

Be cautious before stepping on the Gym Group running machine

**BEN MARTIN
QUESTOR**



The Gym Group

206p

Questor says

HOLD

THE Gym Group is limbering up to release its latest trading update on Tuesday. Shares in the low-cost operator are 11p above the 195p float price set in November last year. Is now a good time for investors to snap up shares in the fitness chain, or should they exercise caution instead?

A unique opportunity

When the Gym Group made its stock market debut eight months ago with a £250m valuation, it was the first fitness chain to float in London for about 15 years and, for the time being at least, it is the only one on the market. There used to be more. Chains including Esporta and LA Fitness were all listed businesses but are disappearing over time.

A decade ago, the industry came unstuck. Chains had expanded too quickly, and many faltered and were eventually snapped up by private equity houses on the cheap.

Pure Gym, a budget operator like the Gym Group, is now also eyeing a float. But until that chain braves the volatile stock markets following the Brexit vote, the Gym Group is the only choice for investors seeking exposure to the industry.

Fast-growing business

The gym market has been transformed in recent years, with operators now very much divided between low-cost and premium

The Gym Group



offerings. Those that found themselves in the mid-market have either had to adapt and move up market, like Fitness First, or are disappearing, like LA Fitness, which was bought last year by Pure Gym.

The Gym Group pioneered the simple, low-cost model in the UK. Founded in 2007 by former professional squash player John Treharne, customers can pay as little as £10.99 per month depending on location.

Users are not locked into lengthy contracts and its gyms are open 24 hours a day, meaning they cater to everyone, from teachers to night shift workers.

It is proving popular. Last year, its membership jumped 28.3pc to 376,000 and revenues climbed 31.9pc to £60m. The chain opened 19 sites in 2015, which took its total to 74 by the end of December, and has launched more gyms this year, too.

Competitive market

Despite that impressive growth, annual pre-tax losses at the Gym Group widened to £12.4m from £9.4m in 2014, which it put down to fees associated with its stock market float. It forecasts a swing to profitability in 2016.

Still, the discount fitness club market is highly competitive, with the likes of Sports Direct, Pure Gym, easyGym all scrambling for customers and sites.

Peel Hunt forecasts that the health and fitness industry is worth about £4bn, but Questor is concerned that the Gym Group will not be able to maintain its impressive level of growth.

While a Brexit recession would certainly mean that low-cost operators would be favoured over premium chains, Questor remains cautious: Hold.

