



CIMA[®]

November 2018 Operational Case Study Examination

Pre-seen material



GymFiT

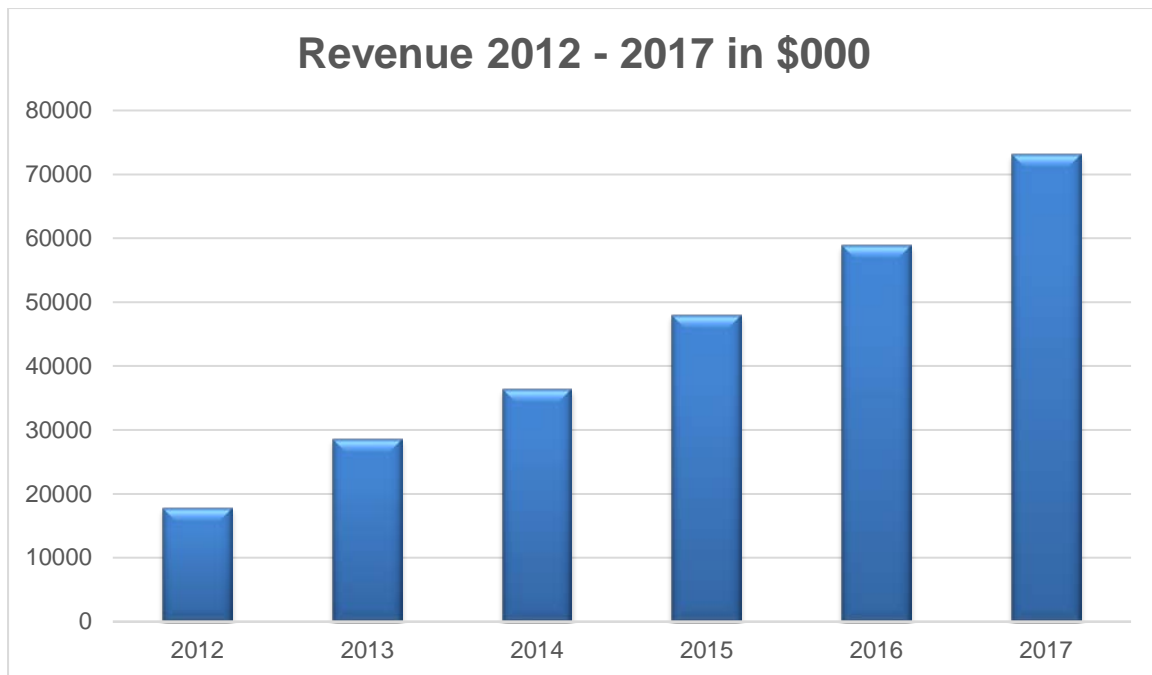
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1. Extract from job description

You are a Finance Officer for GymFit. Your main role is to support Steven Potter, the Finance Manager. Your tasks include the production of the annual budget, producing the monthly management accounts and providing information to management as required. You also assist with the preparation of the financial statements and deal with any queries regarding financial reporting.

2. Company Background

GymFit, is a fast growing, leading provider of low-cost gyms and one of the pioneers of the low-cost gym model, which is based on relatively low gym membership fees and a 'no-frills' service concept. It now has 102 gyms with 486,000 members based in major towns and cities throughout Celtland, Europe. The company was founded in 2005 using finance from venture capitalist, Land Ventures. It is currently listed in the Celtland stock exchange and uses the C\$ as its home currency.



The company has grown rapidly from sales revenue of C\$17.8 million in 2012 to C\$73.1 million in 2017. The number of gyms it operates has also increased during the same period from 26 gyms to 102. The rapid increase in the number of gyms has been through a mixture of organic growth and acquisition of existing gym groups. The company is now the 2nd largest operator of low-cost gyms in Celtland.

GymFit's business model offers 24/7 gym operating hours and a no-contract membership i.e. there is no fixed membership period. The high specification gym equipment used is eco-friendly. In order to offer low membership fees, their model is based on a no-frills concept, meaning that facilities are restricted to the gym equipment, there are no wet facilities e.g. saunas or pools, and no café or bars that you would expect to find in a traditional health club.

The low-cost model used by GymFit is dependent on advanced technology. Prospective GymFit members can join using a simple online process that can be completed in minutes. Members can also manage their accounts, view class timetables and book classes online.

The use of technology results in an efficient staffing model with, for example, no need for dedicated in-gym sales and marketing teams.

Membership

GymFit membership is on a no-contract basis i.e. it does not involve a fixed membership period and members are free to cancel their membership at any time without penalty. There are three types of membership: solo gym membership, where the member is able to access only one chosen gym; two gym membership, where the member can access two chosen gyms and bundle membership where the member can access gyms nationwide. These types of membership require payment of a monthly fee. In addition, it is possible to access gym facilities on a daily basis by purchasing a day pass. Membership fees vary depending mainly on the location of the gym. Occasional marketing campaigns are run offering discounted membership to all new members. Student members also receive a discount.

Each member is provided with a unique personal identification number (PIN) code which is used to provide electronic access to the gym and its facilities.

Members have access to high quality fitness equipment, work-out areas and some free fitness classes. Other classes such as Pilates, yoga and dance fit are available on payment of an additional fee. All new members are offered a free induction session and these are provided by the fitness instructors. The member can also, on payment of an additional fee, arrange for individual coaching from a fitness instructor. These additional fees are paid directly to the instructors and are a private arrangement between the gym member and the instructor. Other facilities offered include showers, changing areas, lockers and vending machines.

The People

Staff

The average number of employees, during 2017, was 254. A typical gym has two employees, a manager and an assistant manager, who manage the running of the gym. The remaining staff are employed at head office in various functions including IT, HR, Finance and Marketing. These employees are complemented by a number of freelance fitness instructors who are hired on a zero-hours contract where the instructors are not guaranteed to be offered work in any one week. The fitness instructors are paid a relatively low hourly rate but are able to supplement their income with fees from individual coaching sessions.

All fitness instructors are trained fitness experts. Their main role is to assist members with using the equipment, run induction sessions for new members, lead some group classes, and provide general exercise and fitness advice. They are also expected to carry out simple preventative maintenance and testing the equipment. They can generally resolve most of the simple problems arising with the equipment, anything they cannot deal with is referred to the contracted maintenance company. In addition to this, they also refill vending and water machines and, where possible, attend additional training sessions related to equipment use, fitness or health and safety.

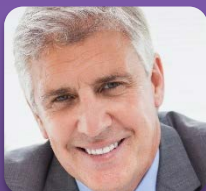
Gym managers are empowered to independently run their own sites, including the setting of membership fees, with bonus targets linked to gym performance. Other employees are given competitive remuneration including a defined contribution pension scheme and the opportunity to share in the company's success through share incentive plans.

The need for reception staff is eliminated due to the use of the electronic entry system and the online membership and class booking system, other staffing needs such as cleaning, security and non-routine machine maintenance are outsourced which means that gym staff (managers and fitness instructors) are free to concentrate on the core activities of the gym.

The Senior Management Team

The company's senior management team bring to the company a wide range of previous experience mainly in the leisure and retail industries. The team is relatively young, highly enthusiastic and engenders a 'can do' culture throughout the organisation.

The details of the company's executive directors are given below:



Bertram Durand (42) Chief Executive Officer (CEO)
Bertram was appointed as CEO in 2014 and brings to the company extensive experience in the leisure and fitness industry.



Nicola Collette (45) Chief Financial Officer (CFO)
Nicola was appointed as Chief Financial Officer in 2015. She is a professionally qualified accountant. She has been with the company since it started operations in 2005 and was responsible for the company's flotation on the Celtland stock exchange.



Jessica Treewood (38) Marketing Director
Jessica has been with the company since 2014. She holds a BA in Marketing from Celtland University. She previously worked as Marketing Director for a competitor company in the fitness club sector.



Ethan Henson (38) Operations Director
Ethan was appointed Operations Director in 2016. He has responsibility for the running of the gyms and the HR function. He was previously a fitness trainer and has worked his way up through the ranks of the company to become Operations Director.



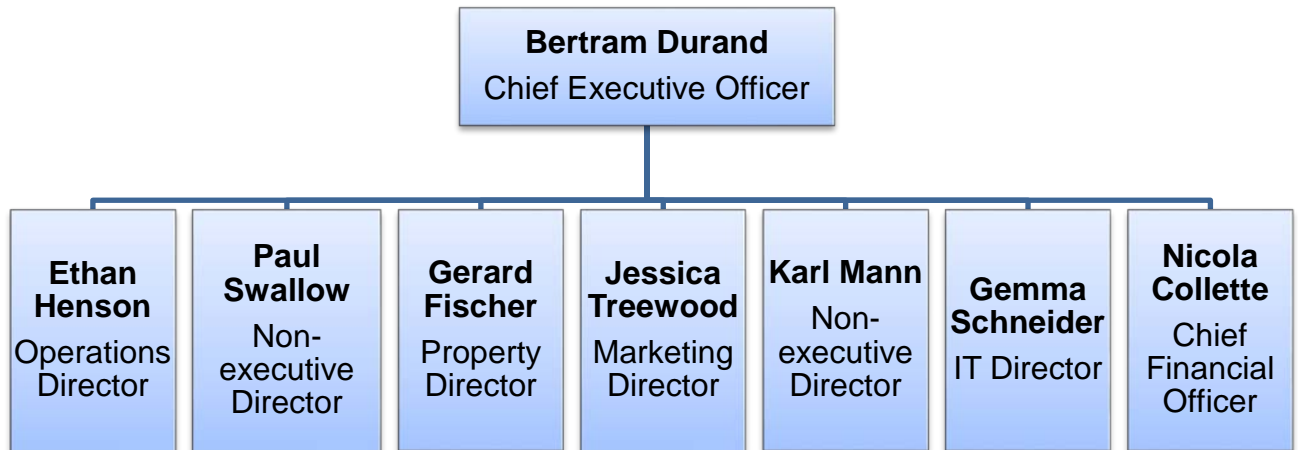
Gerard Fischer (46) Property Director
Gerard joined the company in 2011 as Property Director. He is responsible for the company's portfolio of properties. He is a qualified civil engineer and has vast experience in property management mainly gained in the hotel industry.



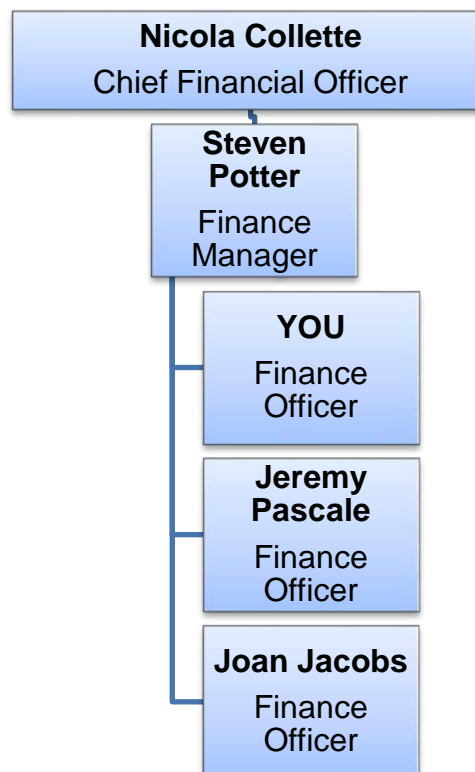
Gemma Schneider (36) IT Director
Gemma joined the company in 2010 as an IT technician and was appointed IT Director in 2017. She holds a MSc in Information Technology. She is keen to further develop GymFit's IT systems with the assistance of her team of innovative and highly qualified staff.

ORGANISATION CHARTS

Executive and non-executive directors



Finance Department



Company Operations

The Gyms



Each gym has more than 150 items of high specification equipment and free weights for members to use. The fitness equipment is eco-friendly with around 70% of the machines using no electricity and are powered by the user instead. Each gym offers a range of cardio machines including running, cycling and step machines and weight machines of various types to help flex every muscle in the body.

The low-impact workout areas give members an opportunity to warm-up or stretch out. Equipment available includes exercise balls and yoga mats.

Each gym contains studios for use by the fitness instructors when leading fitness classes including yoga, Pilates and Dancefit. There are also showers and changing facilities available and vending machines selling bottled drinks and other fitness related items such as sweat bands, protein powder and health bars.

Information Technology (IT)

The IT department runs and manages the company's website and is responsible for website development. The company's operations are driven by technology and the IT department is constantly looking for new ways to utilise IT to improve the member proposition and to achieve cost efficiencies.

GymFit offers a simple online joining process that requires a valid email address and other personal data. Membership and class fees can be paid by credit card, debit card and direct debit and members can manage their accounts, view class timetables and book classes using computer, tablet or mobile. GymFit maintains a customer database which can be used to communicate with members.

Gyms are open 24/7 but only staffed for around 16 hours of the day. The gyms have automated access control and CCTV which is monitored on a 24-hour basis and is enhanced by the use of 'panic buttons' throughout the gym. It is the use of this technology which enables 24/7 operation of the gyms whilst keeping costs low.

The use of technology also results in an efficient staffing model, with no need for dedicated in-gym sales and marketing teams. The staffing model means managers are freed from many traditional health club tasks and can focus on running successful gyms and serving the needs of members.

The extensive use of information technology brings other considerations in terms of system failure, data security and privacy. GymFit's membership system, data processing, account payments, gym access, customer safety and customer marketing, are all dependent on the IT systems. The systems hold a significant amount of confidential customer data including email

address, home address and bank details. A breach of data security would constitute a significant risk to the company's reputation and brand.

Marketing

The marketing team's main activities are market research; the promotion and advertising of new and existing gyms; raising brand awareness and advising on pricing strategies. The Marketing team works closely with the IT and Properties department. Marketing efforts are directed at both existing members, to try to ensure member retention, and the recruitment of new members.

The marketing team uses the website to provide members with details of classes being operated each week and any other news or member offers. The customer database is also used to communicate electronically with members using email and SMS.

Regular marketing campaigns ensure that the awareness of the brand is high. A recent campaign featuring a leading Olympic athlete, Johnny Wren, resulted in a 2% increase in member numbers.

Finance

The financial information system produces monthly management accounts and both half-yearly and annual statutory accounts. It also generates daily and weekly sales revenue and membership number information for management to monitor actual results against budgets.

The Finance team also carries out ad-hoc projects including investment appraisal and investigations, along with ongoing decision support. Some areas, including all internal audit work, are delivered by external experts.

Budgets are produced annually using incremental budgeting for sales and cost items. All budgets are broken down into monthly periods, with the exception of the sales budget which is broken down into weekly periods.

Properties

The company has significant experience of developing and managing properties and has been able to use that expertise and its close relationships with suppliers to reduce its fit-out and property management costs.



Growth of the company is dependent on being able to find suitable properties for the new gyms. The company has plans to develop between 15 and 20 properties per year. The properties are leased for periods of up to 15 years.

Properties need to be large enough to accommodate the fitness equipment and offer studio space for exercise classes. The ideal property is between 1,000 and 2,000 square metres, over a maximum of two floors. Properties need to be either located within a dense population catchment area to ensure sufficient potential local members or in highly visible locations with easy car parking facilities or access to major transport hubs.

Company Strategy

The company's long-term objective is to deliver long-term profitable growth through improvements in operating efficiency, offering a strong member proposition and by focusing on its people.

It plans to achieve growth through the selective acquisition of existing gym groups, and the lease and fit-out of new properties. The company has a rigorous approach to site selection, with flexible fit-out arrangements allowing the use of a wide variety of building types. It aims to reduce gym fit-out costs through the use of a competitive tender process, negotiating improved terms with suppliers and value engineering the fit-out specification to avoid unnecessary cost.

It plans to achieve improvement to operating efficiency through economies of scale, use of data and technology and also by managing its cost base. The outsourcing of support functions will also enable cost reduction and allow the company to focus on core operations.

In order to continually improve the member proposition, the company will pursue innovative low cost ways to differentiate itself from its competitors. Improvement of member satisfaction, reflected in strong member satisfaction ratings, is a key aim which is dependent on having knowledgeable, well-trained staff. The company strongly believes that attracting, motivating and training people of the highest calibre is key to the company's continued success.

3. The Health and Fitness Industry in Celtland

Celtland health and fitness gym sector is a rapidly growing sector of the health and fitness industry. It has estimated sales revenue of C\$7 billion in 2017, an increase of 6.3% on 2016. There are now over 9.7 million people in Celtland who are members of a gym.

This sector experienced modest growth until 2011 thereafter the growth in the market accelerated rapidly, mainly driven by the low-cost segment. Prior to 2011 the market comprised of two main segments: public gyms funded by local government and private gyms funded and operated by commercial enterprises. The rapid increase in low-cost gyms since 2011 has fragmented the market by creating a third segment, low-cost (or budget) gyms, representing 12% of total private gym numbers in 2017.

Gyms are differentiated by a number of factors, including price and contract terms, quality, scope of services and facilities, as well as whether they are part of a larger network.

These can be broadly grouped into:

- Low-cost (or budget) gyms: these are private gyms and differentiate themselves by offering access to gym facilities for a lower price, normally below (depending on the location sometimes well below) C\$20 per month. To contain costs, these gyms generally do not offer access to 'wet facilities' (e.g., saunas, steam room, pools), operate large venues (above 1,000 square metres) and can generally be joined online. Also, they will normally transparently advertise their prices online and offer monthly rolling contracts as an option.
- Mid-range and premium gyms: these are also private gyms but are more (or much more) expensive than low-cost gyms. They may, however, offer access to better facilities (e.g. wet facilities or a higher quality environment). These gyms can vary considerably in size, from very small facilities to very large ones. Some gyms will offer monthly rolling contracts and advertise their prices transparently online, others only offer longer-term contracts (e.g. minimum six months or one year) and sometimes require customers to contact the gym to obtain a quote.
- Public gyms: are owned and/or operated by, or on behalf of, local government. The quality of the facilities offered by public gyms can vary considerably. In many instances, public gyms also offer access to wet facilities, including a pool. Their pricing policy also varies considerably. Some business models in the operation of public gyms are similar to those in the categories above.

Recent government initiatives in Celtland, such as the 'GetupGo' campaign, have increased consumers awareness of the negative impact of an inactive lifestyle. The Society of Medical Practitioners have made physical activity one of its top priorities hailing physical activity as the best cure for lifestyle related diseases.

Societal trends have also brought active lifestyles more prominence through the use of Facebook, Instagram and Twitter. These trends have mainly influenced the younger generations who are consequently more health conscious than their predecessors.

Competitive Situation

Within the low-cost gym sector in Celtland there are four major players including GymFit. GymFit is the second largest operator in the sector in terms of number of gyms. The largest operator Gym4All has grown mainly through the acquisition of other smaller gym groups. A number of smaller gym groups, typically operating between ten and thirty gyms, still remain.

The rising star in the Celtland market is Fit4Life which has ruthlessly marketed itself as a lifelong alternative to the other low-cost gyms. Fit4Life offers members a lifelong membership fee which will not increase provided the customer remains a member. Its rapid growth has also been driven by its use of specialised fitness apps which have been developed using data analytics. These apps provide members with tailored personal training advice and programmes which they can access at home.

Future Outlook

Growth in the Celtland health and fitness gym market is strong and steady and is expected to continue for the next few years driven by technology changes and government initiatives to improve health and fitness.

The Celtland health and fitness gym market is relatively immature compared to similar markets in Europe. Norway, Sweden and the Netherlands all have mature markets with penetration rates of 19.4%, 16.7% and 16.4% respectively. These penetration rates indicate that there is potential for a strong increase in overall member numbers compared to Celtland's current penetration rate of 14.3%.

Whilst membership numbers are growing, operators still face the challenge of member retention. Technology can minimise cancellations by making the gym experience more enjoyable and rewarding, but operators must work to provide a service that members can't get from exercising alone or by going elsewhere.

The increasing presence of virtual reality (VR), immersive experiences and video-on-demand (VOD) is one way health and fitness clubs can achieve member retention. These technologies allow gym operators to provide content in multiple locations at once, while freeing up instructors. From a member perspective, VOD fitness can be accessed anywhere and at any time thus eliminating the need to be at a gym at a certain time, or at all. Apps and online channels also offer operators a way to help member's access VOD fitness classes at home or away.

4. Extract from GymFit's 2017 Consolidated Financial Statements

Statement of Profit or Loss for the year ended 31 December	2017 C\$000	2016 C\$000
Revenue	73,102	58,831
Operating expenses		
Gym operating costs	(20,389)	(16,384)
Lease costs	(13,840)	(10,800)
Staff costs	(10,561)	(7,955)
Head office costs	(7,280)	(5,840)
Depreciation	(11,523)	(10,154)
Amortisation	(940)	(1,154)
Total operating expenses	(64,533)	(52,287)
Operating profit	8,569	6,544
Finance Income	12	12
Finance costs	(612)	(633)
Profit before tax	7,969	5,923
Taxation	(1,616)	(990)
Profit / (loss) for the year	6,353	4,933

Statement of Financial Position
as at 31 December

	2017 C\$000	2016 C\$000
<u>Non-current assets</u>		
Intangible assets	49,653	48,974
Tangible assets	107,150	69,352
Investment	200	200
	157,003	118,526
<u>Current assets</u>		
Inventories	158	127
Trade receivables	7,229	4,651
Cash and cash equivalents	366	3,858
	7,753	8,636
<u>Total Assets</u>	164,756	127,162
<u>Equity and Liabilities</u>		
Share capital	48	48
Share premium	79,027	79,027
Retained earnings	17,632	12,357
Total equity	96,707	91,432
<u>Non-current liabilities</u>		
Borrowings	32,071	8,325
	32,071	8,325
<u>Current liabilities</u>		
Trade payables	35,320	27,298
Bank loans and overdraft	0	0
Current tax liabilities	658	107
	35,978	27,405
<u>Total Equity and Liabilities</u>	164,756	127,162

Statement of Cash Flows
for the year ended 31 December

	2017 C\$000	2016 C\$000
Cash flows from operating activities		
Profit / (loss) before tax	7,969	5,923
Depreciation	11,523	10,154
Amortisation	940	1,154
Net finance costs	600	621
(Increase) / decrease in inventory	(31)	(30)
(Increase) / decrease in trade and other receivables	(2,578)	(128)
Increase / (decrease) in trade and other payables	8,022	6,862
Cash generated from operations	26,445	24,556
Interest paid	(612)	(633)
Tax paid	(1,065)	(882)
Net cash generated from operating activities	24,768	23,041
Cash flows from investing activities		
Purchase of tangible assets	(49,321)	(21,374)
Purchase of intangibles	(1,619)	(818)
Interest received	12	12
Net cash used in investing activities	(50,928)	(22,180)
Cash flows from financing activities		
Increase / (repayment) of long-term borrowings	23,746	966
Dividend paid	(1,078)	(257)
Net cash from/ (used in) financing activities	22,668	709
Net increase / (decrease) in cash and cash equivalents	(3,492)	1,570
Cash and cash equivalents at beginning of the year	3,858	2,288
Cash and cash equivalents at the end of the year	366	3,858

5. Budget information 2018

Membership Fee Budget 2018

		City	Town	Total
Number of gyms		30	86	116
Average number of members per gym	Full-fee	3,660	3,107	3,250
	Student	1,396	1,199	1,250
	Total	5,056	4,306	4,500
Average membership fee per month (C\$)	Full-fee	21.96	12.14	15.00
	Student	17.59	9.73	12.00
Total membership fees per year (C\$000)	Full-fee	28,934	38,926	67,860
	Student	8,840	12,040	20,880
	Total	37,774	50,966	88,740

Sales Budget 2018

Number of gyms	116		
Average number of members per gym	4,500		
Total sales revenue (C\$000)	92,394		
	Per member C\$	Number of members per gym	Total C\$000
Average membership fees	170.00	4,500	88,740
Classes	5.28	4,500	2,756
Vending machine income	1.45	4,500	757
Day passes			141
Total sales revenue			92,394

Operating Profit Budget 2018

	Total		Per gym	
	\$000	\$000	\$000	\$000
Sales revenue		92,394		796
Operating expenses				
Gym operating costs	(23,920)		(206)	
Lease costs	(16,991)		(146)	
Staff costs	(11,822)		(102)	
Head office costs	(8,221)		(71)	
Depreciation	(14,616)		(126)	
Amortisation	(1,040)		(9)	
		(76,610)		(660)
Operating profit		15,784		136

GymFit Key Statistics

	Budget 2018	Actual 2017	Actual 2016	Actual 2015
Total number of gyms	116	102	71	59
New gym openings	14	31	12	15
*Number of mature gyms	71	59	44	32
Total number of members	548,100	485,600	358,400	300,800
Average number of members	522,000	422,586	344,066	283,908
Average number of members per gym	4,500	4,143	4,846	4,812
Total sales revenue (C\$000)	92,394	73,101	58,831	47,983
Sales revenue per member per year	\$177	\$173	\$171	\$169
Total number of operational employees	225	198	138	114

*Mature gyms are those gyms which have been operating for more than 2 years.

6. The Tax Regime in Celtland

Corporate Profits:

- The corporate tax rate applicable to taxable profits is 20%.
- The sales tax rate is 20%.
- Unless otherwise stated below, accounting rules on recognition and measurement are followed for tax purposes.
- The following expenses are not allowable for tax purposes:
 - accounting depreciation;
 - amortisation;
 - entertaining expenditure;
 - donations to political parties; and
 - Taxes paid to other public bodies.
- Tax depreciation allowances are available on items of plant and machinery (including vehicles used for business purposes) at a rate of 25% per year on a reducing balance basis.
- Tax losses can be carried forward to offset against future taxable profits from the same business.

Fitness Monthly

16 October 2018 No. 78

C\$4.70

Is data analytics the future for the fitness industry?

Georgio Duccatti - Business Correspondent

We live in a world driven by technology. The fitness industry is no exception, as the opportunity to use technology and data promises a step change in the gym experience. We are beginning to see collaborations between brands that have created connectivity between a wide variety of fitness equipment, devices, wearable technology and healthcare apps.

These collaborations offer us a much broader view of fitness, health and preferences. The resulting data has the power to fundamentally change our behaviour. It is no surprise then that the market for connected gym equipment is growing at an incredible rate, estimated at over 40% per year.



Imagine tracking changes in important body statistics, working through an automated training programme that has been designed based on your likes, dislikes, goals and progress.

The gym benefits too. By understanding your profile and preferences, the gym can align their offer, for example adapting classes and facilities. This increases member loyalty and reduces churn.

The amount of data that could be created is huge, along with the possibilities. It is still relatively early days but the size of the opportunity is clear.

Fitness Monthly

6 November 2018 No. 78

C\$4.70

The battle to beat inactivity – are we winning?

Georgio Duccatti - Business Correspondent

According to a recent report by the Celtland Heart Disease Research Foundation the answer is a resounding 'No'.

The report suggests that more than 20 million people in Celtand are physically inactive and the charity warns that inactivity increases the risk of heart disease.

The Celtland government recently announced its GetupGo initiative to try to encourage both adults and children to exercise on a regular basis.

GetupGo heralds a new approach which shifts the balance of investment, for the first time, to focus more on encouraging inactive and under-represented groups to become more active. It is believed that this is where the greatest individual, community and economic gains can be made



The government is encouraging community group, health care providers, employers and local authorities to take action to support the initiative.

Private sector companies in the health and fitness sector are also being encouraged to target new members from these under-represented groups.

So, if you're not already a member of a gym then maybe it's time to 'get up and go' down to your local gym. You might be pleasantly surprised at the offers available!!