HELP TO GROW.

MANAGEMENT COURSE



MODULE 12 IMPLEMENTING GROWTH PLANS

CASE STUDY - GYMSHARK PART 2

SMALL BUSINESS CHARTER

HM Government

GYMSHARK CASE STUDY - PART 2

LATER IMPLEMENTATION, AFTER 2015

Overview

When Gymshark's website crashed on Black Friday in 2015, losing around $150k in the process, they faced some big choices on how the business was run. Ben was asked, do you want to be the biggest fitness brand in Bromsgrove or the world. They chose the world, reset the vision, and changed the management team, and created a super robust ecommerce platform.

The company was estimated to be worth $1.45B USD in August 2020 with around 400 employees. Total revenue as filed in 2018-19 was £176m with an EBIT of £18.6m.

Financial Development

August 2020 marked a significant landmark for the UK's fastest-growing affordable 'fitness conditioning' brand Gymshark, receiving a valuation of over £1bn for the first time — a significant milestone which catapulted Gymshark into joining just less than 25 British companies with "unicorn" status.

From an analysis of Gymshark's financial statements it is clear that leading up to that evaluation there was strong growth, with turnover more than doubling between 2017 to 2018, from £40.5m to £103m, then increasing further between 2018 to 2019 from £103m to £176m. Annual sales growth between 2017 to 2018 was 154% and between 2018 to 2019 was 71%. An average 3-year growth of 141% placed Gymshark in 10th position on the Sunday Times Fast Track 100 2019 — a ranking of Britain's 100 private companies with the fastest-growing sales over the last three years.

Ben Francis was awarded an MBE for services to business in the 2023 New Year's Honours list.

2017-2018: GYMSHARK INCOME STATEMENT (FROM COMPANIES HOUSE)

Gymshark Ltd

Statement of Income and Retained Earnings

Year ended 31 July 2018

	Note	2018 £	2017 £
Turnover	4	103,084,778	40,525,205
Cost of sales		29,025,409	10,813,994
Gross profit		74,059,369	29,711,211
Distribution costs		21,438,380	7,659,864
Administrative expenses		35,012,939	13,901,286
Operating profit	5	17,608,050	8,150,061
Interest payable and similar expenses	9	40,939	–
Profit before taxation		17,567,111	8,150,061
Tax on profit	10	3,408,374	1,628,691
Profit for the financial year and total comprehensive income		14,158,737	6,521,370
Dividends paid and payable	11	–	(95,439)
Retained earnings at the start of the year		9,041,153	2,615,222
Retained earnings at the end of the year		23,199,890	9,041,153

- **Turnover** doubled from £40.5m at July 2017 to £103m at July 2018
- **Annual sales growth** between 2017 to 2018 was 154%
- **Net income** for 2018 was at £14.2m, increase from 2017's £9m

2018-2019: GYMSHARK INCOME STATEMENT (FROM COMPANIES HOUSE)

Gymshark Ltd

Statement of Income and Retained Earnings

Year ended 31 July 2019

	Note	2019 £	2018 £
Turnover	4	176,164,068	103,084,778
Cost of sales		58,588,548	29,025,409
Gross profit		117,575,520	74,059,369
Distribution costs		42,044,996	21,438,380
Administrative expenses		56,979,744	35,012,939
Operating profit	5	18,550,780	17,608,050
Other interest receivable and similar income	9	45,797	–
Interest payable and similar expenses	10	157,227	40,939
Profit before taxation		18,439,350	17,567,111
Tax on profit	11	3,448,024	3,408,374
Profit for the financial year and total comprehensive income		14,991,326	14,158,737
Retained earnings at the start of the year		23,199,890	9,041,153
Retained earnings at the end of the year		38,191,216	23,199,890

- **Turnover** increased again, from £103m at July 2018 to £176m at July 2019
- **Annual sales growth** between 2017 to 2018 was 154% and between 2018 to 2019 was 71%
- **Net income** for 2019 was at £15m, increase from 2018's £14.2m
- **Net profit margin (ratio)** = Net Income/Sales = £14,991,326 / £176,164,068 = 8.51%

In 2019, Gymshark, having doubled its annual sales, sought out advisors PwC to advise upon its expansion abroad to the US and Asia markets, which Paul Richardson, Executive Chairman, says "have huge relevant populations and therefore will drive a huge demand." Gymshark also sought to raise over £100m in capital in the form of either debt or from the sale of an equity stake.

With no debt on its balance sheet up until 2018, Gymshark has financed its expansion using its own cash flow. £6m of debt was sought in 2019, resulting in Gymshark's debt-to-capital ratio rising to 13.6%.

2019-2020: GYMSHARK INCOME STATEMENT (FROM COMPANIES HOUSE)

GYMSHARK LTD

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 JULY 2020

	Note	2020 £000	2019 £000
Turnover	4	260,674	176,164
Cost of sales		(83,683)	(58,589)
Gross profit		176,991	117,575
Distribution costs		(59,694)	(42,045)
Administrative expenses		(86,412)	(56,980)
Operating profit	5	30,585	18,550
Interest receivable and similar income	9	-	46
Interest payable and expenses	10	(415)	(157)
Profit before tax		30,170	18,439
Tax on profit	11	(5,738)	(3,448)
Profit for the financial year and total comprehensive income		24,432	14,991
Retained earnings at the beginning of the year		38,191	23,200
Profit for the year		24,432	14,991
Dividends declared and paid		(2,600)	-
Retained earnings at the end of the year		60,023	38,191

The notes on pages 15 to 35 form part of these financial statements.

All the activities of the company are from continuing operations.

There is no comprehensive income or expenses other than the profit for the financial year and the preceding financial year and dividends. Accordingly, no statement of comprehensive income is given.

- **Turnover** increased again, from £176m at July 2019 to £260m at July 2020
- **Annual sales growth** between 2017 to 2018 was 154%; between 2018 to 2019 was 71%; and between 2019 and 2020 was 48%
- **Net income** for 2020 was at £24m, increase from 2019's £15m
- **Net profit margin (ratio)** = Net Income/Sales = £24m / £260m = 9.23%

2017-2018: GYMSHARK BALANCE SHEET

17. Creditors: amounts falling due within one year

	2018 £	2017 £
Trade creditors	6,225,480	1,566,965
Accruals and deferred income	8,950,530	2,349,907
Corporation tax	3,418,812	1,626,225
Social security and other taxes	311,598	131,520
Obligations under finance leases and hire purchase contracts	758,521	–
Other creditors	354,936	601,165
	20,019,877	6,275,782

18. Creditors: amounts falling due after more than one year

	2018 £	2017 £
Obligations under finance leases and hire purchase contracts	1,052,944	–

2018-2019: Gymshark Balance Sheet:

17. Creditors: amounts falling due within one year

	2019 £	2018 £
Bank loans	1,263,158	–
Trade creditors	12,886,759	6,225,480
Accruals and deferred income	14,820,886	8,950,530
Corporation tax	584,537	3,418,812
Social security and other taxes	1,240,621	311,598
Obligations under finance leases and hire purchase contracts	761,111	758,521
Other creditors	816,059	354,936
	32,373,131	20,019,877

18. Creditors: amounts falling due after more than one year

	2019 £	2018 £
Bank loans	4,749,256	–
Obligations under finance leases and hire purchase contracts	302,702	1,052,944
	5,051,958	1,052,944

- Gymshark had funded its **expansion from cash f ow** and had **no debt** on its balance sheet up until 2018
- In **2019**, Gymshark sought **bank loans** with a principal balance of approx. **£6m**
- **Debt-to-capital ratio** = Debt/(Debt + Equity) = £6m / £38.2m + £6m = **13.6%**

2019-2020: GYMSHARK BALANCE SHEET

19. Creditors: Amounts falling due within one year

	2020 £000	2019 £000
Bank loans	1,265	1,263
Trade creditors	14,950	12,887
Corporation tax	906	585
Other taxation and social security	4,463	1,241
Obligations under finance lease and hire purchase contracts	303	761
Other creditors	1,669	816
Accruals and deferred income	32,333	14,820
	55,889	32,373

20. Creditors: Amounts falling due after more than one year

	2020 £000	2019 £000
Bank loans	3,488	4,749
Net obligations under finance leases and hire purchase contracts	-	303
	3,488	5,052

The Bank loan is secured by a fixed and floating charge over the assets of the company and a cross guarantee from it's parent company Clade Group Ltd. Interest is payable on the loan at 1.25% over LIBOR and is repayable in March 2022.

- In **2020**, **Debt-to-capital ratio** = Debt/(Debt + Equity) = £4.8m / £59.5m + £4.8m = **7.5% almost halved since 2019**

General Atlantic's Investment Deal

In August 2020, General Atlantic acquired a 21% stake ownership of Gymshark, raising £200m and valuing Gymshark at over £1bn; the deal was advised by RBC Capital Markets (an investment bank. General Atlantic acquired just a 21% stake and one seat on Gymshark's Board, buying out the stake from co-founder Lewis Morgan. This means that Ben retains over just over 70% of his business and this is a crucial aspect of the ability to remain true to the founding vision and provide agile and rapid decision-making at the top of the company. Ben prides himself in the fact that no other firm of this size has a founder still holding that size of shareholding.

Nevertheless, this injection of capital enabled Ben to bring in expertise he admits he did not have himself. The company was doing well in Europe, just OK in the US but practically nothing in the APAC region. This equity investor was chosen on a basis of cultural fit after a long period of considering offers. Gymshark selected General Atlantic over larger, more prominent private equity investors KKR and Bain Capital, and for less money, preferring a less aggressive approach towards the management of its expansion into the US market. Ben was adamant that the new shareholding had
to be active and work to drive the company forward and that is exactly what he got with 'true experts' from around the world who had years of experience working with some of the largest global brands and fashion houses as well as cutting edge technical know-how. This mixture of global experience and home-grown talent is what sets Gymshark apart according to Ben.

Gymshark now has a more organised management structure with budgetary control allocated to a number of functional areas led by senior managers. Ben's role is to support these senior managers where he can and connect them with great people around the world as required.

Operational Development

Following the crash of their website on Black Friday 2015 they re-platformed to Shopify Plus' enterprise level solution combined with the Peoplevox Warehouse Management System. On Black Friday in 2016 90,000 orders were cleared without problems. European orders are now fulfilled by Bleckmann, who are experts in fashion and lifestyle logistics. Bleckmann has worked with Gymshark since 2017, currently at three distributions centres: Lutterworth, UK, and in Belgium, at Desteldonk and a 215,000 sq. ft. facility for the brand's majority use at Rieme, close to the port of Ghent. New offices and distribution centres are being set up in other locations around the world such as Canada and the USA.

Gymshark's assets have recently expanded to include a newly developed HQ in Solihull, Birmingham, functioning as a product-testing, wellbeing and innovation hub, as well as housing a Gymshark Lifting Club (GSLC. The 55,000 sq. ft space includes a state-of-the-art gym, 100-person auditorium, R&D factory, film and photography studio for marketing, alongside HQ offices.

Future Implementation

McKinsey, a consulting firm, has reported that as the pandemic subsided globally, the case for home fitness and personal health and wellbeing experienced growth as vigilant consumers looked to boost their immune system and sustain their general levels of fitness and mental wellbeing during prolonged periods of reduced mobility, when working from home.

Fashion e-commerce saw periods of success over the pandemic, with ASOS revenue actually rising 10% over the lockdown period between March and June 2020, fuelled in particular by demand for loungewear and fitness wear, despite the backdrop of rising unemployment amongst its equally young customer base.

Gymshark's strength thus far has been its agility in responding to rapidly changing world events. This agility is part of the company's DNA with its preference, from the outset, for a digital presence instead of an on-the-ground high-street presence. Gymshark stayed relevant by responding to timely events such as Black Friday promotions, employing personal trainers to stream workouts over lockdown, and raising money towards the NHS with charity campaigns like #NHSsweatyselfie. Highlighting the strengths of their latest investment, Gabriel Caillaux, head of General Atlantic's business in EMEA, described Gymshark as ***"authentic, disruptive and differentiated"*** as a brand.

Going forward, Gymshark will continue to compete through its offering of covetable yet affordable products, coupled with high-quality digital customer experience and a strong brand identity which resonates on a personal level with each and every one of its target audience. A new Gymshark fitness app has been launched.

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Our thanks to:

Gymshark, founder and CEO Ben Francis

Gymshark Official Store | Gym Clothes & Workout Wear | Gymshark

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