Financial Results of Benefit Systems Group for 1Q 2019

16th of May 2019

BENEFIT systems

Strong LT prospects of Sports cards business; restructuring in the Fitness segment

- 1Q 2019: growth in the number of sports cards by 20% y/y
  - Poland: +116.1 thousand y/y up to 1 032.1 thousand.
  - Foreign operations: +103.5 thousand y/y up to 265.3 thousand.
- Attractive potential of the Polish market:
  - Out of ca. 85 thousand companies and institutions* employing over 9mln people in total, around 15 thousand are our current clients
  - Growth in penetration rate within our current clients is an important growth driver
- Estimated market potential of 4** foreign markets at least at the size of the one in Poland
- We maintain the plan to double the scale of business (number of cards + revenues) within 5 years
- Although results of the Fitness area are lower than expected, its supporting function allows for generating scale and profitability in our core business

*Concerning companies and institutions employing more than 10 employees
**Czech Republic, Bulgaria, Slovakia, Croatia

Results' expectations: decline in profits in 2019 (1)

	2018			2019: key changes	
	reported	one-off	adj.	IFRS 16	estimated % change in the results
EBIT	153.6	+21.6mln	**132.0**	+23mln	**decline of between a few and a dozen or so % y/y**
EBITDA	197.9	+21.6mln	176.3	+152mln	

Results' expectations: decline in profits in 2019 (2)

In 2020 the expected return to the path of stable profit growth

- **Sports Cards** – stable development; with steady and predictable growth in revenues; on the cost side: activity of MultiSport Users increases the life cycle of the cards; expenses on additional activities within the card; technological expenses (e.g. mobile sports card).

- **Fitness** – the programme of restructuring in the Fitness area is a priority in Benefit Systems Group; after difficulties in 2019, the scale of losses is expected to decline.

- **Foreign** – we are convinced that foreign markets have the potential for further development of the Capital Group;
    - The emergence of competition on the attractive for us local markets (Bulgaria, Czech Republic) has prompted us to accelerate the pace of development („first-mover advantage") and build good relations with Partners
    - Scaling of sales and faster growth = higher costs, but stronger market position in the long run

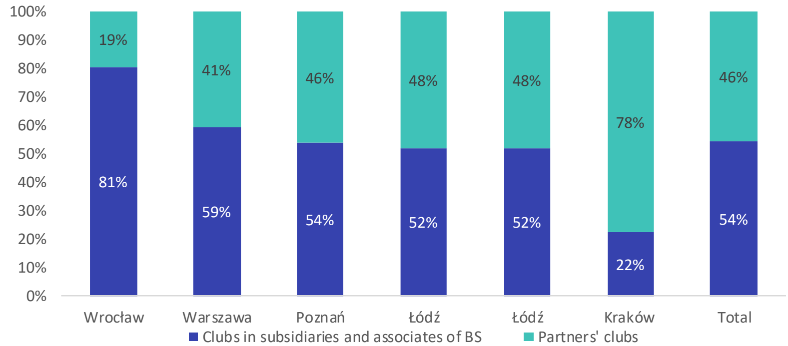
<u>2020 r. – return to the path of growth in profits :</u>

- **Improvement in the results of foreign markets**
- **First effects of restructuring in Fitness**
- **Stable growth in the Sports cards business**

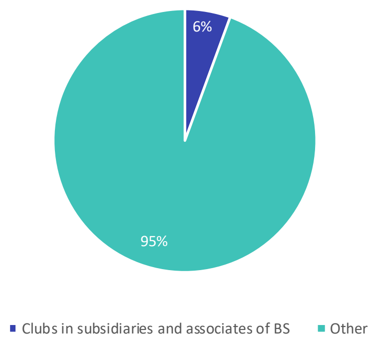
Fitness acquisitions suport development of sports cards

- Foreign fitness chains have been entering the Polish market and announcing sizable opening pipelines.
- Their current scale of operations in Poland is still limited, but these are entities with potentially large budgets.
- The Polish and Foreign entities with high financial capacity observe the sports cards market
- The last two years were the "transaction window" on the market in Poland, which we took advantage of.
- The physical activity of Poles concentrates mostly in fitness clubs, where 2/3 of all MultiSport visits are carried out.

Visits in investment clubs as a % of all visits in fitness objects in the biggest cities in Poland in 2018



Share of the investment clubs in Poland as a % of all fitness clubs*



* The estimed number of sports and recreation facilities concetrating on services such as gym and/or fitness classes in Poland equals around 3 500.

The causes of weak performance of Fitness

- The investment strategy was essential to secure the long-term prospects of our core business.

- We underestimated the short-term influence of acquisitions on results and the scale of related managerial challenge.

- By using the „window of opportunity" in the M&A area, we have secured important locations in the biggest cities.

- Growth of the scale of business (from around 70 up to 150 fitness clubs), as well as the integration of 5 different fitness networks/organisations took place without sufficient preparation of organisational structures and managerial staff.

- We opened more than 40 fitness clubs in two years. In 2019 we managed to parlty cover the market gap after bankrupcy of Pure Jatomi.

- Fast pace of openings, short time of preparation.
- Considerable intrest of other players in locations of former Pure Jatomi.

- The structure of Calypso transaction was complicated and lengthy; it required many legal actions; its success and closing date depended on many factors.

- We underestimated the impact of deal structure on the operating activity.
- Re-signing B2C clients started near the end of the high season in fitness clubs.
- Different client experiences in Zdrofit and Calypso; different types of contracts, regulations, registration for classes etc. We underestimated consumer preferences and brand loyalty.

Planned restructuring actions

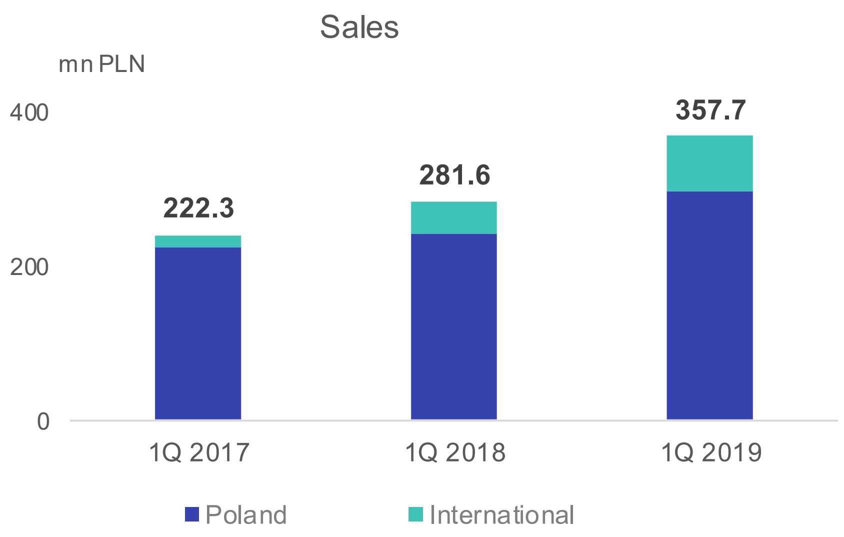
- Change of the managerial structure – recruitment of new managers (executive level) and shift of the managers from Benefit Systems.
- Incresed involvement of 3 Management Board Members in operations of Fitness area.
- In Warsaw, the merger of two fitness clubs networks into one: costs synergies and attractive offer for the clients (including dozens of best objects in the capital city) should allow for regaining lost B2C income.
- Team currently responsible for investments and fitness clubs networks' development, will now focus on consolidation and restructuring, as well as will start the cost optimalisation programme.
- Decisions concerning the future of clubs, in which there is a risk of structural unprofitability.
- Verification of the plan of openings in the 2-4 years perspective. Selective approach to new locations and improvement of opening timings, so that, if possible, B2C sales would consider high season since the start.

Key financial data

(m PLN)	1Q 2018	1Q 2019	y/y (%)	1Q 2019 ex-IFRS 16	y/y (%)
Sales	281.6	357.7	27%		
Gross profit on sales	70.6	84.1	19%		
EBITDA (excl. MSOP)	41.6	75.4	81%	48.8	17%
EBITDA	38.6	74.1	92%	47.5	23%
EBIT	28.5	31.9	12%	25.2	-12%
Pre-tax profit	27.8	20.8	-25%	23.3	-16%
Net profit*	21.7	16.2	-25%		

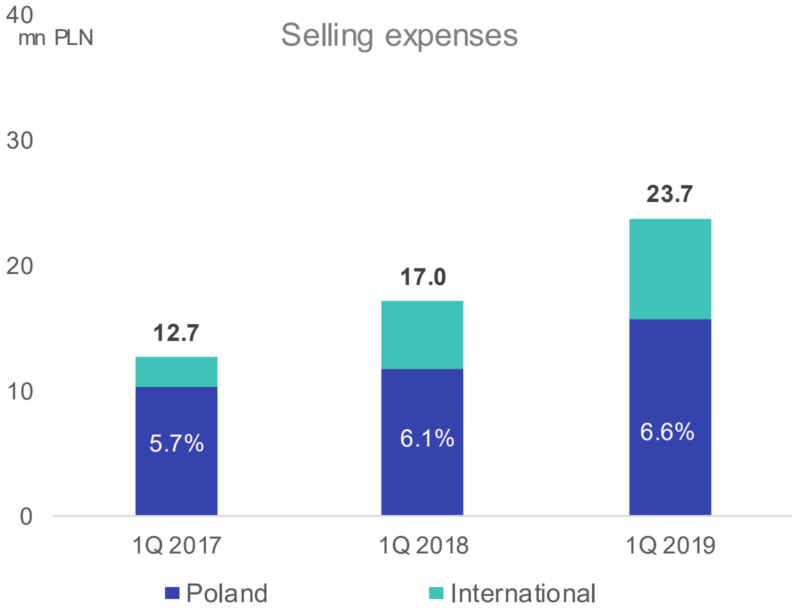
* Net income attributable to equity holders of the Parent Company

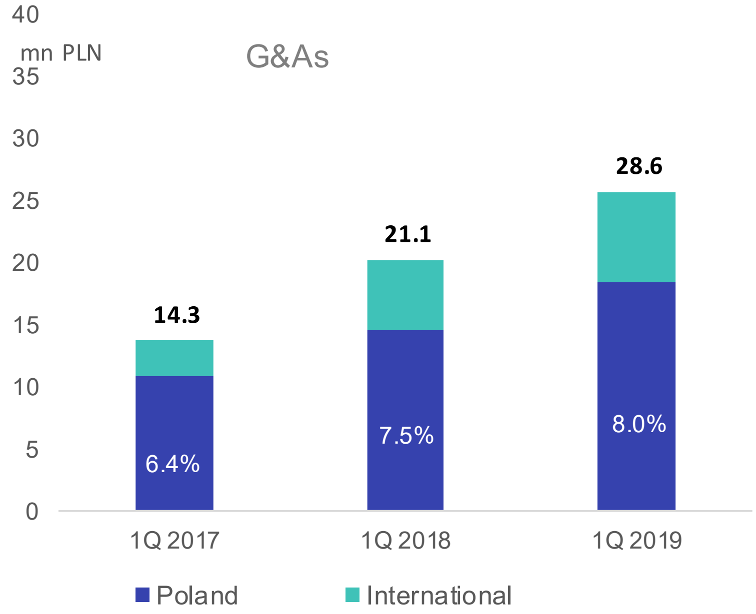
Sales and gross margin on sales



Poland = Sports cards + Fitness + Cafeteria

Selling, General & Administrative expenses (excl. MSOP)





Poland = Sports cards + Fitness + Cafeteria

% Costs / Revenues

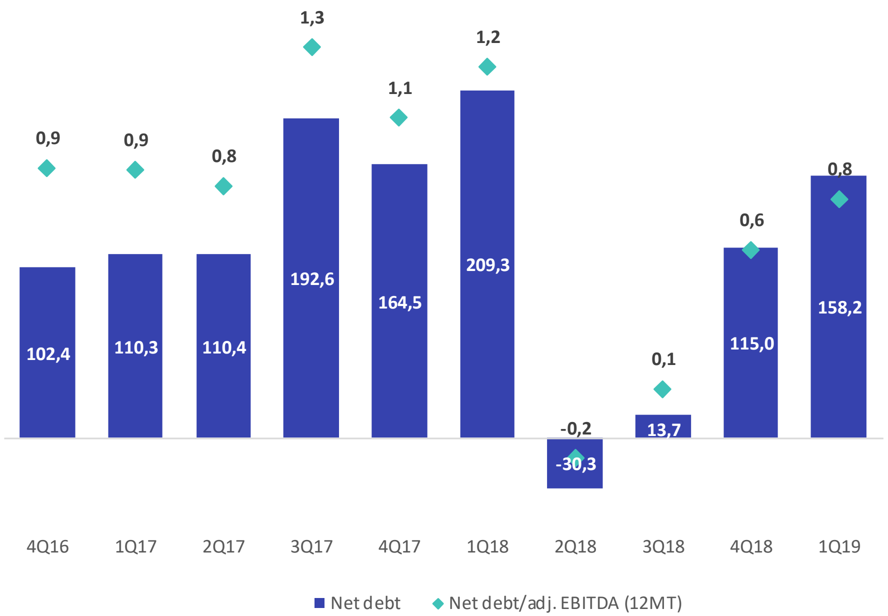
Summary of segment results: 1Q 2019

EBIT (m PLN)	1Q 2018	1Q 2019	y/y (%)	1Q 2019 ex-IFRS 16	y/y (%)	
Poland	36,2	39,3	9%	33,1	-8%	
Sports cards	34,9	33,4	-4%	33,1	-5%	(-) higher activity rate of users; increase in SG&As
Fitness	1,3	6,0		0,1		
Cafeterias	0,8	(0,9)		(0,8)		(-) more FTE's; higher D&A
Foreign	(6,2)	(6,9)		(7,5)		
Sports cards	(4,0)	(5,7)		(5,7)		(-) scaling up of sales; expenditures on new markets
Fitness	(2,2)	(1,2)		(1,7)		
Other	(2,3)	0,4		0,3		(+) lower MSOP valuation
TOTAL	**28,5**	**31,9**	**12%**	**25,2**	**-12%**	

Stable operating cash flow in 1Q 2019

CASH FLOW (mln PLN)	1Q 2018	1Q 2019
Operating CF	41.2	76.1
Investing CF	-83.8	-45.7
Financial CF	21.1	-0.7
Chg. In cash and equivalents	-21.5	29.7
Cash and equivalents (eop)	31.0	105.5
Net debt / (net cash)	209.3	158.2

Net debt / adj. EBITDA* below 1.0x



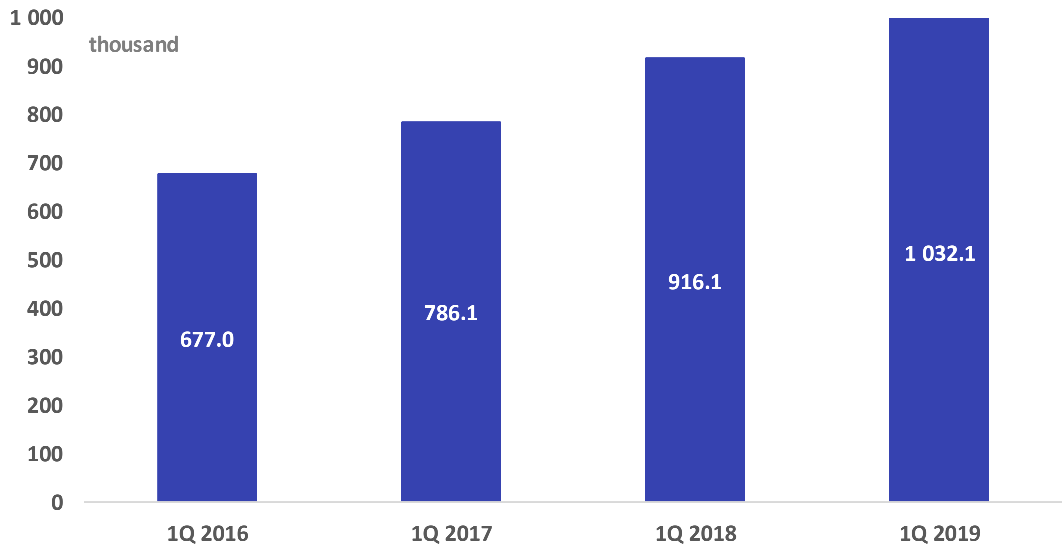
- Long-term debt:
  - Bank loans: 136.5 mn PLN
  - Leasing: 7.9 mn PLN
- Short-term debt:
  - Bonds: 70.5 mn PLN
  - Bank loans: 39.9 mn PLN
  - Leasing: 8.9 mn PLN
- Cash and equivalents: 105.5 mn PLN

- Net debt position impacted by consolidation of bonds of Benefit Partners (34mln PLN).

Net debt = bank loans, borrowings, current and non-current lease minus cash (not including IFRS 16 liabiities)
Adj. EBITDA excl. IFRS 16 D&A

Segment Poland

Number of sport cards – Polish market



1Q 2019:

+60.9k

(+6.3% q/q)

1Q 2018:

+50.6k

(+5.8% q/q)

Growth y/y	+109.1	+129.9	+116.1

Segment Poland: decline of EBIT 8% y/y in 1Q 2019 (excl. IFRS 16)

(PLN m)	1Q 2018	1Q 2019	y/y (%)	1Q 2019 excl. IFRS 16	y/y (%)
Number of cards (ths)	916.1	1 032.1	13%		
Number of clubs	85	150	76%		
Revenues	232.1	284.8	23%		
Gross profit	60.7	70.9	17%		
Gross margin	26.2%	24.9%	-1.3 p.p.		
SG&As	(23.7)	(31.5)	33%		
EBITDA	44.0	75.3	71%	53.3	21%
EBIT	36.2	39.3	9%	33.1	-8%

Gross margin:

- Sports cards: high comparative base (+6pp yoy in 1Q 2018); negative calendar effect; higher expenditures related to additional actions for users (Winter, Nextbike)
- Growth in personel costs
- Higher proportion of lower-margin fitness segment sales

Higher SG&As:

- Increased scale of fitness operations
- More FTEs in sports cards.
- Higher expenditures on IT, PR and marketing

Poland: sports cards

(PLN m)	1Q 2018	1Q 2019	y/y (%)	1Q 2019 excl. IFRS 16	y/y (%)
Number of cards (ths)	916.1	1 032.1	13%		
Revenues	203.7	233.6	15%		
Gross profit	48.9	51.1	4%		
Gross margin	24.0%	21.9%	-2.1 p.p.		
SG&As	(13.7)	(18.2)	33%		
EBITDA	37.1	38.1	3%	35.7	-4%
EBIT	34.9	33.4	-4%	33.1	-5%

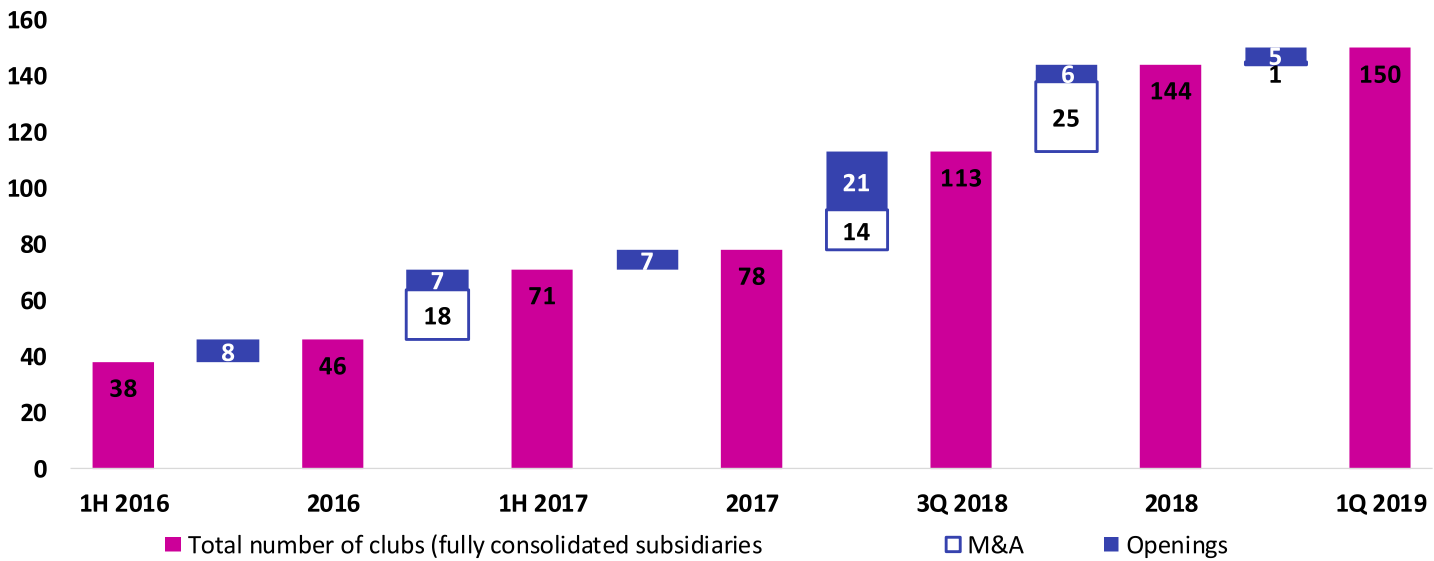
* Incl. „recharge" to Fitness Segment: 9.4mn PLN in 1Q 2019 and 5.5mn PLN in 1Q 2018

Poland: fitness

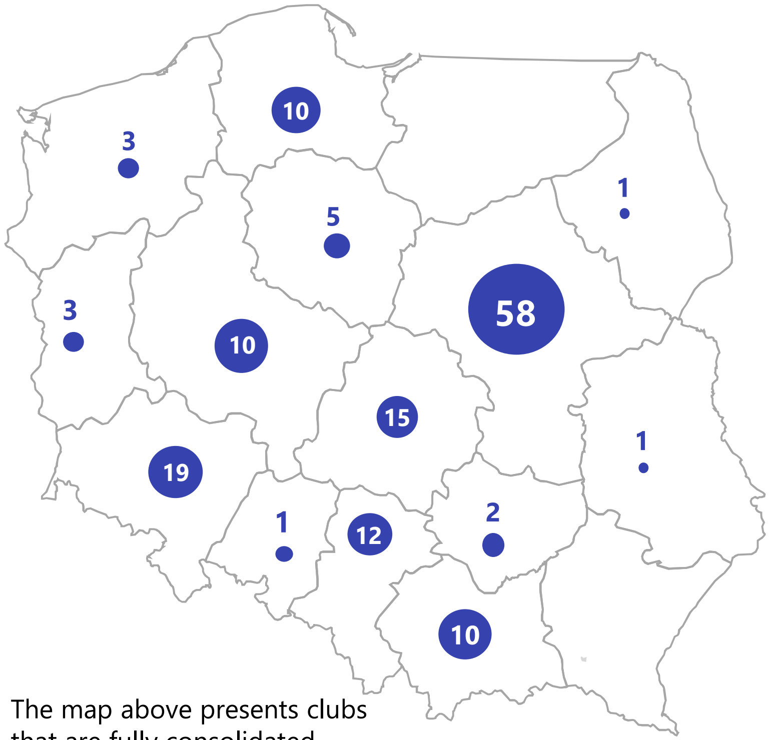
(PLN m)	1Q 2018	1Q 2019	y/y (%)	1Q 2019 excl. IFRS 16	y/y (%)
Number of clubs	85	150	76%		
Revenues	55.5	97.4	75%		
Gross profit	11.9	19.9	67%		
Gross margin	21.5%	20.4%	-1.1 p.p.		
SG&As	(10.1)	(13.3)	32%		
EBITDA	6.9	37.2	n.m.	17.6	155%
EBIT	1.3	6.0	n.m.	0.1	n.m.

* Incl. „recharge” from Sports Cards: 9.4mn PLN in 1Q 2019 and 5.5mn PLN in 1Q 2018

Expansion of fitness clubs – fully consolidated subsidiaries



Network of fitness clubs is growing



The map above presents clubs that are fully consolidated.
As of: 31.03.2019

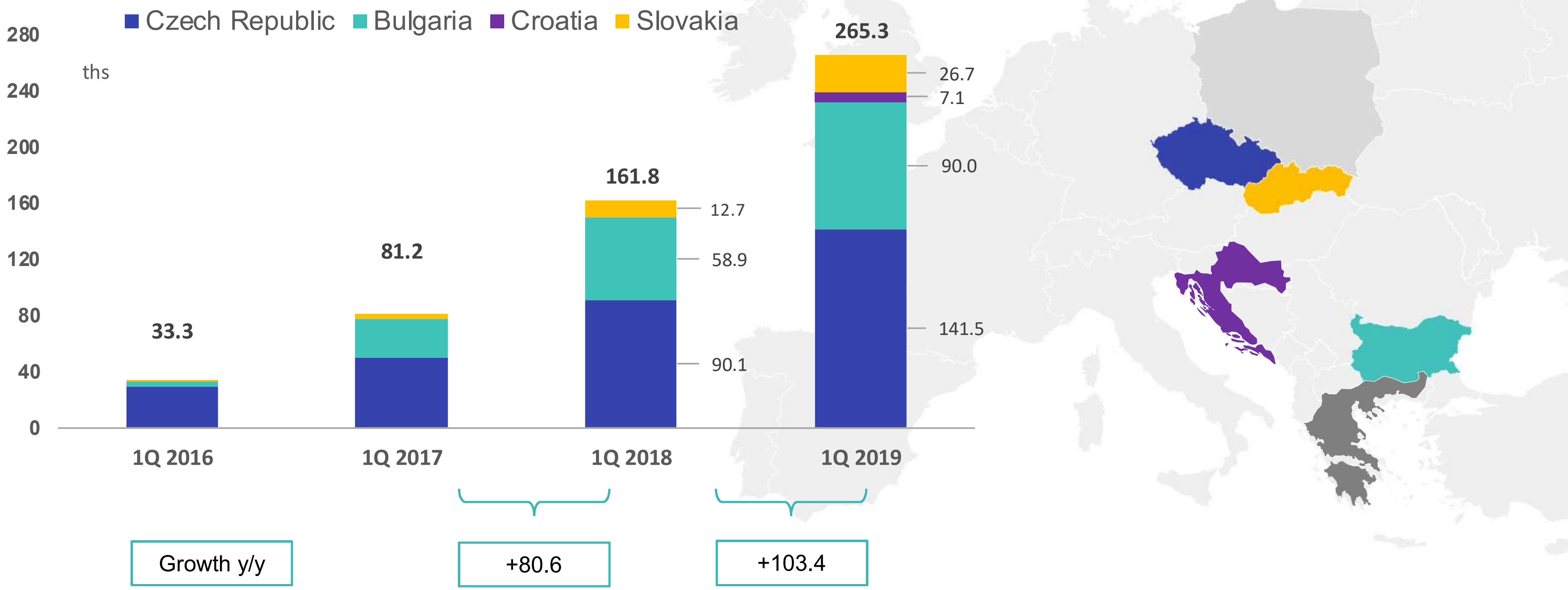
	March 2018	December 2018	March 2019
Fabryka Formy	24	27	28
Fitness Academy	17	19	20
Zdrofit	21	58*	59*
My Fitness Place	13	14	15
Fitness Club S4	-	14	14
Tiger Gym**	9	-	-
Fit Fabric		11	13
Wesolandia	1	1	1
Total	**85**	**144**	**150**

* Incl. 14 Calypso clubs acquired in November 2018, rebranding of which started in 2019
**Rebranded and merged into Zdrofit in 2018

In affiliate entities:
46 clubs as of 31.03.2019

Segment Foreign

Number of sport cards – foreign markets



Number of clubs	1Q 2018	1Q 2019
Czech Republic	10	15
Bulgaria	2	6
Total	**12**	**21**

Foreign segment results

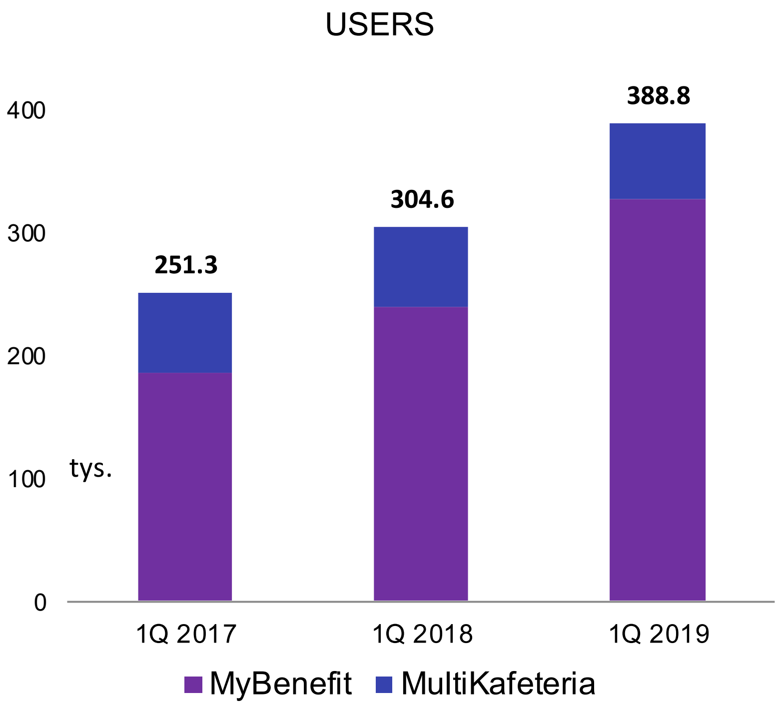
(PLN m)	1Q 2018	1Q 2019	y/y (%)	1Q 2019 excl. IFRS 16
Number of cards (ths)	161.8	265.3	64%	
Revenues	42	72	70%	
Gross profit	4.6	8.8	88%	
Gross margin	11.0%	12.2%	+1.2 p.p.	
SG&As	(11.0)	(15.4)	39%	
EBITDA	(4.7)	(1.7)	-	(6.2)
Sports cards	(3.8)	(4.9)	-	(5.3)
Fitness	(0.9)	3.2	-	(0.9)
EBIT	(6.2)	(6.9)	-	(7.5)

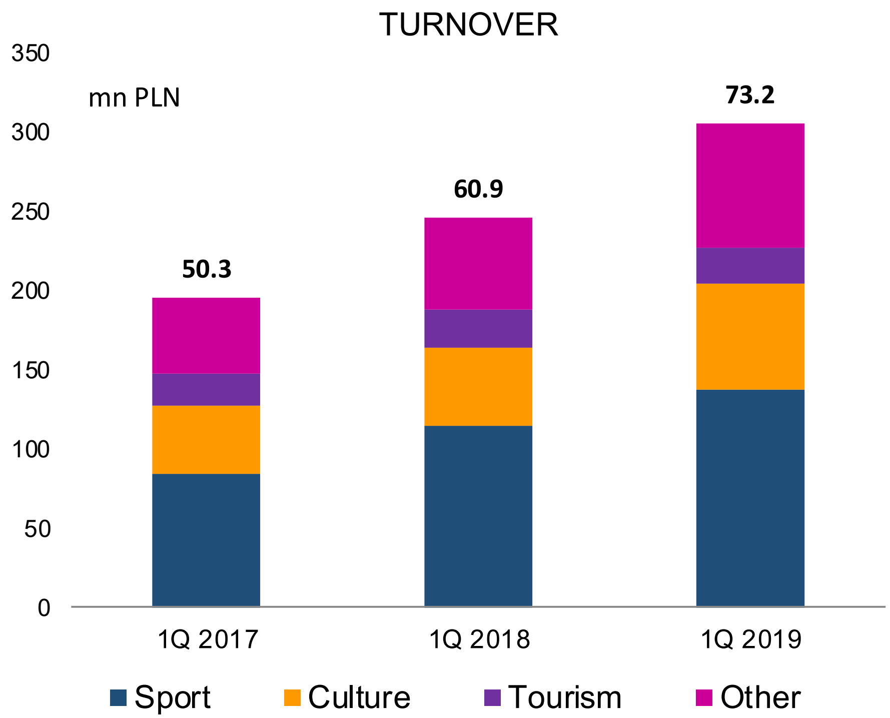
- Sports cards revenues: +74% y/y
- Fitness revenues: +78% y/y (consolidation of Pure Jatomi business acquired in May 2018; openings in Bulgaria)
- Stable gross margin y/y in sport cards
- Growth in SG&As: scaling up of sales (mainly in the Czech Republic), two new markets.

Segment Cafeterias

BENEFIT systems

Users and turnover on Cafeteria platforms





Cafeteria segment results

(PLN m)	1Q 2018	1Q 2019	y/y %	1Q 2019 excl. IFRS 16
Turnover	60.9	73.2	20%	
Sales	8.3	9.2	1%	9.2
Gross profit	3.3	1.7	-48%	
Gross margin	35.8%	18.4%	-17,4 p.p.	
SG&As	2.5	2.5	0%	
EBITDA	1.2	0.0		-0.4
EBIT	0.8	(0.9)		(1.0)

- Scaling of sales; more salespeople - investments in future growth.
- Increase in labor costs and D&A costs (related to IT capex incurred last year) – impact on COGS.
- Increasing in selling cocts (sales department, marketing, customer service), offset by lower G&A.
- Negligible impact of IFRS 16.

Other information

Impact of IFRS 16 on income statement and balance sheet

- As of 1.01.2019, Benefit Systems Group applied modified retrospective method, without transforming the comparative data, without recognizing the deferred tax and with no effect on the value of equity as at 1.01.2019.
- Value of the right-to-use asset as of 31.03.2019 stood at 637.5 mln PLN; lease liability value amounted to: 689.5 mln PLN.
- Estimated impact of IFRS 16 on 2019 financial results is as follows: EBIT +23 mln zł, EBITDA +152 mln zł, negative impact on pre-tax profit.
- Almost 900 lease agreements; ca. 90% of the value of right-to-use asset is related to rental agreeents (as of 1.01.2019).

Acquisition of 14 clubs and 4 leases agreements of Calypso
Key assets for MultiSport users (1)

- Value of the transaction: 69 mln PLN + 37 mln PLN [earn-out dependent on Benefit Systems Mcap] for 14 clubs and 4 lease agreements (67%)
- Less than 5% of all clubs in Warsaw accounting for double digit % of all MutiSport visits in fitness clubs in Warsaw
- MultiSport users, who in 2018 were attending these Calypso clubs (12 clubs in Warsaw, excluding clubs in Piaseczno and Piastów), are employed in over 75% of all companies and organizations, that are Benefit Systems’ clients in Warsaw.
- Over 30% sports cards users in Poland are in Warsaw area. What is more, the capital city is often a decision-making centre about the purchase of non-payroll benefits in many large companies and capital groups.
- Challenges were encountered when taking over B2C clients databases. In the long term, we expect to recover these revenues; a new offer for clients in the Zdrofit network covers more clubs in Warsaw than previous Calypso network

Acquisition of 14 clubs and 4 leases agreements of Calypso
Key assets for MultiSport users (2)

- The transaction involved due diligence and an independent external valuation.
- DD and valuation done on the basis of 11 clubs (until the closing of the transaction three new clubs were opened). It took almost a year after signing the inital agreement, to close the deal.
- Financials of 11 clubs (at DD date):
  2016: revenues: 35,6 mln PLN; EBITDA 6,6 mln PLN;
  2017: revenues: 40,4 mln PLN; EBITDA 6,1 mln PLN;
- In 2017, 9 out of 11 clubs had positive EBITDA.
- Two valuation methods (DCF; peers); valuation range at: 88.7 mln PLN – 128.9 mln PLN
- In both methods, the „new projects” (lease agreements) contributed postively to the valuation, despite the forecast losses in the first years after openings that are a drag to the result.

Summary

Summary

1Q 2019: GROWTH IN SPORTS CARDS BY 20% Y/Y

DYNAMIC INCREASE IN THE NUMBER OF CARDS IN THE FOREIGN SEGMENT

FITNESS: REFORECAST OF RESULTS, RESTRUCTURING

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