Leejam Sports Co
Consumer Discretionary
LEEJAM AB: Saudi Arabia
11 July 2019

الراجحي المالية
Al Rajhi Capital

US$1.11bn	39.55%	US$2.47mn
Market cap	Free float	Avg. daily volume

Target price	SAR 90.0	+13.5% over current
Current price	SAR 79.3	as at 7/10/2019

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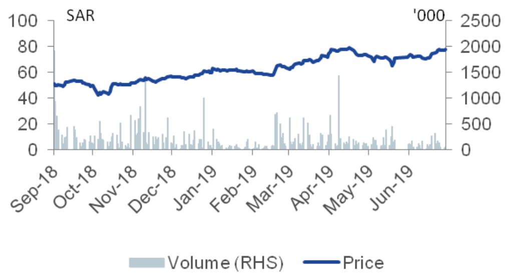
Existing rating

Underweight	Neutral	Overweight

Key themes

Top-line growth is expected to be driven by double digit growth in female subscriptions, corporate segment and personal training segment. For male segment we expect a modest growth of 4-5% in membership and expect the average revenue per member to remain flattish or marginally lower in the long term. We expect the company to deliver robust growth in the near term mainly due to strong expansion plans which would increase its market share. Subscriptions are offered at a discounted price in the corporate segment and thus could partially offset the higher margins from female segment.

Performance



Source: Bloomberg, Al Rajhi Capital

Earnings estimates

Period End (SAR)	12/17A	12/18A	12/19E	12/20E
Revenue (mn)	733	800	944	1057
Revenue growth	5%	9%	18%	12%
EBIDTA (mn)	292	317	383	425
EBIDTA Growth	-4%	9%	21%	11%
EPS	3.33	3.44	4.5	5
EPS Growth	-14%	3%	31%	11%

Source: Company data, Al Rajhi Capital

Leejam Sports Co.

Aggressive expansion plans to drive earnings growth

We initiate coverage on Leejam with a target price of SAR90/share based on equal weightage to DCF based valuation (SAR91/sh.) and P/E based valuation (SAR89/sh. based on 18x FY20e). Leejam is the market leader with a ~27% market share in KSA. The company is a play on the changing culture and reforms in Saudi with key growth drivers being rising employment of women, increasing disposable incomes, declining unemployment rate and improving health awareness. Unlike a typical gym, it is a concept based proven fitness centre offering a range of fitness and sports related activities. Its moat is a combination of its strong brand image and wide geographical presence which give it a competitive advantage over its peers. The company has plans to expand its stores aggressively by ~30% over the next three years. With 33% topline growth in 3 years, clean balance sheet, healthy EBITDA margin of 39% (in 2018), ROIC of 17% (FY 2018) and a healthy dividend payout ratio (historically over 50%), the company looks extremely attractive from a long term perspective. With an upside of 13.5% from our target price we initiate our coverage with an Overweight rating.

Investment themes

Topline growth to continue amidst market share expansion

- The company added 35 gyms (126 total gyms as on 2018) from 2015 to 2018 implying a CAGR in gym area of 11% leading to a topline growth of 13%. We expect new 63 gyms to be added in the coming 4 years which will help the company to grow its topline by CAGR 10% during 2019-23 as area expands by 8% during the same period. This would improve its member density from 0.6 subscribers/sqm to 1 subscriber/sqm (lower than global average of 2.5 subscribers/sqm). This will improve capacity utilization, top line and sequentially the bottom line.

- We believe there is ample demand given that current gym penetration rate stands at 8% and the market is still nascent. With regards to the total market, as of the latest data, there were 971 fitness centres with 1.1mn fee paying members dominated by male (82% male members). The total addressable market in terms of the number of members is ~14mn which translates to a total market size of SAR2.9bn.

- Leejam has a reasonable presence in the corporate sector as it derives ~12% (FY 2018) of its revenue from corporate segment. It is the fastest growing segment as it grew 400% over the last three years (revenue stood at SAR103mn in 2018). The company is focusing on increasing its corporate tie ups and expects this segment to grow by 50% in 2019.

Healthy margins to sustain due to cost optimization

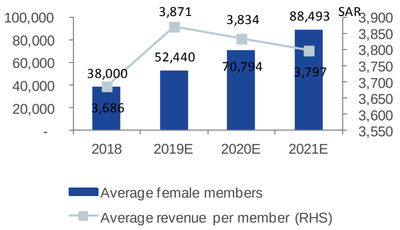
- Lower marketing expenditure is expected to improve margins in the near term. Fitness industry as a whole is highly competitive and promotions and marketing plays an important role to drive members to the centers. In 2017, consumer spending weakened due to various Government levies. To support the top-line growth marketing expenditure was increased in 2018 as a result of which the net margins were negatively impacted. In the future the company indicated that it will lower its marketing cost by focusing more on social media campaigns which are cheaper compared to direct advertisements. This should improve the net profit margin in the near term.

- The promotional expenditure in the form of direct discounts is also expected to be reduced compared to previous years. Company has recently signed an MoU with PPA (Public Pension Agency) to provide discounts up to 50% to retired people and their spouses. This move should help the company in utilizing the space during non-peak hours. In the female segment due to mismatch in demand and supply the need for any promotions is reduced, therefore we expect the net margin to improve by 300bps from 22.5% to 25.5% by the end of 2019E.

- The company operates on leasing model (~98% of the total properties are leased) rather than owning the properties. It reduces any debt requirements and hence interest cost is low, this improves the net profit margin. Going forward we expect the company to fund capex for expansion through a mix of debt and cash (maintain the current debt equity ratio) therefore the margins in long term are expected to remain intact. We assume the net margins to gradually settle around 23% by 2023E.

Higher demand in female segment to boost topline in near term; however competition in medium term to ease margins

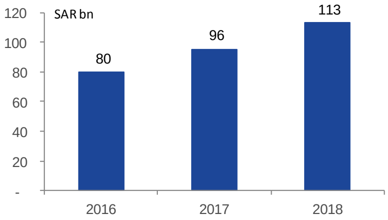
Figure 1 Revenue from female segment



Source: Company data, Al Rajhi Capital

- The acquisition of female centre license in 2017 gives the company a first mover advantage and an opportunity to increase its member base in a new and untapped female fitness market. As of 2018 the company had 26 female centres and it plans to open 10-12 centres each year over the next 4-5 years horizon. We expect the female segment to contribute ~30% to the total revenue (expected to reach to SAR 338mn by 2021E).
- One of the reasons for increase in demand for female gyms is affordable subscription prices in current scenario. Due to limited supply few years back, the subscription charges on a monthly basis were as high as SAR 2000; post licensing this has reduced significantly to SAR 400 per month. Another often underestimated reason for low women gym penetration in the past was high transportation costs. Earlier female subscribers had to spend considerable amount on transport expenses on reaching the gym. However now with application based cab service providers as well as Government's move to allow female driving has reduced this cost thus bringing down the total cost of going to gym significantly.
- Due to higher demand for female gyms and relatively low supply the company is able to maintain higher gross margin (~50%) compared to the male segment, a higher level of margins enables it to breakeven in just three months (globally 12-15 months). In the long term we believe the competition to intensify and once there is a price discovery in the market the need for higher promotions to capture market share will negatively impact the margins. The gross margin of female segment will gradually fall to ~37% by 2023E.

Figure 2 Government's Expenditure on healthcare (SAR bn)



Source: Company data, Al Rajhi Capital

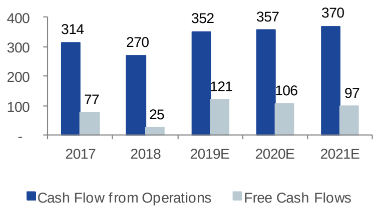
Government focus towards increasing participation of citizens towards fitness activities augers well for the overall industry

Government is focusing to increase the participation of citizens towards sports and fitness by creating world class sports facilities and infrastructure. As a part of the survey conducted by General Sports Authority it was found that only 20% men and 7% women participate in physical activity once a week. This sedentary lifestyle is one of the key reasons for increasing lifestyle related diseases such as obesity and diabetes in Saudi Arabia. Government intends to increase the participation rate to 20% by 2020 and 40% by 2030G. As a result of its initiative, the Council of Economic and Development Affairs (CEDA) have accepted some reforms such as granting license to female fitness centres, creating infrastructure for sports around the country and developing sports community group throughout the kingdom. In our view such initiatives increases the size of the overall fitness market in the kingdom.

Diversified product portfolio mitigates the risk of rising competition

Leejam offers various sports activities in a uniform subscription based format. In KSA there are very few (almost negligible) fitness centres which provide various fitness activities viz gym, football, volley ball, basketball, swimming, tennis court, lounge facilities, etc. under one roof. Due to high capital requirement and technical knowhow related to real estate and operations we believe that the company's business model cannot be copied easily. Therefore amidst rising competition it should be able to retain its members due to its unique offering and brand image.

Figure 3 Cash Flows (SAR mn)



Source: Company data, Al Rajhi Capital

Positive FCF makes room for future expansion and high dividend payout

The company leases most of the fitness centres (~98% are leased); this reduces the need for debt and results in a lean balance sheet. Due to low debt the interest cost remains low and net margins remains high. Moreover due to advance receipt of subscription income company's working capital needs reduces and helps it to maintain a positive cash flow which in turn supports future expansion and healthy dividend pay-out.

Valuation

We value Leejam using equal weights for five year DCF and P/E based relative valuation. Our DCF based target is SAR 91 per share, assuming 9% WACC and 3% terminal growth. Our P/E based target price (based on 18x FY20e earnings) stands at SAR89 per share. Accordingly, the equal weighted target price stands at SAR 90, implying 13.5% upside from the current price.

Figure 4 Summary of DCF Valuation

	2019E	2020E	2021E	2022E	2023E
Post-tax operating profit	260	288	313	341	371
Add: Depreciation & amortisation	123	137	150	164	179
Change in working capital	25	12	10	12	12
Less: Capex	-236	-264	-288	-252	-210
Free Cash Flow to Firm	174	178	167	245	331
PV of Free Cash Flows	160	148	145	191	226
Sum of present values of FCFs	869				
Terminal Value	4319				
WACC	9%				
Terminal Growth Rate	3%				
Enterprise Value	5187				
Net Debt	-465				
Equity Value	4722				
Number of Shares	52.38				
Target Price	90				

Source: Company data, Al Rajhi Capital

Figure 5 DCF based target sensitivity to assumptions

		Terminal Growth Rate (%)					
	90.2	0.0%	1.0%	2.0%	**3.0%**	4.0%	5.0%
WACC (%)	6.9%	96.4	97.3	98.2	99.1	100.0	100.8
	7.9%	92.0	92.8	93.7	94.5	95.3	96.2
	8.9%	87.8	88.6	89.4	90.2	91.0	91.8
	9.9%	83.8	84.5	85.3	86.1	86.8	87.6
	10.9%	80.0	80.7	81.4	82.2	82.9	83.6

Source: Company data, Al Rajhi Capital

Figure 6 Sensitivity of Target Price to Terminal Gross Margin

Terminal Gross Margin	Fair Price
30%	76.3
31%	78
32%	79.7
33%	81.4
34%	83.1
35%	84.8
36%	86.5
37%	88.2
38%	89.9
39%	91.6
40%	93.3

Source: Company data, Al Rajhi Capital

Figure 7 Income Statement (SAR mn)

	2017	2018	2019E	2020E
Revenue	733	800	944	1,057
Revenue growth (%)	*5%*	*9%*	*18%*	*12%*
COGS	(454)	(495)	(584)	(655)
Gross income	**278**	**305**	**360**	**402**
Gross income growth	*-9%*	*10%*	*18%*	*12%*
Gross margin (%)	*38%*	*38%*	*38%*	*38%*
SGA	(89)	(111)	(113)	(126)
Other operating income	7	13	13	13
EBITDA	**292**	**317**	**383**	**425**
EBITDA Growth	*-4%*	*9%*	*21%*	*11%*
EBITDA margin	*40%*	*40%*	*41%*	*40%*
Operating income	**197**	**208**	**260**	**288**
EBIT Growth	-12%	6%	25%	11%
EBIT margin	*27%*	*26%*	*28%*	*27%*
Financing expenses	(15)	(18)	(19)	(18)
Other income	(4)	(8)	(3)	(3)
Net Income Before Zakat	**178**	**182**	**238**	**266**
Tax (Zakat)	(3)	(2)	(5)	(5)
Net income	**174**	**180**	**233**	**261**
Growth (%)	*-14%*	*3%*	*29%*	*12%*
Net margin (%)	*24%*	*23%*	*25%*	*25%*
EPS (SAR)	3.33	3.44	4.46	4.98

Source: Company data, Al Rajhi Capital

Figure 8 Balance Sheet (SAR mn)

	2017	2018	2019E	2020E
Current Assets				
Cash & Cash Equivalents	56	19	86	42
Accounts Receivable	26	20	38	42
Prepaid Expenses & Other receivables	53	62	76	85
Other Current Assets	64	68	71	79
Total Current Assets	**199**	**170**	**271**	**248**
Non-Current Assets				
Fixed Assets	1,285	1,419	1,540	1,639
Investment in associates	-	-	-	-
Prepaid Expenses	12	11	11	11
Goodwill	9	9	9	9
Total Non-Current Assets	**1,306**	**1,438**	**1,560**	**1,659**
Total Assets	**1,505**	**1,609**	**1,830**	**1,906**
Current Liabilities				
Total Short Term Debt	76	108	120	120
Accounts Payable	37	37	42	47
Accrued Expenses	4	3	5	5
Interest & Dividend Payable	-	-	-	-
Other payables and accruals	49	34	40	45
Others	266	248	343	351
Total Current Liabilities	**433**	**429**	**550**	**567**
Non-current liabilities				
Long Term Debt	366	376	349	209
Pension Liabilities	24	27	28	32
Other long term liabilities	53	61	88	76
Total Non-current liabilities	**443**	**465**	**466**	**417**
Total Liabilities	**876**	**894**	**1,015**	**985**
Shareholders' Equity				
Paid-up Capital	524	524	524	524
Statutory Reserve	17	17	23	26
Retained Earnings / Accumulated losse	88	174	267	372
Total Shareholders' Equity	**629**	**715**	**815**	**922**
Total Liabilities & Shareholder Equit	**1,505**	**1,609**	**1,830**	**1,906**

Source: Company data, Al Rajhi Capital

Figure 9 Cash Flow (SAR mn)

	2017	2018	2019E	2020E
Cash flow from operations	314	268	361	390
CAPEX	(237)	(244)	(236)	(264)
Free Cash flow	77	24	125	126
Cash flow from financing activities	(93)	(77)	(167)	(170)
Change in cash	(16)	(54)	(42)	(45)

Source: Company data, Al Rajhi Capital

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Company Overview:

Business background

Leejam Sports Company opened its first fitness centre in 2005 and has expanded to 134 fitness centres by the end of June 2019 (130 in Saudi Arabia and 4 in UAE). It operates under the brand name of fitness time and has a strong brand image in the kingdom. The company plans to add 10-12 female centres on a yearly basis over the next five years which should help the company in capturing a significant portion of the female fitness market. It operates through various formats targeting mid income to high income people and has a unique business model compared to its peers where it offers a range of sports activities under one roof. The average size of fitness time centre is 3450sqm.

Figure 10 Fitness Centre Features and Services by Brand

Feature or Service	Fitness Time Plus	Fitness Time	Fitness Time Pro	Fitness Time Ladies	Fitness Time Ladies Pro	Fitness Time Junior	Fitness Time Academy
Cardio	Yes	Yes	Yes	Yes	Yes	Yes	No
Body building	Yes	Yes	Yes	Yes	Yes	Yes	No
Group exercise	Yes	Yes	Yes	Yes	Yes	Yes	No
Rowing	Yes	Yes	No	Yes	No	No	No
Kinesis	Yes	Yes	No	Yes	No	No	No
Circuit training	Yes	Yes	Yes	Yes	No	No	No
Spinning	Yes	Yes	Yes	Yes	No	No	No
TRX	Yes	Yes	Yes	Yes	No	No	No
Functional training	Yes	Yes	Yes	Yes	No	No	No
Swimming pool	Yes	Yes	Yes	Yes	Yes	Yes	No
Jacuzzi (hot/cold)	Yes	Yes	Yes	Yes	No	No	No
Sauna and steam bath	Yes	Yes	Yes	Yes	No	No	No
Basketball	Yes	Yes	Yes	Yes	Yes	Yes	No
Volleyball	Yes	Yes	Yes	Yes	Yes	Yes	No
Football	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Squash	Yes	Yes	No	No	No	No	No
Tennis	Yes	No	No	No	No	No	No
Billiards	Yes	Yes	No	Yes	No	No	No
Internal running track	Yes	Yes	Yes	Yes	Yes	Yes	No
Virtual golf	Yes	No	No	No	No	No	No
Towels	Yes	Yes	No	Yes	No	No	No
Lounge	Yes	Yes	No	Yes	No	No	No
Amenities	Yes	Yes	No	No	No	No	No
Valet parking	Yes	Yes	No	No	No	No	No
Yoga	No	No	No	Yes	Yes	No	No
Pilates	No	No	No	Yes	Yes	No	No
eXtreme Fitness	Yes	Yes	Yes	Yes	Yes	No	No
eXtreme Boxing	Yes	Yes	Yes	Yes	Yes	No	No
eXtreme Bootcamp	No	Yes	Yes	Yes	Yes	No	No
Personal Training	Yes	Yes	Yes	Yes	Yes	No	No

Source: Company data, Al Rajhi Capital

The company has a good exposure towards corporate business and as on 2018 it derived ~12% of its total revenue from corporate segment. In this segment subscriptions are offered at a discounted price but it is more reliable in terms of member retention, this segment has grown four times over the last three years. (Revenue for 2018 was SAR99mn) and management expects this segment to grow by 50% in 2019.

Figure 11 Revenue contribution from different business

Fitness Centre Category	Revenue	% of total revenue	Number of Centres	Number of Members
FT Plus	27,476	3.7%	4	3,686
FT	360,752	49.2%	51	82,547
FT Pro	206,968	28.2%	41	73,792
FT Basic	1,320	0.2%	0	
FT Junior	20,276	2.8%	8	3,718
FT Academy	166	0.02%	0	-
FT Ladies	14,576	2.0%	8	12,333
Corporate and rental income	101,313	13.8%	0	33,872
Total	**732,847**	**100%**	**112**	**209,948**

Source: Company data, Al Rajhi Capital. Data as of December 2017.

The company operates the largest network of fitness centres (~27% of market share in KSA) in the MENA region under the Fitness Time brand with 112 operational fitness centres in 23 cities in the Kingdom and three cities in UAE. It operates across six primary formats, which include the following: (i) Fitness Time Plus, a luxury and exclusive experience; (ii) Fitness Time, a high-end, full-service male fitness facility; (iii) Fitness Time Pro, aimed at professional and aspiring male athletes; (iv) Fitness Time Junior, targeted at boys and youth in the 5-16 age range; (v) Fitness Time Ladies, a high-end fitness centre dedicated to women, the first of which was opened in 2017; and (vi) Fitness Time Ladies Pro, specifically for aspiring female athletes. (Source: Prospectus)

Figure 12 Ownership in the Company

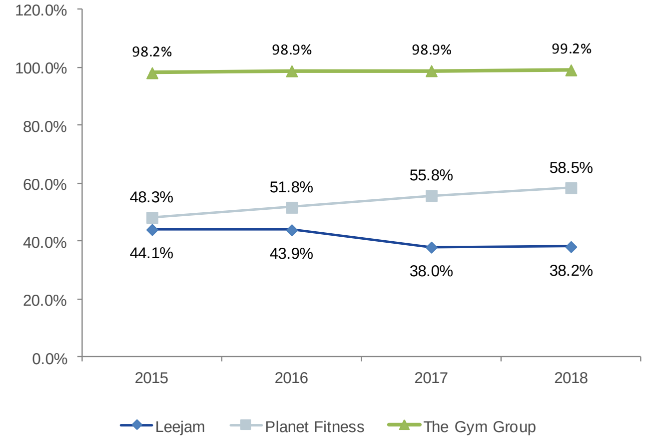
	Shareholding (Pre-IPO)			Shareholding (Post-IPO)*		
Shareholder	**Number of Shares**	**Ownership (%)**	**Nominal Value (SAR)**	**Number of Shares**	**Ownership (%)**	**Nominal Value (SAR)**
Hamad Ali Al-Saqri	31,670,150	60.50%	316,701,500	31,670,150	60.50%	316,701,500
Target Opportunities for Trading Company	13,148,224	25.10%	131,482,240	1,361,968	2.60%	13,619,680
Total	**44,818,374**	**85.60%**	**448,183,740**	**33,032,118**	**63.10%**	**330,321,180**

Source: Company data, Al Rajhi Capital (*it relates to holding immediately after IPO)

Comparison of Leejam with Planet Fitness (USA) and Gym Group (UK)

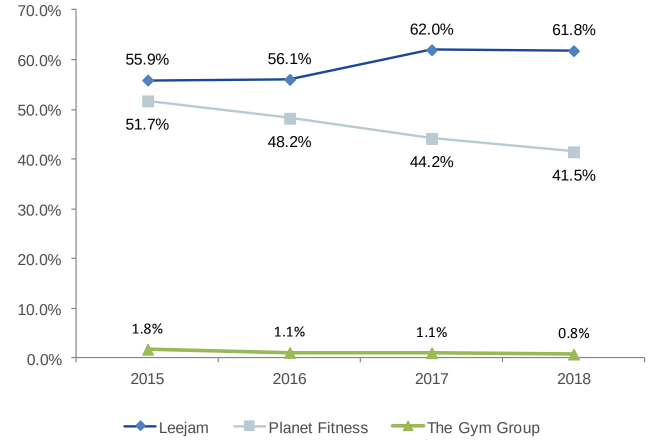
Leejam has a higher net margin compared to its global peers mainly because of better operating efficiency and lower overhead costs. Net margins are higher compared to global peers and we believe the company has the room to increase promotions and discounts to overcome competition in the future.

Figure 13 Gross Margin



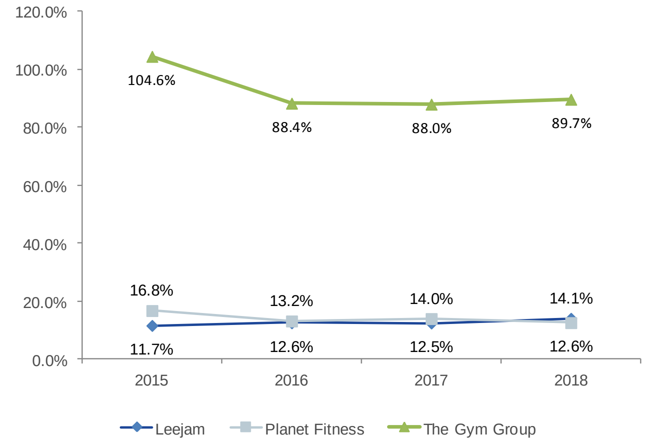
Source: Company data, Al Rajhi Capital

Figure 14 Cost as a % of revenue



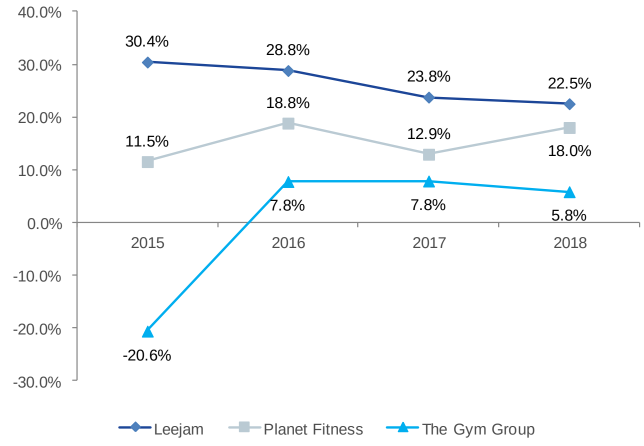
Source: Company data, Al Rajhi Capital

Figure 15 SGA as a % of Revenue



Source: Company data, Al Rajhi Capital

Figure 16 Net Margins



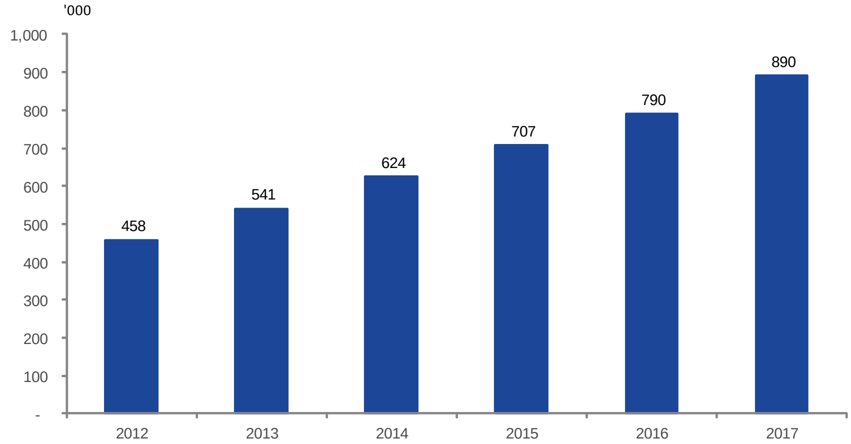
Source: Company data, Al Rajhi Capital

Al Rajhi Capital

KSA Fitness Industry Overview

The fitness and sports industry in Saudi Arabia is at a nascent stage currently, the rising health issues and people's awareness towards the health benefits and sports as a recreational activities has created a significant opportunities for the overall fitness industry. The fitness market in Saudi Arabia is segmented into male and female, while male market is in its early stage of maturity, female market is in its infancy. There are total 0.9mn fee paying male members and 0.2mn female members while the total addressable market consists of ~13mn members (Source: Prospectus) which creates much scope for growth (Current penetration rate is ~8%). The total addressable market is around SAR 2.9bn in which the female market size is 0.65bn (Source: Prospectus).

Figure 17 Average Members ('000)



Source: Company data, Al Rajhi Capital

The number of members has grown from 458,000 to 890,000 at a CAGR of 14% from 2012 to 2017 and this number is further expected to increase at a double digit as people are becoming aware of the health benefits in the kingdom.

Structural and demographic changes to aid overall industry growth

- In Saudi Arabia life style diseases such as obesity and diabetes resulting from unhealthy eating habits and a sedentary lifestyle are very common. As per World health organization ~35% of the total population is obese in the kingdom and it is more common in females compared to their male counterparts. It is one among the top 15 countries in the world where diabetes is prevalent among adults. Thus maintaining fitness is a key issue in Saudi Arabia and with relatively young population the trend is changing as people become aware of the health benefits in the long run. Further there is an increase interest among females to shift towards a healthy lifestyle by joining fitness centres mainly due to affordability of subscription prices and increasing disposable income of the family.

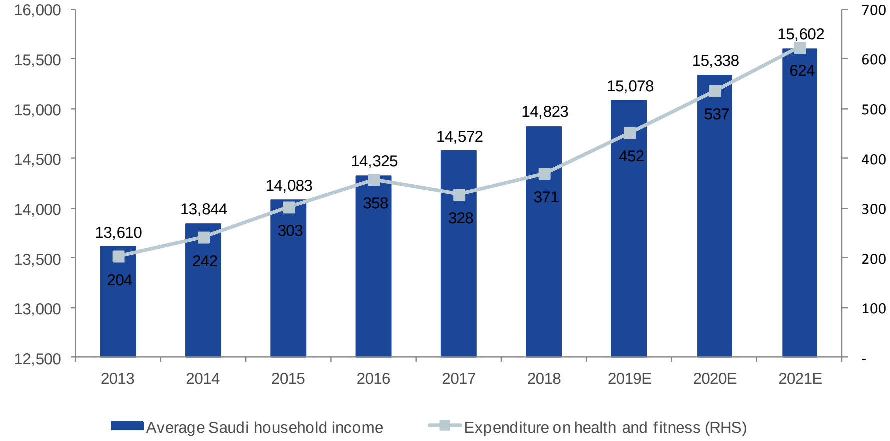
Figure 18 Selected Health Indicators in Percentages of Saudi Population for the years indicated

Indicator	Male	Female	Total
Prevalence of obesity (2016)	31	42	35
Prevalence of diabetes (2017)	17	21	19
Prevalence of hypertension - hypertensive (2013)	18	13	15
Prevalence of hypertension - borderline (2013)	47	34	41
Prevalence of high cholestrol - hypercholesteraemic (2013)	10	7	9
Prevalence of high cholestrol - borderline (2013)	20	21	20

Source: Company data, Al Rajhi Capital

- According to the family support and the market survey conducted in 2018 more than 50% of the people admitted that they would like to join the fitness centres subject to timing, price and convenience. This speaks volumes about the prospective increase in the overall fitness market once the market matures with the opening of new gyms. As per our calculations we expect the average Saudi household income to increase to SAR 15,602 per month which should increase the discretionary spending towards fitness and leisure activities. Globally people spend ~4-5% of their total income towards fitness and sports related activities. We have assumed in our analysis that the total expenditure on health and fitness as a percentage of total income will reach to 4% by 2021E thus taking the total monthly expenditure on health and fitness to SAR624mn.

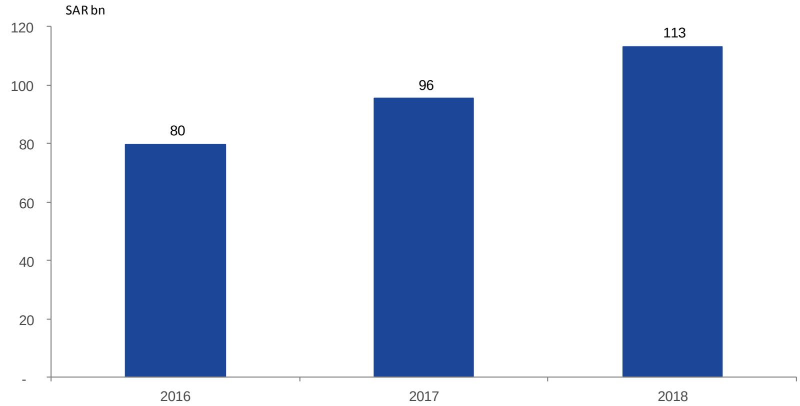
Figure 19 Monthly Expenditure on health and fitness as a percentage of total income



Source: GASTAT, Al Rajhi Capital

- Government is taking various initiatives like creating infrastructural facilities, raising awareness towards health benefits, relaxation of regulations to create a favorable investment ground for fitness companies.
- License to female fitness centres is a mega boost to the fitness industry. In 2017, government issued licenses for the opening of exclusive female centres. The current number of female gym member is 0.2mn and this is expected to increase drastically given the fact that the obesity is more prevalent in females. Increasing female employment will increase the disposable income of the women which in turn should increase the female participation towards fitness activities.
- As shown in the table below the government spending towards health services and social development has increased at a CAGR of 9.20% from 2012-2017. In 2017 the government expenditure towards healthcare was ~11% of the total expenditure, this is a very high number compared to global average (4-5%). Therefore the government is pushing the people hard to adopt a healthy lifestyle so that the overall public spending towards the healthcare is reduced.

Figure 20 Government's Expenditure on healthcare (SAR bn)



Source: SAMA, Al Rajhi Capital

Figure 21 Government Spending Split per Sector in the Kingdom

Sector	2012	2013	2014	2015	2016	2017	CAGR
Health Services and Social Development	61,284	70,938	78,166	82,071	79,958	95,502	9.20%
Transport and Communications	20,566	22,063	23,506	22,348	12,301	25,258	4.10%
Economic Resources Development	41,152	46,696	49,537	48,148	26,025	47,051	2.70%
Human Resources Development	167,970	203,147	209,296	216,022	191,572	200,242	3.50%
Infrastructure Development	10,525	11,702	13,540	12,592	7,708	26,147	20.00%
Municipal Services	25,460	31,729	34,610	34,192	21,246	47,941	13.40%
Defence and National Security	211,867	251,325	302,859	306,947	213,207	287,541	6.30%
Public Administration, Public Utilities and General Items	107,551	119,948	84,558	80,575	68,553	127,339	3.40%
Government Specialised Credit Institutions	10,785	14,950	15,375	14,978	3,895	759	-41.20%
Subsidies	32,840	47,502	43,553	42,127	35,535	32,220	6.20%
Total	**690,000**	**820,000**	**855,000**	**860,000**	**660,000**	**890,000**	**5.20%**

Source: Company data, Al Rajhi Capital

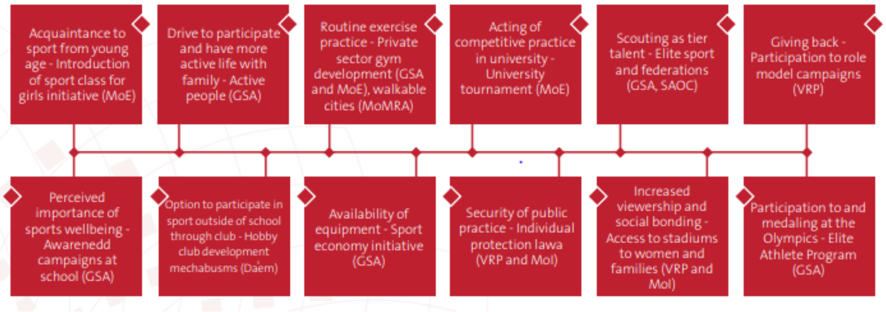
An overview of "Quality Of Life Program 2020"

The council of Economic Affairs and Development had defined 12 vision realization programs to achieve the objectives of Vision 2030. Among those 12 "Quality of Life program 2020" is one of them which focuses on improving and enhancing the quality of life mainly through sports, entertainment and sports & culture. Talking about the sports sector in particular, the sector has been underdeveloped mainly due to limited high quality facilities, low awareness and social & regulatory impediments. In Saudi Arabia ~13% of the total population is physically active once a week compared to ~72% in the United Kingdom. Due to insufficient infrastructure and lack of support to pursue sport as a full time career, the participation of Saudi Arabia in Olympics has also been very limited. However government is taking several initiatives to build a sports and fitness ecosystem by building mass participation strategies to motivate people to take up sports and physical activities and inviting private sector to invest in the fitness and sports industry. The current number of Saudi Olympic sportsmen per million of the population is 0.38. The aspiration is to reach 2.81 Saudi Olympic sportsmen per million of the population by 2030 which is in line with globally high performing countries. To achieve this program private sector is expected to play a big role by building a fitness based ecosystem such as gym, sports training centres, health clubs, fitness equipments, etc to name a few. We believe that the entire fitness and sports industry is taking a new shape and it is at the early stages of planning. In the coming years the demand for high quality fitness clubs should increase and Leejam being a market leader in the fitness segment is in a strong position to benefit from the "Quality of Life Program 2020". (Source: Vision 2030 document)

Figure 22 Sports Benchmarking

Source: Vision 2030 document, Al Rajhi Capital

Figure 23 Sport Life Journey



Source: Vision 2030 document, Al Rajhi Capital

Key Growth Drivers

Market Leader in KSA with strong potential to grow its market share

Leejam is a market leader with ~27% of the total gym members in the kingdom operating ~12% of the total gym in KSA. It has a strong brand image with wide presence throughout the kingdom and UAE. The fitness industry has evolved over the last five years from just a traditional gym to a concept fitness centres .One of the reasons why we like Leejam over other players in the KSA is because it offers various fitness regimens under one roof.

Figure 24 Market Share Analysis for Saudi Male Primary Fitness Market Segment

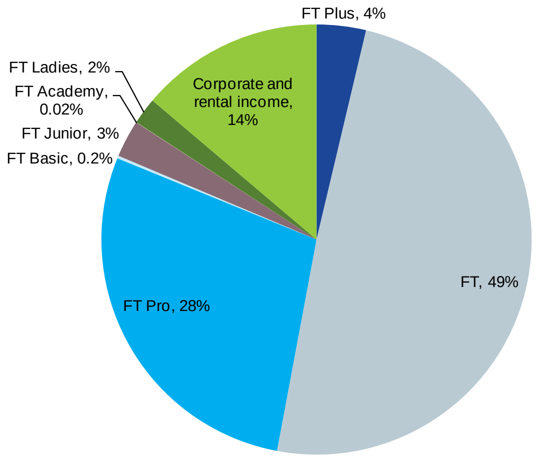
Primary Fitness Market	Market Share (No. of members)	Market Share (No. of Fitness Centres)
Fitness Time	27%	12%
Body Masters	7%	4%
The Power Gym	2%	2%
Fitness First	1%	1%
Gold's Gym	1%	1%
Others	63%	80%
Total	**100%**	**100%**

Source: Company data, Al Rajhi Capital

Leejam offers its subscription through six formats however three formats namely fitness time plus, fitness time and fitness time pro generate over 90% of the company's revenue.

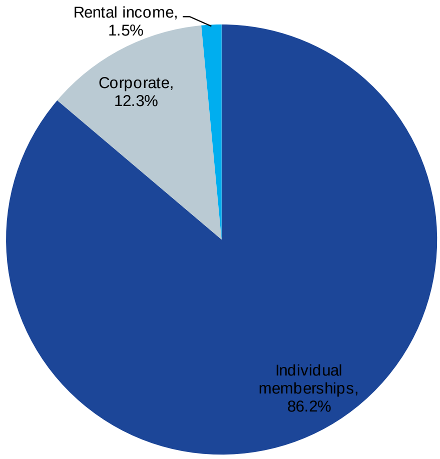
- **Fitness time plus:** It is the premium most offering with five star service facilities, the annual subscription is priced at SAR8, 925. It provides luxurious services including lounge, towels, valet parking and some additional sports amenities like virtual golf and tennis court. There are four FT plus centres with minimum age requirement of 25 years to join a club.
- **Fitness time:** It offers a middle level subscription with lesser facilities compared to FT plus at almost half the price (the annual subscription is SAR4, 988).There are 49 fitness time centres and it contributes almost 50% of the total revenue.
- **Fitness time pro:** It is a value based format which competes with the other budget gyms in the country. The annual subscription is priced at SAR3, 255. It contributes ~25% to the total revenue with 41 centres in the kingdom.

Figure 25 Breakdown of revenue by brand



Source: Company data, Al Rajhi Capital

Figure 26 Breakdown of revenue by source



Source: Company data, Al Rajhi Capital

Figure 27 Standard pricing by brand as of January 2018

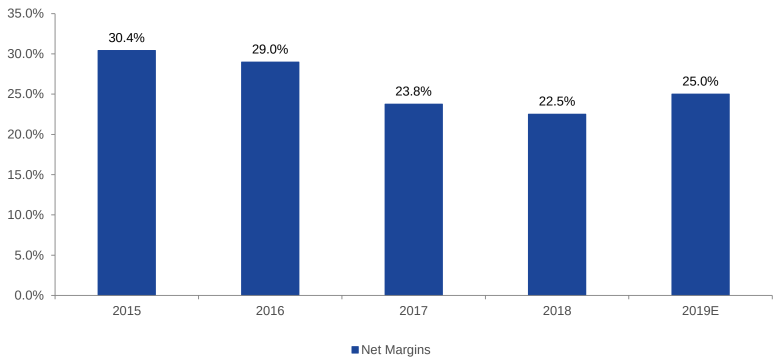
Brand	Duration	List Price (SAR)
Fitness Time Plus	3 months	3,045
	6 months	5,145
	12 months	8,925
Fitness Time	1 month	788
	3 months	1,838
	6 months	2,993
	12 months	4,988
Fitness Time Pro	1 month	524
	3 months	1,155
	6 months	1,943
	12 months	3,255
Fitness Time Ladies	3 months	1,838
	6 months	2,993
	12 months	4,988
Fitness Time Ladies Pro	3 months	1,155
	6 months	1,943
	12 months	3,255
Fitness Time Junior	3 months	1,418
	6 months	2,205
	12 months	3,728

Source: Company data, Al Rajhi Capital

Increasing focus on expanding subscriber base:

- **Focus on increasing member base by rationalizing promotions and discounts:** The key challenges faced by any gym are retaining its existing members and acquiring new customers. Fitness industry as a whole is highly competitive and promotions and marketing plays a key role in differentiating one fitness centre from another. Leejam observed a subdued growth in 2017 (+5% y-o-y) mainly due to decreasing disposable income resulting from structural reforms. However in 2018 the company rolled out promotions and spent heavily on advertising which ultimately had a positive impact on its topline growth in 2018. We believe that the benefits of promotions and marketing will accrue to the company in 2019 without the need to spend any heavy amount towards advertisement. It is indicated that the company will cut off its marketing and promotional expenditure as they resort to aggressive social media campaigns (which is a cheaper alternative) to attract new subscribers. This is expected to improve the margins for the company and higher realized profits. In our expectations the net margin should improve by 250bps from 22.5% to 25% by the end of 2019E.

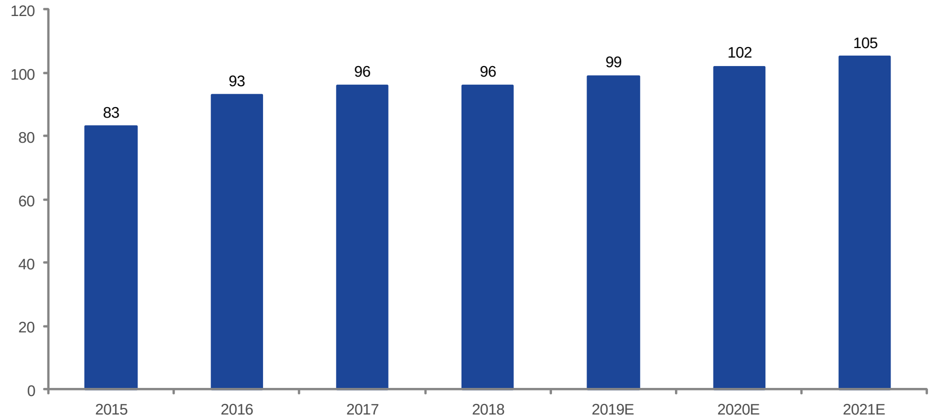
Figure 28 Net Margins



Source: Company data, Al Rajhi Capital

We expect the total number of male centres to increase from 96 at the end of 2018 (excluding three male centres were converted into female centres) to 105 by the end of 2021e.

Figure 29 Number of Male centres



Source: Company data, Al Rajhi Capital

With 105 male centres and 56 female centres by the end of 2021 we expect the company's revenue to reach to SAR1.15bn by 2021E.

Figure 30 Leejam Revenue

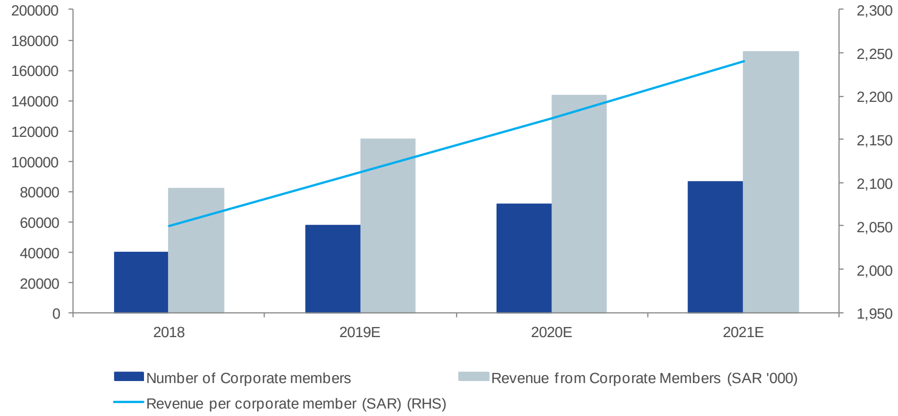
Year	2018	2019E	2020E	2021E
Average no of members	217,000	243970	275731	303676
Male	179,000	191530	204937	215184
Female	38,000	52440	70794	88493
Average revenue per member	3,686	3,871	3,834	3,797
Growth in ARPU	5%	5%	-1%	-1%
Revenue		**944**	**1,057**	**1,153**

Source: Company data, Al Rajhi Capital

- **Improving member density provides further room for improvement:** Apart from expansion in new areas the company has scope to improve its LFL growth by increasing the capacity utilization of its current centres, its current utilization rate on an average is 0.6 subscriber/sqm while globally most of the gym operates at 2.5 subscribers/sqm. The company is trying to increase the utilization rate to 1 subscriber/sq. It is also exploring new ways to utilize the gym space during off peak hours by curating special packages for retired persons who can use the gym at off peak timing at special rates. We believe such strategies to drive the top line as well as bottom line.

- **Corporate segment to drive topline in future:** The corporate segment is growing rapidly, in 2018 it comprised of ~12% of the company's total revenue. In corporate dealings it offers discounts ranging from 20% to 45% to the members**.** The corporate segment grew 400% over the last 3 years (SAR 103mn of revenue in FY2018). Going forward the company is taking efforts to increase the corporate tie ups which should increase the revenue contribution of this segment. The management expects this segment to grow by 50% in 2019. In 2018 the total corporate clients were 255 and total corporate members were 40,000 and based on our calculations we expect the revenue contribution from this segment to be SAR225mn (19% of the 2021E revenue). However the growth in corporate revenue will have a downward pressure on the gross margins.

Figure 31 Revenue Contribution from Corporate segment



Source: Company data, Al Rajhi Capital

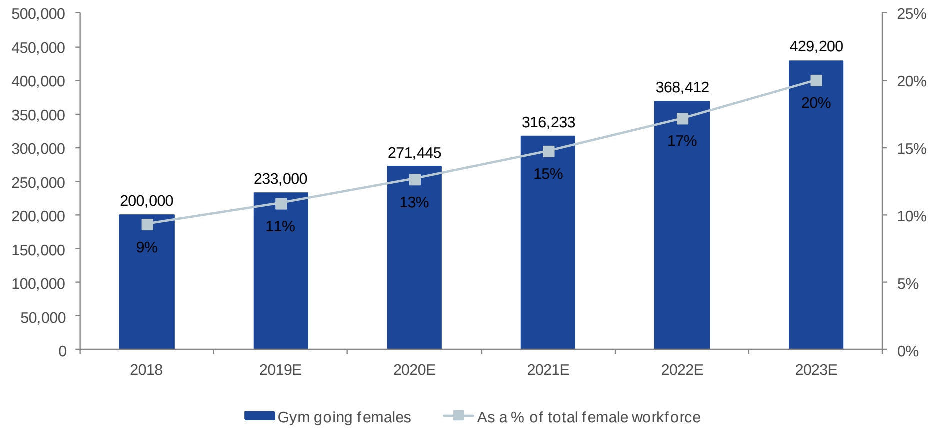
Short term benefits from female segment to boost margin however competition to ease margins in long term:

The company gained a first mover advantage by opening ~26 centres in two years (2017 and 2018) after acquiring female centre license in 2017. The company benefitted from the demand supply mismatch in the recent past resulting in a higher margins and a faster breakeven period (Currently the breakeven period for female centres is three months compared to 12-15 months globally). Another reason for increase in female subscription is affordability in subscription prices, few years back there were very few female gyms where the average monthly subscription would cost around SAR 2000 and an additional cost of SAR 1000 was paid to car drivers to drive the female to the gym and take her back home. Now with licensing of female fitness centres in 2017 and granting of driving license to female has created a positive impact in terms of demand for the gyms in the kingdom which in turn has created significant opportunity in untapped female fitness segment. The average price for a mid-tier fitness centre has come down to SAR300-400 per month due to increasing supply and demand.

Based on management guidance and our estimates we expect a CAGR of 20% for the number of female fitness centres from 26 in 2018 to 66 in 2023. As per our calculations, revenue from female segments should increase to SAR483mn by the end of 2023 (we have assumed 75% occupancy) and contribute approximately more than one third to the total revenue of the company.

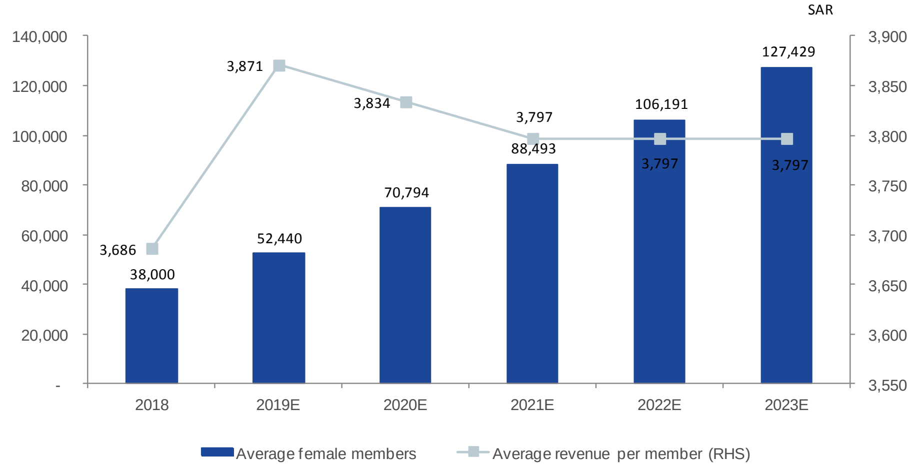
Rising female employment is another reason why we believe the higher demand for the female segment is sustainable. Currently only 13% of the total employed females are going to the gym, we expect this number to increase and reach to 20% by 2023e.

Figure 32 Gym going females as a % of total female workforce



Source: Company data, GASTAT, Al Rajhi Capital

Figure 33 Average Revenue per member



Source: Company data, Al Rajhi Capital

Overall fitness Industry to take a new shape driven by government's push to increase participation in fitness activities:

One of the initiatives of the government as a part of vision 2030 is to increase the participation of citizens towards sports and fitness. As a part of the survey conducted by General Sports Authority it was found that only 20% men and 7% women participate in any kind of physical activity once a week. Sedentary lifestyle and lack of good quality fitness facilities are the key reasons for the obesity and other lifestyle related diseases affecting the people. Therefore government intends to increase the participation to 20% by 2020 and 40% by 2030G. As a part of its initiative the council of economic and development affairs (CEDA) have accepted some reforms to transform the provision of physical activity in the kingdom. Some of the initiatives are designing and delivering university sports groups throughout the kingdom, increasing female participation by licensing of fitness centres for women, developing community sports group throughout the kingdom. We believe such measures would increase the awareness about the benefits of physical activities and bring a cultural shift where people would pursue sports as a career and give high priority to health. This will in turn benefits companies like Leejam which provides various sports facilities.

Low market penetration of organized players provides an opportunity for Leejam

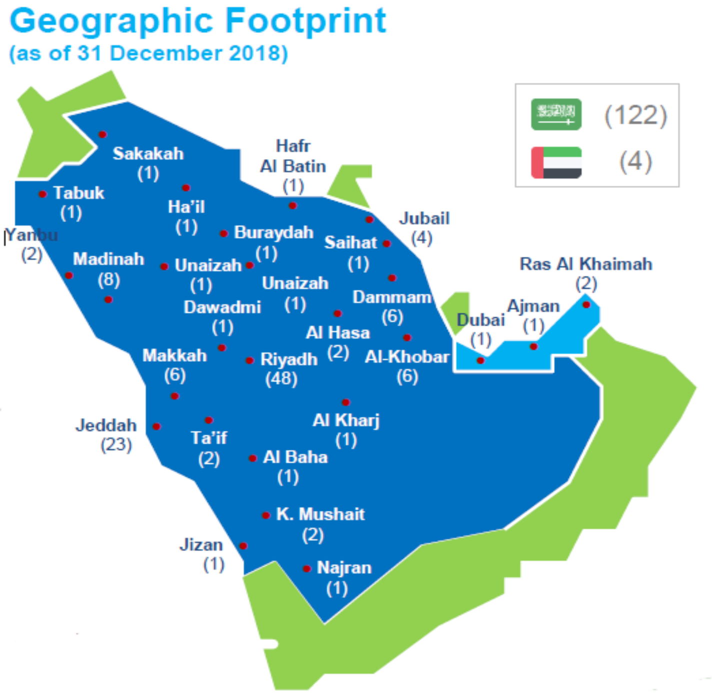
The fitness industry in Saudi Arabia is highly fragmented and under penetrated, as of 2017 there were approximately 971 fitness centre with 1.1mn fee paying members dominated by male (82% male members). As per the company's prospectus, the total addressable market in terms of the number of members is ~14mn which translates to a total market size of SAR2.9bn; this means the current penetration rate of gym stands at 8%. Leejam has a strong brand image in the kingdom and it has a wider presence in the prominent cities like Riyadh (48 centres), Jeddah (23 centres), Dammam and Al-Khobar with 6 centres each. The majority of the population with high disposable income is concentrated in the above mentioned four cities and management is planning to add 10-12 female centres and 3-5 male centres each year in the upcoming future. We believe such expansion will help the company in maintaining a strong leadership position in the fitness industry. Though the entry of barriers is relatively low in fitness industry but high capex requirement will lead to a market consolidation with a shift towards the organized players in future.

Figure 34 Kingdom's Male Fitness Centre Members

Year	2012	2013	2014	2015	2016	2017	CAGR
Member	458,000	541,000	624,000	707,000	790,000	890,000	14%

Source: Company data, Al Rajhi Capital

Figure 35 Leejam Geographic Footprint



Source: Investor Presentation, Al Rajhi Capital

Diversified service portfolio to offset threat from rising competition:

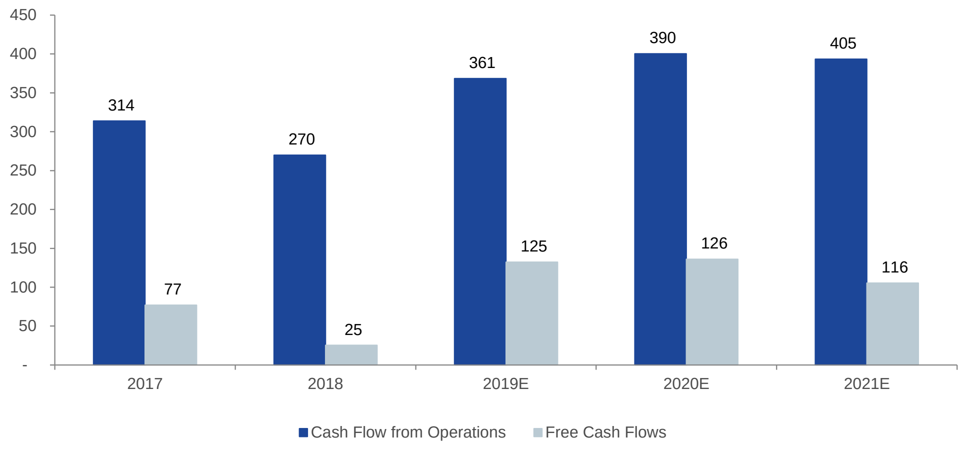
- **Offerings for all age group:** Its wide product offering ranges from traditional gym to swimming pool, group classes, football ground, tennis court, rowing, basketball court, Jacuzzi, lounges, virtual golf course, volley ball, circuit training, HIIT, boxing, squash, semi Olympic pool and business centres. Amidst limited entertainment options and sports facilities in the kingdom a fitness time centre provides everything under one roof. With wide service offerings it attracts members of different age group and provides a great place for socializing.

- **Personal training a high margin growing segment:** The Company provides personal training (PT) facilities at an additional cost, to maintain the standard and quality it doesn't allow any freelancing in PT segment. This is gaining a strong traction and under this model trainers are paid on a commission basis based on the number of personal training sessions they conduct. The revenue contribution from PT is SAR60mn (+29% Y-O-Y) which was 7% of the total 2018 revenue. We expect this segment to grow in the coming years and being a high margin segment it should have a positive impact on the bottom-line of the company.

Positive FCF to drive future growth

- **Leasing Model:** The Company leases its centres rather than owning (~98% of the centres are leased while 2% are owned). This makes Leejam a cash generating unit as the debt requirement reduces significantly, one key advantage of this business model is that the company can finance future capex (especially to expand the female fitness centres) through FCF thus keeping the debt at minimum level. We expect the company to incur a capex of SAR236mn and SAR264mn in 2019E and 2020E respectively which will be funded by a mix of debt and equity. This will also help the company in servicing the interest and debt repayment on time.

Figure 36 Cash Flows (SAR mn)



Source: Company data, Al Rajhi Capital

- **Low working Capital requirement-** The company receives the subscription in advance from its members as a result of which it has a very low working capital requirement (recognizes deferred revenue in its balance sheet).
- **Strong FCF to support high dividend payout ratio-** Leejam's historical pay- out ratio has been over 50% and we believe that it is sustainable in the long run even after aggressive expansion because once the company repays its debt its FCF will free up which will allows the company in maintaining the existing payout levels. We expect DPS to increase to SAR2.63 by 2021E.

Other growth opportunities

The company is taking initiatives to grow its existing core portfolio of men's fitness facilities by adding various value added services like providing laundry services, business centres, lounge facilities and different exercise plans like group classes, professional training for football to provide world class experience to its members. We see Leejam as a complete health club where a member gets access to a wide range of fitness activities with a single subscription. With unique business model which ensures strong cash flow the company is well poised to drive its topline going forward with sustainable margins (revenue growth 12% for 2020E) and a healthy dividend pay-out ratio.

Key Investment Risks:

Competitive Industry

- **Increasing competition from local players will put pressure on margins-** The fitness industry is highly fragmented in Saudi Arabia with the top five players having a market share of 38% in terms of membership and 20% in terms of fitness centres. The barriers to entry in this market are relatively low as the business model could be easily replicated by the competitors in a very less time. Thus the fitness industry is a highly competitive one as well cost sensitive. Any cost cutting by smaller players might hurt Leejam as its margin will come down in an effort to retain its members. Moreover the female centres just started in 2017 and any successful pricing strategies in this segment can be copied easily by other competitors which in turn would have an adverse impact on margins in the short term.

Figure 37 Market Share Analysis for Saudi Male Primary Fitness Market Segment

Primary Fitness Market	Market Share (No. of members)	Market Share (No. of Fitness Centres)
Fitness Time	27%	12%
Body Masters	7%	4%
The Power Gym	2%	2%
Fitness First	1%	1%
Gold's Gym	1%	1%
Others	63%	80%
Total	**100%**	**100%**

Source: Company data, Al Rajhi Capital

If the number of ladies gym is opened faster than our estimates then the impact of competition (especially in the ladies segment) will impact the financials of the company in the short to medium term. In the worst case the net profit margins for 2019E and 2020E might decrease significantly to 19% and 20% as against our best case estimate of 25%.

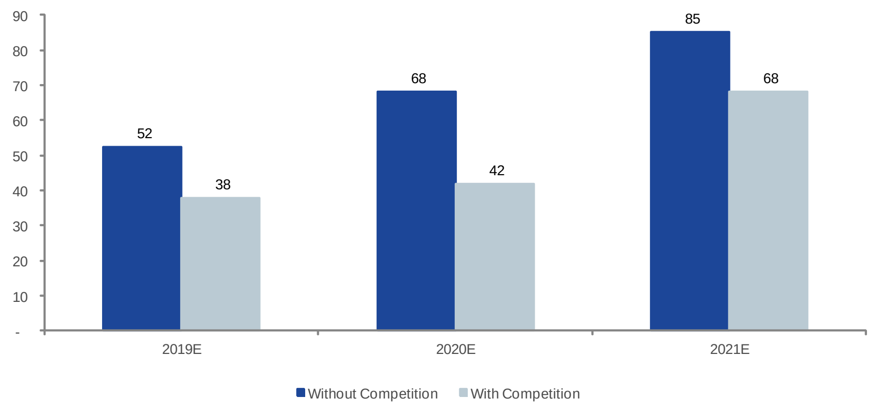
Figure 38 Impact of Competition

	2019E	2020E	2021E
Average Total Members With Competition	217,000	224,532	257,026
Average Total Members Without Competition	243,970	275,731	303,676
OPM With Competition	22%	23%	25%
OPM Without Competition	28%	27%	27%
NPM With Competition	19%	20%	21%
NPM Without Competition	25%	25%	24%

Source: Company data, Al Rajhi Capital

- **Threat of new entrants especially in female segment-** Since the fitness industry in Saudi Arabia is still in early stages of maturity there are high chances of international players entering the market due to huge potential especially in the female segment. The US based Xponential fitness centre has recently signed a franchise agreement to open 50 female studios over the next three years; this is going to increase the competition as well as challenge for Leejam to maintain its market share and net margins. In Fig 38 we have shown the impact of intensifying competition on the company's margin.

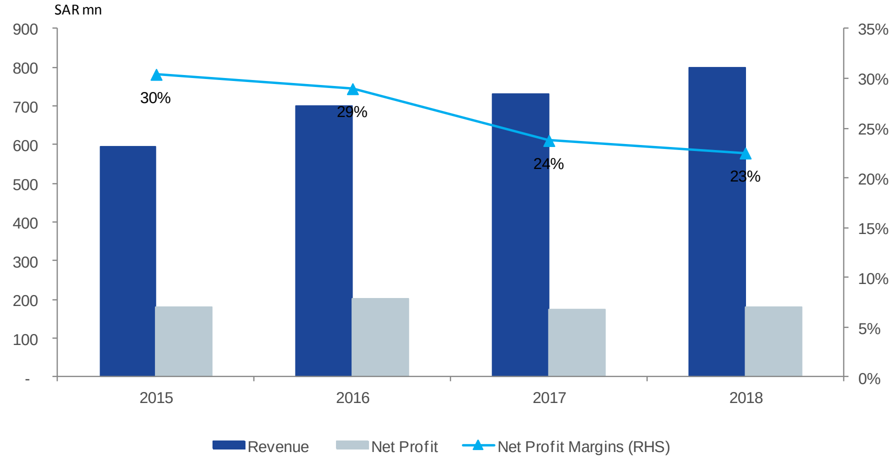
Figure 39 Female Members (' 000)



Source: Company data, Al Rajhi Capital

- **New government levies to increase the cost of living-** Any new government levies like increase in expat levy, dependent levy or any increase in price of utilities will negatively impact the disposable income of the people. This in turn will have an adverse impact on the company's business as spending towards gym and leisure forms a part of discretionary spending. In past Leejam has faced such a slowdown in 2017 and 2018 when the government stopped cost of living allowance and increased the prices of utilities, Leejam's top line grew 5% and 9% respectively while the bottom-line had a negative growth of -14% in 2017 and a marginal growth of 3% in 2018. In our view any such structural changes which decrease the disposable income of the people will have an adverse impact on the company's financials.

Figure 40 Revenue and Profit Trend in past



Source: Company data, Al Rajhi Capital

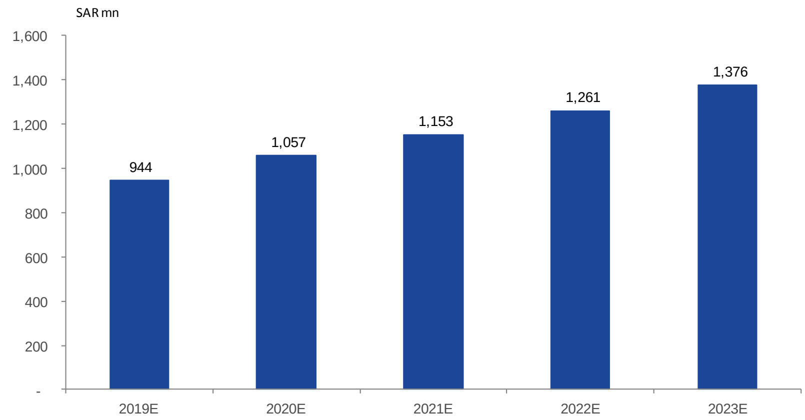
- **Home Personal Training-** Home personal training is gaining a good traction in Saudi Arabia, though very low currently still it poses a risk as home personal trainer provides a customized fitness plan according to the specific requirements.

Key Financials

Revenue:

The company has delivered a strong topline growth in the past except for 2017 (+5% y-o-y) and 2018 (+9% y-o-y) where the business was impacted due to weaker consumer spending on the back of structural reforms in the economy. However we are expecting a higher consumer spending towards health and fitness as people adapt to the reforms. In our view the topline is expected to grow by 18% y-o-y in 2019E mainly driven by ~35% growth in the number of female subscribers and 4% growth in the number of male subscribers. Over the time due to low entry barrier as the competition intensifies we expect the top line growth to subside to close to ~9% and reach SAR 1.3bn going forward by 20203E.

Figure 41 Revenue Trend (SAR mn)

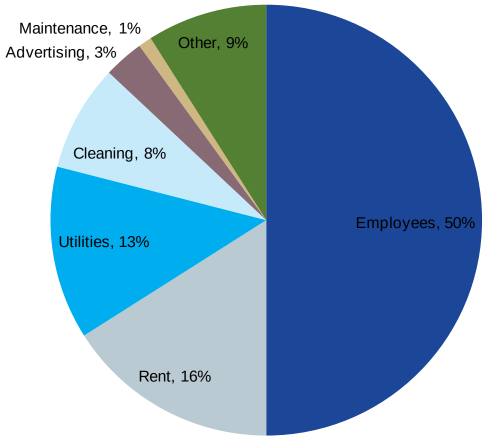


Source: Company data, Al Rajhi Capital

Operating Costs:

The majority of the company's cost is employee's salary as the company hires best fitness trainers from Asian and African countries; the salary levels have increased ~5-6% in 2018. The company is currently in the green zone of Saudization. The second biggest expenditure after salaries is lease rentals as the company leases almost 98% of the properties, rentals comprises of ~16% of the total revenue and it is going to increase going forward as the company expands, however cost related to marketing and promotions should reduce in near future as company resorts to social media marketing (a cheaper alternative) however in medium term we expect this cost to increase as the competition increases before again falling down in long term. The overall SG&A is expected to remain 12% of the total sales in long term.

Figure 42 Cost Break-up (2018)



Source: Company data, Al Rajhi Capital

Impact of Saudization:

The Company has paid an expat levy of SAR~3-3.5mn in 2018. Since most of the trainers are hired from abroad we don't see any negative impact on operations due to Saudization requirements as the company is currently in green zone of Saudization. It is entitled to claim the refund of expat levy but as per our last discussion with the management in March 2019 they have not claimed any refund of expat levy paid.

Figure 43 Impact of Saudization

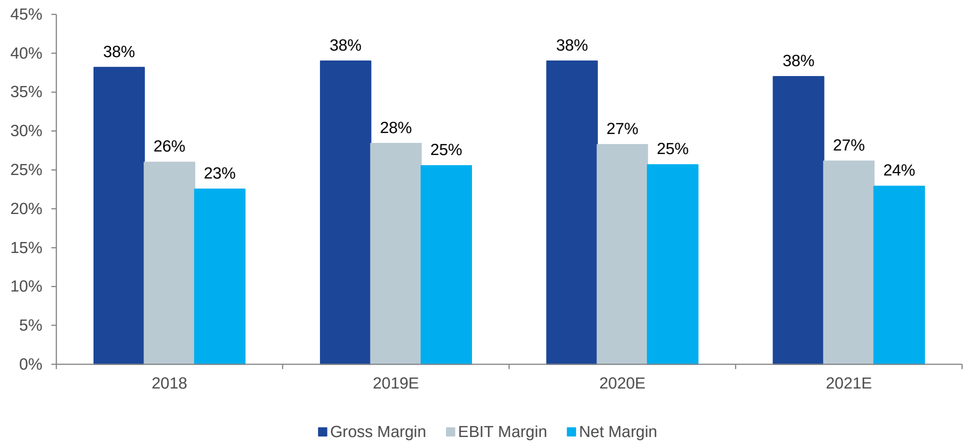
Company	31-Dec-15				31-Dec-16				31-Dec-17			
	Saudi	Non-Saudi	Total	Saudization % / Category	Saudi	Non-Saudi	Total	Saudization % / Category	Saudi	Non-Saudi	Total	Saudization % / Category
Leejam Sports Co	615	1,064	1,679	36.7% (Green)	674	1,493	2,167	31.3% (Green)	718	1,656	2,374	32.2% (Green)
Fitness Time Co	57	98	155	36.8% (Green)	4	-	4	100% (Platinum)	4	-	4	100% (Excellent)
Total	672	1,162	1,834	36.70%	678	1,493	2,171	31.30%	722	1,656	2,378	30% (Green)

Source: Company data, Al Rajhi Capital

Margins:

We expect the gross margins to improve from 38% in 2017 and 2018 to 39% in the near term, however as the competition increases and the demand supply balances for female segment the gross margins will gradually settle down to 37% in the long run. EBIT margin is expected to increase in 2019E by 200 basis points to 28% mainly due to slight decrease in SA&A and then settle down gradually to 26%. The net profit margins should increase in near term (26% in 2019E and 2020E) on the back of higher revenue and gross margins, however in the long term it will settle down gradually between 22-23%.

Figure 44 Margins



Source: Company data, Al Rajhi Capital

Figure 45 Income Statement (SAR mn)

	2018	2019E	2020E	2021E
Revenue	800	944	1,057	1,153
EBITDA	317	383	425	462
Operating income (EBIT)	208	260	288	313
Tax (Zakat)	(2)	(5)	(5)	(6)
Minority Interest	-	-	-	-
Net Income	180	233	261	275

Source: Company data, Al Rajhi Capital

Figure 46 Balance Sheet (SAR mn)

	2018	2019E	2020E	2021E
Cash & Cash Equivalents	19	86	42	70
Total Assets	1,609	1,830	1,906	2,068
Total Liabilities	895	1,015	985	1,035
Total Shareholders' Equity	715	815	922	1,033
Total Net Debt	465	466	417	477

Source: Company data, Al Rajhi Capital

Figure 47 Cash Flow (SAR mn)

	2018	2019E	2020E	2021E
Cash flow from operations	268	361	390	405
CAPEX	(244)	(236)	(264)	(288)
Free Cash flow	24	125	126	116
Cash flow from financing activities	(77)	(167)	(170)	(88)
Change in cash	(54)	(42)	(45)	29

Source: Company data, Al Rajhi Capital

Figure 48 Key Ratios

	2017	2018	2019E	2020E	2021E
EPS	3	3	5	5	5
FCF per share	77	25	125	126	116
Book value per share	12	14	16	18	20
Valuation ratios (x)					
PE	23	22	18	17	16
PBV	6	5	5	4	4
EV/Sales	7	7	6	5	5
EV/EBITDA	19	17	16	14	13
Profitability ratios (%)					
Gross margin	38%	38%	38%	38%	38%
Operating margin	27%	26%	28%	27%	26%
EBITDA margin	40%	40%	38%	38%	38%
Net profit margin	24%	23%	25%	25%	24%
Return Ratios					
Div per share	1.8	1.8	2.2	2.5	2.6
Payout Ratio	54%	52%	48%	48%	52%
ROE	3.6	4.2	3.7	4.0	4.2
ROA	0.12	0.11	0.12	0.13	0.12
Liquidity ratios					
Current ratio	0.46	0.40	0.49	0.43	0.51
Quick Ratio	0.15	0.09	0.23	0.14	0.19
Operating ratios (days)					
Inventory	0	0	0	0	0
Receivables outstanding	4	9	15	15	15
Payables outstanding	30	27	26	25	26
Operating cycle	4	9	15	15	15
Cash cycle	-26	-18	-11	-10	-11
Leverage Ratios					
Debt/Equity	0.7	0.6	0.6	0.5	0.5
Debt/ EBITDA (x)	1.5	1.5	1.3	1.1	1.2
Interest Coverage ratio (x)	13.4	11.7	13.5	14.4	10.2

Source: Company data, Al Rajhi Capital

Impact of IFRS 16 on company's Equity

As per company's disclosure the impact of transition from IAS 17 to IFRS 16 on company's equity is negative SAR 98mn as disclosed in figure 39:

Figure 49 Impact of IFRS 16 on company's Equity

Particulars	Amount (SAR)
Assets	
Right of Use	879,913,021
Prepayments and other assets	(67,941,747)
Total impact on assets	**811,971,274**
Liabilities	
Lease liabilities	974,263,057
Deferred rent liability	(64,591,342)
Total impact on liabilities	**909,671,715**
Equity	(97,700,441)
Total impact on equity (Approx)	**(97,700,441)**

Source: Company data, Al Rajhi Capital

Appendix

Figure 50 Number of Fitness Centres

	2017	2018	2019E	2020E
Fitness Time Plus	4	4	4	5
Fitness Time*	51	47	51	53
Fitness Time Pro*	41	41	44	45
Fitness Time Junior	8	4	NA	NA
Fitness Time Basic	NA	0	NA	NA
Corporate wellness, Academy, Kidzenia	NA	4	4	4
Fitness Time Ladies and Fitness Time Ladies Pro*	8	26	36	46
Total	**112**	**126**	**139**	**153**
Additions	18	14	13	14
Closures	1	NA	NA	NA
Temporarily closed as at year end for conversion	7**	NA	NA	NA
Net Additions during the year	10	14	13	14

Source: Company data, Al Rajhi Capital. * Including fitness centres in the UAE. ** In addition to the seven male/junior fitness centres closed as at 31 December 2017 for conversion purposes, the Company closed, converted and reopened four male/junior fitness centres as female fitness centres during the year.

Figure 51 Revenue by Type

SAR in '000	2017	2018	2019E	2020E
Individual memberships	631,533	648,000	848,340	795,500
Corporate	90,420	82,000	10,660	165,000
Rental income	10,892	10,000	10,000	10,000
Personal Training		60,000	75,000	86,500
Total	**732,846**	**800,000**	**944,000**	**1,057,000**
As % of total revenue				
Individual memberships	86.20%	81.00%	89.87%	75.26%
Corporate	12.30%	10.25%	1.13%	15.61%
Rental income	1.50%	1.25%	1.06%	0.95%
Personal Training		7.50%	7.94%	8.18%
KPIs				
Average Individual members	176,659	217,000	243,970	275,731
Average Corporate members	32,265	40,000	50,000	57,667

Source: Company data, Al Rajhi Capital

Figure 52 Like-for-Like vs. New Openings

	Number of Fitness Centres	Financial year ended 31			Increase/Decrease		CAGR
		2015	2016	2017	2015-2016	2016-2017	2015-2017
		(SAR '000 except for %)					
Revenue							
Like-for-like (openings prior to 1 January 2015)	60	439,548	447,358	418,691	1.8%	-6.4%	-2.4%
Opened in FY15	13	29,583	77,980	73,140	163.6%	-6.2%	57.2%
Opened in FY16	10	-	17,317	50,578	N/A	192.1%	N/A
Opened in FY17	10	-	-	23,513	N/A	N/A	N/A
Discontinued fitness centre	-	9,220	2,956	-	-67.9%	N/A	N/A
Converted Centres	-	20,279	27,319	25,698	34.7%	-5.9%	12.6%
Main offering		**498,630**	**572,930**	**591,620**	**14.9%**	**3.3%**	**8.9%**
Fitness Time Basic closed for conversion	-	1,360	2,351	1,320	72.9%	-43.9%	-1.5%
Fitness Time Junior	8	8,019	11,808	15,772	47.3%	33.6%	40.2%
Fitness Time Junior closed for conversion	-	5,288	8,087	4,518	52.9%	-44.1%	-7.6%
Fitness Time Academy closed	-	355	4,008	167	1029.0%	-95.8%	-31.5%
Fitness Time Ladies	7	-	-	15,180	N/A	N/A	N/A
UAE	4	4,322	9,938	13,646	129.9%	37.3%	77.7%
Corporate and others	-	76,866	91,762	90,623	19.4%	-1.2%	8.6%
Total revenue	-	594,839	700,885	732,846	17.8%	4.6%	11.0%
Gross margin							
Like-for-like (openings prior to 1 January 2015)	-	40.9%	44.0%	39.0%	3.1%	-5.0%	-1.9%
Opened in 2015	-	1.2%	29.5%	23.9%	28.2%	-5.6%	22.6%
Opened in 2016	-	N/A	-5.5%	21.5%	N/A	27.0%	N/A
Opened in 2017	-	N/A	N/A	-0.5%	N/A	N/A	N/A
Fitness Time Basic		-119.3%	-45.3%	-21.4%	74.0%	23.9%	97.9%
Fitness Time Junior		-11.3%	-11.4%	-33.3%	-0.1%	-21.9%	-22.0%
Fitness Time Academy		57.4%	96.5%	N/A	39.1%	N/A	N/A
Fitness Time Ladies		N/A	N/A	35.8%	N/A	N/A	N/A
UAE		-146.5%	-32.6%	-29.1%	113.9%	3.5%	117.4%
Total		**44.1%**	**43.9%**	**38.0%**	**-0.1%**	**-5.9%**	**-6.1%**

Source: Company data, Al Rajhi Capital. Data only till 2017 is provided in prospectus. This is for informational purposes only. Data for 2018 and later are not available.

Figure 53 Revenue by City

SAR in '000	Financial year ended 31 December 2015	2016	2017	Increase/Decrease 2015-2016	2016-2017	CAGR 2015-2017
KSA						
Riyadh	223,730	261,537	260,199	16.9%	-0.5%	7.8%
Jeddah	118,002	138,127	143,043	17.1%	3.6%	10.1%
Dammam	34,198	40,030	43,906	17.1%	9.7%	13.3%
Other cities	137,722	159,492	181,429	15.8%	13.8%	14.8%
Subscription membership revenues & rental revenue (excluding Corporate and Rental UAE revenues)	**513,652**	**599,185**	**628,576**	**16.7%**	**4.9%**	**10.6%**
UAE	4,322	9,938	13,646	129.9%	37.3%	77.7%
Corporate and others revenue	76,866	91,762	90,623	19.4%	-1.2%	8.6%
Total	**594,839**	**700,885**	**732,846**	**17.8%**	**4.6%**	**11.0%**
Number of fitness centres						
Riyadh	41	43	42	2	-1	1
Jeddah	19	21	22	2	1	3
Dammam	5	6	5	1	-1	0
Other cities	24	30	39	6	9	15
Total KSA	**89**	**100**	**108**	**11**	**8**	**19**
UAE	2	2	4	-	2	2
Average revenue per fitness centre						
Riyadh	6,144	6,078	6,019	(66)	(59)	(125)
Jeddah	6,603	6,996	6,352	393	(644)	(251)
Dammam	6,630	5,880	6,014	(750)	622	(128)
Other cities	6,634	6,384	5,354	(250)	(1,030)	(1,280)
Total KSA	**6,404**	**6,336**	**5,908**	**(68)**	**(428)**	**(496)**
UAE	3,201	4,969	4,845	1,768	(124)	1,644

Source: Company data, Al Rajhi Capital. Data only till 2017 is provided in prospectus. This is for informational purposes only. Data for

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