

# Viva Leisure Ltd (VVA)

Rating: Buy | Risk: High | Price Target: \$2.60

## Acquisition of Australian Fitness Management & Trading Update

### Key Information

Current Price (\$ps)	2.43
12m Target Price (\$ps)	2.60
52 Week Range (\$ps)	0.73 - 3.07
Target Price Upside (%)	7.0%
TSR (%)	7.0%
Reporting Currency	AUD
Market Cap (\$m)	145.2
Sector	Health Care
Avg Daily Volume (m)	0.1
ASX 200 Weight (%)	0%

### Fundamentals

YE 30 Jun (AUD)	FY19A	FY20E	FY21E	FY22E
Sales (\$m)	31.1	37.5	87.6	106.2
NPAT (\$m)	2.9	0.0	7.2	13.4
EPS (cps)	5.4	0.0	10.2	19.2
EPS Growth (%)	(2.1%)	(99.1%)	nm	87.2%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	100%	100%

### Ratios

YE 30 Jun	FY19A	FY20E	FY21E	FY22E
P/E (x)	16.6	nm	23.7	12.7
EV/EBITDA (x)	19.2	27.5	8.0	5.0
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

### Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	1.4%	(5.8%)	12.2%	195.6%
Absolute (%)	3.4%	4.7%	28.6%	185.9%
Benchmark (%)	2.0%	10.5%	16.4%	(9.7%)



### Major Shareholders

Shja Management	31.0%
Bennelong	19.9%
Copia Investment Partners	6.9%
Wilson Asset Management	6.1%

### Event

We review VVA's acquisition of Australian Fitness Management and its recent trading. Shaw and Partners forecasts are revised to reflect the negative impact of COVID19 and the positive impact of the acquisition. Our rating remains BUY.

### Highlights

- Strategic acquisition of Australian Fitness Management delivers further expansion opportunity.** VVA has agreed to acquire AFM which is the Master Franchisor of the Plus Fitness franchise of health clubs. The Plus network operates 197 locations across Australia (190), New Zealand (3) and India (4), with a further 40+ territory locations already having received deposits from franchisees. The transaction buys VVA a pipeline of future acquisitions and the opportunity to further leverage its successful systems and business model – see page 3.
- VVA will pay cash consideration of \$18m from existing cash reserves, with an earn-out potential of a further \$2m, this implies a normalised EBITDA multiple of 8.0x.** The acquisition is expected to be immediately EPS accretive and to complete before 31 August 2020.
- Post COVID lock down 94% of VVA facilities are open and operating.** All VVA locations, other than five locations in Melbourne metro are open for business and trading above management expectation. Melbourne metro locations account for only 4% of the entire membership portfolio; Victorian regional locations are open and operating. Victoria accounts for 6% of the VVA membership, however three of the locations in regional Victoria are still open and operating and are not subject to Government lockdown restrictions. All other States and Territories in which VVA operates are performing above management expectations in terms of visits, new member enrolments/signups and active members.
- Membership has recovered to 98% of pre-COVID levels.** Daily member visits continue to increase with peak days this week exceeding pre-COVID levels. Pre-COVID, VVA was registering an average of 18,000 visits per day. The current 30-day rolling average is above 15,000 visits per day. With ACT locations (which account for 48% of the portfolio) not yet operating in 24-hour mode, five locations closed in Melbourne Metro due to COVID-19 restrictions and two clubs in NSW under refurbishment.
- 75% of Landlord waiver and deferral arrangements finalised.** VVA has successfully negotiated appropriate waiver and deferral arrangements with over 75% of Landlords. The remaining landlords all fit within the category of institutional landlords which have been slow to respond, but at the same time have not requested nor have they been paid any rental from April 2020.
- Shaw and Partners forecasts.** Shaw and Partners forecasts are revised to reflect the negative impact of COVID19 and the positive impact of the AFM acquisition. AFM is forecast to achieve FY20 pro forma EBITDA of \$2.5 m (pre synergies), however this is more than offset by the COVID19 impact we expect which sees our FY21 EPS reduced 5.3cps and our FY21 EPS 2.7cps.

### Recommendation

Unlike other discretionary leisure exposures such as the ASX listed travel stocks which are continuing to experience significant sales downturns, VVA is reportedly experiencing a recovery. The risk is that a second COVID wave could impact the recovery, however VVA's share price is off 19% since its February high of \$2.99 and post the AFM acquisition looks cheap on 2022 forecasts. BUY.

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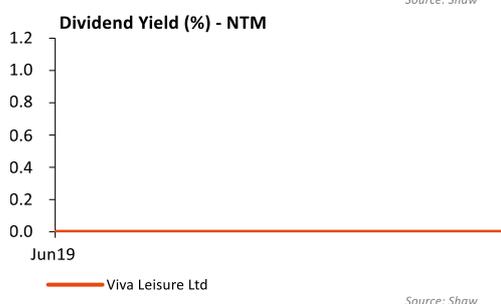
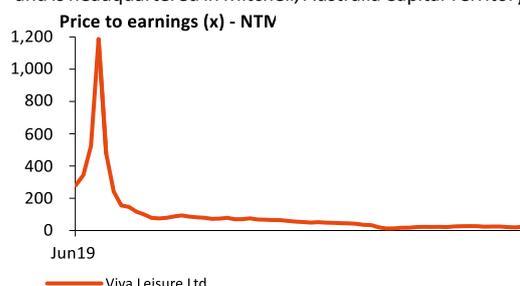
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**Viva Leisure Ltd**  
**Health Care**  
**Health Care Equipment & Services**  
**FactSet: VVA-AU / Bloomberg: VVA AU**

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	2.43
Target Price (\$ps)	2.60
52 Week Range (\$ps)	0.73 - 3.07
Shares on Issue (m)	59.8
Market Cap (\$m)	145.2
Enterprise Value (\$m)	156.0
TSR (%)	7.0%
Valuation NPV	Data
Beta	1.50
Cost of Debt (net) (%)	7.9%
Risk Free Rate (%)	4.3%
Terminal Growth (%)	3.0%
WACC (%)	13.8%

**Company Description**

Viva Leisure Ltd. operates health clubs in health and leisure industries. It offers customers with membership options and a range of facilities from big box to boutique fitness. The firm's brands include Club Lime, Ladies Only, Psycle Life, Aquatics, Hiit Republic, Swim School, Gymmy PT and Studio by Club Lime. The company was founded by Harry Konstantinou and Angelo Konstantinou on January 12, 2004 and is headquartered in Mitchell, Australia Capital Territory.



**Financial Year End: 30 June**

Investment Summary (AUD)	FY18A	FY19A	FY20E	FY21E	FY22E
EPS (Reported) (cps)	5.5	5.4	(14.0)	(4.1)	2.0
EPS (Underlying) (cps)	5.5	5.4	0.0	10.2	19.2
EPS (Underlying) Growth (%)	119.7%	(2.1%)	(99.1%)	nm	87.2%
PE (Underlying) (x)	n/a	16.6	nm	23.7	12.7
EV / EBIT (x)	41.3	27.6	93.0	13.9	7.1
EV / EBITDA (x)	29.1	19.2	27.5	8.0	5.0
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	n/a	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	100%	100%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	n/a	6.5%	(17.8%)	(3.4%)	(1.3%)
Profit and Loss (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales	24.1	31.1	37.5	87.6	106.2
Sales Growth (%)	16.3%	28.9%	20.6%	133.8%	21.2%
EBITDA	5.2	7.2	5.7	21.0	35.9
EBITDA Margin (%)	21.6%	23.3%	15.2%	24.0%	33.8%
Depreciation & Amortisation	(1.5)	(2.2)	(4.0)	(9.0)	(10.9)
EBIT	3.7	5.0	1.7	12.0	24.9
EBIT Margin (%)	15.2%	16.2%	4.5%	13.7%	23.5%
Net Interest	(0.5)	(1.1)	(1.7)	(1.8)	(5.8)
Pretax Profit	3.1	4.0	0.0	10.2	19.1
Tax	(0.2)	(1.1)	0.0	(3.1)	(5.7)
Tax Rate (%)	(7.1%)	(28.2%)	65.0%	(30.0%)	(30.0%)
NPAT Underlying	2.9	2.9	0.0	7.2	13.4
NPAT Reported	2.9	2.9	(7.4)	(2.8)	1.4
Cashflow (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
EBIT	3.7	5.0	1.7	12.0	24.9
Tax Paid	0.0	(0.5)	(0.5)	(3.1)	(5.7)
Net Interest	(0.5)	(0.6)	(1.9)	(2.0)	(6.0)
Depreciation & Amortisation	1.5	2.2	4.0	9.0	10.9
Other	(3.0)	1.2	(2.3)	(6.7)	(11.3)
Operating Cashflow	1.7	7.3	1.0	9.3	12.8
Capex	0.0	0.0	(24.0)	(15.0)	(15.0)
Acquisitions and Investments	0.0	(7.1)	(17.5)	0.0	0.0
Disposal of Fixed Assets/Investments	0.1	0.2	0.1	0.0	0.0
Other	0.0	0.0	(0.2)	0.0	0.0
Investing Cashflow	0.1	(7.0)	(41.6)	(15.0)	(15.0)
Free Cashflow	(0.2)	3.1	(23.0)	(5.7)	(2.2)
Equity Raised / Bought Back	0.0	22.5	19.2	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other	0.6	(5.5)	(2.5)	(3.6)	(8.7)
Financing Cashflow	0.6	17.1	16.7	(3.6)	(8.7)
Net Change in Cash	2.3	17.5	(23.9)	(9.4)	(10.9)
Balance Sheet (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	1.1	14.4	(9.5)	(18.9)	(29.8)
Accounts Receivable	0.1	0.2	0.2	0.5	0.6
Inventory	0.1	0.4	0.6	0.6	0.6
Other Current Assets	0.1	0.0	0.0	0.0	0.0
PPE	9.6	19.2	50.7	47.7	40.8
Goodwill & Intangibles	0.0	6.6	9.9	9.9	9.9
Other Non Current Assets	0.3	n/a	n/a	n/a	n/a
Total Assets	11.4	44.2	210.0	198.0	180.3
Accounts Payable	2.0	2.5	4.6	8.1	8.6
Short Term Debt	3.3	2.3	0.3	0.3	0.3
Long Term Debt	4.1	5.7	1.0	3.0	3.0
Income Taxes Payable	0.5	1.5	1.9	1.9	1.9
Other	1.6	6.6	34.9	34.9	34.9
Total Liabilities	11.5	18.5	42.7	48.2	48.8
Total Shareholder Equity	(0.1)	25.8	37.8	35.0	36.4
Ratios	FY18A	FY19A	FY20E	FY21E	FY22E
ROE (%)	(8,489.8%)	22.2%	0.1%	19.7%	37.5%
Gearing (%)	101.1%	(33.3%)	22.2%	38.8%	47.6%
Net Debt / EBITDA (x)	1.2	(0.9)	1.9	1.1	0.9

## Acquisition of Australian Fitness Management.

VVA has agreed to acquire Australian Fitness Management (AFM) which is the Master Franchisor of the Plus Fitness franchise of health clubs. The Plus network operates 197 locations across Australia (190), New Zealand (3) and India (4), with a further 40+ territory locations already having received deposits from franchisees.

AFM network revenue exceeds \$100m. VVA expect AFM to achieve FY20 pro forma EBITDA of \$2.5m (pre synergies). VVA will pay cash consideration of \$18m from existing cash reserves, with an earn-out potential of a further \$2m. The acquisition implies a normalised maintainable EBITDA multiple of 8.0x. The transaction is expected to be immediately EPS accretive and to complete before 31 August 2020.

### Strategic rationale

This transaction buys VVA a pipeline of future acquisitions, while diversifying VVA's revenue stream and providing another option for roll-outs. Key factors underlying the strategic opportunity include:

- AFM has a right of first refusal on all franchises should franchisees wish to sell,
- Significant opportunity for acquiring or opening franchise locations,
- Extensive runway for accelerated growth of the business using VVA capital and systems,
- Fits VVA's stated strategy to expand into new markets using both Plus Fitness and Viva Leisure brands, and
- Plus is a complementary fit in terms of target markets which will support VVA's hub and spoke model.

### AFM's earnings & Shaw and Partners forecasts

Shaw and Partners forecasts are revised to reflect the negative impact of COVID19 and the positive impact of the AFM acquisition based on VVA's assessment of normalised maintainable EBITDA. Our revised forecasts reflect:

- FY2020 results based on results to February and an estimation of the COVID impact,
- FY2020 Pro forma assumes an additional 8 Franchise Territories rolled out compared to FY2020 Permanent structural savings made by the vendors during FY2020,
- There are no synergies assumed in either Shaw's forecasts or VVA's pro forma VVA numbers,
- No additional CAPEX, fit-outs or further cash expense will be required, and
- VVA's assumption that the acquisition will be funded from cash reserves.

### Key risks

Key risks include:

- i) A second wave of COVID19,
- ii) VVA's ability to continue to attract and retain members,
- iii) increased competition for members and suitable acquisition opportunities, and
- iv) operational risks associated with integrating acquisitions.

### Core drivers and catalyst

VVA's core drivers are run rate growth, greenfield developments and acquisitions.

## Rating Classification

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<b>Buy</b>	Expected to outperform the overall market
<b>Hold</b>	Expected to perform in line with the overall market
<b>Sell</b>	Expected to underperform the overall market
<b>Not Rated</b>	Shaw has issued a factual note on the company but does not have a recommendation

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## Risk Rating

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<b>High</b>	Higher risk than the overall market – investors should be aware this stock may be speculative
<b>Medium</b>	Risk broadly in line with the overall market
<b>Low</b>	Lower risk than the overall market

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**RISK STATEMENT:** Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

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