CFA Institute Research Challenge

Hosted by CFA Society Netherlands

Team HEC-ULiège

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Date: 11/01/2019
Ticker: BFIT-NL
Exchange: Euronext Amsterdam

Current price: €25.70
Target price: €31.17
Recommendation : BUY

Company information	
Primary sector	Leisure
	Fitness
CEO	René Moos (55Y0)
CFO	Hans Van de Aar (60YO)
Employee	3,562
Clubs	586
Memberships	1.73m
Share information	
IPO Date	10 June 2016
IPO Price	€15.00
Market cap	€1.39bn
Share oustanding	54.7m
Free float	66%
Liquidity (average last 3 months)	82,335 shares per day
52week Range	€19.46-€33.15
Bloomberg consensus	Buy €31.84
FactSet consensus	Buy €31.84
ROE(2017)	3.6%
Dividend	0
Key financials	
Revenues (2017)	€325m
EBITDA Margin	29%
Net Income	€11.127m
Debt	€311.11m

How to muscle your portfolio?

We issue a BUY recommendation for *Basic-Fit NV*. This recommendation is based on qualitative and quantitative analyses and leads to a target price of €31.17 offering a 21% increase from the closing price of January 10th, 2019. *Basic-Fit* will soon become the largest European fitness chain, thanks to its fast growth with a clear process and a well-defined strategy in the European market, which is still underdeveloped. We expect that margins and unlevered FCFF will increase significantly. Our valuation analysis delivers a target price of €31.17, relying on a strong growth of revenues (CAGR of 16%), an increase in margins (EBITDA CAGR of 21%) and free cash-flow.

Key figures

FY/e 31.12	2017	2018E	2019E	2020E	2021E	2022E
Sales (€ m)	326	406	486	578	672	768
EBITDA (€ m)	96	130	164	207	253	302
EBIT (€ m)	4	21	41	64	96	139
Net earnings (€ m)	11	27	43	67	99	130
EPS (€)	0.2	0.49	0.79	1.23	1.81	2.38
Dividend (€)	0.00	0.00	0.00	0.00	-	-
Unlevered FCF(€ m)	-52	-25	-4	26	56	89

Key points

Basic-Fit is already the largest fitness chain in terms of clubs in Europe and will continue to grow following a clear process and strategy (opening around 100 clubs per year). The fitness industry in Europe (especially low-cost) is a growing market with middle competition and a low penetration rate in countries in which *Basic-Fit* is expanding. The EBITDA margin is expected to increase from 29% in 2017 to 39% in 2024. We expect the first positive unlevered free cash-flow in 2020.

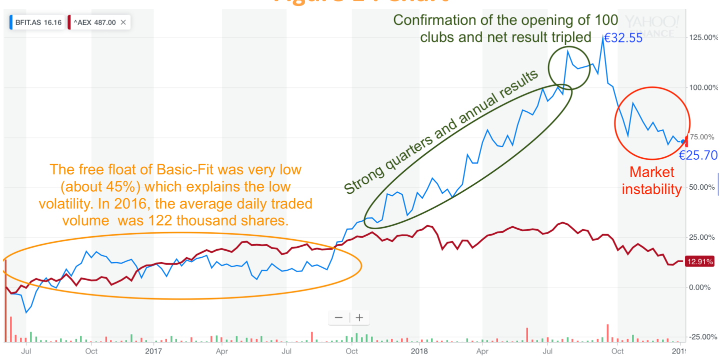
Latest news

On December 2, 2018, *Basic-Fit* announced a change in the pricing of their memberships. The PRO-Coach App, which was previously a €4.99 per month add-on, is now included as standard. The entry membership stays at €19.99 but is no longer sharable and the premium pass now costs €29.99.

On September 27, 2018, the private equity company 3i, which entered capital in 2013, sold a 6.8% stake in *Basic-Fit*'s share outstanding and 3i reduced its stake from 23.7% to 18.0%.

Chart analysis: Basic Fit & AEX

Figure 1 : Chart



Source: Yahoo finance

Investment summary

Basic-Fit is a Dutch company active in the fitness industry. Listed on Euronext Amsterdam since June 2016, the firm is today the largest fitness chain in terms of clubs in Europe, with 586 clubs (September, 2018). Its objective is to make fitness accessible to everyone through its low-cost strategy. They offer high value for a cheap membership fee. In other words, they provide all the ordinary services of a fitness club but do not offer premium services such as saunas, swimming pools, or free personal trainers. Recently, they have expanded to France and have started investing (around €5m) in innovation such as virtual classes. In 2017, *Basic-Fit* for the first time opened more than 100 clubs in one year and this expansion rate is likely to continue in coming years. According to our estimates, *Basic-Fit*'s expansion will be limited to 107 clubs per year as a higher rate may lead to structural issues.

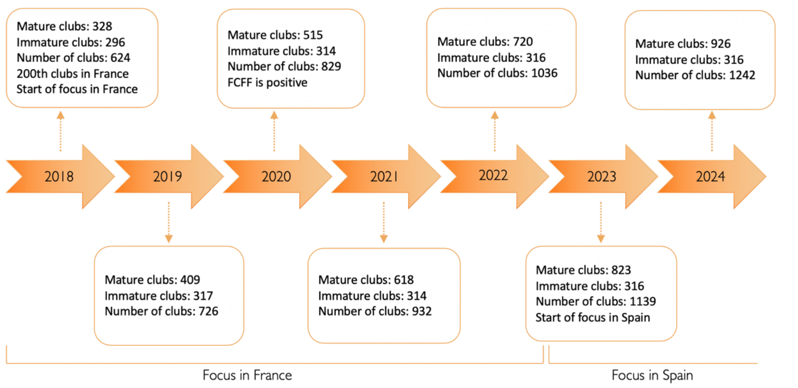
Our valuation analysis recommends a BUY We performed a DCF and a relative valuation based on multiples. Both lead to a buy recommendation. Our quantitative analyses translate high-growth expectation (i.e., revenues increasing by more than 15% CAGR) for the next 5 years due to the expansion strategy, and a significant increase in the EBITDA margin thanks to more mature clubs. We forecast a YOY growth in revenues from 24% in 2018 to 10% in 2024. Currently, FCFFs for *Basic-Fit* are negative due to the strong expansion. Although the management announced positive cash flows in 2019 or in 2020 (depending on the expansion strategy), we forecast the first positive unlevered free cash flow in 2020 and then strong growth until 2024. We expect unlevered free cash flow to increase from €–23m in 2018 to €124m in 2024. Our sensitivity analysis concerning the WACC and the final growth rate does not change and reinforces our recommendation. Beside our DCF, we conducted a peer valuation which also recommends a buy, especially for the multiple enterprise value per club. However, regarding the limited numbers of peers traded on the market we did not put any weight on the multiples analysis for our target price recommendation. There are few traded companies with a similar expansion program to *Basic-Fit*.

How Basic-Fit gains strength The strategy of *Basic-Fit* is clear and simple; they expand in underdeveloped markets. After their expansion in Belgium, they are currently expanding into France. In 2022, *Basic-Fit* will start to intensify its expansion into Spain. We expect the expansion in Spain to have a smaller impact than the expansion in France because the network will be more developed than in 2016 (when *Basic-Fit* started its expansion to France). In each country, they have the same expansion process. They first focus on big cities and then open clubs in suburbs. They also have the same pricing policy in each market with starting fees of €19.99. Nonetheless, they sometimes test changes in a particular area first. During recent years, they have also further developed add-on services such as sports drinks in clubs.

Strong growth in revenues without any protein We expect revenues to increase at a CAGR of 16.21% between 2018 and 2024. This is enabled by the increase in the number of clubs and the maturity of clubs which were previously opened. As the number of clubs opened per year remains stable, the impact on the revenues from more clubs is becoming less important and this lowers the growth rate from 24% in 2018 to 10% in 2024. Concerning costs, operating costs are related to the number of clubs, which increases the margin because costs increase less strongly than revenues.

Potential injuries slowing the expansion? Since 2014, *Basic-Fit* had experienced rapid growth with the help of 3i (a private equity company). They reached their goals and now continue their expansion outside the Benelux. However, *Basic-Fit* is still in its expansion phase and this raises concerns about its business model, the feasibility of the growth, and financing. The business model may fail because of structural problems due to internationalization and strong growth. The growth may not be feasible due to a lack of members or financing issues. Furthermore, there is a high risk that competitors will enter Spain before them. Nonetheless, as explained further in our report, we think that *Basic-Fit* is able to continue its expansion as planned. Furthermore, *Basic-Fit* is also exposed to global risks such as degradation of the economic situation, VAT changes, and real estate availability.

Figure 2: Timeline



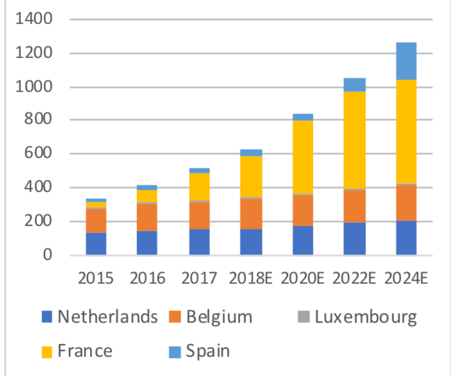
Source: Team analysis

Business description

From the Netherlands to an international chain As of September 2018, the company operates 586 fitness clubs in five countries and has a membership base of more than 1.73m members under the same label, *Basic-Fit*. Created in 1984 by René Moos (current CEO), *Basic-Fit* went through different stages before reaching its current structure. In 2004, they had 11 mid-to-premium clubs under the name of *HealthCity*. In the following two years 63 clubs were added. The low-cost strategy started in 2006 with *HealthCity Basic* and intensified with the acquisition of the brand *Basic-Fit* and its 28 clubs in 2010. Since then the focus on budget clubs increased, with *Basic-Fit* gathering all the budget clubs of the group and *HealthCity* regrouping the more premium ones. In 2013 *Basic-Fit* and

HealthCity became two separate and independent companies. Ever since, the expansion strategy of *Basic-Fit* in terms of clubs and localization has become a priority.

Figure 3 : Club evolution per country

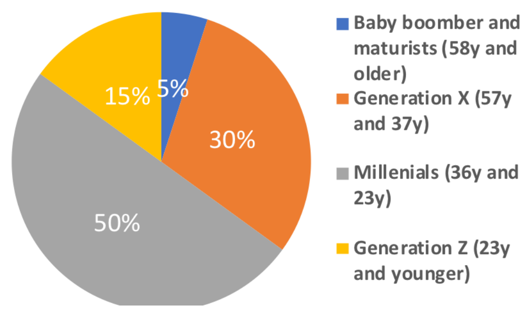


Source: Annual reports, team analysis

Goal to become the leader in Europe The objective of *Basic-Fit* is to become the largest player in low-cost fitness in Europe. To do so, *Basic-Fit* seeks countries with low penetration rates and then opens a large number of clubs in a short period of time to become the largest in terms of market share in that country. In the past, *Basic-Fit* realized several club chain acquisitions, but recently tends to make more green-field investments in order to increase the number of clubs. Once the dominant position is established in a country, *Basic-Fit* expands to a new market. Furthermore, the capacity to open a large number of clubs is possible thanks to the standardized process of opening and the operation of clubs. Once the clubs are opened, *Basic-Fit* operates them at low cost thanks to the high level of automation and a cluster strategy (organization of clubs per small region in order to realize synergies) which allows economies of scale. This standardization of operation allows *Basic-Fit* to realize high margin levels. Then, the membership base increases quickly thanks to the low-pricing strategy. With this pricing, the target customers are mainly millennials (between 23 and 36 years old) and generation Z (younger than 23 years old).

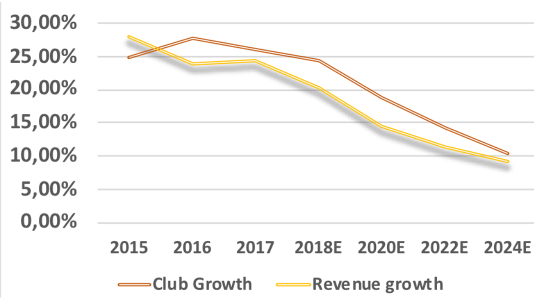
International and simple pricing *Basic-Fit* offers different products and services that gather all essential fitness activities. Membership fees account for 97.5% of revenues. There are two kinds of annual membership: premium (the members can invite a friend for free to each training session) at €29.99, and comfort at €19.99 (Appendix 1.A). Both types of membership are paid every four weeks. Members can pay €8.99 more to be able to break the contract at any time. Members have access to every *Basic-Fit* club in all countries. Day passes, personal trainers, and vending machines, among others, are additional sources of revenue accounting for 2.5% of total revenues. *Basic-Fit* uses a unique pricing strategy across its clubs and countries and focuses on the core fitness services (cardio and strength equipment, changing rooms, and group lessons) but don't offer more premium services such as saunas, swimming-pools, or squash. A similar pricing and operating model is applied in every club (in contrast to franchised clubs), which share the same revenue and cost structure.

Figure 4 : Memberships repartion



Source: Slides investor day

Figure 5 : Revenues growth and club growth



Source: annual reports teams analysis

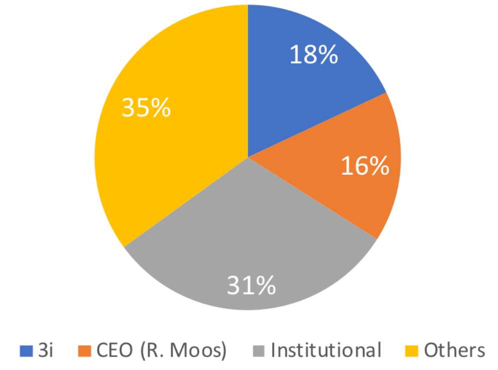
Drivers of growth The key drivers of *Basic-Fit* revenues are threefold: club expansion, maturity of clubs, and add-on revenues. First, the number of clubs is increasing at a fast pace with 102 extra clubs added in 2017 (+24%) and an objective of about 100 supplemental clubs per year in the medium term. In accordance with this opening objective, *Basic-Fit* sees the opportunity to open 750 additional clubs in the regions where it is already operating. During the next three years the focus will be on expansion in France, and then on increasing their presence in Spain. In the longer term, *Basic-Fit*'s management does not exclude expansion into new countries. The second dimension is the maturity of the newly created clubs. It takes about two years for a club to reach maturity and an average of around 3300 members (3750 in France). Mature clubs have higher revenues and higher EBITDA margins (around 50%) and so, even if *Basic-Fit* stop opening new clubs, it will still experience significant growth over two years. The main goal of *Basic-Fit* when they open a club is to have a minimum return on capital investment of 30% at maturity. The scale and operational efficiency translate into positive cash flow at the club level once there is an average of 1,600 memberships, which means a payback period of between 2 to 3 years. The third driver is the add-on revenues that have increased in the last few years and are expected to increase in the future, with marketing revenues and other extra fitness services.

Expenses The unique operating system of the clubs translates into a standard operating cost structure across clubs. In past years a focus on the optimization of operations through IT investment and digital tools has enabled the group to operate a club with 2 full-time equivalents. The client experience can be enacted through the app and digital tools in the clubs without physical interaction with a staff member. *Basic-Fit* proposes virtual lessons and doesn't need to hire coaches. The coaches that offer personal training are self-employed and pay a monthly fee to *Basic-Fit*. There are also costs related to the global organization, such as marketing and overhead costs. Nonetheless, the main component of *Basic-Fit* expenses is the capital expenditure due to expansion and the fact that the firm leases its buildings and some of its equipment. The CAPEX also includes IT expenditure. The group enjoys economies of scale due to its position as the largest fitness chain in Europe. As a result, *Basic-Fit* is able to build clubs at a lower cost than their competitors (especially local clubs and franchised chains).

Management and governance

Ownership structure The two main shareholders of *Basic-Fit* are Mito Holdings Sàrl (an entity controlled by 3i Investments plc) with a stake of around 18% and AM Holding (an entity controlled by the CEO René Moos) with a stake of 16%. The fact that the co-founder and CEO holds a large stake in the firm is positive because it gives confidence in the future good performance and stability. *3i* is a private equity firm that invested capital into *Basic-Fit* in 2013 with an initial stake of 44.4%, injecting €110m. As of the end of 2017, *3i* held a 27.8% stake, and then 23.7% in mid-2018, but sold 5.7% of its stake in September 2018 which could be a signal that the private equity firm will continue to decrease its stake in the upcoming months. The 66% remaining shares are free-float for a total of 54,666,667 outstanding shares. In June 2018 the co-founder Eric Wilborts, who has not been involved in the management of *Basic-Fit* since 2013, sold his entire stake of 5.9%. The shareholders are mainly located in Europe (more than 70%), and South America (about 5%). The authorized share capital consists of 150,000,000 ordinary shares with a nominal value of €0.06, of which 54,666,667 are issued and confer a single vote at the general meeting. Some members of the Supervisory Board hold shares for less than 0.1% of the capital. Kees van der Graaf (chairman of the supervisory board) personally held 3,275 shares, Herman Rutgers personally held 1,000 shares, and Hans Willemse personally held 72,029 shares in *Basic-Fit* on December 31, 2017.

Figure 6 : Shareholder structure



Source: FactSet and 3i press release

An interesting number of shares According to the "adverse selection" theory, the incentive to issue equity is the highest when the price of the share is overvalued. In this case, almost ⅔ of the authorized shares are yet to be issued. This means that *Basic-Fit* believes that its share price is undervalued as it has not issued the remaining shares. If *Basic-Fit* issues shares that would send a signal that the stock is overvalued compared to the real value and that they are confident in their capacity to generate good cash-flows in the future. Moreover, issuing the shares now would dilute the current shareholders as new investors could buy equity at a cheaper price.

Firm's management and board The management board is composed of the CEO René Moos (55 years old) and the CFO Hans van der Aar (60 years old) (Appendix 2.A). The fact that the founder and CEO is still engaged with *Basic-Fit* and will conduct the growth of the firm is very positive. He has proven that he is the right person to meet the ambitions of *Basic-Fit*. This management board is overseen by a supervisory board composed of 6 members. They are of the same nationality (Dutch) and there is only one woman. This could have an impact on international openness and diminish the willingness to expand outside of central Europe. The members of the supervisory board are in place for a maximum of four years and a system of rotation prevents multiple reappointments in the same year. In addition to the boards, country managers are responsible for all regional managers in their country, and report directly to the management board. Regional managers are responsible for different clusters, and cluster managers are responsible for several clubs in a region. The management structure is efficient and has been proven over time, which is required to continue growth. An important point to emphasize is a "long-term loan from shareholders" for an amount of €201m that was completely reimbursed the year of the IPO. This represents half of the cash generated by the IPO and could be surprising, knowing the cash required for the *Basic-Fit* expansion plan. However, this was probably a loan in order to provide cash to the company before the IPO, which is a process that takes time (a sort of equity bridge financing).

Remuneration The remuneration package provides high incentives conditional to the performance. Fixed compensations were set at €562,500 for the CEO and at €433,125 for the CFO in 2017. The variable part is conditional on the objectives regarding club openings and EBITDA. This is coherent with the expansion strategy but the EBITDA emphasis is very important because the cost structure, profitability, and cash flows are also expected to be good. In order to guarantee a sustainable profitability, the Economic Value Added should perhaps be taken into account. For the year 2017 the short term incentives accounted for €258,750 for the CEO and €199,238 for the CFO. As we can see there are strong financial incentives for the management board to meet the objectives or to outperform them.

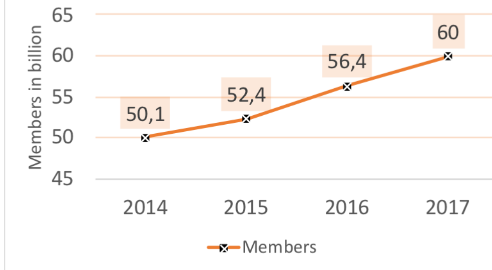
Social impact of Basic-Fit Through their activities *Basic-Fit* create positive outcomes for society, because the practice of sport is positive for health. With increasing attention turning towards obesity and diabetes problems, sport will gain importance. Through its strategy of making fitness accessible at low prices and the application that motivates users to practice sport, *Basic-Fit* may play an important role. Basic-Fit also tries to be as socially responsible as possible. *Basic-Fit* is implementing KPIs for sustainability targets but in accordance with their cost and margin strategy they limit the energy use and cost as much as possible, and try to implement healthy thinking in accordance with their fitness aspiration.

Industry overview

Key characteristics of the fitness industry The fitness industry can be divided into three segments: low-cost (with monthly memberships around €20), medium/upper market, and special format (e.g. clubs only for girls). Each segment pursues its own strategy, which respectively corresponds to cost leadership, differentiation, and focus. We also distinguish three types of fitness companies. First, fitness chains which are nationwide or international. Second, many fitness clubs (especially in France) are franchised companies and some international companies also use this model. The third type are small independent local clubs. Furthermore, the development of a market can be assessed by the penetration which is the number of fitness members divided by the population. Countries with a penetration rate under 10% are underdeveloped, whereas most developed countries (such as Norway and Sweden) have penetration well above 15%.

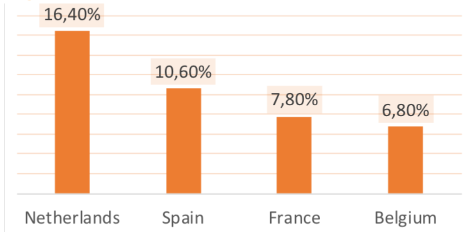
Europe: growing, but still underdeveloped For many years, the growth of the industry has outpaced the GDP growth (Appendix 3.A). According to the European Health & Fitness Market report by *Deloitte*, revenues for European fitness clubs grew by 1.9% while the number of members increased by 4% in 2017. The revenues of the industry were 26.6 billion in Europe with an average membership fee of €39.9 per month. The three key drivers for growth are opening clubs, increased spending per member, and increased members per club. The three biggest markets in terms of revenues are respectively the UK, Germany, and France (Appendix 3.B). However, it is worth noting that the growth in Norway and Sweden (most developed countries) were respectively –1.7% and –0.3%. Therefore, development in mature markets is more difficult. Nonetheless, most European countries are still underdeveloped. Only 4 countries have a penetration rate above 15%, whereas the US penetration rate is 16%. In underdeveloped markets, the low-cost segment is a driver for growth. The biggest European low-cost companies are *Basic-Fit*, PureGym, McFit, and FitX. Although McFit is the biggest chain in members, *Basic-Fit* had the highest membership growth last year and is the largest in terms of clubs. David Lloyd Leisure and Migros, which have mid to premium clubs, are the biggest companies in terms of revenue with respectively €483m and €388m in 2017.

Figure 7 : Membership in Europe



Source: European health and fitness report 2018,2017,2016,2015 (Deloitte)

Figure 8:Penetration rate



Source: European health and fitness report 2016 (Deloitte)

Opportunities in the industry The low penetration rates in Belgium, France, and Spain are a real opportunity for fitness centers. Moreover, many baby boomers (58 years old and older) are highly concerned about their health and many of them will start practicing fitness. They search for high quality and appropriate advice and services (such as group classes). Concerns about health in our society and increases in health-related disease (such as obesity and diabetes) also encourage the practice of sports. Governments and health insurers encourage people to start physical activity.

Competitive positioning

	Penetration rate	# clubs in 2018	# clubs in 2024	Main competitors	Competition
Netherlands	16.40%	157	208	Fit For Free Anytime Fitness	High
Belgium	6.80%	169	209	JIMS	Very low
France	7.80%	217	615	L'Orange Bleue Fitness Park Keep Cool	Middle
Spain	10.60%	33	219	McFit	Middle

Situation in Basic-Fit markets In the Benelux region *Basic-Fit* is already well developed in terms of the number of clubs. Nonetheless, many of these clubs are not yet mature, especially in Belgium. In the Netherlands and Belgium, *Basic-Fit* management wants to approach 200 clubs per country by 2022. The Netherlands is a developed market and the main competitor is a low-cost chain with 94 clubs called Fit For Free. In Belgium, the market is still underdeveloped and fragmented. There are many small fitness centers with different price policies. JIMS (25 clubs) shows itself as the main competitor for *Basic-Fit*. *Basic-Fit* is also the leader in number of clubs in Luxembourg, which is a more stable market. *Basic-Fit* aims to become the leader in low-cost fitness in France and in Spain in the coming years. France is an underdeveloped market. The French player, L'Orange Bleue, is currently the biggest operator in terms of number of clubs. Most French fitness companies have membership fees around €30. There is no fitness chain with the same value for money as *Basic-Fit*. In order to avoid losing members, many French clubs offer two-year contracts to their customers in areas where *Basic-Fit* plans to open new clubs. However, *Basic-Fit* had a high number of members in its new French clubs. *Basic-Fit* plans to significantly increase clubs in Spain after their expansion into France. However, a major risk is that another fitness chain will gain the market share before the expansion of *Basic-Fit*. McFit already has 34 clubs but they do not plan to aggressively increase their number of clubs and no other chains have made an announcement.

Direct competition This is competition from other fitness companies (Appendix 4.A). The degree of competition differs in each target market as explained above. The Netherlands is the most competitive market. In other countries, markets are still underdeveloped and the expansion of other low-cost chains is therefore not a real threat. Furthermore, new local clubs cannot compete with *Basic-Fit* on price due to their small size. Members between 23 and 40 years old represent 50% of members in 2017, and 15% of members are younger than 23 years old. Many of these members have low incomes and therefore there are no other fitness clubs for them at this cost level.

Indirect competition This competition from substitutes products. The four main substitute products are outdoor training, home training, sports clubs, and cross fit. However, cross fit is less individual (i.e. members do the workout of the day) and is more expensive. *Basic-Fit* members have different objectives such as to gain strength, look good, and stay healthy. Fitness members can gain strength and results more rapidly than with home or outdoor training. Group classes can also motivate members. Thus, we do not think that substitute products offer the same value for the same price.

Competitive advantage

Rapid growth since the IPO Since Since its IPO, *Basic-Fit* has access to more resources to support the opening of 100 clubs per year. Most of its competitors (FitnessPark, McFit) are owned by private equity firms and can't grow as fast as *Basic-Fit*.

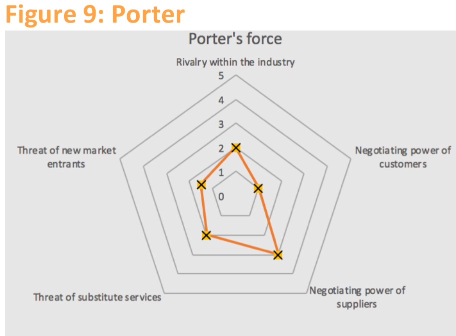
Opening at a low cost Furthermore, *Basic-Fit* is able to open new clubs at relatively a low cost. They have been through different large M&A in their expansion process and have managed integration and economies of scale. Moreover, automated kiosks, virtual group sessions, and the app lower the operating costs (e.g. personnel costs). Therefore, *Basic-Fit* can manage its club with only two full time workers. Franchised clubs and local clubs are opened by new entrants and therefore have less expertise than companies such as *Basic-Fit* when opening new clubs.

Drawing power As with other low-cost fitness chains, *Basic-Fit* attracts many new members. 37% of these are first time fitness members. Moreover, *Basic-Fit* has an advantage over its competitors to attract new members thanks to its premium membership, its developed network of clubs and its national advertising.

Integration of innovation Thanks to its high size, *Basic-Fit* can invest more in new technologies than its competitors. Besides traditional services, such as online or kiosk enrolment, they have developed a mobile application which helps members with advice and training plans. They have also developed virtual classes. Other companies cannot afford such investment (roughly €4m per year) in technologies.

Porter's five forces (Appendix 4.C) Equipment suppliers have medium bargaining power because they are worldwide firms, but *Basic-Fit* is an important customer. Furthermore, it is important to note that *Basic-Fit* relies on only two equipment suppliers and therefore is dependent on them (especially for repurchasing of equipment and maintenance). Customers are individual members and therefore have very low bargaining power. Industry rivalry is different in each country but is low in general. A significant proportion of current customers can find a substitute product. As most markets are underdeveloped, the threat of new entrants is low because there is room for other fitness chains.

Figure 9: Porter



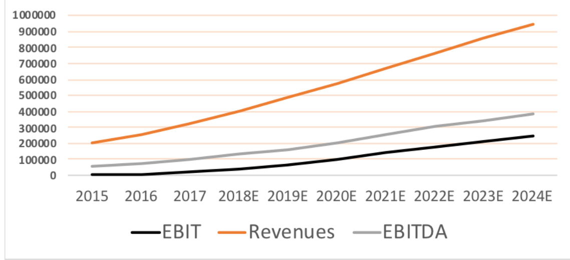
Source: team analysis

Financial analysis

Sales grew at a CAGR of 26.2% Since 2014 sales grew 26.2%, driven by the increase in the number of clubs from 264 in 2014 to 586 in September 2018. Except in 2015 when revenues grew less strongly than the numbers of clubs, revenue growth outpaced the growth in the number of clubs thanks to more clubs becoming mature. Historically, *Basic-Fit* has realized most of its revenue in BENELUX because it all started there. This is changing with the expansion into France and Spain. The forecast of the revenues is based on the number of clubs that will be operating in the future. We make the assumption of an average of 103 net openings (which takes into account clubs closing and acquisitions) per year in the next 7 years. The second step is to differentiate between mature and non-mature clubs at the beginning of the year. A club is considered to be mature after 24 months. The number of mature clubs at the beginning of the year N is the sum of the total number of clubs at the end of the year N+2 minus closings during the year N–1 and N–2. In FY17, average revenues were €791k for a mature club and €477k or non-mature clubs. We assume that the mature revenue will grow by 1.3% (growth in FY17 for the clubs which were already mature in FY16) during the next 7 years (Appendix 5.A).

Same operating costs for all clubs (Appendix 5.B) Employee benefit expenses increase following the number of clubs. During the last four years, the ratio of employee benefit expenses remains stable around the four-year average of €121,000 per club. We took this average for our forecast. Other operating expenses include rental costs, housing costs, and equipment leasing. In FY17, the costs per club were €216,493 whereas this was stable around €210,000 during the previous three years. These higher costs were due to higher costs in big cities in France. For our forecast, we continued the increase of the ratio until 2021. Then, we expect lower costs in smaller cities of France and in Spain. Other employee expenses decrease per club but increase in absolute values during the last years. This includes temporary workers, costs related to live group sessions, and management and monitoring fees payable to 3i. The reduction in per club costs is due to the slow withdrawal of 3i. Therefore, we think this ratio per club will continue to decrease in the coming years. The cost of consumables represents the cost of the membership cards and yanga drinks. Since 2014, the ratio per club increased due to the development of yanga drinks and it represents less than 1.2% of sales in FY17. However, in coming years *Basic-Fit* wants to remove the cards. Therefore, we think the ratio will remain stable.

Figure 10 : Revenues, EBIT, EBITDA (in€)



Source: Company reports, team analysis

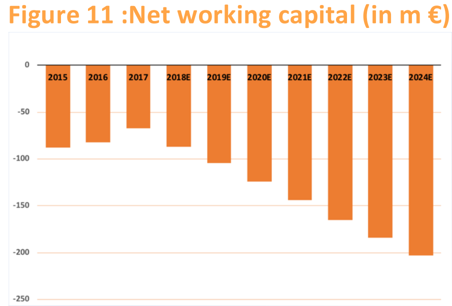
SG&A increase with the internationalization Marketing expenses are costs for national advertising campaigns. As *Basic-Fit* has planned a campaign in France in 2019, they have announced that these expenses will increase by €3.5m in 2018 and 2019. It is important to note that they prepaid the campaign internally, which explains why costs increased this year although no campaign had been launched. Then, during the last 5 estimated years, we took the portion of sales for 2019 with a growth rate of 1.57%, which is the mean growth rate of that part of sales for the two previous years (we expect a continued increase in spending in order to keep customers). For write-off of bad debts (e.g. unpaid membership fees), this remains stable around 2.6% of sales and therefore we took this as the average for our forecasts. Overhead expenses remain stable around 4%. In FY16, the sales part was higher due to the expansion in France and the need for new managers. This was an extra €4.8m cost compared to the average 4%. As there is a strong expansion planned for Spain in 2023, we have also added the €4.8m on that year. Car expenses were respectively 0.51% and 0.52% of the sales in FY16 and FY17. We took the average of these two years for our forecasts

Depreciation and amortization Depreciation are based on the straight line method. We forecast the depreciation based on a rate of 12.5% (last three years average) and took into account the maintenance and expansion CAPEX forecasts. We forecast that depreciation increases at a CAGR of 9.4% from 2017 to 2024 (Appendix 5.G). For the amortization, we have continued current policies for the trademark (€2.246m each year since 2015) and customer relationships (linear amortization of 7-8 years). For other intangible assets, we have used the four year average rate and take into account other CAPEX (which are investment in software and technologies).

Balance sheet structure (Appendix 5.D and 5.E) Property, plant, equipment, and intangible assets account for more than 90% of the total assets for the 3 last years. Thanks to its IPO, *Basic-Fit* considerably reduced its debt position. Borrowing represented 75% of the total liabilities and equity in 2015. In FY17, this part was 40%. It is important to note that the loan from shareholders of €200m was repaid thanks to the IPO which raised €370m. We assume that this was part of equity bridge financing. Trade and other payables remain stable around 15% of the total liabilities over the last three years. In 2015, the total equity book value was negative due to negative retained earnings. After its IPO, total equity accounted for roughly 40%.

CAPEX This has three components (Appendix 5.H). Based on our estimates, the CAPEX is going to grow from €165m in 2018 to €200m in 2024. First, expansion CAPEX includes new clubs built and clubs acquired. Cost per club build increased due to the expansion in France where real estate is more expensive nd where the clubs are bigger. We used an average of the three last years as CAPEX per club built for our estimates. Costs per acquisition fluctuated over the last three years. We used the last year cost per acquisition for our estimates as this is the most representative of the current market costs per acquisition (i.e. it was the last year's cost). We also applied a 1% growth rate due to hypothetical inflation. The expansion CAPEX was €1.137m per club and remained stable around €1.15m during the last three years. Maintenance CAPEX per club increases from €38k to €54k in FY17. The management is confident that the maintenance cost will remain stable around €55kin coming years. Furthermore, we assume that the clubs experiencing maintenance are the total clubs at the end of N–1 plus 45% of the net opening of the year N. This approach is consistent with historical years. Often more clubs are opened at the end of the year and so do not require the same level of maintenance. Other CAPEX include the CAPEX of the refurbishment program (equivalent standards for all clubs) and investment in innovation. The refurbishment program ended in 2016. Then, the investment in innovation concerns software, virtual classes, and virtual coaching. In FY16 and FY17, the investments were respectively €3.5m and €4.5m. The management announced investment between €6m and €8m per year for the coming years. We decided to forecast spending of €7m per year.

Figure 11 :Net working capital (in m €)



Source: Team analysis

NWC (Appendix 5.I) Currents assets increased over the last three years. Inventories are goods purchased for resale, such as sports drinks, and were only 3% of the current assets in FY17. For our forecasts, we used the average days in inventory for the two last years. Trade and other receivables (such as member receivables, prepayments, accrued income, etc.) grew during the last years. We used the days of sales outstanding for our forecasts. Current liabilities include many different elements. We decided to forecast trade payable and other current liabilities based on percentage per sales because the management communicated the NWC based on this ratio. We also forecast holiday allowances, which are stable per club.

Profitability. As clubs become mature, the revenues increase more than the costs. The maturity effect is more important compared to the new club effect. Thus, the company becomes more and more profitable. During the last few years, the EBITDA margin did not increase due to higher overhead costs in 2016 (linked with the expansion into France) and higher marketing expenses (due to the preparation of the national campaign in France) in 2017. However, thanks to the maturity effect, we expect the EBITDA margins to increase from 29% in 2017 to 40% in 2024. Currently the gross margin is around 40% with 47% mature clubs. We expect a gross margin of 52%. This higher margin is due to more mature clubs and higher expected margins in France.

Liquidity Concerning the cash, the net operating cash flow allows *Basic-Fit* to invest in their expansion but it is not enough and that is the reason why they use a revolving credit facility. Their liquidity ratios are quite low compared to the industry and this is due to the high spending of cash in order to expand. With ratios that low they wouldn't be able to meet their financial obligations in the short-term. We can say that *Basic-Fit* finances its long term expansion plan with short term sources. The negative working capital also means that *Basic-Fit* currently finances its expansion and long term assets through short term debt.

Operating Total costs per club increase due to more marketing costs, higher overhead costs, and higher rental costs. We expect that the total costs per club are going to continue to increase. CAPEX per sales decreased for two reasons. First, the company adds a stable number of clubs in absolute values but fewer clubs as a percentage of clubs (and so less as a part of the revenues). Then, as the clubs become mature the revenues increase without any new clubs.

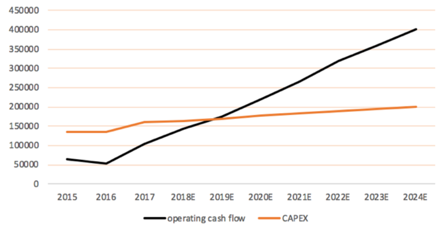
Leverage The management of *Basic-Fit* plans to maintain the ratio debt/EBITDA between 2.5 and 3 in the coming years. The capital structure has been impacted by the IPO. As of June 2018 the ratio debt to equity is at 0.98. *Basic-Fit* will increasingly rely on equity but still keep a significant level of debt in order to benefit from tax shields. In June 2018, the total financial debt was €311.11m (all long term). As of June 2018, bank borrowing accounted for €250m associated with a maturity of June 2023 and a variable interest rate of Euribor plus margin, depending on the leverage ratio and unsecured. *Basic-Fit* also has a €200m revolving facility of which €69m have been drawn.

Table : Key ratio

	FY15	FY16	FY17
Profitability			
Sales growth	25%	28%	26%
ROA	-0.06	-0.05	0.01
Gross margin	0.38	0.40	0.41
EBITDA margin	0.29	0.27	0.29
Revenues/clubs	598.29	617.09	625.40
EBIT margin	0.01	0.03	0.01
Operating			
Costs/sales	0.71	0.73	0.71
Costs per club	438.80	453.34	441.48
Capex/sales	0.11	0.07	0.06
Leverage			
Net Debt/EBITDA	8.2	3.0	2.9
Debt/equity	20.00	0.74	0.93
Debt/assets	0.81	0.34	0.40
Liquidity			
Current ratio	0.18	0.24	0.41
Quick ratio	0.09	0.11	0.13

Sources : company reports and team analysis

Figure 12: Autofinancing : operating cash flow VS CAPEX (in€)



Source: company reports, team analysis

Auto financing in 2020 Based on our assumptions, *Basic-Fit* will be able to finance itself in 2020. In other words, *Basic-Fit* will have enough cash from its operating activities to finance its expansion of more than 100 clubs per year. There are many possibilities for the extra cash. One could be a reduction of debt. However, *Basic-Fit* already has a low level of debt (17% of market capital). One can also expect more mergers and acquisitions in the future. This can be a new strategy to develop the company's share in markets that are already well developed. Finally, a dividend policy may start in 2022 or later. Nonetheless, it is still highly hypothetical and in coming years, investors should expect no dividend.

Test: are there enough potential members? We conducted a test to determine if the potential growth of *Basic-Fit* is feasible (Appendix 5.K). We computed the market shares of Basic Fit in term of members as implied by the data available, on our forecasts and check the consistency with regard to population growth in the target segments. There is no risk in Belgium and in the Netherlands where the market shares in terms of members remain stable, respectively around 65% and 20%. The market share in France increases from 6% to 29%. As France is underdeveloped in the low-cost segment and with middle competition, this market share is feasible compared to Netherlands where the competition is higher. In Spain, the market share increases from 2 to 12% which is also still very low in a middle-developed market with middle competition. Furthermore, the population age is inverting which is a high risk for *Basic-Fit*'s targeted segment (people between 15 and 40 years). However, the population between 5 and 15 years old is higher than for 15 to 25 years old. Therefore, in 10 years, there will be more potential young members between 15 and 25 years old. Moreover, the main risk is in Spain and *Basic-Fit* can reduce its ambition after 2024. Furthermore, we strongly believe that fitness is becoming more common for young people and the development of the low-cost segment offers more possibilities for them. In other words, it can drive up the penetration rate in this segment and, even if there are fewer people, fitness clubs catch a higher proportion of the population.

Valuation

Unlevered free cash flow The management announced positive free cash flows in 2019 or in 2020 depending on the expansion. We forecast the first positive unlevered FCFF in 2020 (Appendix 6.A). Then, our estimated FCFF increases from €10m to €133.5m. As explained before, the EBIT is increasing thanks to an increase in the number of clubs and the maturity of existing clubs (which drives up the EBIT margin). We decided to use a 25% tax rate, although *Basic-Fit* may benefit from deferred taxes. We expect the networking capital to decrease (become more negative) in coming years.

WACC We estimate the WACC at 7.10% (Appendix 6.B). Its determinants are estimated as follows. Equity accounts for 82% and the debt for 18% of the capital structure. The cost of debt is 1.98% and is the ratio between the interest paid and the total debt of FY17. The cost of equity is 8.22%. We used the 10Y German bond rate as a proxy for the risk free rate. Our beta of 0.76 is computed weekly on Euro Stoxx 150. Our equity risk premium (ERP) is computed based on Damodaran's ERP and the geographical localization per country. Damodaran's ERPs are expressed from the point of view of a US investor. Interest rates and equity premiums currently differ between the US and European markets. Therefore, to get an estimate from the point of view of a European investor, we first add the US risk-free rate, convert it using the interest parity laws, and then withdraw the proxy for the European risk-free rate. Then, we converted this market return into euro by computing the difference between the inflation rate of the US and the EU (according to the uncovered interest parity). As *Basic-Fit* is a small cap, we also added a size premium of 1.82% which comes from the Ibbotson database according to the market capitalization of the firm.

Sensitivity WACC - long term growth The fair price is sensitive to a change in the long term growth or of the WACC. A decrease of 1% of the WACC leads to a variation of approximately 31% of the fair price. The same change in the long term growth leads to a variation of approximately 25% of the fair price. Even with this high sensitivity, we still recommend a buy.

Peer valuation The relative valuation with the expected multiples for 2018 from Capital IQ confirms the buy hypothesis. The peer group is composed of 3 growing standardized and digital fitness companies: Planet Fitness (the largest franchisors in the US operating in the low-cost segment), Gym Group (chain in the UK) and Actic Group (mid- to premium chain operating in the Nordic countries and Germany). This allows the use of an uncommon ratio, EV/CLUBS, as the most appropriate to value *Basic-Fit*. It perfectly suits the per-club analysis and reflects the revenue and cost depending on the number of clubs. The EV/CLUBS leads to an intrinsic value of €36.96 with a current premium to the trading share price of 44.38% and confirms our buy position. Three other commonly accepted multiples are used: EV/EBITDA, EV/SALES, and P/E. Including those accepted metrics gives a lower average intrinsic value of €25.90, which is a very conservative number according to the previous analysis. This conservative number does not impact the recommendation.

Marketing revenue During the presentation held at the *NN Investment* Headquarters (07/11/2018), they expressed a potential proposal for sponsors to pay for advertising in their clubs starting in March 2019. This would lead to significant growth in revenues and supports our buy recommendation with an additional premium on the share price of 5.07%. (Appendix 6.F)

Table: WACC

Market cap	€1410.40m
Total debt (September)	€311.10m
Equity weight	81.93%
Debt weight	18.07%
cost of equity	8.22%
Beta	0.76
ERP	8.09%
Rf	0.24%
Size premium	1.82%
Cost of debt	1.98%
Interest exp FY2017	€781.90m
Total debt FY2017	€295,50m
Tax rate	25.00%
WACC	7.10%

Source: team analysis

Table : Entreprise value

Entreprise Value	
+Sum of PV(FCF)2019 – 2024	€230,832k
+PV Terminal Value	€1,771,377k
=Entreprise value	€2,002,208.46k
+Cash and equivalents	€13,033k
–Total Debt	€311,100k
=Equity Value	€1,704,141k
/ Number of shares	€54,667k
=Price per share	€31.17

Source: team analysis

Table: Sensitivity

	Long term growth					
WACC		1.50%	1.75%	2.00%	2.25%	2.50%
	7.85%	23.46	24.54	25.71	26.99	28.39
	7.60%	24.88	26.07	27.37	28.78	30.34
	7.35%	26.44	27.75	29.18	30.75	32.49
	7.10%	28.13	29.58	31.17	32.93	34.87
	6.85%	29.99	31.60	33.38	35.34	37.54
	6.60%	32.03	33.83	35.82	38.04	40.53
	6.35%	34.29	36.31	38.55	41.07	43.92

Source: team analysis

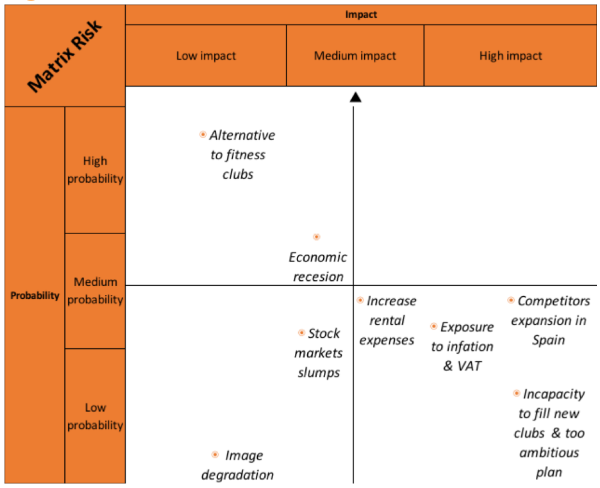
Table : Peers

	EV/CLUBS
Planet Fitness	5.59
Gym Group	2.43
Actic Group	3.6
Mean	3.87
Median	3.6
Price per share mean	38.52
Price per share median	35.40
Intrinsic value per share	36.96
Premium to current trading share price	44.38%

Source: team analysis

Investment risks

Figure 13 : Risk matrix



Source: team analysis

Image degradation (Impact: Low; Probability: Low) In the past, it was found that members of one *Basic-Fit* club were caught selling doping products. The image of the company did not suffer that much from the news. However, this should be avoided in order to protect their image to the customers but also the investors.

Economic recession (Impact: Medium; Probability: Medium) A recession would lead to an important decrease in the purchasing power of individuals. Knowing that the expense for fitness activities is highly income elastic, this could hurt *Basic-Fit*'s membership base and the expansion project. However, it could also be possible that the members from the medium and high quality fitness centers, due to a decrease in their purchasing power, choose a *Basic-Fit* membership which is cheaper.

Increasing alternatives to the fitness model of *Basic-Fit* (Impact: Low; Probability: High) New trends in fitness such as little studios with personal coach, cross fit, or self training and outdoor activities might increase. However, "premium" fitness is exercised by another demographic group to the target customers of *Basic-Fit*, this could not be considered as a major threat. Outdoor and self training can be and is often combined with fitness activities within centers such as *Basic-Fit*.

Capacity to fill the clubs with members (Impact: High; Probability: Low) *Basic-Fit* with the fast increase in its clubs needs to attract a large number of new customers and then retain them. Keeping the current retention rate (22 months) is paramount for the sustainability of mature clubs. *Basic-Fit* seems to be aware of this threat and with policies implemented such as the duo membership, and the app now included in all memberships (which encourages and keeps members attached to *Basic-Fit*) a decrease of the retention rate would not be expected. Furthermore, using forecasts of the target customers in *Basic-Fit*'s demography, there is a sufficient pool of potential members to fill the clubs (Appendix 5.K).

Increase in rental expenses due to real estate conjuncture (Impact: Medium; Probability: Medium) With their expansion strategy in terms of clubs and countries, the real estate landscape in each country is an important factor for potential growth. Therefore, according to the current focus in the development in France, if the country experiences an increase in the price of real estate, combined with the current higher estate price in large French cities, this would impact the rental cost of *Basic-Fit.* This could slow down the expansion in France if the board of *Basic-Fit* aims to maintain the rental cost at a constant level.

Stock market slumps (Impact: Medium; Probability: Medium) A reason for the public stock market presence of *Basic-Fit* is to extend their financing and to not depend only on private equity and debt. However, in times of bad stock market results, *Basic-Fit* could face some financial issues due to the impossibility of obtaining capital increase because of the dilution of current investors' shares. *Basic-Fit* needs to keep growing no matter the trend on the market. Nonetheless, a bad reaction of the investor will not greatly hurt the expansion plans of the company, which would still be able to finance its growth with a certain level of debt and self-financing capabilities.

Expansion plans too ambitious (Impact: High; Probability: Low) The main target of *Basic-Fit* in the short term is expansion. But what if *Basic-Fit* opens too many clubs which would have an impact on the cost, or alternatively *Basic-Fit* is not able to fill these new clubs? Such a scenario would negatively affect the economic profitability of the company. However, *Basic-Fit* seems to be employing the resources to grow at the rhythm planned by the company and also, *Basic-Fit* is expected to fill the new fitness centers.

Pricing strategy and exposure to inflation and VAT (Impact: High; Probability: Medium) The pricing strategy of *Basic-Fit,* which consists of low-cost membership fees starting at €19.99, is according to the management not likely to increase. There is a risk for the firm in the case of increase in VAT in the countries it is operating or an increase in inflation in the longer term. For example, in the Netherlands it may be that the VAT rate increases to 9%. However, the firm is working on new pricing packages in order to reduce this exposure. It could also be an opportunity if governments decide to reduce VAT on fitness activities because of their benefit to health. Inflation in the medium to long term is a higher concern because it is more likely to happen. *Basic-Fit* should then be more cost efficient in order to maintain its margin level.

Expansion issues in Spain (Impact: High; Probability: Medium/High) Fitness market competition in Spain is currently low and the board suppose that this market structure will remain the same. Nonetheless, if one of the Spainish competitors anticipates the arrival of *Basic-Fit*'s expansion plan, it could decide to increase fast. This would have a huge impact on the future cash flows of the company because it would put a brake on the Spanish expansion.

Appendix

1. Business description

Appendix 1.A: Basic-Fit's Offers

Memberships

	Comfort	Premium
Price (4 weeks)[1]	€19.99	€29.99
Promotional offer[2]	Free until March and no subscription fees	Free until March and no subscription fees
Access to all clubs	☑	☑
Virtual classes and coaching	☑	☑
Training programs and nutrition advice	☑	☑
Shareable	☒	With one person living in the same house
Inviting someone to training	☒	1 person at each training session[3]

Sources: Basic-fit.com

(1) Every membership is associated with subscription fees of €19.99.

(2) As every year, Basic-Fit has a promotion during the highly intense recruiting period (September, December, and January).

(3) Premium members can invite a different person to each training session. By doing so, Basic-Fit expect to increase its memberships in the long term.

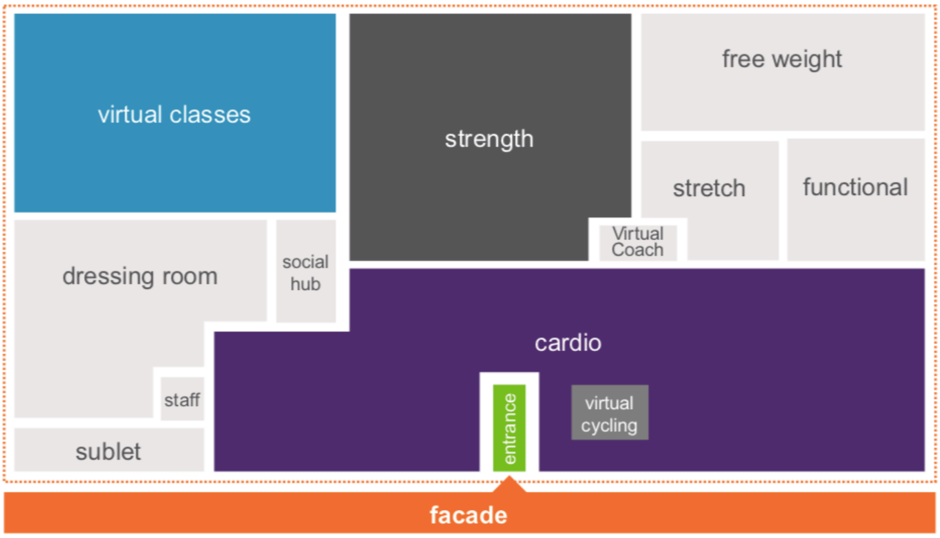
Extras

	Price	Explanation
Flex	€9.00 (4 weeks)	Members can cancel their membership at any time. They do not have the promotional offer. This replaces the « flex » memberships which were €28.99.
Yanga sport water	€5.00 (4 weeks)	Unlimited water with extra vitamins during training.
Kickstart	€15.00 (per time)	Personal trainer.
Live group classes	€5.00 (4 weeks)	Traditional classes instead of virtual classes.

Sources: Basic-fit.com

Appendix 1.B: Club zoning

Clubs are on average 1,500 m^2.



Source: Investor day (Basic-Fit) property management

Appendix 1.C: Club openings

€	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Total	338	419	521	624	726	829	932	1036	1139	1242
+ Openings	61	80	103	101	100	101	101	102	101	101
+ Acquisition	17	4	6	5	5	5	5	5	5	5
– Closings	–4	–3	–7	–3	–3	–3	–3	–3	–3	–3
=Net openings for the year	74	81	102	103	102	103	103	104	103	103
Netherlands	140	148	152	158	164	170	176	182	188	194
# of openings	26	8	4	6	6	6	6	6	6	6
% of total openings	35%	10%	4%	6%	6%	6%	6%	6%	6%	6%
club growth	22.81%	5.71%	2.70%	3.95%	3.80%	3.66%	3.53%	3.41%	3.30%	3.19%
Belgium	139	159	167	172	177	182	187	192	197	202
# of openings	21	20	8	5	5	5	5	5	5	5
% of openings	28%	25%	8%	5%	5%	5%	5%	5%	5%	5%
club growth	17.80%	14.39%	5.03%	2.99%	2.91%	2.82%	2.75%	2.67%	2.60%	2.54%
Luxembourg	8	8	9	10	10	11	11	12	12	12
# of openings	2	0	1	1	0	1	0	1	0	0
% of openings	3%	0%	1%	1%	0%	1%	0%	1%	0%	0%
club growth	33.33%	0.00%	12.50%	11.11%	0.00%	10.00%	0.00%	9.09%	0.00%	0.00%
France	25	73	160	249	338	427	497	567	595	615
# of openings	15	48	87	89	89	89	70	70	28	20
% of openings	20%	59%	85%	86%	87%	86%	68%	67%	27%	19%
club growth	150.00%	192.00%	119.18%	55.63%	35.74%	26.33%	16.39%	14.08%	4.94%	3.36%
Spain	26	31	33	35	37	39	61	83	147	219
# of openings	10	5	2	2	2	2	22	22	64	72
% of openings	14%	6%	2%	2%	2%	2%	21%	21%	62%	70%
club growth	62.50%	19.23%	6.45%	6.06%	5.71%	5.41%	56.41%	36.07%	77.11%	48.98%

Sources: Annual reports and team analysis

2. Management and governance

Appendix 2.A: Management board

Position	
CEO	Réne Moos (55 years old) started with local clubs and then co-founded HealthCity. He became CEO of HealthCity in 2004 and has been the CEO of Basic-Fit since 2012. He was a professional tennis player and started by managing tennis facilities and then fitness clubs.
CFO	Hans van der Aar (60 years old) has strong experience in accounting. He is the former CFO of Leisure Group Europe BV which was the parent company of Basic-Fit and HealthCity.

Sources: Basic-Fit annual report 2017

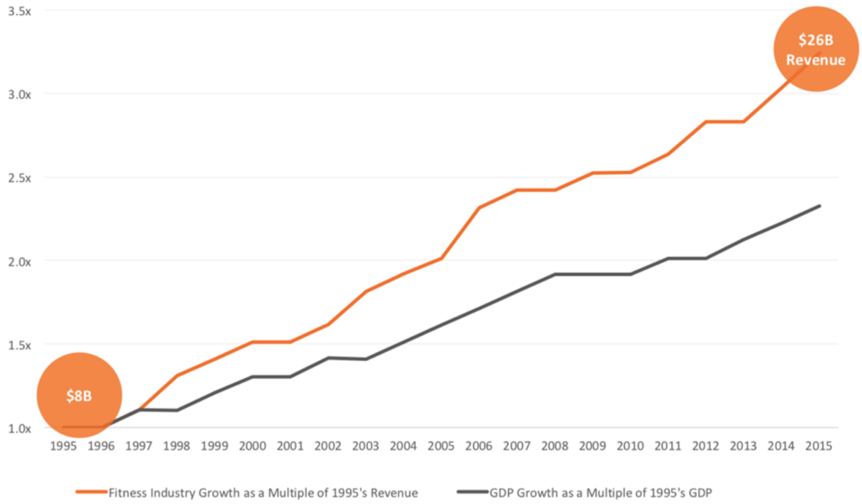
Appendix 2.B: Ownership

Rank	Type	% OS	Position (000)	Pos Chg (000) [Recent]	Mkt Val (MM)	% Port	Activism	Report Date	Source
Institutions									
1	Dynamo Administração de Recursos Ltda.	5	2 732	1 069.00	78	5.92	Very Low	10/30/2018	Press Release, News
2	Pelham Capital Ltd.	4.13	2 259	−619	64	3.84	Low	04/05/2018	Press Release, News
3	Marshall Wace LLP	3	1 640	1 640	47	0.43	Very Low	09/28/2018	Press Release, News
4	Investec Asset Management Ltd.	3	1 639	−22	47	0.1	Very Low	04/17/2018	Press Release, News
5	FIL Investments International (Germany)	2.99	1 637	−174	47	3.27	Very Low	08/02/2018	Press Release, News
6	Schroder Investment Management Ltd.	2.42	1 324	224	38	0.02	Low	09/30/2018	Sum of Funds
7	KBC Asset Management NV	1.69	926	−177	26	0.12	Very Low	06/30/2018	Sum of Funds
8	FIL Investment Advisors (UK) Ltd.	1.69	924	54	26	0.02	Very Low	03/31/2018	Sum of Funds
9	Fidelity Management & Research Co.	1.64	899	−13	26	0	Very Low	10/31/2018	Sum of Funds
10	Farringdon Netherlands BV	1.54	841	250	24	10.35	Very Low	06/30/2017	Sum of Funds
11	The Vanguard Group. Inc.	1.45	790	3	22	0	Very Low	11/30/2018	Sum of Funds
12	Degroof Petercam Asset Management SA	1.25	682	290	19	0.1	Very Low	12/31/2017	Sum of Funds
13	BNP Paribas Asset Management Netherlands NV	1.1	604	0	17	0.49	Very Low	09/28/2018	Sum of Funds
14	APG Asset Management NV	1.09	596	8	17	0.01	Very Low	03/31/2018	Sum of Funds
15	Ostrum Asset Management	0.87	474	−5	13	0.02	Very Low	09/28/2018	Sum of Funds
Insiders/Stakeholders									
1	3i Private Equity	22.59(1)	12 350	0	351	91.74	-	12/31/2017	Periodic Company Report
2	Moos Rene Michel	16.31	8 916	6	254	100	-	07/01/2018	Press Release, News
3	Van Der Aar Hans	0.18	99	4	3	100	-	07/01/2018	Press Release, News
4	Willemse Hans	0.13	72	0	2	100	-	12/31/2017	Periodic Company Report
5	Rutgers Herman	0	1	1	0	100	-	10/05/2018	Press Release, News

Source: Factset.
(1) According to 3i news, they have a stake of 18%. (https://www.3i.com/media-centre/corporate-and-portfolio-news/2018/3i-receives-proceeds-of-c-85m-from-sale-of-shares-in-basic-fit/)

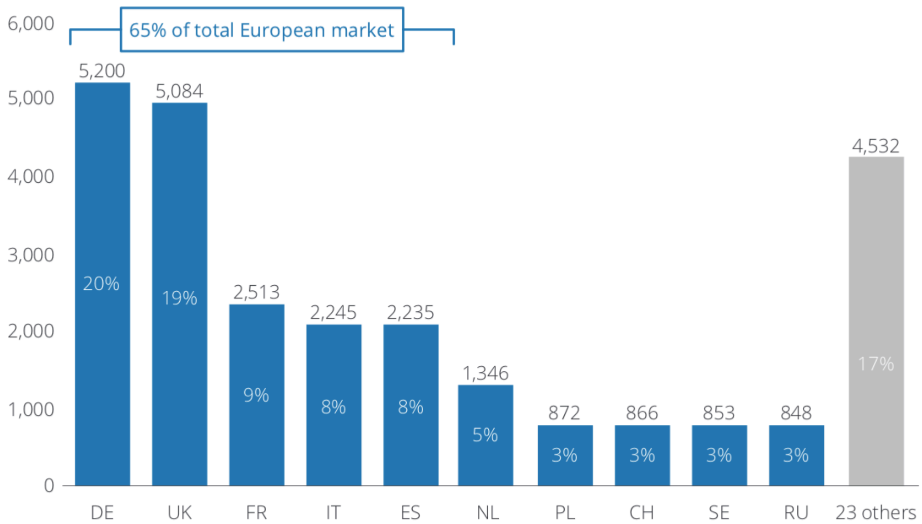
3. Industry overview

Appendix 3.A: Fitness growth VS GDP growth



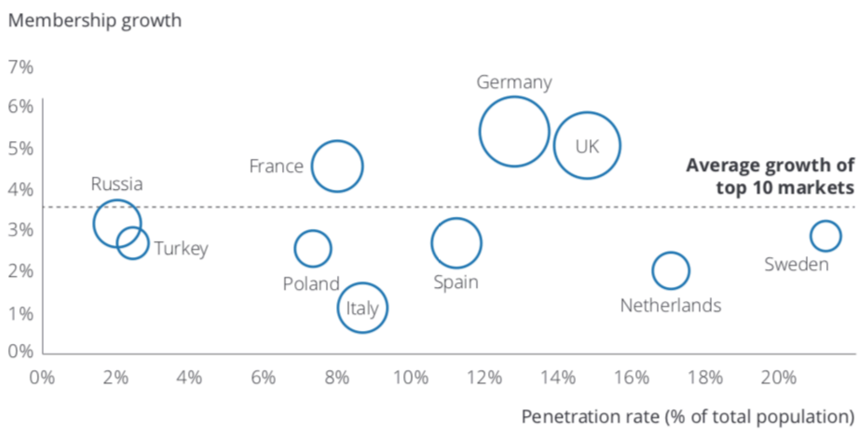
Source: Basic-Fit investor day, slide 13

Appendix 3.B: European markets



Source: Deloitte, European Health & Fitness Market Report 2018, p.11

Appendix 3.C: Membership growth and penetration rate



Source: Deloitte, European Health & Fitness Market Report 2018, p.11

4. Competitive positioning

Appendix 4.A: Competitors

	Basic-Fit	Fit For Free	Anytime Fitness	JIMS	McFit	L'Orange Bleue	Keep Cool	Fitness Park	Vita Liberté
Country	Netherlands Belgium Luxembourg France Spain	Netherlands	US UK Netherlands Belgium Spain Italy	Belgium	Germany Spain Italy	France	France	France	France
Number of clubs	586	94	329	25	246	350	259	172	120
Chain or franchised?	Chain	Chain	Franchised	Chain	Chain	Franchised	Franchised	Chain	Franchised
Price per month (€)	Low (19.99)	Low (19.99)	Middle-upper (40)	Low (20.99)	Low (19.90)	Middle (29.9)	Middle (29.9)	Middle (29.95)	Different in each club

Source: Company websites or reports

Appendix 4.B: SWOT

	Helps	Prevents
INTERNAL	**Strengths** ➢ Low cost but high value ➢ Access all clubs in the network + cluster strategy ➢ Economies of scale ➢ Mature clubs in Benelux are increasing ➢ Family pass (duo pass) ➢ Growing add-on revenues + advertising system to be set up ➢ Brand awareness ➢ M&A process experience ➢ Better ability to finance than competitors ➢ Standardized and data driven club openings ➢ Self-financing of the expansion from 2020	**Weaknesses** ➢ Overcrowding during peak hours ➢ Rent: expenses & risks ➢ Exposure to VAT and inflation whereas membership is fixed ➢ Difficulty in attracting baby boomers due to the model (Basic-Fit doesn't try) ➢ Free substitutes (home training, jogging, outdoor training, etc.) ➢ High price elasticity (in bad economic times fitness expenses are price sensitive and substitutable)
EXTERNAL	**Opportunities** ➢ Baby boomer generation ➢ Digitalization of processes to enhance efficiency / technologies to enhance millennials' participation ➢ Urbanization: fitness is one of the only possibilities to do sport in cities ➢ Low penetration rate in France/Spain and growth perspective ➢ Increasing awareness of health and diseases ➢ Attracting customers from the Mid-Market	**Threats** ➢ Competition on price ➢ High competition for services ➢ Legislation changes ➢ Sensitivity to seasonal effects ➢ Increase of competition in Spain ➢ Age distribution is inverting: lack of members ➢ Decreasing availability of real estate ➢ Expansion strategy too optimistic ➢ Aggressive big foreign competitor attracted by the low cost opportunities in Europe

Source: team analysis

Appendix 4.C: Porter

Bargaining power of suppliers **3-medium**	**An important customer**	Basic-Fit is the largest fitness chain by number of clubs and is a therefore an important customer for their suppliers.
	Only two suppliers	Johnson Health Tech (more precisely Matrix) and Technogym SpA are the only two equipment suppliers for Basic-Fit.
	Worldwide suppliers	Suppliers are worldwide companies which sell to many different customers such as hotel chains, companies, individuals, etc.
	Maintenance agreement	The suppliers offer a maintenance service for four or five years, depending on the type of equipment, which translates to dependence for *Basic-Fit.*
	High switching costs	If Basic-Fit decides to change suppliers (for instance, start working with Lifestyle Fitness), equipment in all clubs should be changed and this would be highly expensive
	Needed for expansion	Basic-Fit needs its suppliers in order to continue to open 100 clubs per year in the coming years.
Intensity of industry rivalry **2-low**	**Benelux**	The Netherlands is a mature market with high competition in the low cost segment. In Belgium, Basic-Fit has no real low cost competitors and the market is still underdeveloped. Luxembourg is a stable market.
	France	Basic-Fit is currently expanding into France. Basic-Fit competes with many mid to premium fitness chains. Moreover, clubs signed 2 year contracts with their customers in order to keep them. However, this has not slowed the expansion in Basic-Fit.
	Spain	After France, Basic-Fit will expand into Spain. McFit, another low cost chain, is already present in Spain and is expanding very slowly. There is a real threat that one of the major fitness chains will expand into Spain before Basic-Fit.
	Local clubs	In all its markets Basic-Fit competes with local clubs. However, The local clubs' costs are higher due to lower discounts with the suppliers, no economies of scale, and little experience. Therefore most of them are special format.
	Premium to mid-term clubs	Customers who want extra-services such as included personal trainers, access to saunas and swimming pools, choose premium to mid-term clubs.
Bargaining power of customers **1-very low**	**Individual**	Although the duo pass can be shared with someone who lives in the same residence, and the member can invite someone to a session, each member signed an individual contract. Customers have to accept Basic-Fit's conditions or choose another club.
	Contract length	Members can buy a flex option (for €8 per month). However, most of them have a one-year contract. Therefore during their contract length they are committed to pay their monthly fees.
	Switching costs	As members have an annual contract it would be highly expensive for them to break the contract to join a different fitness club.
	Competition	Customers have more or less bargaining power if there are many competitors near Basic-Fit clubs. In that case they can choose another club with better conditions. It is important to note that Basic-Fit does not bargain with its customers and won't adapt its contracts for them.
Threat of substitute products **2-low**	**Free substitutes**	Outdoor training, home training, and jogging are free substitutes for members who want to stay healthy.
	Sports clubs	Sports clubs (running, dance, etc.) have the advantage of training in groups and having a coach at a low cost compared to fitness clubs.
	Cross fit	Members who want to have heavy and exhaustive training may prefer to join a cross fit club. However, members are less autonomous and the membership is more expensive.
	Millennial and generation X	65% of members are younger than 40 years old. For some of them, training each week at the same time in a sports club is not possible because of working hours. Others are only interested in low cost fitness because they have low income (especially students and young workers) and want to look better.
Threat of new entrants **2-low**	**No barrier to entry for clubs**	Anyone can open a fitness club. Founders can either create it themselves or open a franchised club.
	International chain	International chains (such as McFit, PureGym, Anytime Fitness) may enter or strengthen their position in Basic-Fit's markets by opening new clubs. However, as the market is already well developed in the Netherlands, these chains would take a high risk to expand there. Belgium, France, and Spain are still underdeveloped and another fitness chain can increase the penetration rate in these countries without harming Basic-Fit in the short term.
	Barrier to entry to create a chain	Although a club can be opened easily, it is not possible to create a low-cost chain and directly compete with Basic-Fit. In other words, it takes years to create a significant network of clubs.
	Secured members	As members have annual contracts they can't change fitness club easily. Therefore, even if there are new entrants, Basic-Fit won't be affected in the short term.

Source: team analysis

5. Financial analysis

Appendix 5.A: Revenue forecast

€	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Revenues	202.22	258.53	325.83	404.12	483.34	573.44	664.80	758.57	854.56	952.95
Fitness	197.48	253.05	318.64	394	471	559	648	740	833	929
Others	4.74	5.49	7.19	10	12	14	17	19	21	24
Total mature	131.300	136	195	263	332	424	515	608	704	802
Per club	0.714	0.750	0.791	0.80	0.81	0.82	0.83	0.84	0.86	0.87
		5.10%	5.53%	1.30%[1]	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%
Total immature	70.92	122.78	131.12	141.14	151.15	149.72	149.72	150.67	150.67	150.67
Per club	0.461	0.516	0.477	0.477[2]	0.477	0.477	0.477	0.477	0.477	0.477

(1): We used the like-for-like growth (1.3%) in 2017 which is the growth of clubs which were already mature the year before. The total per club increased by 5% thanks to the closing of less profitable clubs.
(2): We used the revenue per club for 2017 because before then most immature clubs were in Belgium or in the Netherlands and not in France.
Source: Company reports and team analysis

Appendix 5.B: EBIT and EBITDA

€	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Sales	202 222.0	258 561.0	325 831.0	404 121.8	483 342.7	573 444.3	664 799.7	758 568.0	854 564.1	952 953.4
–Costs	148 315.0	189 950.0	230 013.0	*279 009.7*	*326 389.5*	*376 179.1*	*425 282.2*	*475 897.6*	*528 295.1*	*572 415.0*
Club related costs	124 569.0	155 635.0	192 890.0	*232 326.4*	*270 327.7*	*309 289.5*	*348 597.5*	*386 392.5*	*422 587.6*	*458 649.6*
Employee benefit expenses	39 748.0	51 501.0	61 775.0	*75 494.9*	*87 835.4*	*100 296.9*	*112 758.4*	*125 340.9*	*137 802.4*	*150 263.9*
Per club	117.6	122.9	118.6	121.0	121.0	121.0	121.0	121.0	121.0	121.0
Other personnel expenses	12 570.0	13 850.0	14 639.0	15 977.7	17 026.9	18 221.2	19 286.2	20 334.0	21 418.3	22 594.5
Per club	37.2	33.1	28.1	25.6	23.5	22.0	20.7	19.6	18.8	18.2
Other operating expenses	71 091.0	87 968.0	112 793.0	*136 442.7*	*160 333.3*	*184 911.1*	*209 964.5*	*233 394.0*	*255 315.2*	*277 011.4*
Per club	210.3	209.9	216.5	*218.7*	*220.8*	*223.1*	*225.3*	*225.3*	*224.2*	*223.0*
Costs of consumables used	1 160.0	2 316.0	3 683.0	4 411.1	5 132.2	5 860.3	6 588.4	7 323.6	8 051.7	8 779.8
Per club	3.4	5.5	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1
General costs (SG&A)	23 746.0	34 315.0	37 123.0	46 683.2	56 061.7	66 889.6	76 684.7	89 505.1	105 707.5	113 765.4
Marketing expenses	8 956.0	9 983.0	13 196.0	16 696.0	20 196.0	24 338.0	28 659.6	33 216.8	38 009.5	43 052.9
% of the sales	4.4%	3.9%	4.0%	4.1%	4.2%	4.2%	4.3%	4.4%	4.4%	4.5%
% growth		-12.8%	4.9%	2.0%	1.1%	1.6%	1.6%	1.6%	1.6%	1.6%
Write-off of bad debts. incl. collection agency costs	5 422.0	7 858.0	7 832.0	10 943.7	13 089.0	15 528.9	18 002.9	20 542.1	23 141.7	25 806.1
% of the sales	2.7%	3.0%	2.4%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Overhead and administrative expenses	8 031.0	15 146.0	14 406.0	16 958.3	20 282.7	24 063.7	26 592.0	31 832.1	40 146.9	39 989.2
Difference with 4.2%[1]		4 286.4							4 286.4	
% of the sales	4.0%	5.9%	4.4%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%
Car expenses	1 337.0	1 328.0	1 689.0	2 085.2	2 494.0	2 958.9	3 430.3	3 914.1	4 409.5	4 917.1
% of the sales	0.7%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
– Other operating income (–)	–1 779.0	–780.0	–922.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
– Impairments	-2 261.0	397.0	695.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
=EBITDA	57 947.0	68 994.0	96 045.0	125 112.1	156 953.2	197 265.2	239 517.5	282 670.4	326 269.0	380 538.4
– D&A	50 244.0	64 959.0	74 703.0	88 496.3	100 046.8	110 976.9	114 709.5	123 579.6	132 500.1	141 212.3
Depreciation	35 337.0	48 279.0	59 314.0	72 836.6	84 029.4	94 670.3	104 688.7	114 308.9	123 294.8	131 865.3
Amortization	14 907.0	16 680.0	15 389.0	15 659.7	16 017.4	16 306.6	10 020.8	9 270.6	9 205.3	9 347.1
= EBIT	7 703.0	4 035.0	21 342.0	36 615.8	56 906.4	86 288.2	124 808.0	159 090.8	193 768.9	239 326.1

(1): Difference due to expansion into a new country.
Source: Company reports and team analysis

Appendix 5.C: Net income

€	2014	2015	2016	2017
Finance Cost	28 495.00	37 016.00	35 754.00	8 195.00
Interest on external debt and borrowing	10 107.00	15 526.00	11 895.00	7 819.00
Breakage costs related to early repayment	0.00	0.00	7 780.00	0.00
Amortization capitalized finance costs related to previous financing	0.00	0.00	4 605.00	0.00
Interest on shareholder loans	18 270.00	21 217.00	10 908.00	0.00
Other finance costs	118.00	273.00	566.00	376.00
Finance Income	0.00	0.00	13.00	9.00
Pre-Tax Income	–26 793.00	–29 313.00	–31 706.00	13 156.00
Total Income Tax	4 647.00	6 452.00	667.00	2 029.00
Current Income Tax	–147.00	18.00	287.00	1 798.00
Deferred Income Tax	4 794.00	6 434.00	380.00	231.00
Net Income	–31 440.00	–35 765.00	–32 373.00	11 127.00

Source: team analysis

Appendix 5.D: Balance sheet

€	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Assets	568 688	652 559	742 965	839 791	949 615	1 027 070	1 133 660	1 266 445	1 425 667	1 619 526
Current assets	25 510	37 771	39 913	59 725	99 591	111 238	150 088	217 167	315 053	450 625
Inventories	791	811	1 226	1 507	1 753	2 001	2 250	2 501	2 750	2 999
Trade and other receivables	12 391	19 595	25 654	31 222	37 343	44 304	51 362	58 607	66 023	73 625
Cash and cash equivalents[1]	12 328	17 365	13 033	26 995.96	60 495.68	64 932.51	96 475.77	156 059.00	246 280.36	374 001.37
Non-current assets	543 178	614 788	703 052	780 066	850 024	915 832	983 572	1 049 279	1 110 614	1 168 901
Property, plant, equipment	247 388	329 290	424 420	509 398	587 677	662 097	732 162	799 443	862 288	922 227
Intangible assets	292 347	278 846	269 723	261 759	253 437	244 826	242 501	240 926	239 417	237 765
Goodwill	187 351	187 351	187 351	187 351	187 351	187 351	187 351	187 351	187 351	187 351
Others with amortization	104 996	91 495	82 372	74 408	66 086	57 475	55 150	53 575	52 066	50 414
Deferred tax assets	1 113	4 590	6 264	6264	6264	6264	6264	6264	6264	6264
Receivables	2 330	2 062	2 645	2 645	2 645	2 645	2 645	2 645	2 645	2 645
Total liabilities and equity	568 688	652 559	742 965	839 791	949 615	1 027 070	1 133 660	1 266 445	1 425 667	1 619 526
Total liabilities	592 283	347 482	425 654	499 402	571 574	590 153	608 978	628 285	648 020	668 225
Current liabilities	143 648	154 527	97 303	127 816	145 408	163 987	182 812	202 119	221 854	242 059
Trade and other payables	100 826	102 465	93 913	124 426	142 018	160 597	179 422	198 729	218 464	238 669
Current income tax liabilities	40	287	1 721	1 721	1 721	1 721	1 721	1 721	1 721	1 721
Derivate financial instruments	0	0	567	567	567	567	567	567	567	567
Current portion of borrowing	35 091	50 400	20	20	20	20	20	20	20	20
Current portion of loans from shareholders	6 000	0	0	0	0	0	0	0	0	0
Provisions	1 691	1 375	1 082	1 082	1 082	1 082	1 082	1 082	1 082	1 082
Non-current liabilities	448 635	192 955	328 351	371 586	426 166	426 166	426 166	426 166	426 166	426 166
Borrowing[1] [2]	427 263	172 711	294 568	337803	392383	392383	392383	392383	392383	392383
Other non-currrent liabities	0	0	13 110	13 110	13 110	13 110	13 110	13 110	13 110	13 110
Derivative financial instruments	1 687	1 367	325	325	325	325	325	325	325	325
Deferred tax liabilities	14 580	14 692	16 756	16 756	16 756	16 756	16 756	16 756	16 756	16 756
Provisions	5 105	4 185	3 592	3 592	3 592	3 592	3 592	3 592	3 592	3 592
Total equity	–23 595	305 077	317 311	340 389	378 041	436 917	524 682	638 160	777 647	951 301
Share capital	300	3 280	3 280	3 280	3 280	3 280	3 280	3 280	3 280	3 280
Share premium	29 700	358 360	358 360	358 360	358 360	358 360	358 360	358 360	358 360	358 360
Other capital reserves		729	1 344	1 344	1 344	1 344	1 344	1 344	1 344	1 344
Retained earnings[1]	–52 330	–56 457	–45 313	–22 235	15 417	74 293	162 058	275 536	415 023	588 677
Cash flow, hedge reserve	–1 265	–835	–360	–360	–360	–360	–360	–360	–360	–360

(1): This balance sheet results from the cash flow statement. However, as explained in our report, the company is going to have cash from its activities and this will result in a self-financing capacity. Therefore, the company has increasing cash without more debt. We have several hypotheses concerning the possible use of cash such as dividends, reducing the debt, and more acquisitions.

(2) The management communicates a debt between 2.5 and 3 times the EBITDA: we forecast debt of 2.7 times the EBITDA in 2018 and 2.5 in 2019, and then stability (due to the auto-financing capacity). However, we do not know how much debt Basic-Fit will have after 2020.

Source: Company reports and team analysis

Appendix 5.E: Vertical analysis

€	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Assets	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Current assets	4.49%	5.79%	5.37%	7.11%	10.49%	10.83%	13.24%	17.15%	22.10%	27.82%
Inventories	0.14%	0.12%	0.17%	0.18%	0.18%	0.19%	0.20%	0.20%	0.19%	0.19%
Trade and other receivables	2.18%	3.00%	3.45%	3.72%	3.93%	4.31%	4.53%	4.63%	4.63%	4.55%
Cash and cash equivalents	2.17%	2.66%	1.75%	3.21%	6.37%	6.32%	8.51%	12.32%	17.27%	23.09%
Non-current assets	95.51%	94.21%	94.63%	92.89%	89.51%	89.17%	86.76%	82.85%	77.90%	72.18%
Property, plant, equipment	43.50%	50.46%	57.13%	60.66%	61.89%	64.46%	64.58%	63.12%	60.48%	56.94%
Intangible assets	51.41%	42.73%	36.30%	31.17%	26.69%	23.84%	21.39%	19.02%	16.79%	14.68%
Total liabilities and equity	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total liabilities	104.15%	53.25%	57.29%	59.47%	60.19%	57.46%	53.72%	49.61%	45.45%	41.26%
Current liabilities	25.26%	23.68%	13.10%	15.22%	15.31%	15.97%	16.13%	15.96%	15.56%	14.95%
Trade and other payables	17.73%	15.70%	12.64%	14.82%	14.96%	15.64%	15.83%	15.69%	15.32%	14.74%
Non-current liabilities	78.89%	29.57%	44.19%	44.25%	44.88%	41.49%	37.59%	33.65%	29.89%	26.31%
Borrowing[1][2]	75.13%	26.47%	39.65%	40.22%	41.32%	38.20%	34.61%	30.98%	27.52%	24.23%
Total equity	-4.15%	46.75%	42.71%	40.53%	39.81%	42.54%	46.28%	50.39%	54.55%	58.74%
Share premium	5.22%	54.92%	48.23%	42.67%	37.74%	34.89%	31.61%	28.30%	25.14%	22.13%

Source: Company reports and team analysis

Appendix 5.F: Cash flow statement

Changes in cash for the years 2015, 2016, and 2017 are based on company reports. These are different to estimated years for the computation of change in working capital and cash flow from investing activities. Furthermore, this cash flow statement was developed in order to determine the balance sheet. Only the operating and the investing cash flow are relevant for our valuation. Cash flows from investing and financing activities are only accounting operations to determine the balance sheet.

€	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net profit/loss before tax	–29313	–31706	13156	30770	50203	78501	117021	151304	185982	231539
D&A and impairment	47983	65356	75398	88496	100047	110977	114709	123580	132500	141212
Depreciation and impairment	33076	48676	60009	72837	84029	94670	104689	114309	123295	131865
Amortization	14907	16680	15389	15660	16017	16307	10021	9271	9205	9347
Others*	–1609	231	1188	0	0	0	0	0	0	0
–Increase + decrease in WC	13093	–14292	6722	24665	11225	11369	11518	11811	12070	12354
Movement in provisions****	–2412	–1586	–886	0	0	0	0	0	0	0
Finance costs	37016	35741	8186	0	0	0	0	0	0	0
Cash flows from operating activities	64758	53744	103764	143931	161475	200847	243249	286695	330552	385106
Interest received		13	9	0	0	0	0	0	0	0
Interest paid	–12869	–12772	–7444	0	0	0	0	0	0	0
Early repayment fees	0	–7780	0	0	0	0	0	0	0	0
Income tax (paid) received	27	-40	–363	–7693	–12551	–19625	–29255	–37826	–46495	–57885
Net cash flows from operating activities	51916	33165	95966	136238	148924	181222	213993	248869	284056	327221
CAPEX including acquisitions				–165510	–170005	–176785	–182450	–189286	–193835	–199500
Purchase of property, plant and equipment, and other intangible assets and acquistions	–80289	–113934	–171645	0	0	0	0	0	0	0
Others*****	2312	1797	2197	0	0	0	0	0	0	0
Cash flows from investing activities	–77977	–112137	–169448	–165510	–170005	–176785	–182450	–189286	–193835	–199500
Change in debt position	26483	–267774	70304	43235	54580	0	0	0	0	0
Financing costs	–1349	–4215	–375	0	0	0	0	0	0	0
IPO costs		–15502	0	0	0	0	0	0	0	0
IPO-proceeds		371500	0	0	0	0	0	0	0	0
Purchase less sale treasury shares			–779	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	0
Cash flow from financing activities	25134	84009	69150	43235	54580	0	0	0	0	0
Change in cash	–927	5037	–4332	13963	33500	4437	31543	59583	90221	127721
Cash at January 1	13255	12328	17365	13033	26996	60496	64933	96476	156059	246280
Cash at December 31	12328	17365	13033	26996	60496	64933	96476	156059	246280	374001

Source: Company reports and team analysis

Appendix 5.G: D&A

€	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Begin: Tangible assets	151 855	247 388	329 290	424 420	509 398	587 677	662 097	732 162	799 443	862 288
Additions	128 656	131 610	156 614	157 814	162 309	169 089	174 754	181 590	186 139	191 804
Depreciation	35 337	48 279	59 249	72 837	84 029	94 670	104 689	114 309	123 295	131 865
End: Tangible assets	247 388	329 290	424 420	509 398	587 677	662 097	732 162	799 443	862 288	922 227
Depreciation rate	0.13	0.13	0.12	0.1251	0.1251	0.1251	0.1251	0.1251	0.1251	0.1251
Amortization	14 907	16 680	15 389	15 660	16 017	16 307	10 021	9 271	9 205	9 347
Trademark: value end of year	40 426	38 180	35 934	33 688	31 442	29 196	26 950	24 704	22 458	20 212
Amortization	2 246	2 246	2 246	2 246	2 246	2 246	2 246	2 246	2 246	2 246
Customer relationships	41 553	34 092	26 625	19 038	11 450	3 863	2 795	2 667	2 757	2 829
Amortization	7 909	8 076	8 283	8 283	8 283	8 283	1 763	824	606	624
Additions	0	0	0	0	0	0	0	0	0	0
Acquisitions	2 442	551	816	696	696	696	696	696	696	696
Per club acquired	144	138	136	139	139	139	139	139	139	139
Others	23 017	19 223	19 813	21 682	23 194	24 416	25 405	26 204	26 850	27 373
Amortization	4 752	6 358	4 860	5 131	5 488	5 778	6 012	6 201	6 354	6 477
Additions	2 947	2 264	4 202	7 000	7 000	7 000	7 000	7 000	7 000	7 000
Acquisitions	3 988	268	65	0	0	0	0	0	0	0
Depreciation rate	0.17	0.25	0.20	0.19	0.19	0.19	0.19	0.19	0.19	0.19

Source: Company reports and team analysis

Appendix 5.H: CAPEX

€	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Capital Expenditures	135	134	161	166	170	177	182	189	194	200
% growth	12.31%	–0.74%	20.15%	2.80%	2.72%	3.99%	3.20%	3.75%	2.40%	2.92%
Expansion CAPEX	92.7	105.0	131.0	127.3	126.2	127.3	127.3	128.5	127.3	127.3
Existing club & acquisitions	21.0	15.0	13.9	11.6	11.6	11.6	11.6	11.6	11.6	11.6
per club acquired	1.2	3.8	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
For new clubs	71.7	90.0	117.1	115.7	114.6	115.7	115.7	116.9	115.7	115.7
per club open	1.175	1.125	1.137	1.14577	1.14577	1.14577	1.14577	1.14577	1.14577	1.14577
Maintenance CAPEX	9.8	14.5	25.5	31.2	36.8	42.5	48.1	53.8	59.5	65.2
Maintenance CAPEX per club		38 000	54 000	55 000	55 000	55 000	55 000	55 000	55 000	55 000
Clubs which have maintenance*		374	465	567	670	772	875	979	1 082	1 185
Others	32.5	14.5	4.5	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Refurbishment program	32.5	11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Innovation		3.5	4.5	7.0	7.0	7.0	7.0	7.0	7.0	7.0

* All the clubs of the previous year plus 45% of the net openings of the year.
Source: Company reports and team analysis

Appendix 5.I: NWC

€	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Current Assets										
Accounts receivable	12 391	19 595	25 654	31 222	37 343	44 304	51 362	58 607	66 023	73 625
Days sales outstanding	22.4	27.7	28.7	28.2	28.2	28.2	28.2	28.2	28.2	28.2
Inventories	791	811	1 226	1 507	1 753	2 001	2 250	2 501	2 750	2 999
Days inventory held	249	128	122	125	125	125	125	125	125	125
Total Current Assets	**13 182**	**20 406**	**26 880**	**32 729**	**39 096**	**46 305**	**53 612**	**61 108**	**68 773**	**76 623**
Current Liabilities										
Trade payables	47 763	34 924	39 345	51 692	61 825	73 350	85 036	97 030	109 309	121 894
% sales	23.6%	13.5%	12.1%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%
Deferred revenues	24 378	29 751	25 330	37 230	38 386	38 386	38 386	38 386	38 386	38 386
Payables to related parties	1 897	-	-	-	-	-	-	-	-	-
Holiday allowance and vacation days accrual	2 676	3 694	4 556	5 479	6 375	7 279	8 183	9 097	10 001	10 905
Per club	7.92	8.82	8.74	8.78	8.78	8.78	8.78	8.78	8.78	8.78
Wage tax payable	1 954	1 772	2 078	2 078	2 078	2 078	2 078	2 078	2 078	2 078
Interest payable	1 894	458	366	366	366	366	366	366	366	366
Other liabilities and accrued expenses	20 264	31 866	22 238	27 581	32 988	39 138	45 373	51 772	58 324	65 039
% sales	10.02%	12.32%	6.83%	6.83%	6.83%	6.83%	6.83%	6.83%	6.83%	6.83%
Total Current Liabilities	**98 929**	**102 465**	**93 913**	**124 426**	**142 018**	**160 597**	**179 422**	**198 729**	**218 464**	**238 669**
Net Working Capital	**–85 747**	**–82 059**	**–67 033**	**–91 698**	**–102 923**	**–114 292**	**–125 810**	**–137 621**	**–149 691**	**–162 046**
(Increase) / Decrease in NWC		**–3 688**	**–15 026**	**24 665**	**11 225**	**11 369**	**11 518**	**11 811**	**12 070**	**12 354**

Source: Company reports and team analysis

Deferred revenues remained steady. However, due to the IFRS15, an increase of €11.9m is expected. This increase will be add to the average of the 3 years of data that are assumed to remain stable

Appendix 5.J: Key ratios

	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Profitability										
Sales growth	25%	28%	26%	24%	20%	19%	16%	14%	13%	12%
ROA	−0.06	−0.05	0.01							
Gross margin (only operating costs)	0.38	0.40	0.41	0.43	0.44	0.46	0.48	0.49	0.51	0.52
EBITDA margin	0.29	0.27	0.29	0.31	0.32	0.34	0.36	0.37	0.38	0.40
Revenues/clubs	598.29	617.09	625.40	647.63	665.76	691.73	713.30	732.21	750.28	767.27
EBIT margin	0.01	0.03	0.01	0.05	0.08	0.10	0.13	0.16	0.19	0.20
Operating										
% mature club	0.54	0.43	0.47	0.53	0.56	0.62	0.66	0.69	0.72	0.75
Costs/sales	0.71	0.73	0.71	0.69	0.68	0.66	0.64	0.63	0.62	0.60
Costs per club	438.80	453.34	441.48	447.13	449.57	453.77	456.31	459.36	463.82	460.88
CAPEX/sales	0.11	0.07	0.06	0.05	0.05	0.04	0.04	0.03	0.03	0.03
Leverage										
Net Debt/EBITDA	8.20	3.00	2.9	2.70	2.50					
Debt/equity	−20	0.74	0.93							
Debt/assets	0.81	0.34	0.40							
Liquidity										
Current ratio	0.18	0.24	0.41	0.50	0.75					
Quick ratio	0.09	0.11	0.13	0.25	0.48					

Source: Company reports and team analysis

Appendix 5.K: Member analysis

We compute the market shares implied by the data available for our forecasts and check their consistency with regard to population growth in the target segments. We compared the estimated market share in 2017 and 2024. We assumed an increase of penetration rate in France and in Belgium thanks to the development of low-cost segments.

Step 1: Forecast of members

	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Members (real-annual report)	1210000	1520000							
Estimation of members	1209610	1520112	1846192	2168950	2539164	2917380	3307536	3706302	4069068
Implied revenues per member	17.81	17.86	18.24	18.57	18.82	18.99	19.11	19.21	19.52
Members per mature club (1)	3322	3322	3372	3422	3472	3522	3522	3522	3522
Members per immature club	2556	2556	2556	2556	2556	2556	2556	2556	2556

(1): Increase due to France where some mature clubs will reach 3700 members.
Source: Company reports and team analysis

Step 2: Analysis of the situation in 2017

First, we want to determine the market share in terms of members of Basic-Fit in different markets in which they are operating. We computed the market share based on the revenues in each country and the total membership.

2017	Penetration rate	Total population	Population fitness	Basic-Fit population based on revenues	Implied market share
Belgium	6.8	11 523 633	783 607	547 670	69.89%
France	7.8	65 327 194	5 095 521	307 890	6.04%
Netherlands	16.4	17 084 459	2 801 851	522 946	18.66%
Spain	10.6	46 413 259	4 919 805	99 364	2.02%

Source: Deloitte, European Health & Fitness Market Report 2018, company report, World Bank data

Step 3: Analysis of the situation in 2024

Then, we can reiterate the process. We take the 10% penetration rate in Belgium and France. The expansion of Basic-Fit is going to drive up the penetration rate. In France, the market share increases to 29.26%. As France is less competitive than the Netherlands and no other low-cost chains have announced their expansion it is feasible that Basic-Fit have a market share of 29.26%.

2024	Penetration rate	Total population	Population fitness	Basic-Fit population based on # of clubs	Implied market share
Belgium	9.0	11 709 000	1 053 810	661 797	62.80%
France	10.0	68 792 000	6 879 200	2 014 877	29.29%
Netherlands	16.4	17 508 000	2 871 312	635 587	22.14%
Spain	11.0	46 494 000	5 114 340	717 493	14.03%

Source: World Bank data (https://data.worldbank.org/indicator/SP.POP.TOTL?locations=FR-NL-ES-BE)

Step 4: Inverting risk?

There are smaller populations between 15 and 19 years old, or 20 and 24 years old, than the population between 30 and 34 years old. Therefore, there is a risk that Basic-Fit will not have enough members. However, we think that as low-cost fitness is more accessible, the penetration rate is going to increase for young people and that Basic-Fit won't suffer for it.

Now	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44
In 2024	12-16	17-21	22-26	27-31	32-36	37-41	42-46	47-51
Belgium	662 523	638 241	626 455	705 397	695 695	737 920	742 326	751 403
France	4 091 656	4 095 742	3 998 780	3 921 210	3 917 060	4 174 743	4 087 948	4 336 757
Netherlands	915 727	994 553	1 018 972	1 071 699	1 065 910	1 045 609	997 939	1 086 921
Spain	2 415 550	2 398 092	2 161 181	2 287 210	2 265 834	2 801 452	3 629 538	4 028 795
Total	8 085 456	8 126 628	7 805 388	7 985 516	7 944 499	8 759 724	9 457 751	10 203 876

Source: World Bank data

6. Valuation

Appendix 6.A: Unlevered free cash flows

€	2018E	2019E	2020E	2021E	2022E	2023E	2024E
EBIT	36 616	56 906	86 288	124 808	159 091	193 769	239 326
Taxes	25%	25%	25%	25%	25%	25%	25%
NOPAT	27 462	42 680	64 716	93 606	119 318	145 327	179 495
D&A	88 496	100 047	110 977	114 709	123 580	132 500	141 212
Depreciation	72 837	84 029	94 670	104 689	114 309	123 295	131 865
Amortization	15 660	16 017	16 307	10 021	9 271	9 205	9 347
Impairment charges	0	0	0	0	0	0	0
CAPEX	165 510	170 005	176 785	182 450	189 286	193 835	199 500
Change NWC	24 665	11 225	11 369	11 518	11 811	12 070	12 354
Unlevered Free Cash Flow	–24 887	–16 053	10 277	37 383	65 423	96 062	133 561

Source: Company reports and team analysis

Appendix 6.B: WACC computation

Step 1: Weighted average for the equity risk premium per country from the Damodaran database

	ERP	% BF activity		
Belgium	5.8%	32.0%	1.8%	6 829.46
France	5.7%	31.0%	1.8%	6 616.04
Netherlands	5.1%	30.0%	1.5%	6 402.62
Spain	7.3%	7.0%	0.5%	1 493.95
		100.0%	5.6%	21 342.06

Source: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html

Step 2: We know that ERP = E(Rm)–Rf. Therefore. We add the Rf (T-Bond 10y) in order to find the E(rm)

Weighted average	5.63%
+T-bond	3.00%
=US E(Rm)	8.63%

Source: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html

Step 3: This E(Rm) has been calculated through the USD dividend. BF is a European company therefore this data should be converted into euro. This conversion will be made by applying the Uncovered Interest Parity.

Source:

E(Rm)	8.63%
–US Expected Inflation 2019	1.90%
+EU Expected Inflation 2019	1.60%
=European E(rm)	8.33%

Source:

US expected inflation 2019: Forecast from the FED after the decision to increase the fed rates (https://www.forbes.com/sites/jjkinahan/2018/12/19/hawkish-now-dovish-later-fed-hikes-but-lowers-projected-2019-rate-projections/#76bc4c563a94)

EU expected inflation 2019: Forecast ECB after their announcement that they will stop the QE policy (https://uk.reuters.com/article/uk-ecb-policy-forecasts/ecb-trims-growth-projections-tweaks-inflation-forecasts-idUKKBN1OC1SO)

Step 4: Withdraw the European Rf (bund 10y)

E(rm)	7.77%
Bund	0.24%
ERP	7.53%

Source:

Step 5: WACC computation

Market cap	1410.40
Total debt	311.10
Equity weight	81.93%
Debt weight	18.07%
Cost of equity	8.22%
Beta	0.76
ERP	8.09%
Rf	0.24%
Size premium	1.82%
Cost of debt	1.98%
Interest exp FY2017	7.82
Total debt FY2017	295.50
Tax rate	25.00%
WACC	7.10%

Source: Annual report, team analysis

Appendix 6.C: Present value of unlevered free cash flows

	2018E	2019E	2020E	2021E	2022E	2023E	2024E
FCF	–24 887	–16 053	10 277	37 383	65 423	96 062	133 561
FCF Growth	*53%*	*35%*	*–164%*	*264%*	*75%*	*47%*	*39%*
Discount period	*0*	*1*	*2*	*3*	*4*	*5*	*6*
Discount factor	*1.00*	*0.93*	*0.87*	*0.81*	*0.76*	*0.71*	*0.66*
Present value of the FCF	*0.00*	*–14 989.00*	*8 960.10*	*30 433.25*	*49 730.78*	*68 181.21*	*88 515.32*

Source: Company reports and team analysis

Appendix 6.D: Enterprise value, equity value and price

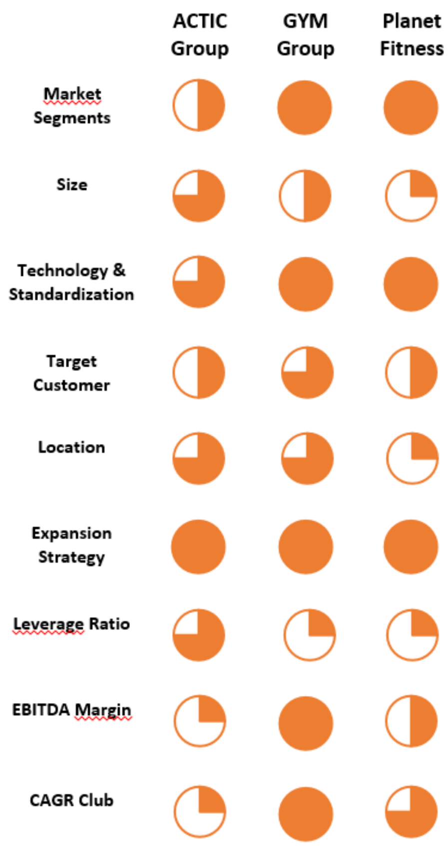
Enterprise Value	
Sum of PV(FCF) 2019 - 2024	230 832
Terminal year FCF	133 561
Perpetuity growth rate	2.0%
Terminal Value	2 672 839
Discount factor	0.663
+PV Terminal Value	1 771 377
% of the enterprise value	88.47%
=Enterprise value	2 002 208.46

Implied Equity value	
Enterprise value	2 002 208
Cash and equivalents	13 033
Non controlling interest	0
Preferred stock	0
Total debt	311 100
Equity value	1 704 141
NUMBER OF SHARES	54 667
Price per share	31.17

Source: Company reports and team analysis

Appendix 6.E: Peer valuation

Step 1: Peer comparison



Step 2: Peer Valuation

Use of 2018 expected multiples

€	P/E	EV/EBITDA	EV/SALES	EV/CLUBS	Average
Planet Fitness	42	25.5	9.9	5.59	
Gym Group	33.9	12.10	3.7	2.43	
Actic Group	9.9	6.5	1	3.6	
Mean	28.6	14.7	4.87	3.87	
Median	33.9	12.1	3.7	3.6	
Price per share: mean	14.37	27.95	30.29	38.52	27.78
Price per share: median	17.03	22.00	21.66	35.40	24.02
Intrinsic value per share	15.70	24.98	25.97	36.96	25.90
Premium to current trading share price	−36%	2%	6%	51%	6%

Basic Fit value (M)	
Earnings	€27.46m
EBITDA	€125.11m
SALES	€404.12m
CLUBS	624
DEBT	€311.1m
Nb shares	€54.667m
Current trading share price	€25.70

Source: team analysis

Appendix 6.F: Marketing in clubs reinforcing the buy

During the presentation by the CFO of *Basic-Fit*, held at the NN Investment Headquarters, we learned their potential proposal for sponsors to pay for advertising in their clubs. This would be launched in March 2019. We used the Cost Per Click advertising method in order to measure the impact of this new stream of revenue. Why the Cost Per Click? Because in each Basic-Fit there is an entrance portal. They know exactly how many people are going to their clubs. The average Cost Per Click in the US is equal to $1.5. We multiplied this by the Weighted Average Country Cost Per Click where Basic-Fit is acting. After that, it is multiplied by the Consumer Services Click Through Rate. This gives us the weighted average cost per member, which we finally converted into euro. We know that on average only the half of the members are going to clubs twice a week. This will lead to a cost per member of 0.0147 * 2 * 52 *0.5 = 0.76 euros in 2019 (0.8 euros in 2024). We have been quite conservative and assume only three sponsors. We decided to set an average purchase of 4 flat screens per club with a price of 350 euros (Mediamarkt price for a 40 inch screen) amortized on a 5 year basis. We assumed 5 FTEs to work on that project (strike the deal, set up the screens and the ads). After having accounted the tax, we estimated the implied share price. The share price reached 32.75 euros. In conclusion, this advertising complement will lead Basic-Fit to 5.07% of share price premium and reinforces our buy recommendation.

Data used for the revenue computation:

N° per week	2
Total weeks	52
People going to the gym	0.5
Cost per member 2019	0.76
Sponsors	3
Cost per screen	350
N° of screens	4
N° of amortization year	5
N° of employees	5
US Cost Per Click average	1.5
Country Cost Per Click % less than the US	
Spain	50%
Belgium	31%
Netherlands	44%
France	36%
Luxemburg	18%
Consumer Services Click Through Rate	2.93%
Weighted average Cost Per Member in euro	
2019	0.0147
2020	0.0146
2021	0.0147
2022	0.0148
2023	0.01507
2024	0.01533

Source: team analysis

Free Cash Flow:

In k €	2019	2020	2021	2022	2023	2024
Mature clubs	409	515	620	724	828	932
Immature clubs	323	311	301	304	307	310
Estimation of members	2.184.286	2.536.418	2.888.550	3.242.472	3.594.604	3.946.736
Revenue per sponsor	1.249	1.930	2.213	2.496	2.817	3.145
Total revenue	3.748	5.790	6.638	7.488	8.450	9.436
Screen amortization	205	292	376	461	547	429
Cost of employment	129	129	129	129	129	129
EBIT	3.414	5.369	6.133	6.898	7.774	8.878
Net income	2.561	4.027	4.600	5.173	5.831	6.659
Unlevered Free Cash Flow	2.765.68	4.318.80	4.976.25	5.634.81	6.378.20	7.088.05

Source: team analysis

Valuation:

Year	2019	2020	2021	2022	2023	2024
FCF	2.766	4.319	4.976	5.635	6.378	7.088
FCF growth		0.56	0.15	0.13	0.13	0.11
Discount period	1	2	3	4	5	6
Discount factor	0.93	0.87	0.81	0.76	0.71	0.66
Present Value of the FCF	2.572	3.757	4.031	4.282	4.529	4.699

WACC	7.10%
Enterprise Value	
Cumulative sum of the PV	23.871
Cumulative value of the previous DCF	230.832
Terminal year FCF	4.699
Perpetuity growth rate	2%
Terminal Value	93.988
Discount factor of TV	0.66
PV Terminal Value	62.314
% of the enterprise value	0.03
PV of the TV of the previous DCF	1.771.377
Enterprise value	2.088.393

Implied Equity value	
Enterprise value	2.088.393
Cash and equivalents	13.033
Non controlling interest	0
Preferred stock	0
Total debt	311.100
Equity value	1.790.326
NUMBER OF SHARES	54.667
Price per share	32.75
Previous price per share	31
Premium	5.07%

Source: team analysis

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