) |
| Increase in trade and other payables | | 65,304 | (1,601) |
| Cash generated from operations | | 81,496 | 193,412 |
| Income taxes received/(paid) | | 594 | (931) |
| Net cash flows from operating activities | | 82,090 | 192,481 |
| **Cash flows from investing activities** | | | |
| Acquisitions of property, plant and equipment | | (25,691) | (74,717) |
| Proceeds from sale of property, plant and equipment | | 23,887 | 17,173 |
| Acquisition of intangible assets | | (1,258) | (7,635) |
| Interest received | | 23 | 84 |
| Dividends received | | 8 | 15 |
| Insurance proceeds relating to property, plant and equipment | | - | 1,535 |
| Loan to joint venture | | - | (605) |
| Transaction costs paid related to right-of-use assets | | - | (133) |
| Net cash flows from investing activities | | (3,031) | (64,283) |

# Deuce Midco Limited

## Consolidated Statement of Cash Flows for the Year ended 31 December 2020

| | Note | Year ended 31 December 2020 £ 000 | Year ended 31 December 2019 £ 000 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Principal element of lease payments | | (44,385) | (72,607) |
| Interest paid | | (25,446) | (48,156) |
| Proceeds from bank borrowings | | 40,000 | - |
| Lease incentives received | | 495 | - |
| Net cash flows from financing activities | | (29,336) | (120,763) |
| **Net increase in cash and cash equivalents** | | 49,723 | 7,435 |
| Cash and cash equivalents at beginning of period | | 26,706 | 19,683 |
| Effect of exchange rate fluctuations on cash held | | (286) | (412) |
| **Cash and cash equivalents at end of period** | | 76,143 | 26,706 |

## 1 General information

The Company is a private company limited by share capital incorporated and domiciled in the United Kingdom. The address of its registered office is:

The Hangar
Mosquito Way
Hatfield Business Park
Hertfordshire
United Kingdom
AL10 9AX

The nature of the Group's operations and its principal activities are set out in the Strategic Report on page 2.

## 2 Significant accounting policies

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

**Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union, and with the Companies Act 2006 applicable to companies reporting under IFRS. The Company's financial statements have been prepared in accordance with Financial Reporting Standard 101, "Reduced Disclosure Framework" (FRS101).

The consolidated and Company financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial assets and financial liabilities at fair value through profit and loss, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

As permitted by FRS101, the Company has taken advantage of the disclosure exemptions available in relation to presentation of a cash flow statement; standards not yet effective; business combinations; non-current assets held for sale; presentation of comparative information in respect of certain assets; impairment of assets; and related party transactions.

**Basis of consolidation**

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2020.

No income statement is presented for the Company as permitted by section 408 of the Companies Act 2006. The Company made a loss after tax for the financial year of £83,495,000 (2019: £75,991,000).

**2 Significant accounting policies (continued)**

**Basis of consolidation (continued)**

Where the Group has control over an investee, it is classified as a subsidiary. The Group controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intergroup transactions and balances between Group companies are therefore eliminated in full. The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

**Going Concern**

In preparing the financial statements the directors are required to assess the Group and Company’s ability to adopt the going concern basis of accounting. In making this assessment the directors have considered the Group and Company’s cash flows, liquidity, and business activities as well as the potential impact of the COVID-19 pandemic.

Principal risk

The impact of the COVID-19 pandemic was significant. On average, the Group’s clubs were closed for 5.5 months during the year-ended 31 December 2020 and the first 3.5 months of 2021. During the period the clubs were closed, members were not charged a monthly subscription and as a result no subscription revenue was earned during the closed period. Whilst the success of the UK’s vaccination programme is a source of great optimism, there remains a risk that new variants of COVID-19 could escape vaccines, causing future waves of COVID-19 that could lead to further periods of enforced club closures impacting the future financial performance and cash flows of the Group.

Liquidity

On 18 June 2021, a newly incorporated company, Deuce FinCo plc (a subsidiary of the Company) issued £645m and €300m (c. £258m) of Senior Secured Notes with a maturity date of 15 June 2027.

On the same date, Deuce Holdco Limited (a parent of the Company) issued £250m of PIK debt with a maturity date of 18 June 2028. In addition, £100m of cash equity was contributed into Deuce Holdco Limited (via Deuce Topco Limited) by TDR Capital.

The total proceeds (c. £1,253m) were used to repay existing indebtedness, for general corporate purposes including working capital requirements, capital expenditures and strategic acquisitions, and to pay fees and expenses incurred in connection with the transaction.

The Group also has access to a £125m super senior revolving credit facility (“SSRCF”) which has a maturity date of 18 December 2026. The SSRCF is subject to a financial covenant relating to Consolidated Leverage Ratio (EBITDA to Net Debt ratio) only if the SSRCF is at least 40% drawn.

**2 Significant accounting policies (continued)**

**Going Concern (continued)**

Liquidity (continued)

As at 30 June 2021 (post refinancing), the Group had an immediately available cash balance of c. £150m and total liquidity of c. £275m including the undrawn SSRCF.

As a result of this transaction, the Group has significantly increased its liquidity and strengthened the balance sheet.

Cash Flow Forecasts

In making their assessment of going concern the directors have considered the forecast cash flows of the Group, the liquidity available and compliance with the financial leverage covenant over an eighteen-month period ending December 2022.

The Group’s base case scenario assumes all clubs remain open for the period July 2021 to December 2022. The base case also assumes the repayment of deferred liabilities to landlords, suppliers and other creditors that were accumulated during the closure period and the SSRCF remains undrawn. Under this base case scenario, the Group has ample liquidity and comfortably operates within the financial covenant.

The directors have also considered the impact of plausible downside scenarios being extended club closures brought about by further potential lockdowns. Under these downside scenarios, the SSRCF remains undrawn. Given the new funding within the Group, there is sufficient liquidity for the Group to operate and comply with the financial covenants over the next 18 months under these scenarios.

Conclusion

Based on the Group’s liquidity and cash flow forecasts the directors have concluded 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.

**Revenue recognition**

Revenue is derived from the provision of sport and leisure facilities in the United Kingdom and Europe. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

The Group’s revenues are recognised mainly from the following goods and services:

- Membership subscriptions;
- Administration and joining fees;
- Sale of sports lessons including swimming, tennis and personal training;
- Other product sales, including food and beverage and crèche services.

*Membership subscriptions*

Membership subscriptions can be paid annually or monthly by direct debit. Subscriptions are recognised over the period of membership, with any subscriptions payments received in advance of the period in which the service is provided being recorded as a contract liability on the statement of financial position.

During the period clubs were closed, members were put on ‘free freeze’ and therefore not charged a monthly subscription. For March 2020 members had already paid their monthly direct debit. The clubs were closed for the last 11 days of March. Consequently, 11 days of the March subscription was recognised as contract liability. Members were given the option to choose vouchers (food and beverage (F&B), personal training (PT) or guest passes) to reflect the fact they had not been able to use the club.

**2 Significant accounting policies (continued)**

**Revenue recognition (continued)**

*Membership subscriptions (continued)*

Revenue relating to the vouchers is recognised at the earliest of: the guest pass, PT voucher or F&B voucher being utilised; the voucher expiring or the member leaves David Lloyd as the vouchers are not transferrable. For November 2020, members had already paid their monthly direct debit. The clubs were closed for 26 days in November. Consequently, 26 days of the November subscription was recognised as a contract liability. This member credit was offset against their December monthly direct debit and revenue was recognised during the period clubs were open.

*Administration and joining fees*

Administration and joining fees are paid upfront and are non-refundable. They represent a fee for the initial set up costs of the contract and for the right to renew the membership for no additional fee when the contract expires. Revenue is recognised in line with when the performance obligations are performed which is over the average membership period, including any period of renewal. Cash received relating to future periods of membership are recognised as contract liabilities in the statement of financial position.

The average membership periods over which revenue is recognised are:
Standard membership 24 months
Flexible membership 1 month
Annual membership 24 months

*Product sales*

Revenue from food and beverage sales, and other merchandise is recognised at the point of sale.

*Other revenue*

Other revenue comprises income from personal training, tennis and swimming classes. Revenue is recognised over the period that classes are provided, and any upfront payment is recognised as a contract liability on the statement of financial position.

Sports lessons are paid for upfront at the beginning of the term or monthly by direct debit. Cash received is recognised over the period that lessons are provided, and any upfront payment is recognised as a contract liability on the statement of financial position.

Personal training is paid for monthly by direct debit, through the purchase of vouchers online or in club. Sessions can be purchased in packs of one, four or eight. Revenue is recognised as and when personal training sessions are delivered (or vouchers have expired). Vouchers normally have an expiry date of between one and three months depending on quantity purchased, from the date of purchase. Cash received in relation to future periods is recognised as a contract liability on the statement of financial position.

**Other income / Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses related to the costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Money received under the Coronavirus Job Retention Scheme, or equivalent schemes across Europe, is recorded within other income in the period in which the related expense is incurred.

## 2 Significant accounting policies (continued)

**Exceptional items**
Exceptional items are disclosed separately in the financial statements, where it is necessary to provide further understanding of the financial performance of the Group. They are items that are material, either because of their size or their nature, or that are non-recurring.

**Foreign currency transactions and balances**
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in pound sterling, which is also the Group's functional currency.

Transactions in currencies other than the functional currency are recognised at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

On consolidation, the results of overseas operations are translated into pounds sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at the opening rate and the results of overseas operations at the actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

The average conversion rate during the period was £1: €1.10 (2019: £1: €1.14), and at the statement of financial position date was £1: €1.11 (2019: £1: €1.18).

**Borrowings**
Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Borrowings are classified as loans within non-current, current liabilities based on their maturity date.

**Borrowing costs**
Costs directly attributable to the refinancing have been capitalised and amortised over the related loan period. Where fees do not relate directly to a particular loan, they have been apportioned between the loans based on the total loan principal.

**Tax**
The tax expense for the period comprises current tax and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity respectively.

**2 Significant accounting policies (continued)**

**Tax (continued)**

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income.

Deferred 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 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 tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred 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 assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities and there is an intention to settle the balances on a net basis.

**Investments**

Investments in subsidiaries and joint ventures are held at cost less accumulated impairment losses.

**Property, plant and equipment**

Land and buildings held for use in the supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their net book value, being the fair value at the date of acquisition less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Plant and machinery are stated at historical cost less accumulated depreciation and any recognised impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

**Depreciation**

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

Fixtures and Fittings - between 3 and 23 years
Freehold Buildings - 50 years
Freehold land is not depreciated.

The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit/(loss) on disposal of PP&E within the income statement.

**Club opening costs**

Site development costs capitalised represent costs incurred in respect of the development of new sites. No depreciation is charged until the new club is brought into operation.

Costs incurred prior to the date of opening a club which are not directly associated with its acquisition, construction, refurbishment or fitting out are charged to the profit and loss account as incurred.

**2 Significant accounting policies (continued)**

**Goodwill**

Business combinations are accounted for using the acquisition method or using merger accounting where it was a common control transaction and the relative rights remained the same before and after the combination. Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition-related costs are expensed as incurred and included in exceptional operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the fair value of acquired assets and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss. Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to groups of cash-generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Goodwill arising on the acquisition by TDR on 1 November 2013 is monitored internally by management at the Group level. The Group is considered to be the smallest relevant group of CGUs for goodwill impairment. Goodwill has also been recognised in relation to individual club acquisitions. For these acquisitions the relevant club is considered to be the CGU.

**Intangible assets**

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques. They are amortised over their useful lives from the date of acquisition.
The fair value of clubs held under operating leasehold interest at acquisition are carried as intangible assets. Amortisation is charged to the income statement on a straight-line basis over the remaining lease terms.

The estimated value of brand names acquired are recorded as intangible fixed assets with indefinite useful lives and are therefore tested annually for impairment.

An identifiable internally-generated intangible asset arising from the Group's Information Technology development is recognised only to the extent its cost can be reliably measured and future economic benefits will flow to the Group as a result.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives - usually 3 years.

Computer software and licenses are capitalised at cost, and amortised over their useful life or licence period, where applicable - 18 months to 3 years.

## 2 Significant accounting policies (continued)

**Impairment of tangible and intangible assets**

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets (including goodwill) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Each individual club is considered to be a CGU.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Investments are reviewed for impairment based upon their recoverable amount.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, overheads that have been incurred in bringing the stocks to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**Cash and cash equivalents**

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. Restricted cash relates to cash held at bank which is not immediately available for use in the ordinary course of business.

**Creditors**

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**Trade and other receivables**

Trade and other receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

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

**2 Significant accounting policies (continued)**

**Provisions**
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The amortisation of the discount is recognised as interest expense.

**Employee benefits**
*Pension obligations*
The Group operates various defined contribution pension plans. The Group pays contributions to privately administered pension insurance plans on a mandatory, contracted or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense. The assets of the scheme are invested and managed independently of the finances of the Group.

*Senior management incentive plan*
The Group recognises a liability and an expense for participants of the Senior Management Incentive Plan which is payable upon sale of the business if certain conditions are met by amortising the present value of the estimated payment over the expected service period. This liability is recorded within provisions.

*Share-based payments*
Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for the right to purchase equity instruments in the parent company (equity-settled transactions).

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The fair value at start date of equity-settled transactions is recognised, together with a corresponding increase in the share-based payment reserve in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

**2 Significant accounting policies (continued)**

**Employee Benefit Trust**

The Employee Benefit Trust is considered to be controlled by the Group. The activities of the Trust are conducted on behalf of the Group according to its specific business needs in order to obtain benefits from its operation and on this basis, the assets held by the Trust are consolidated into the Group's financial statements.

**Share capital**

Ordinary shares are classified as equity.

**Financial liabilities**

*Classification*

Financial liabilities can be classified as 'fair value through profit or loss' or held at amortised cost. All are initially recognised at fair value, and in the case of loans, net of any transaction costs. Loans are measured at amortised cost, using the effective interest rate method, with interest expense recognised on an effective yield basis.

*Recognition and measurement*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

**Financial assets**

*Classification*

The Group classifies its financial assets in the following measurement categories: financial assets at fair value (either through Other Comprehensive Income (OCI) or through profit or loss) and financial assets at amortised cost.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. For assets measured at fair value, gains and losses will be recorded either in profit or loss or in OCI.

*Recognition and measurement*

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset measured at amortised cost or fair value through OCI, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss (FVTPL) are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

*Impairment*

The Group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and fair value through profit or loss. Expected credit losses are measured through a loss allowance at an amount equal to the expected credit losses for the next 12 months or the expected credit losses over the lifetime of the asset. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

## 2 Significant accounting policies (continued)

**Financial assets (continued)**

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

**Leases**

The Group leases various clubs and equipment. Rental contracts are typically made for fixed periods of 12 months to 125 years but may have extension options.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The Group has entered into commercial property leases and other plant and equipment as a lessee. The leases are recognised as a right-of-use asset with a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the company under residual value guarantees;
- The exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the incremental borrowing rate ("IBR"). This is the rate of interest that a lessee would have to pay to borrow, over a similar term and with security funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment with similar terms, security 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.

**2 Significant accounting policies (continued)**

**Leases (continued)**

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Where lease payments have been deferred as a direct consequence of COVID-19, no allocation is made against the lease liability during the deferral period. Invoices received in relation to deferred rents are recognised as trade payables, with a corresponding deferred rent prepayment recognised in the statement of financial position.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as an expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

Information about critical accounting estimates and judgements in the application of lease accounting is disclosed in note 3.

**Changes in accounting policies and disclosures**

(a) New standards, amendments and interpretations

*Impact of the initial application of 'COVID-Related Rent Concessions' Amendment to IFRS 16*

In May 2020, the IASB issued COVID-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

(a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

(c) There is no substantive change to other terms and conditions of the lease. In the current financial year, the Group has applied the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date.

**2 Significant accounting policies (continued)**

The impact of applying this practical expedient during the year was to increase the lease liability by £17.3m for rents that have been deferred.

There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2020 that have had a material impact on the Group's financial statements. For completeness the following new standards, amendments and interpretations are newly mandatorily effective for the first time in the current period:

• COVID-19-Related Rent Concessions (Amendment to IFRS16);
• Amendments to IFRS 4, Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts';
• Amendments to IFRS 3, Definition of a Business;
• Amendments to IAS 1 and IAS 8, Definition of Material;
• Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform;
• Amendments to References to the Conceptual Framework in IFRS Standards

(b) New standards, amendments and interpretations not yet adopted
At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

• IFRS 17, Insurance Contracts;
• Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
• Amendments to IAS 1, Classification of Liabilities as Current or Non-Current
• Amendments to IFRS 3, Reference to the Conceptual Framework;
• Amendments to IAS 16, Property, Plant and Equipment - Proceeds before Intended Use
• Amendments to IAS 37, Onerous Contracts - Cost of Fulfilling a Contract
• Annual Improvements to IFRS Standards 2018-2020 Cycle

None of these are expected to have a material impact on the financial statements of the Group or the Company.

## 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.

**Critical accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the future. The related 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:

*Lease accounting*

The lease payments are discounted using the lessee’s incremental borrowing rate ("IBR"), being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the IBR, the Group has considered three main risk premiums (adjustments) being: reference rate, credit risk premium and asset specific adjustment.

Reference rate (risk free rate) - In assessing the relevant reference rate, we have taken into account currency, economic environment and unexpired terms of the leases. Relevant government bond yields have been used as a proxy for the risk free rate.

Credit risk premium - The Group have estimated an additional credit risk to reflect the difference in risk profile between a Government bond and another debt security with the same maturity.

Asset (lease) specific adjustment - The Group have used property yields as a proxy to differentiate between different property types and locations. The asset specific adjustment has been based on property initial yield benchmarks taking into account the expected annual rental growth rate and the expected annual building depreciation rate.

The key factors influencing the discount rate are:
• Economic environment/country;
• Length of Lease;
• Lessee entity;
• Type of collateral;
• Rent review mechanism in the lease i.e. contingent market rent reviews versus fixed increases or indexation.

The Group developed a categorisation of leases and a matrix of discount rates at transition to reflect the specific factors above. During the year, a number of the Group’s leases were re-negotiated and have been treated as lease modifications under IFRS16. A revised discount rate at the effective date of the modification has been used to re-measure the lease liabilities, with a corresponding adjustment to the right-of use-asset. The calculated IBR at 31 December 2020 range between 2.8% - 9.24% (2019: 2.8% - 9%) translating to an average rate of 7.1% (2019: 6.8%). A 4-basis point increase/(decrease) in the rate would cause the lease liabilities to increase/(decrease) by £5.0m (2019: 5-basis point increase/(decrease) £6.1m) and a corresponding increase/(decrease) in the right-of-use assets of £5.1m (2019: 5-basis point increase/(decrease) £6.5m). The IBR can change due to the type of leases that are held by the Group, the economic environment, the lease terms and asset types.

## 3 Critical accounting estimates and judgements (continued)

*Key assumptions used for assessing goodwill for impairment*
Goodwill is tested for impairment on an annual basis. Goodwill arising on the acquisition by TDR on 1 November 2013 is tested at the Group level. The Group is considered to be the smallest relevant group of CGUs for goodwill impairment testing, as this is the level at which goodwill is monitored internally. Goodwill has also been recognised in relation to individual club acquisitions. For these acquisitions the relevant club is considered to be the CGU for goodwill impairment testing. The Group has determined the recoverable amount by estimating the value in use of the cash-generating units within the Group. The calculation of value in use requires estimation of future cashflows and a discount rate to determine the present value. Sensitivity to changes in this assumption are disclosed in note 15.

*Key assumptions used for value-in-use calculations*
The Group tests the carrying amounts of individual club non-current assets for impairment for those clubs that meet pre-defined impairment indicators. For the 2020 and 2019 reporting periods, the recoverable amount of the cash-generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets and business plans approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using an estimated growth rate of 1.8% for the UK and Holland, 1.7% for Spain and 1.4% for France and Belgium. These growth rates are consistent with forecasts specific to the industry and the country in which each CGU operates. The pre-tax discount rates of 10.5% for the UK, and 11.5% for Spain have been determined based on the weighted average cost of capital. Sensitivity to changes in assumptions are disclosed within note 15.

*Option valuation*
On 30 January 2020, Deuce Topco Limited (the Company's immediate parent) granted DLL (a subsidiary of the Company) an option to acquire the entire issued share capital of DLL Greenwich Limited. The option is exercisable at any point from 30 January 2020 to 30 January 2023. The fair value of the call option is derived using option valuation techniques, with key inputs being the market value of DLL Greenwich, the cost to exercise the option and other key factors such as market volatility. The key driver of the fair value of the option is the equity value of DLL Greenwich Ltd which as an unlisted entity requires significant management judgement to determine. Using the purchase price of the Meridian Group and the year-end enterprise value of the business we have concluded the value of the option is £nil.

**Critical judgements in applying the entity's accounting policies**
*Lease accounting*
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Periods covered by an option to extend the lease term are included in the lease term if the lessee is reasonably certain to exercise that option. The same rationale applies to termination options.

Significant judgement is involved in determining the period over which a lease is considered to be 'enforceable'. Where contracts have a term of greater than 10 years remaining at transition, the Group assesses there to be an unclear indication that it would in substance be deemed to be 'enforceable' beyond the original contractual term, despite the rights provided by The Landlord and Tenant Act 1954. The lease end date has therefore been used as the end date for the lease. For leases due to expire within 10 years of transition, the likelihood of extension is being assessed up to the year end with reference to the facts available and looking at the Group's history of renewing leases beyond the contractual end date.

**3 Critical accounting estimates and judgements (continued)**

For the current leases held by the Group, we currently conclude the minimum lease term to be the term of the lease contract, including any reversionary leases. We assess, based on our current plans or expectations, the situation for each lease for which options to extend, terminate or purchase exist annually and judgement will be applied in the weighting of relevant factors in each case.

*Judgements in determining the timing of satisfaction of performance obligations under IFRS15*
The timing of satisfaction of performance obligations of administration and joining fees for members requires judgment. Administration and joining fees represent a fee for the initial set-up costs of the contract and for the right to renew the membership for no additional fee when the contract expires. The set-up costs are critical to the contract with the new member, but they do not satisfy performance obligations, as no good or service is transferred to the member. The member effectively pays for the future right of renewing their membership for no additional fee. It is at these renewal dates that the performance obligation is fulfilled, therefore it is appropriate to recognise the revenue over the total membership period, which includes any renewal period. Historical data and trends have been used to determine the average period of membership and number of renewals for each package type.

COVID-19 resulted in club closures. During this period, no revenue was recognised as performance obligations had not been satisfied.

In making their judgement, the directors have considered the detailed criteria for the recognition of revenue set out in IFRS 15. Following the detailed review of the Group’s membership base and historic trends, the directors are satisfied that the recognition of revenue in the current year is appropriate.

*Control*
On 30 January 2020, DLL Greenwich GmbH, an entity outside the Group, but related by virtue of a common ultimate controlling party, purchased the entire issued share capital of Meridian Spa & Fitness Deutschland GmbH and its subsidiaries (known as the “Meridian Group”) which consists of eight health and spa clubs from leasehold premises in Germany. On the same date, Deuce Topco Limited (the Company's immediate parent) and DLL Greenwich GmbH entered into an agreement with David Lloyd Leisure Limited (“DLL”) whereby DLL will provide certain management and operation services and to license the Trade Marks to the Meridian Group. In consideration for the provision of these services, Deuce Topco Limited (the Company’s parent) granted DLL (a subsidiary of the Company) an option to acquire the entire issued share capital of DLL Greenwich Limited, which is the parent undertaking of DLL Greenwich GmbH. The option is exercisable at any point from 30 January 2020 to 30 January 2023.

This option requires management to determine whether the Meridian Group should be considered within these financial statements due to the rights bestowed to the Group by this option. In order to exercise the option, DLL would need to obtain consent from its banking group. Given this requirement and the economic and restrictive barriers in place, the Directors have concluded that the Group does not have control over DLL Greenwich Limited until the option is exercised and has therefore not consolidated DLL Greenwich Limited as at 31 December 2020.

## 4 Prior year adjustment

During the year, the directors identified that the Group had understated both deferred tax asset balances and reserves at 31 December 2019 by £21m. As a result, a prior year adjustment has been made and is reflected in the restated 2019 balances as presented.

The Group adopted IFRS 16 Leases retrospectively from 1 January 2019 but did not restate comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The adjustments arising from the new leasing rules were therefore recognised in the opening balance sheet on 1 January 2019. There were no errors related to the adoption of IFRS 16 itself. The error was restricted to the deferred tax calculation. The misstatement of the deferred tax balances related to the complexities of the adoption of IFRS 16 Leases retrospectively from 1 January 2019.

There is no impact on the prior year income statement and the effect of the prior year adjustment is to increase the opening 1 January 2019 deferred tax asset by £21m and to reduce accumulated losses at 1 January 2019 by £21m. This is the adjustment that should have been recorded in the prior year financial statements should the error never have arisen in the first place.

## 5 Revenue

The analysis of the Group's revenue for the year from continuing operations is as follows:

| | Year ended 31 December 2020 £ 000 | Year ended 31 December 2019 £ 000 |
|---|---|---|
| Membership subscriptions | 215,335 | 406,441 |
| Retail | 24,369 | 52,946 |
| Other revenue | 28,150 | 60,148 |
| | 267,854 | 519,535 |

Other revenue primarily relates to provision of personal training, tennis and swimming classes.

The analysis of the Group's revenue for the year by geographic location is as follows:

| | Year ended 31 December 2020 £ 000 | Year ended 31 December 2019 £ 000 |
|---|---|---|
| UK | 239,766 | 463,899 |
| Europe | 28,088 | 55,636 |
| | 267,854 | 519,535 |

## 5 Revenue (continued)

| | Year ended 31 December 2020 £ 000 | Year ended 31 December 2019 £ 000 |
|---|---|---|
| **Revenue recognised that was included in the contract liability balance at the beginning of the period** | | |
| Membership subscriptions | 18,629 | 19,445 |
| Joining and other administration fees | 2,023 | 3,294 |
| Other | 1,045 | 1,246 |
| | 21,697 | 23,985 |

Contract liabilities at the year end were as follows:

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|
| Current contract liabilities | 35,554 | 22,653 |
| Non-current contract liabilities | 643 | 886 |
| | 36,197 | 23,539 |

Contract liabilities relate to membership subscriptions, joining and administration fees and sales of sports classes received in advance of performance under the contract. IFRS 15 uses the term 'contract liability' to describe what might more commonly be known as 'deferred revenue'.

The current contract liability balance of £35.6m is expected to be released and recognised within revenue in the next twelve months assuming all performance obligations have been satisfied.

## 6 Other income

| | Year ended 31 December 2020 £ 000 | Year ended 31 December 2019 £ 000 |
|---|---|---|
| Government grant income | 37,688 | - |

During the year, £34.3m was recognised in relation to the UK Coronavirus Job Retention Scheme; £2.6m in relation to European employee support schemes; and £0.8m from participation in the UK Government's 'Eat Out to Help Out' scheme in August 2020.

## 7 Exceptional items

| | Note | Year ended 31 December 2020 £ 000 | Year ended 31 December 2019 £ 000 |
|---|---|---|---|
| Impairment of property, plant and equipment | 16 | 9,094 | 7,880 |
| Impairment of right-of-use assets | 17 | 18,690 | 2,569 |
| Impairment of intangible assets | 18 | 1,004 | - |
| Costs of lease re-negotiations | | 6,019 | - |
| Business restructuring | | 2,477 | 1,074 |
| Acquisition related costs | | 482 | - |
| Impairment of investment | 19 | - | 1,780 |
| India joint venture losses | | - | 1,049 |
| Exceptional costs | | 37,766 | 14,352 |

Exceptional items are included within other operating expenses in the income statement. Costs of lease re-negotiations primarily relates to stamp duty land tax paid of £5.3m.

These items are considered by the directors due to their size and nature to be exceptional and are therefore separately disclosed.

The tax effect of the exceptional items disclosed above was credit £3,955,000 (2019: credit £1,776,000) due to the increase in deferred tax assets as a result of the above items.

Exceptional items listed above generated a net cash outflow of £8,978,000 (2019: £2,123,000).

## 8 Profit on disposal of PP&E

The analysis of the Group's profit on disposal of PP&E (excluding gym equipment) for the year is as follows:

| | Year ended 31 December 2020 £ 000 | Year ended 31 December 2019 £ 000 |
|---|---|---|
| Profit on sale and leaseback of UK land and buildings | 4,735 | 2,864 |
| Profit/(loss) on disposal of other PP&E | 266 | (1,352) |
| Profit on sale of joint venture | 255 | - |
| Loss on disposal of intangible assets | - | (143) |
| | 5,256 | 1,369 |

The Group recorded a profit on disposal of gym equipment of £0.1m (2019: £0.1m) for the year ended 31 December 2020 which is recognised within other operating expenses.

## 9 Operating (loss)/profit

Arrived at after charging:

| | Note | Year ended 31 December 2020 £ 000 | Year ended 31 December 2019 £ 000 |
|---|---|---|---|
| Depreciation expense | 16, 17 | 73,106 | 77,034 |
| Amortisation expense | 18 | 8,015 | 11,332 |
| Staff costs | 11 | 138,579 | 154,786 |
| Rent expense | | 2,456 | 2,528 |
| Exceptional costs | 7 | 37,766 | 14,352 |
| Expected credit loss | | 8,599 | 7,274 |

The cost of inventories recognised as an expense and included in cost of sales amounted to £8.8m (2019: £16.8m). This includes inventory write downs of £0.9m (2019: £0.9m).

In accordance with IFRS 16 operating lease expense represents turnover rent, service charge and service charge insurance.

## 10 Auditor's remuneration

| | Year ended 31 December 2020 £ 000 | Year ended 31 December 2019 £ 000 |
|---|---|---|
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | 4 | 4 |
| The audit of the Company's subsidiaries pursuant to legislation | 566 | 527 |
| | 570 | 531 |
| **Other fees to auditor** | | |
| Audit related assurance services | 9 | 9 |
| Tax services | 13 | 13 |
| | 22 | 22 |
| | 592 | 553 |

## 11 Staff costs

The aggregate payroll costs were as follows:

| | Year ended 31 December 2020 £ 000 | Year ended 31 December 2019 £ 000 |
|---|---|---|
| Wages and salaries | 125,918 | 137,526 |
| Social security costs | 9,330 | 11,007 |
| Other pension costs | 2,439 | 2,115 |
| Long-term incentive plan charges | 892 | 4,138 |
| | 138,579 | 154,786 |

The average number of persons (full-time equivalents) employed by the Group (including directors) during the year, analysed by category was as follows:

| | 2020 No. | 2019 No. |
|---|---|---|
| Club Support | 285 | 277 |
| Clubs | 5,151 | 5,391 |
| | 5,436 | 5,668 |

There were no employees within the Company.

Money received under the Coronavirus Job Retention Scheme and equivalent European employee support scheme is recorded within "Other income" in note 6. The payroll costs in the table above is the gross cost.

## 12 Directors' remuneration

The remuneration for the Directors for the year was as follows:

| | Year ended 31 December 2020 £ 000 | Year ended 31 December 2019 £ 000 |
|---|---|---|
| Aggregate remuneration | 882 | 932 |
| Pension costs | 11 | 1 |
| | 893 | 933 |

In respect of the highest paid Director:

| | Year ended 31 December 2020 £ 000 | Year ended 31 December 2019 £ 000 |
|---|---|---|
| Aggregate remuneration | 367 | 458 |
| Pension costs | - | - |
| | 367 | 458 |

## 13 Finance income and costs

| | Year ended 31 December 2020 £ 000 | Year ended 31 December 2019 £ 000 |
|---|---|---|
| **Finance income** | | |
| Interest income on bank deposits | 23 | 84 |
| Dividend income | 8 | 15 |
| Total finance income | 31 | 99 |
| **Finance costs** | | |
| Interest on bank overdrafts and borrowings | (99,259) | (91,862) |
| Interest on lease liabilities | (56,352) | (54,813) |
| Amortisation of loan arrangement fees | (601) | (1,083) |
| Foreign exchange gains/(losses) | 48 | (763) |
| Unwinding of discount on provisions | (46) | (25) |
| Other interest payable | (288) | (289) |
| Total finance costs | (156,498) | (148,835) |
| Net finance costs | (156,467) | (148,736) |

## 14 Income tax

Tax credit in the income statement:

| | Year ended 31 December 2020 £ 000 | Year ended 31 December 2019 £ 000 |
|---|---|---|
| **Current taxation** | | |
| UK corporation tax | - | - |
| Foreign corporation tax | 119 | 852 |
| Adjustment in respect of prior periods | (9) | (9) |
| | 110 | 843 |
| **Deferred taxation** | | |
| Arising from origination and reversal of temporary differences | (23,142) | (1,247) |
| Adjustment in respect of prior periods | (4,621) | (1,652) |
| Change in tax rate | 5,925 | - |
| Total deferred taxation | (21,838) | (2,899) |
| Tax credit in the income statement | (21,728) | (2,056) |

UK Corporation tax is calculated at 19% (2019: 19%) of the estimated taxable profit for the year. Taxation for other corporation jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

## 14 Income tax (continued)

After the balance sheet date, the UK Government have subsequently announced in the 2021 Budget that the corporation tax rate will increase to 25% in 2023 (the impact of this is disclosed in note 27).

The tax credit for the year is higher (2019: higher) than the standard rate of corporation tax. The differences are explained below:

| | Year ended 31 December 2020 £ 000 | Year ended 31 December 2019 £ 000 |
|---|---|---|
| Loss before tax | (232,015) | (53,705) |
| Corporation tax at standard rate 19% (2019: 19%) | (44,083) | (10,204) |
| Effect of non deductible expenses | 9,576 | 10,360 |
| Effect of tax losses | 12,473 | (880) |
| Loss relief with parent company for no consideration | 41 | 52 |
| Effect of different tax rates | (1,030) | 277 |
| Deferred tax expense relating to changes in tax rates or laws | 5,925 | - |
| Adjustments in respect of prior periods | (4,630) | (1,661) |
| Total tax credit | (21,728) | (2,056) |

The adjustment in respect of prior periods of £4.6m credit (2019: £1.7m credit) primarily relates to the analysis of the tax treatment of exceptional items and fixed assets where further information is subsequently available on the nature of these costs.

## 15 Impairment testing

Goodwill and brands with indefinite lives are subject to an annual impairment test. Goodwill and brands are allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the Group for goodwill arising on the acquisition of the Group by TDR on 1 November 2013 and individual clubs for goodwill arising on acquisitions of individual clubs. Club impairments of tangible fixed assets are charged to individual clubs as these are considered to be separate cash generating units (CGUs) at which the Group monitors performance.

The COVID-19 lockdowns during 2020 caused a significant decline in revenue and increase in operating losses, together with a reduction in future forecast profitability resulting in impairment charges of £28.8m. £7.1m of the impairment charge was recognised in relation to the Bad Homburg club, located in Germany, of which £4.2m relates to PPE, £2.4m relates to ROU Assets and £0.5m related to fair value uplifts.

**15 Impairment testing (continued)**

**Key assumptions used in value in use calculations**

The recoverable amount of tangible fixed assets is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management. The pre-tax discount rate applied to cash flow projections is 10.5% for UK and other European countries and 11.5% for Spain (2019: 10.5% for UK and other European countries and 10.4% for Spain) and cash flows beyond the five-year period are extrapolated using a 1.8% growth rate for the UK and Holland, 1.7% for Spain and 1.4% for France and Belgium (2019: 1.9%).

Discount rate - The discount rate was determined using current market assessments of the time value of money and the risks specific to the asset.

**Sensitivity to changes in assumptions for goodwill**

Any change to the above key assumptions could have a material impact on the recoverable amount; which is then compared to the carrying value of the cash generating unit to determine if there is an impairment. The Group has determined the recoverable amount by estimating the value in use of the cash-generating units within the Group. The calculation of value in use requires estimation of future cashflows and a discount rate to determine the present value. The sensitivity of goodwill impairment to changes in the discount rate are shown below:

| | Impairment £ 000 | Impact of change £ 000 | Adjusted impairment £ 000 |
|---|---|---|---|
| Discount rate increase of 3.3% | - | (6,493) | (6,493) |

**Sensitivity to changes in assumptions for tangible fixed assets**

With regard to the assessment of value in use, a change in any of the above key assumptions could have a material impact on the carrying value of the cash generating unit. Clubs have been assessed for impairment at the year end by comparing the carrying value of tangible fixed assets for each CGU against its value in use. The sensitivity of the club impairments to changes in the discount rate and long-term growth rates is shown below:

| | Impairment £ 000 | Impact of change £ 000 | Adjusted impairment £ 000 |
|---|---|---|---|
| Discount rate increase of 0.5% | (27,784) | (4,486) | (32,270) |
| Long-term growth rate decrease of 0.8% | (27,784) | (4,782) | (32,566) |

## 16 Property, plant and equipment

**Group**

| | Land and buildings £ 000 | Fixtures & fittings and equipment £ 000 | Work in progress £ 000 | Total £ 000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 31 December 2019 | 240,282 | 253,306 | 4,856 | 498,444 |
| Additions | 1,241 | 9,216 | 13,164 | 23,621 |
| Transfers | 5,009 | 10,833 | (15,842) | - |
| Disposals | (10,106) | (4,361) | - | (14,467) |
| Foreign exchange movements | 3,952 | 2,688 | 4 | 6,644 |
| As at 31 December 2020 | 240,378 | 271,682 | 2,182 | 514,242 |
| **Depreciation** | | | | |
| At 31 December 2019 | (39,351) | (115,405) | - | (154,756) |
| Charge for the year | (8,874) | (33,075) | - | (41,949) |
| Impairment | (4,297) | (4,797) | - | (9,094) |
| Disposals | 524 | 4,133 | - | 4,657 |
| Foreign exchange movements | (1,387) | (2,012) | - | (3,399) |
| As at 31 December 2020 | (53,385) | (151,156) | - | (204,541) |
| **Carrying amount** | | | | |
| At 31 December 2020 | 186,993 | 120,526 | 2,182 | 309,701 |
| At 31 December 2019 | 200,931 | 137,901 | 4,856 | 343,688 |

For the purposes of property, plant and equipment impairment reviews, the Group considers each club to be an individual cash-generating unit (CGU), with each CGU reviewed annually for indicators of impairment. The Group compared the carrying value of property, plant and equipment to the estimated value in use. This was calculated based on projected cash flows to 2025, using a discount factor of 10.5% of UK and other European countries (2019:10.5%) and 11.5% for Spain (2019: 10.4%). This has resulted in a total impairment charge of £9.1m (2019: £7.9m), of which £4.2m was in relation to the club in Bad Homburg, Germany.

## 17 Leases

The amounts recognised in the financial statements in relation to the leases are as follows:

### (i) Amounts recognised in the Statement of Financial Position

**Right-of-use assets**

| | Land and buildings £ 000 | Equipment £ 000 | Total £ 000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2020 | 916,498 | 1,596 | 918,094 |
| Additions | 57,475 | 679 | 58,154 |
| Disposals | - | (51) | (51) |
| Foreign exchange movements | 4,394 | 7 | 4,401 |
| At 31 December 2020 | 978,367 | 2,231 | 980,598 |
| **Depreciation** | | | |
| At 1 January 2020 | 34,838 | 180 | 35,018 |
| Charge for the year | 30,438 | 719 | 31,157 |
| Disposals | - | (51) | (51) |
| Transfers | (886) | 886 | - |
| Impairments | 18,690 | - | 18,690 |
| Foreign exchange movements | 332 | 3 | 335 |
| At 31 December 2020 | 83,412 | 1,737 | 85,149 |
| **Carrying amount** | | | |
| At 31 December 2020 | 894,955 | 494 | 895,449 |
| At 31 December 2019 | 881,660 | 1,416 | 883,076 |

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|
| **Lease liabilities** | | |
| Current | (31,853) | (9,415) |
| Non-current | (881,823) | (818,258) |
| | (913,676) | (827,673) |

As a direct result of COVID-19, the Group has renegotiated a number of its leases of land and buildings in the year. The Group has remeasured the lease liability with the revised lease payments and lease term, using a revised discount rate at the effective date of the lease modification. This has resulted in an increase in the lease liability of £45.7m, with a corresponding adjustment to the right of use asset. The Group also entered into a sale and leaseback transaction over the land and buildings at Bristol Emersons Green. This transaction resulted in the recognition of a £5.6m of right-of-use asset and £11.7m lease liability. Other additions in the year relate to remeasurements as a result of rent reviews in the year.

## 17 Leases (continued)

**(ii) Amounts recognised in the income statement**

The income statement shows the following amounts relating to leases:

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|
| **Depreciation charge on right-of-use assets** | | |
| Land and buildings | 30,438 | 32,362 |
| Equipment | 719 | 406 |
| | 31,157 | 32,768 |
| Interest expense (included in finance cost) | 56,352 | 54,813 |
| Expenses relating to variable lease payments not included in lease liabilities | 7 | 357 |
| Impairment charge | 18,690 | 2,569 |

**(iii) Future minimum lease payments as at 31 December 2020 are as follows:**

The total cash outflow for leases in 2020 was £44.4m (2019: £72.6m). The decrease from prior year is due to rent deferrals agreed with landlords as a result of COVID-19.

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|
| Not later than one year | 95,992 | 73,185 |
| Later than one year and not later than five years | 293,686 | 300,772 |
| Later than five years | 3,065,960 | 2,622,790 |
| Total gross payments | 3,455,638 | 2,996,747 |
| Impact of finance expenses | (2,541,962) | (2,169,074) |
| Carrying amount of liability | 913,676 | 827,673 |

**(iv) Amounts recognised in relation to operating leases:**

The Group has entered into a number of concession agreements. Lease income from these arrangements recognised in the year ended 31 December 2020 was £2.1m (2019: £3.8m).

## 18 Intangible assets

### Group

| | Goodwill £ 000 | Brands £ 000 | Software & licenses £ 000 | Leasehold health clubs intangible £ 000 | Total £ 000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 January 2020 | 117,529 | 43,347 | 13,176 | 65,523 | 239,575 |
| Additions | - | - | 1,258 | - | 1,258 |
| Foreign exchange movements | 1,520 | - | 13 | 93 | 1,626 |
| As at 31 December 2020 | 119,049 | 43,347 | 14,447 | 65,616 | 242,459 |
| **Amortisation** | | | | | |
| At 1 January 2020 | - | - | 3,736 | 18,483 | 22,219 |
| Amortisation charge | - | - | 4,689 | 3,326 | 8,015 |
| Impairment charge | 277 | - | - | 727 | 1,004 |
| Foreign exchange movements | - | - | 11 | 11 | 22 |
| As at 31 December 2020 | 277 | - | 8,436 | 22,547 | 31,260 |
| **Carrying amount** | | | | | |
| At 31 December 2020 | 118,772 | 43,347 | 6,011 | 43,069 | 211,199 |
| At 31 December 2019 | 117,529 | 43,347 | 9,440 | 47,040 | 217,356 |

Goodwill and brands are not amortised but tested annually for impairment. The brand is considered to have an indefinite life due to the history and market position of the trade name. The Group recognised an impairment charge of £0.3m against goodwill. The impairment was in relation to goodwill that arose on the 2018 acquisitions of Geneva and Bad Homburg.

## 19 Investments

### Summary of Group investments

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|
| At start of period | - | 1,780 |
| Impairment charge | - | (1,780) |
| At end of period | - | - |

**19 Investments (continued)**

**Summary of the Company investments**

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|
| At start of year | 664,138 | 660,000 |
| Additions | 892 | 4,138 |
| At end of year | 665,030 | 664,138 |

A share-based payment charge of £0.9m (2019: £4.1m) was recognised in the subsidiary David Lloyd Leisure Limited during the year which has been recorded as a debit to investments and a credit in the share based payment reserve.

**Group subsidiaries**
Details of the group subsidiaries as at 31 December 2020 are as follows:

| Name of subsidiary | Principal activity | Country of incorporation | Holding 2020 | 2019 |
|---|---|---|---|---|
| Deuce Acquisitions Limited* | Holding Company | England and Wales | 100% | 100% |
| David Lloyd Leisure Operations Holdings Ltd | Holding Company | England and Wales | 100% | 100% |
| David Lloyd Leisure Properties No.1 Ltd | Property company | England and Wales | 100% | 100% |
| David Lloyd Leisure Properties No.2 Ltd | Property company | England and Wales | 100% | 100% |
| David Lloyd Leisure Properties No.3 Ltd | Property company | England and Wales | 100% | 100% |
| David Lloyd Leisure Properties No.4 Ltd | Property company | England and Wales | 100% | 100% |
| David Lloyd Leisure Group Ltd | Holding company | England and Wales | 100% | 100% |
| David Lloyd Leisure Ltd | Leisure clubs | England and Wales | 100% | 100% |
| David Lloyd Leisure Farnham Ltd | Leisure clubs | England and Wales | 100% | 100% |
| David Lloyd Leisure GR Ltd | Property company | England and Wales | 100% | 100% |
| Next Generation Clubs Ltd | Leisure clubs | England and Wales | 100% | 100% |
| Harbour Club Ltd | Leisure clubs | England and Wales | 100% | 100% |
| David Lloyd Clubs Limited | Leisure clubs | England and Wales | 100% | 100% |
| David Lloyd Clubs Holdings Limited | Holding company | England and Wales | 100% | 100% |
| David Lloyd Leisure JV Holdings Ltd | Holding company | England and Wales | 100% | 100% |
| Pure Sports Medicine at David Lloyd Limited | Sports medicine | England and Wales | 0% | 50% |
| DLL Talwalkars Club Private Limited | Leisure clubs | India | 50% | 50% |

**19 Investments (continued)**

| Name of subsidiary | Principal activity | Country of incorporation | Holding 2020 | 2019 |
|---|---|---|---|---|
| David Lloyd Leisure Development Sites Ltd | Dormant | England and Wales | 100% | 100% |
| Next Generation Amida Beckenham Ltd | Dormant | England and Wales | 100% | 100% |
| Next Generation Amida Hampton Ltd | Dormant | England and Wales | 100% | 100% |
| Core Exercise Clinics Ltd | Dormant | England and Wales | 100% | 100% |
| Odyssey Glory Mill Ltd | Dormant | England and Wales | 100% | 100% |
| Next Generation Amida Services Ltd | Dormant | England and Wales | 100% | 100% |
| Next Generation Amida Fleet Ltd | Dormant | England and Wales | 100% | 100% |
| Sports Management (Scotland) Ltd | Dormant | Scotland | 100% | 100% |
| Burton Waters (HL&R) Limited | Dormant | England and Wales | 100% | 100% |
| Markson Tennis and Leisure Centres Limited | Dormant | England and Wales | 100% | 100% |
| Castledene Leisure Limited | Dormant | England and Wales | 100% | 100% |
| Grasspost Limited | Dormant | England and Wales | 100% | 100% |
| Design Collective Limited | Dormant | England and Wales | 100% | 100% |
| Gatehouse Nursery Holdings Limited | Dormant | England and Wales | 100% | 100% |
| Tennis Club Management International Limited | Dormant | England and Wales | 100% | 100% |
| Farnridge Limited | Dormant | England and Wales | 100% | 100% |
| David Lloyd Sports Centres Limited | Dormant | England and Wales | 100% | 100% |
| Racquets and Healthtrack Group Limited | Dormant | England and Wales | 100% | 100% |
| Brooklands Healthtrack Limited | Dormant | England and Wales | 100% | 100% |
| Solihull Racquets & Healthtrack Limited | Dormant | England and Wales | 100% | 100% |
| Cheshire Oaks Racquets and Healthtrack Limited | Dormant | England and Wales | 100% | 100% |
| Ealing Racquets and Healthtrack Limited | Dormant | England and Wales | 100% | 100% |
| Manchester Racquets and Healthtrack Limited | Dormant | England and Wales | 100% | 100% |
| Nottingham Racquets & Healthtrack Limited | Dormant | England and Wales | 100% | 100% |
| David Lloyd Leisure Nurseries Limited | Dormant | England and Wales | 100% | 100% |
| David Lloyd Leisure Nominee No 1 Limited | Dormant | England and Wales | 100% | 100% |

**19 Investments (continued)**

| Name of subsidiary | Principal activity | Country of incorporation | Holding 2020 | 2019 |
|---|---|---|---|---|
| David Lloyd Leisure Nominee No 2 Limited | Dormant | England and Wales | 100% | 100% |
| Nextgen Limited | Dormant | England and Wales | 100% | 100% |
| Newhaven Restaurant Limited | Dormant | England and Wales | 100% | 100% |
| N.G.C. Project Management Limited | Dormant | England and Wales | 100% | 100% |
| Smilewood Limited | Dormant | England and Wales | 100% | 100% |
| Celsius Spa Limited | Dormant | England and Wales | 100% | 100% |
| Harbour Club Operations Limited | Dormant | England and Wales | 100% | 100% |
| David Lloyd Leisure Nominee No 3 Limited | Dormant | England and Wales | 100% | 100% |
| David Lloyd Leisure Nominee No 4 Limited | Dormant | England and Wales | 100% | 100% |
| David Lloyd Leisure Espana II SL | Leisure clubs | Spain | 100% | 100% |
| David Lloyd Leisure Operations SPRL | Leisure clubs | Belgium | 100% | 100% |
| David Lloyd Leisure Ter Elst BVBA | Leisure clubs | Belgium | 100% | 100% |
| David Lloyd Riverview Operations Ireland Ltd | Leisure clubs | Ireland | 100% | 100% |
| David Lloyd Riverview Holdings Ireland Ltd | Dormant | Ireland | 100% | 100% |
| David Lloyd Riverview Ltd | Dormant | Ireland | 100% | 100% |
| David Lloyd Riverview Property Ireland Ltd | Dormant | Ireland | 100% | 100% |
| David Lloyd Leisure Nederland BV | Holding company | Holland | 100% | 100% |
| David Lloyd Health & Fitness BV | Leisure clubs | Holland | 100% | 100% |
| David Lloyd Leisure Property Holdings BV | Holding company | Holland | 100% | 100% |
| David Lloyd Leisure Property BV | Property company | Holland | 100% | 100% |
| David Lloyd Clubs France SAS | Leisure clubs | France | 100% | 100% |
| LK International SARL | Restaurant | France | 100% | 100% |
| David Lloyd Clubs Deutschland GmbH | Leisure clubs | Germany | 100% | 100% |
| Bonasport SA | Leisure clubs | Spain | 5% | 5% |

* indicates direct investment of the company

### 19 Investments (continued)

All of the above subsidiary companies are included within the consolidated Group financial statements.

The registered offices of Group companies are as follows:

Pure Sports Medicine at David Lloyd Limited: 41 - 47 Threadneedle St, London, EC2R 8AR
Sports Management (Scotland) Limited & Newhaven Restaurant Limited: 302 St Vincent St, Glasgow, G2 5RZ
All other UK Group companies: The Hangar, Hatfield Business Park, Hatfield, Herts, AL10 9AX
All companies incorporated in Holland: Peter zuidlaan 30 5502NH, Veldhoven, Netherlands
All companies incorporated in Ireland: Beech Hill, Clonskeagh, Dublin 4, 662822
All companies incorporated in France: 740 Route des Plantets, 74140 Veigy-Foncenex, France
David Lloyd Leisure Espana II SL: Av. Diagonal 673-685 08028 Barcelona, Spain
David Lloyd Leisure Operations SPRL: 41 Drève de Lorraine, 1180 Uccle, Belgium
David Lloyd Leisure Ter Elst BVBA: Kattenbroek 3, 2650 Edegem, Belgium
David Lloyd Clubs Deutschland GmbH: c/o NHS GmbH WPG, Am Wehrhahn 100, 40211 Düsseldorf
DLL Talwalkars Club Private Limited: 801-813, Mahalaxmi Chambers, 22, Bhulabhai Desai Road, Mumbai - 400026
Bonasport SA: Calle Vistabella, 11, 08022 Barcelona, Spain

On 31 December 2020, the Group sold its investment in the joint venture Pure Sports Medicine at David Lloyd for consideration of £255,000.

The Group received dividends of £8,000 (2019: £15,000) from Bonasport SA during the year.

## 20 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2020 £ 000 | 31 December 2019 £ 000 | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
| Trade receivables | 12,933 | 13,072 | - | - |
| Provision for impairment of trade receivables | (9,207) | (7,747) | - | - |
| Net trade receivables | 3,726 | 5,325 | - | - |
| Receivables from subsidiaries | - | - | 516,320 | 483,895 |
| Contract assets | 2,584 | 954 | - | - |
| Prepayments | 20,280 | 5,061 | - | - |
| Other receivables | 1,294 | 1,511 | - | - |
| Total current trade and other receivables | 27,884 | 12,851 | 516,320 | 483,895 |

The carrying value of trade and other receivables classified as receivables approximates fair value.

The creation and release of the provision for impaired receivables are included in ‘other operating expenses’ in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. The movement in the provision during the year is as follows:

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|
| At start of year | 7,747 | 6,672 |
| New provision created | 1,460 | 1,075 |
| At end of year | 9,207 | 7,747 |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

As of 31 December 2020, trade receivables of £567,000 (2019: £1,777,000) were past due but not impaired. The ageing of these receivables is as follows:

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|
| 1 to 3 months | 466 | 1,772 |
| Over 3 months | 101 | 5 |
| | 567 | 1,777 |

## 20 Trade and other receivables (continued)

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|
| UK Pounds | 24,281 | 11,062 |
| Euros | 3,603 | 1,789 |
| | 27,884 | 12,851 |

## 21 Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2020 £ 000 | 31 December 2019 £ 000 | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
| Cash at bank and in hand | 52,368 | 26,706 | - | - |
| Restricted cash | 23,775 | - | - | - |
| | 76,143 | 26,706 | - | - |

Restricted cash relates to April and July 2020 capitalised loan interest. A condition of the capitalisation of this interest was for the cash to be held in a designated bank account that is not under the control of the Group and is not immediately available for use in the ordinary course of business. Subsequent to the period end, on 13 April 2021 the restrictions on the cash have been lifted, see note 30 post balance sheet events.

## 22 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2020 £ 000 | 31 December 2019 £ 000 | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
| Trade payables | 42,123 | 11,432 | - | - |
| Accrued expenses | 59,254 | 48,507 | 25,947 | 22,389 |
| Amounts due to Parent company | 6,059 | 5,344 | - | - |
| Amounts due to group companies | - | - | 1,971 | 1,910 |
| Social security and other taxes | 19,549 | 9,403 | - | - |
| Other payables | 2,576 | 1,720 | - | - |
| Contract liabilities | 35,554 | 22,653 | - | - |
| | 165,115 | 99,059 | 27,918 | 24,299 |

Accrued expenses includes £26.0m (2019: £21.8m) of accrued interest on loans and borrowings.

The amounts due to parent company and amounts due to Group companies are repayable on demand and accrued interest of 3.45% for the year ended 31 December 2020.

## 23 Loans and borrowings

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 | Company 2020 £ 000 | Company 2019 £ 000 |
|---|---|---|---|---|
| **Current loans and borrowings** | | | | |
| Bank borrowings | 40,000 | - | 40,000 | - |
| | 40,000 | - | 40,000 | - |
| **Non-current loans and borrowings** | | | | |
| Loan | 1,018,919 | 947,219 | 1,018,919 | 947,219 |
| Loan arrangement fees | (2,381) | (2,982) | (2,381) | (2,982) |
| | 1,016,538 | 944,237 | 1,016,538 | 944,237 |

In March 2020, the Group fully drew £40m of Revolving Credit Facilities. They have been classified as current as they have an expiry date of July 2021.

The loans and borrowings have expiry dates between 2021 and 2024 and are secured with a fixed charge against the assets of the Group. TDR have guaranteed £50m of the loan notes. The loans and borrowings attract interest as shown in the table below:

| | Loan amount | Maturity | Interest | Amount drawn |
|---|---|---|---|---|
| Loan notes issued | £1,018.9m | 20/12/2024 | 10% | £1,018.9m |
| Revolving Credit Facility | £20.0m | 21/07/2021 | 3% + LIBOR | £20.0m |
| Revolving Credit Facility | £20.0m | 21/07/2021 | 3% + LIBOR | £20.0m |

| | Book value 31 December 2020 £ 000 | Fair value 31 December 2020 £ 000 | Book value 31 December 2019 £ 000 | Fair value 31 December 2019 £ 000 |
|---|---|---|---|---|
| Loan | 1,018,919 | 1,081,186 | 947,219 | 948,234 |

The fair values are based on national lending rates on similar loans from information released by the Bank of England and are within level 2 of the fair value hierarchy.

## 24 Financial risk management and impairment of financial assets

### Group

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

**24 Financial risk management and impairment of financial assets (continued)**

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

**Credit risk and impairment**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of impairment of doubtful receivables, which is made where there is evidence of a reduction in the recoverability of the cash flows. The credit risk of the Group is minimised as customers pay by direct debit in advance.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted. Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 20.

**Commodity price risk**

The Group manages its exposure to electricity and gas price risk by purchasing its utility requirements in advance through industry leading advisers. For 2021, 75% of the UK electricity volumes and 63% of the UK gas volumes have been purchased. Unused utility volumes are sold back to the market with the Group liable for any losses due to lower pricing.

**Capital risk**

Capital risk arises from the management of the capital structure, which consists mainly of the loans and borrowings detailed in note 23 and shareholder equity. The capital structure should be managed to ensure the Group can remain a going concern, and to maximise shareholder funds. Detailed cash flow forecasts based on expected working capital requirements and expected capital projects are maintained throughout the year to ensure that the Group has sufficient funds to operate as a going concern using the available facilities.

**Liquidity risk**

Liquidity risk arises from the Group's management of working capital, loan facilities and the finance charges on its debt instruments. To ensure that the Group always has sufficient cash to meet its liabilities, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements according to predicted cash flows.

**Maturity analysis**

The following table sets out the contractual undiscounted maturities including cashflows of the financial liabilities of the Group as at 31 December 2020:

| 31 December 2020 | Weighted average effective interest rate | Less than 1 year £ 000 | 2 to 5 years £ 000 | Over 5 years £ 000 | Total £ 000 |
|---|---|---|---|---|---|
| Loans and borrowings | 10% | 89,735 | 1,357,356 | - | 1,447,091 |
| Trade and other payables | 0% | 64,428 | - | - | 64,428 |
| Lease liabilities | 7% | 95,992 | 293,686 | 3,065,960 | 3,455,638 |
| | | 250,155 | 1,651,042 | 3,065,960 | 4,967,157 |

## 24 Financial risk management and impairment of financial assets (continued)

| 31 December 2019 | Weighted average effective interest rate | Less than 1 year £ 000 | 2 to 5 years £ 000 | Over 5 years £ 000 | Total £ 000 |
|---|---|---|---|---|---|
| Loans and borrowings | 10% | 47,491 | 1,379,272 | - | 1,426,763 |
| Trade and other payables | 0% | 22,310 | - | - | 22,310 |
| Finance lease liabilities | 7% | 73,185 | 300,772 | 2,622,790 | 2,996,747 |
| | | 142,986 | 1,680,044 | 2,622,790 | 4,445,820 |

Trade and other payables includes trade payables, social security and other taxes, and other payables as disclosed in note 22.

**Interest rate risk**
The Group's sensitivity to change in the interest rate is limited as the loan notes have a fixed interest rate of 10%.The Revolving Credit Facilities are fully drawn with interest at a variable rate related to LIBOR. The Group monitors interest rates and reacts accordingly.

**Foreign exchange risk**
Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group's policy is, where possible, to allow Group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where Group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

***Sensitivity analysis***

Sensitivity of balance sheet movements in the Euro exchange rate are shown below:

| | Sterling £ 000 | Euros £ 000 | Total £000 | +10% £ 000 | -10% £ 000 |
|---|---|---|---|---|---|
| Assets | 1,518,638 | 155,456 | 1,674,094 | (14,132) | 17,273 |
| Liabilities | (2,181,246) | (141,491) | (2,322,737) | 12,863 | (15,721) |
| | (662,608) | 13,965 | (648,643) | (1,269) | 1,552 |
| Loss after tax | 208,569 | 1,718 | 210,287 | (156) | 191 |

**Principal financial instruments**
- Trade receivables;
- Fixed rate loans;
- Cash and cash equivalents;
- Lease liabilities;
- Trade and other payables.

## 24 Financial risk management and impairment of financial assets (continued)

**Financial instruments not measured at fair value**
Financial instruments not measured at fair value includes all of the above.

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables and lease liabilities approximates their fair value.

**Fair value measurement**
Any fair value measurement is categorised within the fair value hierarchy:
- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The fair value of the bank borrowings as disclosed in Note 23 was measured using Level 2 techniques. It is based on national lending rates on similar loans from information released by the Bank of England.

Where the fair valuations are on a recurring basis the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There have not been any transfers between levels in the hierarchy for any financial instruments.

## 25 Share-based payments

**Scheme details and movements**

Under the Management Incentive Plan ("MIP") senior executives of the Group are entitled to purchase B, C, D and E ordinary shares. The B, C, D and E ordinary shareholders are entitled to participate in proceeds on a sale of the Group in accordance with the Articles of the Company. Members of the plan must remain employees of the Group in order to retain their full entitlement to participate in proceeds. There are no other vesting conditions. The intrinsic value (being the difference between the cash paid and the fair value) at the date of grant is recognised as an equity-settled share-based payment and spread on a straight-line basis over the vesting period.

On 17 March 2020, the Company bought back and cancelled 24,550 E shares from leavers with a nominal value of £1 each, for consideration of £0.3m. The consideration was equal to the outstanding balance of the limited recourse loan used to fund the purchase of these shares, plus accrued interest. The cancellation of shares has been recognised as a credit to the capital redemption reserve. The limited recourse loan was written off to distributable reserves at the date the shares were issued, therefore no further entries have been made during the year for the consideration.

The expense recognised in employee expenses during the year is £0.9m (2019: £4.1m). This has decreased on prior year due to the assumptions around the potential timing of exit being extended further into the future.

## 26 Provisions

**Group**

| | Senior Management Incentive Plan £ 000 | Other £ 000 | Total £ 000 |
|---|---|---|---|
| At 31 December 2019 | - | 766 | 766 |
| New provision created | 138 | - | 138 |
| Utilisation of provision | - | (44) | (44) |
| Reversal of provision | - | (264) | (264) |
| Unwinding of discount | - | 46 | 46 |
| Exchange differences | - | 12 | 12 |
| At 31 December 2020 | 138 | 516 | 654 |

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|
| Current provisions | 43 | 46 |
| Non-current provisions | 611 | 720 |
| **Total provisions** | 654 | 766 |

a) Senior Management Incentive Plan

The Senior Management Incentive Plan "SMIP" is an incentive plan for senior managers. Participants do not receive equity shares but rather an invitation to share in a bonus pool upon exit. The bonus on exit is calculated on the same basis as the amount receivable in respect of an E share, except it will be paid net of employment taxes.

b) Other provisions

Other provisions relate to a retention guarantee that has been withheld by the Group in relation to the Aravaca land purchase, and estimated dilapidation costs for the Solihull, Maidenhead and Maidstone clubs. The dilapidation provision for Kingston was released during the year due to the lease being extended.

## 27 Deferred tax

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes. These Deferred tax assets and liabilities are not offset because these balances do not unwind on the same basis.

**Deferred tax liabilities**

| | Land and buildings £ 000 | IFRS 16: Leases £ 000 | Brand £ 000 | Leasehold intangible £ 000 | Total £ 000 |
|---|---|---|---|---|---|
| At 31 December 2019 | 49,013 | 111,025 | 7,369 | 7,767 | 175,174 |
| Credit to the income statement | (4,311) | (5,112) | - | (754) | (10,177) |
| Change in tax rate | 5,766 | 12,949 | 867 | 914 | 20,496 |
| Foreign exchange movements | - | 314 | - | - | 314 |
| At 31 December 2020 | 50,468 | 119,176 | 8,236 | 7,927 | 185,807 |

**27 Deferred tax (continued)**

**Deferred tax assets**

| | Fixtures and fittings £ 000 | Losses £ 000 | IFRS 16: Leases £ 000 | Other £ 000 | Total £ 000 |
|---|---|---|---|---|---|
| At 31 December 2019 | 23,917 | 6,599 | 60,851 | 8,339 | 99,706 |
| Effect of prior year restatement (note 4) | - | - | 21,000 | - | 21,000 |
| Adjusted balance at 1 January 2020 | 23,917 | 6,599 | 81,851 | 8,339 | 120,706 |
| Credit/(charge) to the income statement | 5,721 | 2,534 | (5,425) | 14,184 | 17,014 |
| Change in tax rate | 2,942 | 776 | 9,872 | 981 | 14,571 |
| Foreign exchange movements | 126 | - | 760 | - | 886 |
| At 31 December 2020 | 32,706 | 9,909 | 87,058 | 23,504 | 153,177 |

The comparative information has been restated as a result of the prior year adjustments as discussed in note 4.

**27 Deferred tax (continued)**

In addition to the recognised deferred tax assets and liabilities above, the Group has unrecognised deferred tax assets of £2.8m (2019: £2.7m) in respect of the UK property portfolio, and unrecognised deferred tax assets of £16.0m (2019: £3.8m) in relation to carried forward losses where it is not sufficiently probable they will be utilised against future profits.

Deferred tax assets and liabilities have been recognised at the main rate of corporation tax in the relevant jurisdiction prevailing at the expected date of unwind with reference to enacted rates on the balance sheet date. In the UK the long term corporation tax rate of 19% enacted as at 31 December 2020 is used. The opening balances in the UK used the corporation tax rate enacted at 1 January 2020 of 17%. Thus, of the total movement in year, a charge of £7.6m relates to the increase in rate. In The Netherlands the long term corporation tax rate of 25% enacted as at 31 December 2020 is used. The opening balances in The Netherlands used the corporation tax rate enacted at 1 January 2020 of 21.3%. Thus, of the total movement in year, a credit of £1.7m relates to the increase in rate.

The UK government has subsequently announced in the 2021 Budget that the corporation tax rate will rise to 25% in 2023. This revised rate would increase the deferred tax liabilities by £56.8m and the deferred tax assets by £42.6m resulting in a net increase in the balance sheet liabilities of £14.2m.

**28 Share capital**

**Allotted, called up and fully paid shares**

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | No. 000 | £ 000 | No. 000 | £ 000 |
| Ordinary shares of £ 1 each | - | - | - | - |

**29 Commitments**

**Group**

**Capital commitments**

At the statement of financial position date, the Group had committed to purchasing land for a new site in Bicester. The total amount contracted for but not provided in the financial statements was £2.2m (2019: £3.6m).

**30 Post balance sheet events**

On 4 January 2021, England entered a third national lockdown with all UK clubs closed. Most European countries in which we operate were also under national lockdowns meaning many of our European clubs were closed.

On 22 February 2021, the UK Government announced the government's four-step roadmap to cautiously ease lockdown restrictions in England if there is continued progress with the Government's four test criteria. Under Step 1 of the roadmap, we opened our outdoor facilities (tennis, group exercise and swimming) across the vast majority of our English clubs from the 29 March 2021.

Our English clubs re-opened on 12 April 2021 under Step 2 of the English government's four step roadmap with indoor group exercise and indoor hospitality confirmed to restart on 17 May 2021 under Step 3. Our Scottish clubs re-opened on 26 April 2021 and our Welsh clubs re-opened on 3 May 2021.

In the Government's Budget statement of 3 March 2021, it was announced that Business Rates relief for Retail, Hospitality & Leisure extended until 30 June 2021 and then up to 2/3 discount until 31 March 2022 (up to a maximum of £2 million). The announcement also included the extension of the Coronavirus Job Retention Scheme in its current form to 30 September 2021, with employers contributing 10% of reference pay from July and 20% of reference pay from August.

Subsequent to the year end, on 13 April 2021 the conditions on the restricted cash have been eased. In addition, the interest payment due in April 2021 of £12.7m was capitalised and added to the loan principal.

In March 2021, the UK Government announced an increase in the corporation tax rate from 19% to 25% from April 2023. The increased rate has not been substantively enacted as at the date the accounts have been signed. The impact of the increased rate would be to increase deferred tax assets by £42.6m and increase deferred tax liabilities by £56.8m, resulting in a net increase in the balance sheet liabilities of £14.2m.

In May 2021 there was an exchange of contracts to purchase a site for another new club in the Shawfair area south east of Edinburgh.

On 18 June 2021, a newly incorporated company, Deuce FinCo plc (a subsidiary of the Company) issued £645m and €300m of Senior Secured Notes with a maturity date of 15 June 2027. Interest is charged on the £645m Senior Secure Notes at a fixed rate of 5.5%. Interest is charged on the €300m Senior Secure Notes at 4.75% plus three-month EURIBOR.

On the same date, Deuce Holdco Limited (a parent of the Company) issued £250m of PIK debt with a maturity date of 18 June 2028. Interest is charged at 10% and rolls-up into the principal every 6 months.

As part of the transaction, £100m of cash equity was contributed into Deuce Holdco Limited (via Deuce Topco Limited) by TDR Capital.

The Group also has access to a £125m super senior revolving credit facility ("SSRCF") which has a maturity date of 18 December 2026.

The proceeds will be used to repay existing indebtedness, for general corporate purposes including working capital requirements, capital expenditures and strategic acquisitions, and to pay fees and expenses incurred in connection with this transaction.

## 31 Contingent liabilities

Occasionally, the Group is subject to legal proceedings and claims. A liability is recorded only when it is probable that the case will result in a future economic outflow which can be reliably measured. In the Directors' opinion, after taking appropriate legal advice it is not considered probable that a material outflow of economic benefits will occur in relation to any ongoing claims.

## 32 Related party transactions

**Key management personnel**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activity of the Group, including the Directors and senior management of the Group listed on pages 27 to 29.

The remuneration for key management personnel for the year was as follows:

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|---|---|---|
| Short-term employee benefits | 1,696 | 2,218 |
| Post-employment benefits | 51 | 55 |
| Termination benefits | - | 100 |
| | 1,747 | 2,373 |

**Summary of transactions with other related parties**

Since 1 November 2013, TDR (employees of which sit on the Board) has provided managerial advice to the Group, for which a fee is due annually. For the year ended 31 December 2020, £2,000,000 (2019: £2,000,000) was charged, of which £2,000,000 (2019: £500,000) remains unpaid as at the statement of financial position date.

## 33 Parent and ultimate parent undertaking

At the statement of financial position date the Company's immediate parent is Deuce Holdco Limited, a Company incorporated in the United Kingdom and registered in England and Wales. The financial statements of Deuce Holdco Limited can be obtained from the Register of Companies, Companies House, Crown Way, Maindy, Cardiff, CF14 3YZ. On 18 June 2021, Deuce Holdco Limited contributed the shares in the Company to Deuce Parentco Limited (a newly incorporated company) in exchange for the issuance of ordinary shares by Deuce Parentco Limited. At this date, the Company's immediate parent is Deuce Parentco Limited.

The ultimate parent of the Company is Deuce Holding S.à r.l. and the ultimate controlling party is a group of investment funds managed by TDR Capital LLP (registered office: 20 Bentinck Street, London W1U 2EU).