ORD MINNETT
RESEARCH

Viva Leisure Limited

Expanding profits, shrinking waistlines

INITIATION

With a well-capitalised balance sheet, differentiated business model and capable management, Viva Leisure is the pre-eminent regional health club operator in Australia. Following a successful IPO, the business will build on its strong ACT footprint to expand in regional areas where it can secure attractive rents and ensure strong site economics by tailoring clubs to local demographic. Viva is running ahead of prospectus expectations for member numbers and club openings, which bodes well for FY20 where we see the business trading on a PE of <9x, growing underlying EPS by ~80% thanks to recent roll-outs and roll-ups. We initiate with a Buy rating and price target of $1.50 per share which offers capital upside of 69%.

Differentiated operating model provides room for growth

Unlike large competitors which adopt a "one size fits all" approach, Viva Leisure tailors new clubs to the demographic of the region in question, driving rapid break-even and strong long-term club economics. Technology provides further efficiency, with the 24/7 access model active at all but its largest club. These forces combine to drive EBITDA margins of 24% in FY20 and strong operating leverage. Viva expects to grow its member base by >20% pa for the five years to FY20 while also driving a consistent improvement in member yield.

Antiquated industry provides consolidation opportunity

The fitness market remains highly fragmented, with IBISWorld suggesting that >40% of clubs operate outside the large groups. This provides significant scope for consolidation. Viva is well-capitalised with >$13m of gross cash available to continue its concerted greenfield roll-out and club roll-up strategy.

Initiate with Buy and 69% upside to our price target

We initiate coverage with a Buy and price target of $1.50 per share offering capital upside of 69%. The business trades on a FY20 NPATA PE of <9x while growing EPS 9% pa (FY20-23) on a very conservative set of assumptions (only 2 greenfields and 2 acquisitions pa vs 12 and seven respectively in FY19). Deployment of $12m of the IPO proceeds at 3-4x EBITDA offers upside to our FY22 NPATA forecasts of 23-30%. In the meantime, stripping this excess gross/net cash from VVA's market cap implies a FY20 NPATA PE of 6.3/7.8x.

Key Financials

Year-end June (A$)	FY-	FY18A	FY19E	FY20E	FY21E
Revenue ($m)	-	24.1	32.9	46.8	52.0
EBITDA ($m)	-	4.2	7.2	11.4	12.6
EBIT ($m)	-	2.6	4.8	8.1	8.8
Reported NPAT ($m)	-	2.2	2.5	2.1	3.0
Reported EPS (c)	-	-	4.8	4.0	5.7
Normalised NPAT ($m)	-	2.2	3.0	5.3	6.2
Normalised EPS (c)	-	-	5.6	10.1	11.7
EPS Growth (%)	-	-	-	79.9	15.8
Dividend (c)	-	-	-	-	4.7
Net Yield (%)	-	-	-	-	5.3
Franking (%)	-	-	-	-	100
EV/EBITDA (X)	-	1.5	5.8	3.3	2.6
Normalised P/E (x)	-	-	15.8	8.8	7.6
Normalised ROE (%)	-	-	23.6	20.4	21.9

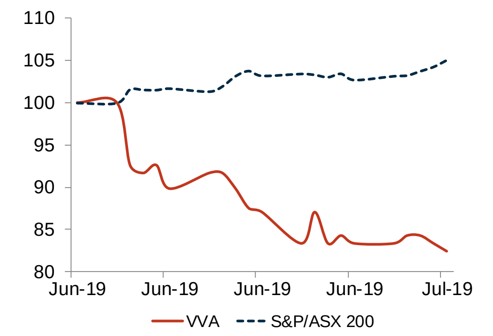
Source: OML, Iress, Viva Leisure Limited

Last Price
A$0.89
Target Price
A$1.50
Recommendation
Buy
Risk
Higher

Consumer Services

ASX Code	VVA
52 Week Range (A$)	-
Market Cap ($m)	46.8
Shares Outstanding (m)	52.6
Av Daily Turnover ($m)	0.0
3 Month Total Return (%)	-
12 Month Total Return (%)	-
Benchmark 12 Month Return (%)	8.9
NTA FY19E (¢ per share)	34.8
Net Cash FY19E (A$m)	5.2

Relative Price Performance



Source: FactSet

Consensus Earnings

	FY19E	FY20E
NPAT (C) ($m)	-	-
NPAT (OM) ($m)	3.0	5.3
EPS (C) (c)	-	-
EPS (OM) (c)	5.6	10.1

Source: OML, Iress, Viva Leisure Limited

Nicholas McGarrigle
Head of Institutional Research
(02) 8216 6345
nmcgarrigle@ords.com.au

Jason Korchinski
Research Associate
(02) 8216 6348
jKorchinski@ords.com.au

Ord Minnett acted as lead manager to the IPO of Viva Leisure in June 2019 and received fees for acting in this capacity.

Table of Contents

Executive Summary

About Viva Leisure

Viva Leisure Pty Ltd (Viva) commenced operations in Canberra in January 2004. The aim was to facilitate the fitness goals of customers through the "Club Lime" brand. Over the last 15 years, Viva has expanded within the ACT, regional New South Wales and regional Victoria.

Viva had >53,000 members at the end of FY19 and through new clubs roll-outs and acquisitions expects to have close to 65,000 members and $47m of revenue in FY20. Viva has improved its utilisation rate (assuming a baseline of two members per square metre) to 77.5% currently, driven by strong visitation (~6 visits per month per member in FY18) effective new member sign-up and strong churn management.

Viva offers flexible membership options, including fortnightly direct debits, to suit a variety of target demographics. Viva operates under a "hub and spoke" model, whereby, larger clubs are surrounded by smaller clubs within specific catchments. This model is a point of differentiation and enhances Viva's operating efficiency.

Viva's growth has been rapid in recent years, both via acquisition and greenfield roll-out. Acquisition of seven clubs and 12 club openings saw Viva reach 40 clubs by FY19 and current plans will see 47 by FY20.

Key brands

Figure 1 – Key brands in the Viva Leisure portfolio

- **CLUB LIME**
  - Core brand offering
- **CLUB LIME – LADIES ONLY**
  - Core brand offering but exclusively targeting the female market
- **CLUB LIME – SWIM SCHOOL**
  - Offers swimming lessons for a range of levels
- **CLUB LIME – ACQUATICS**
  - Pool access and lane bookings
- **CLUB LIME – PSYCLE LIFE**
  - Indoor cycle studio with a classes only offering
- **GYMMY PT**
  - Offers 1-on-1 personal training and group classes operating in CLUB LIME locations
- **HIIT REPUBLIC**
  - Indoor "High Intensity Interval Training (HIIT)" classes
- **CLUB MMM**
  - A day spa offering a variety of treatments
- **STUDIO BY CLUB LIME**
  - Group exercise in a boutique club

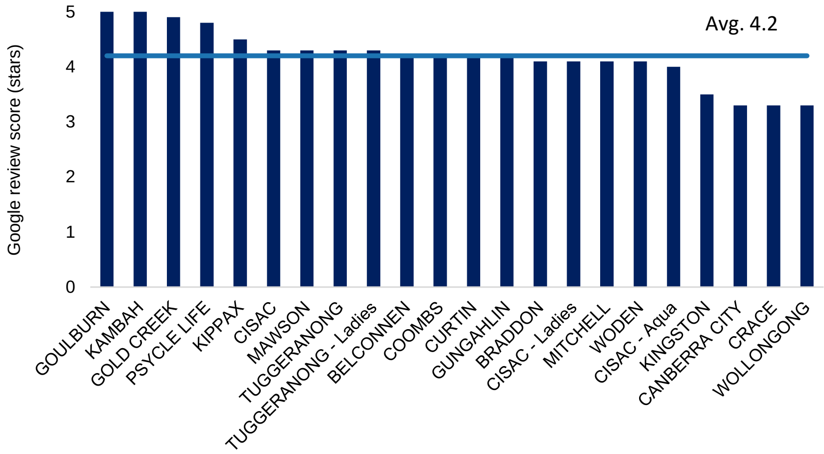
Source: OML and Viva Leisure

Key attributes

Offering members flexibility

- Viva Leisure's no lock-in fortnightly payment model enables member flexibility and reduces the potential overall commitment risk that potential members may face.
- However, in order to maintain this model, Viva Leisure have to ensure that its gym product is maintained to a high standard of quality.
- Ords' analysis over google reviews from Club Lime locations returns a 4.2/5 average google rating.

Figure 2: Google reviews



Source: Google, OML (as at Oct 2018)

Ease of joining

- Viva Leisure's online joining application, with potentially no staff contact, helps to reduce employee related costs associated with joining. The overall process can be conducted quickly, within 3 minutes, with minimum external information required. Viva Leisure also maintain a phone contact line should potential members have any queries. There are also facilities within locations enabling potential members to sign-up.

Efficient and predictable opening times

- Given Viva Leisure's diversified operating model amongst various categories of gyms, the time taken to open a gym may vary based on a variety of factors.
- The general case is, if the building is new, the facility will open three months from signing heads of agreement. This includes the fitout (6 – 8 weeks), pre-sales (8 weeks) and execution of appropriate documentation.

Technological differentiation

- Whilst Viva Leisure utilises its technological advantage in sourcing new sites and tracking member data, Viva Leisure also leverage it to add value to members through a variety of market leading enhancements.
- Viva Leisure is also able to utilise significant live data metrics to identify the overall cancellation risk of a member. Each individual member gets a different score that is presented in a gauge format. For example, if a member has not visited for a significant period of time, they would likely be of a higher risk of cancellation.

Member engagement

- Viva Leisure aims to build positive member rapport by maintaining contact and utilising its historical data to help ensure members are satisfied with the health club product. Added benefits are that this can also lead to additional member referrals.

Key risks

Execution risk and reliance on membership

Due to Viva leisure's operating model offering "no contract" memberships, Viva Leisure is particularly exposed to execution risk. Viva Leisure faces execution risk in the form of day-to-day management of the business. This includes management of budgets, people and individual locations. Management will also need to be diligent in assessing lease expirations, including finance and operational location leases. Viva Leisure aim to mitigate this risk through the implementation of real-time reporting, analytics and operational technological enhancements.

Acquisition and start-up risk

Viva Leisure's current rapid rate of growth leads to the business facing heightened exposure to acquisition and new location start-up risk. This risk occurs in the form of a new business combination or built location not meeting growth or profitability expectations and requiring additional resources or liquidation.

In order to reduce the overall likelihood of acquisitions or new built locations not performing as planned, Viva Leisure undertake significant due diligence and utilise data analysis. Viva Leisure will leverage population statistics, proximity to current locations and previous acquisition experience to ensure that its acquisitions are successful. Its recent track record has had its last three recent Club Lime openings reaching break-even within 6 weeks.

Reputational risk

Viva Leisure could potentially suffer negative consequences should there be significant dissemination of negative publicity. The negative consequences could be in the form of non-renewal or cancellation of memberships, employee attrition and a reduction in the quality of talent attracted all combining to reduce Viva Leisure's capacity to earn.

Economic discretionary spend

As noted within the industry section of this report, there is currently economic pressure surrounding consumer discretionary spending. Given the substitute for a gym membership is exercising outdoors, Viva Leisure needs to ensure they are able to ensure consumers maintain their memberships.

Viva Leisure could also at risk should there be a decline in consumer discretionary spending attributable to adverse economic conditions.

Competition from new gyms, facilities and fitness concepts

Viva Leisure are potentially exposed to increased competition within the already saturated fitness and health club market. Given the large portion of consumers that select gym offerings based on location and convenience, Viva Leisure needs to ensure that they are either of significantly higher quality or they are able to compete on price.

Another area that Viva Leisure may be potentially impacted by are the ever-changing trends within the fitness market. Viva Leisure need to ensure that they remain on-trend and are able to target the next opportunity ahead of other competitors.

Concentration risk

Viva expects to generate 39% of its revenue in FY19 from the CISAC site, dropping to 29% in FY20, across the Club Lime, MMM and aquatic operations. This has come down in concentration from FY18 (48%), but we note the site remains vitally important to group earnings. This concentration reduces over time as new sites are built or acquired. A number of competing operations exist around CISAC already, but further competition could impede the centre's earnings. We note that no proposed project is of the scale of CISAC nor as centrally located, helping to mitigate this competitive risk. Further, the club's rating on Google reviews is 4.3 stars (4.1 for MMM – Ladies).

Key drivers

Recurring revenue and member return rates

- ~85% of Viva Leisure's revenue is derived from recurring fortnightly direct debit payments. Member retention for Jul-18 to Mar-19 was 74% (73% pcp). Calendar year 2018 highlighted that 30-40% of new members joining club lime have been members at some point in the past.

Trend towards gyms and improving lifestyles

- Recent industry data tends to suggest that there has been a continued shift towards a health focussed approach. In part, this has been driven by the increased prevalence of social media influencers and television programs surrounding ultra-fitness challenges.
- Whilst rising obesity rates do not indicate a trend towards fitness, it does indicate that many of the people that fall within this category may look to improve their lifestyle by joining a gym.

Acquisition and greenfield strategy

- Viva Leisure have undertaken a combined acquisition and start-up approach in order to attain market share and help boost its incremental margin.
- Over FY17-20 Viva will have opened or bought 30 clubs, anticipating an end-FY20 network of 47 clubs. Of these 30 new clubs, greenfields account for 23, while 7 clubs will have been acquired (including Albury/Wodonga in Jun-19).
- The roll-out and roll-up strategy revolved around Viva's hub and spoke model which caters the club type to the demographics of the local community. This provides for strong operating margins and hastened break-even.

Regional strategy

- Viva Leisure attempts to differentiate its offering from the large well known competitors within the Australian gym industry by focusing on the regional and Canberra markets. Part of the benefits attributable to focusing on these locations is that the cost of floor space is generally cheaper than in large cities.
- For example, Savills research from Q2 2018 indicates that the rental expense in Sydney (A-grade) for the period was $1,030 per m2. This means that a 700m2 property is likely to cost ~$721k per annum in rental expense.
- In contrast, Canberra Civic (A-grade) and Non-civic (A-grade) recorded values of $370 and $335 per m2 leading to annual rental expense of $259k and $235k. This aids the generation of strong margins, which we expect to exceed those of Ardent Leisure's Health Club's division at the peak.

Additional concepts and incremental margin uplift

- In order to drive stronger EBITDA margins on a sustainable basis, Viva seeks opportunities to improve member yield atop the benefit of leveraging a fairly fixed overhead across more clubs.
- Viva Leisure have implemented a strategy of offering additional premium services to members such as access to exclusive services in the form of cycle classes and HIIT classes, upgrades to Platinum membership which offers access to all clubs in the network and aquatic/swim school memberships.
- These strategies provide for improved member yield without overt price rises.

Recommendation

- We initiate with a Buy recommendation, seeing the business well placed to continue expanding its footprint in regional Australia through concerted club roll-outs and sensible roll-ups.
- The market seems tarred by the poor experience felt with Ardent Leisure's Health Club business, which is unfair. The turmoil of that business was driven by the proliferation of 24/7 clubs and its slow response. Viva has 24/7 at the core of its operating model and is already producing superior EBITDA margins.
- With the business delivering on its club opening pipeline ahead of prospectus expectations, we see upside risk to our forecasts which are set in line with prospectus for FY19 and FY20.
- Our conservative FY22 forecasts are for Viva to reach 55 clubs (from 47 at FY20) at which point we assume NPATA of $6.6m. Applying a 15x multiple to this implies a market cap of $99m, more than double today's market cap.
- **We do not model any deployment of the IPO cash in meaningful acquisitions, providing capacity for upside vs our forecasts. Were management to deploy $13m of gross cash, this would add $3-4m of EBITDA and $1.5-2.0m of NPAT, implying 23-30% upside to FY22 NPATA.**

Valuation

Discounted cash flow (DCF) – Captures the long-term nature of Viva's greenfield and acquisition plans, Viva's finance leases and strong cash flow conversion.

Figure 3 – DCF valuation

DCF inputs	
Beta	1.20
Risk free rate	5.0%
Market risk premium	6.0%
Cost of equity	12.2%
Debt premium	4.0%
Cost of debt (after tax)	6.3%
D/E	0.0%
WACC	**12.2%**
Terminal growth rate	**2.0%**

DCF valuation	
Forecast cash flows ($m)	22.9
Terminal value ($m)	34.0
Enterprise value ($m)	**56.9**
add FY19e gross cash ($m)	13.2
Equity value ($m)	**70.1**
Equity value per share ($)	1.33
CAGR (FY18-26)	
Members	10.5%
Revenue	13.0%
EBITDA	18.0%
Normalised NPATA	17.4%
FY20PF metrics	
Implied FY20PF EV/EBITDA (x)	5.0
Implied FY20PF PE NPATA (x)	13.1
Implied FY20PF PE NPATA (ex-cash) (x)	10.7

Source: OML

FY20 EV/EBITDA comp – compares Viva to other domestic leisure and discretionary businesses, as well as international fitness centres.

Figure 4 – FY20 EV/EBITDA valuation

FY20 EV/EBITDA valuation	
FY20PF EBITDA ($m)	11.4
EV/EBITDA multiple (x)	5.50
Enterprise value ($m)	**62.6**
add FY19e net cash ($m)	5.2
Equity value ($m)	**67.8**
Equity value per share ($)	1.29
FY20PF metrics	
Implied FY20PF EV/EBITDA (x)	5.5
Implied FY20PF PE NPATA (x)	12.7
Implied FY20PF PE NPATA (ex-cash) (x)	11.7

Source: OML

Price target

Price target – Based on the average of our DCF and EV/EBITDA valuations, rolled forward at our cost of equity, we derive a price target of $1.50 per share for Viva, implying 69% upside to the current price.

Figure 5 – Price target derivation

Price target derivation	
DCF valuation ($ ps)	1.33
FY20 EV/EBITDA ($ ps)	1.29
Average	**1.31**
Cost of equity (%)	12.2%
Rolled-forward valuations ($ ps)	**1.50**
Less dividend ($ ps)	0.00
One-year forward price target ($ ps)	**1.50**

FY20PF metrics	
Implied FY20PF EV/EBITDA (x)	6.5
Implied FY20PF PE NPATA (x)	16.2
Implied FY20PF PE NPATA (ex-cash) (x)	13.8

Source: OML

Domestic comparables

- We look at domestic leisure and domestic retail/healthcare companies as comparable for our VVA valuation. The comp sets trade on a median FY20 EV/EBITDA range of 8.1-8.3x versus VVA which is currently on 3.7x.
- Our FY20 EV/EBITDA valuation uses a 5.5x multiple which represents a ~30% discount to account for VVA's lack of listed history, size and early-stage.

Figure 6 – Domestic and international comps

Domestic leisure

		Mkt Cap	PE		EV/EBITDA		EPS Growth		PEG	
Code	Company	AUD	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
EVT AU	EVENT Hospitality and Entertainment	2,045	18.1	17.4	9.7	9.4	-9%	4%	-	3.92
VRL AU	Village Roadshow Ltd	542	23.3	17.9	6.0	5.5	n/a	n/a	-	-
ALG AU	Ardent Leisure Group Ltd	537	-	53.3	11.5	8.1	n/a	n/a	-	-
THL NZ	Tourism Holdings Ltd	444	16.8	14.4	6.2	5.9	-38%	17%	-	0.86
SLK AU	SeaLink Travel Group Ltd	377	16.0	14.0	9.8	9.1	6%	14%	2.70	1.02
	Average		**18.5**	**23.4**	**8.6**	**7.6**	**-14%**	**12%**	**2.70**	**1.94**
	Median		**17.5**	**17.4**	**9.7**	**8.1**	**-9%**	**14%**	**2.70**	**1.02**

Domestic discretionary & health (mkt cap <$500m, FY20 EPSg >5%)

		Mkt Cap	PE		EV/EBITDA		EPS Growth		PEG	
Code	Company	AUD	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
IDX AU	Integral Diagnostics Ltd	484	18.1	16.9	11.2	10.5	31%	7%	0.59	2.40
VRT AU	Virtus Health Ltd	364	13.2	12.3	8.4	8.1	-12%	7%	-	1.76
CCX AU	City Chic Collective Ltd	358	22.7	19.6	13.2	11.3	n/a	16%	-	1.23
MVF AU	Monash IVF Group Ltd	336	16.0	15.0	11.0	10.3	-5%	7%	-	2.22
PFP AU	Propel Funeral Partners Ltd	315	25.4	23.0	12.9	10.6	4%	10%	6.15	2.23
BBN AU	Baby Bunting Group Ltd	279	19.6	15.1	10.9	8.6	61%	29%	0.32	0.52
BLX AU	Beacon Lighting Group Ltd	233	14.4	13.1	8.3	7.5	-19%	9%	-	1.39
MHJ AU	Michael Hill International Ltd	221	9.3	8.1	4.3	3.9	-10%	15%	-	0.55
CAJ AU	Capitol Health Ltd	189	20.4	14.4	8.2	7.3	-8%	42%	-	0.35
PSQ AU	Pacific Smiles Group Ltd	179	19.3	17.6	8.4	7.5	-10%	10%	-	1.79
ONT AU	1300 Smiles Ltd	150	18.5	16.2	10.4	9.0	-4%	14%	-	1.16
NVL AU	National Veterinary Care Ltd	145	17.0	14.4	11.1	9.2	22%	18%	0.77	0.80
TNK AU	Think Childcare Ltd	102	16.2	11.7	8.7	6.3	-2%	38%	-	0.30
HLA AU	Healthia Ltd	51	10.3	8.4	7.1	5.2	na	23%	-	0.37
	Average		**17.2**	**14.7**	**9.6**	**8.2**	**4%**	**18%**	**1.96**	**1.22**
	Median		**17.5**	**14.7**	**9.5**	**8.3**	**-4%**	**14%**	**0.68**	**1.20**

Source: OML and Bloomberg *prices as at 4 Jul 2019

Viva Leisure Overview

About Viva Leisure

Viva Leisure Pty Ltd (Viva) commenced operations in Canberra in January 2004. The aim was to facilitate the fitness goals of customers through the "Club Lime" brand. Over the last 15 years, Viva has expanded within the ACT, regional New South Wales and regional Victoria.

Viva had >53,000 members at the end of FY19 and through new clubs roll-outs and acquisitions expects to have close to 65,000 members and $47m of revenue in FY20. Viva has improved its utilisation rate (assuming a baseline of two members per square metre) to 77.5% currently, driven by strong visitation (~6 visits per month per member in FY18) effective new member sign-up and strong churn management.

Viva offers flexible membership options, including fortnightly direct debits, to suit a variety of target demographics. Viva operates under a "hub and spoke" model, whereby, larger clubs are surrounded by smaller clubs within specific catchments. This model is a point of differentiation and enhances Viva's operating efficiency.

Viva's growth has been rapid in recent years, both via acquisition and greenfield roll-out. Acquisition of a seven clubs and 12 club openings saw Viva reach 40 clubs by FY19 and current plans will see 47 by FY20.

Key brands

Figure 7 – Key brands in the Viva Leisure portfolio

- **CLUB LIME**
  - Core brand offering
- **CLUB LIME – LADIES ONLY**
  - Core brand offering but exclusively targeting the female market
- **CLUB LIME – SWIM SCHOOL**
  - Offers swimming lessons for a range of levels
- **CLUB LIME – ACQUATICS**
  - Pool access and lane bookings
- **CLUB LIME – PSYCLE LIFE**
  - Indoor cycle studio with a classes only offering
- **GYMMY PT**
  - Offers 1-on-1 personal training and group classes operating in CLUB LIME locations
- **HIIT REPUBLIC**
  - Indoor "High Intensity Interval Training (HIIT)" classes
- **CLUB MMM**
  - A day spa offering a variety of treatments
- **STUDIO BY CLUB LIME**
  - Group exercise in a boutique club

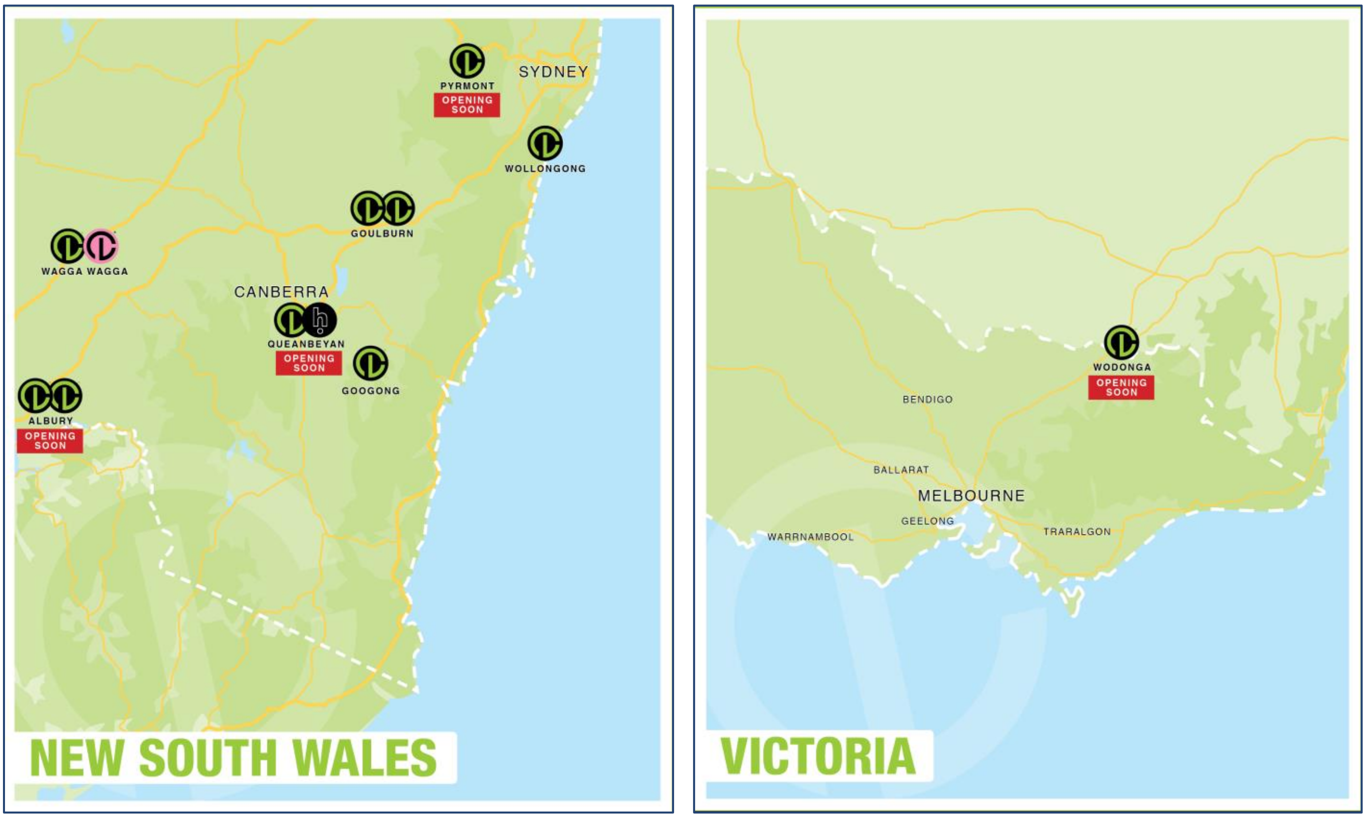
Source: OML and Viva Leisure

Where are they located?

Figure 8 – Canberra locations

Source: Viva Leisure

Figure 9 – NSW and VIC locations*



Source: Viva Leisure

Customer demographics

Current member breakdown

As at March 2019:

- The active member average age is 32 years old.
- 53% of the membership is male and 47% is female.
- Over Jan19 to Mar-19:
  - 49.3% of new member joins were referrals
  - 8.9% of new members were returning previous members
  - 9.0% joined following exposure to Viva's radio advertising
- ~79% of active members had used facilities in the past 30 days.
- Over the prior 12 months, 5pm, 6pm and followed by 6am were the most frequented periods.
- 54% of members have a multi-club membership.
- Viva Facilities reached 2,174,523 visits during FY18, or an average of 5.6 visits per average member per month.

Corporate Clients and members

- Over 2,500 of Viva Leisure's members are on a corporate package.
- Viva Leisure have three methods, including; employer pays, employer facilitates and employee pays.
- There is a separate employer log in that enables the subscribing company to track employee usage of a membership and help identify the value add.
- Viva Leisure's corporate clients also include a variety of government agencies, including:
  - Australian Tax Office
  - Department of Health

Viva's penetration of the ACT population

Recently released ABS data indicates the ACT population was ~420,000 as of Sep-18, up more than 8,000 over pcp. At 20-Sep-18, Viva had 35,354 active members from the ACT, indicating that Viva counts >8% of the ACT population as members. With the ACT only second to Victoria in growth rate for the year to Sep-18 at 1.9%, population growth underpins continued improvement in member numbers.

Customer demographics at select new locations

Googong (February 2019)

- Per 2016 census data, Googong had a population of 2,001 within the 15 – 80 year demographic. Announced in 2018, the Googong town centre is set to undergo a $143m revamp and as at February 2018, 2,300 people had moved to North Googong[1].
- Until the new town centre opens in ~2024-25, Viva has exclusive access to the territory and no other commercially viable tenancies exist for a competitor.
- 4,500 people are expected to move into Googong's second largest neighbourhood.
- The overall Googong area is forecast to grow to 18,000 residents in 15 years.

[1] https://www.canberratimes.com.au/national/act/googongs-143-million-town-centre-and-neighbourhood-unveiled-20180216-h0w6da.html

Denman Prospect (Sep quarter 2019)

- Denman Prospect and Coombs are located within a ~10 minute drive from each other. Denman Prospect, along with Coombs, are included within the Cotter-namadji region that had a population of 3,707 (2015) and growing at 29% CAGR to 2020.
- This appears to be an extremely fast growing suburb that appears to be a compelling new site given the success had at Viva's new Coombs site.

ANU (February 2019)

- Testament to Viva's strategy to add more spokes to its hub and spoke model when clubs are filling up, the new ANU Sport Centre is ~650m walk from the very busy Canberra City location which is operating beyond the two members per square metre capacity.
- The ANU facility includes aquatic facilities with two pools, learn to swim, spa and steam room.
- The Canberra City lease expires 30 June 2022 and given the location's significant member utilisation, there is an opportunity to shift membership towards the ANU facility and turn the site into a "HIIT Republic" offering.
- By building the ANU facility, it reaffirms the company's strategy of targeting areas with pre-existing demand to ensure its target member to m^2 is met.

Conder (Jun quarter 2019)

- As at 30 June 2016, Viva's addressable market was 3,940 people within the region of Conder.
- The closest Club Lime facility is the Tuggeranong big box club which is reasonably full.
- The strong demand for the Tuggeranong club and the enclosed nature of the Conder suburb appear to have been factors attributable to opening a new location within this suburb.

Kingston Hiit Republic (Sep quarter 2019)

- The Kingston Hiit Republic location is billed to be opened in Kingston in Feb 2019.
- The Kingston suburb of Canberra had a 2016 census population of 4,424 with a median weekly household income of $2,328.
- Taking into account that the current Club Lime Kingston offering is operating at close to capacity members per square metre, the addition of a new product offering to the area is unlikely to have a detrimental impact.
- In contrast, Club Lime Kingston currently has a google rating of 3.5/5 and a reduction in visitation could help to improve member perception and longevity of the facilities.
- As Kingston is considered to be an upmarket suburb in Canberra, with a high number of working professionals, it is an ideal target region for additional service offerings.

History

Established in 2004, Viva Leisure's first location was a "Big Box" facility located at the Canberra International Sports and Aquatic Centre (CISAC). This facility includes a lap pool, full gym equipment, childcare, classes and personal training.

In mid-2005, the CISAC site was expanded to include a female-only gym, now operating under the "Club Lime – Ladies Only".

Viva has continued to roll out new clubs and selectively acquire and by the end of FY19 had 40 clubs in operation. The business has, or intends to, expanded into other product offerings, with Psycle Life cycle studios and HIIT Republic offering HIIT classes offered at standalone sites.

Figure 10 – Viva Leisure timeline

Club name	Opened/Acquired
CISAC	Jan-04
CISAC - AQUATIC	Jan-04
CISAC - LADIES ONLY	Jan-04
Gold Creek	May-06
Tuggeranong	Jul-08
Tuggeranong – Ladies	Jul-08
Belconnen – Oatley	Jan-10
Gungahlin	Jan-10
Mawson	Jan-10
Kingston	Oct-10
Woden	Sep-11
Canberra city	Mar-12
Wollongong	Nov-12
Mitchell	Feb-13
Crace	Nov-13
Curtin	Aug-14
Braddon	Dec-15
Psycle Life	Aug-16
Kippax	Jul-17
Goulburn	Feb-18
Coombs	May-18
Kambah	Aug-18
Phillip	Sep-18
Wagga Wagga	Sep-18
Wagga Wagga – Ladies Only	Sep-18
ANU	Feb-19
ANU – Aquatic	Feb-19
Googong	Feb-19
Goulburn #2	Mar-19
Club Lime Conder	May-19
Albury acquisition #1	Jun-19
Albury acquisition #2	Jun-19
Wodonga acquisition	Jun-19
Hiit Republic Tuggeranong	Apr-19
Psycle Life Tuggeranong	Apr-19
Studio by Club Lime Tuggeranong	Apr-19
Club Lime Denman Prospect	Jun-19
Club Lime Queanbeyan	Jun-19
Hiit Republic Kingston	Jun-19
Hiit Republic Queanbeyan	Jun-19
Opening (acquiring) soon	**Opened/Acquired**
Hiit Republic Campbell	Sep Q 2019
Hiit Republic Braddon	Sep Q 2019
Club Lime Erindale	Sep Q 2019
Hiit Republic Erindale	Sep Q 2019
Club Lime Campbell	Dec Q 2019
Club Lime Gungahlin	Mar Q 2020
Club Lime Pyrmont	Jun Q 2020
Club Lime Tuggeranong #3	Jun Q 2021

Source: Viva Leisure

Membership model

The Viva operating model requires members to sign up to a "home club", with access to other clubs dependent on their "home club" or level of membership subscribed to. For example, members of CISAC Platinum and Tuggeranong Platinum have access to any Club Lime gym in Australia.

Viva offer two tiers of membership; Silver and Platinum. Silver entitles members access to a single gym, whereas, Platinum enables members to have the ability to access any Club Lime facility in Australia.

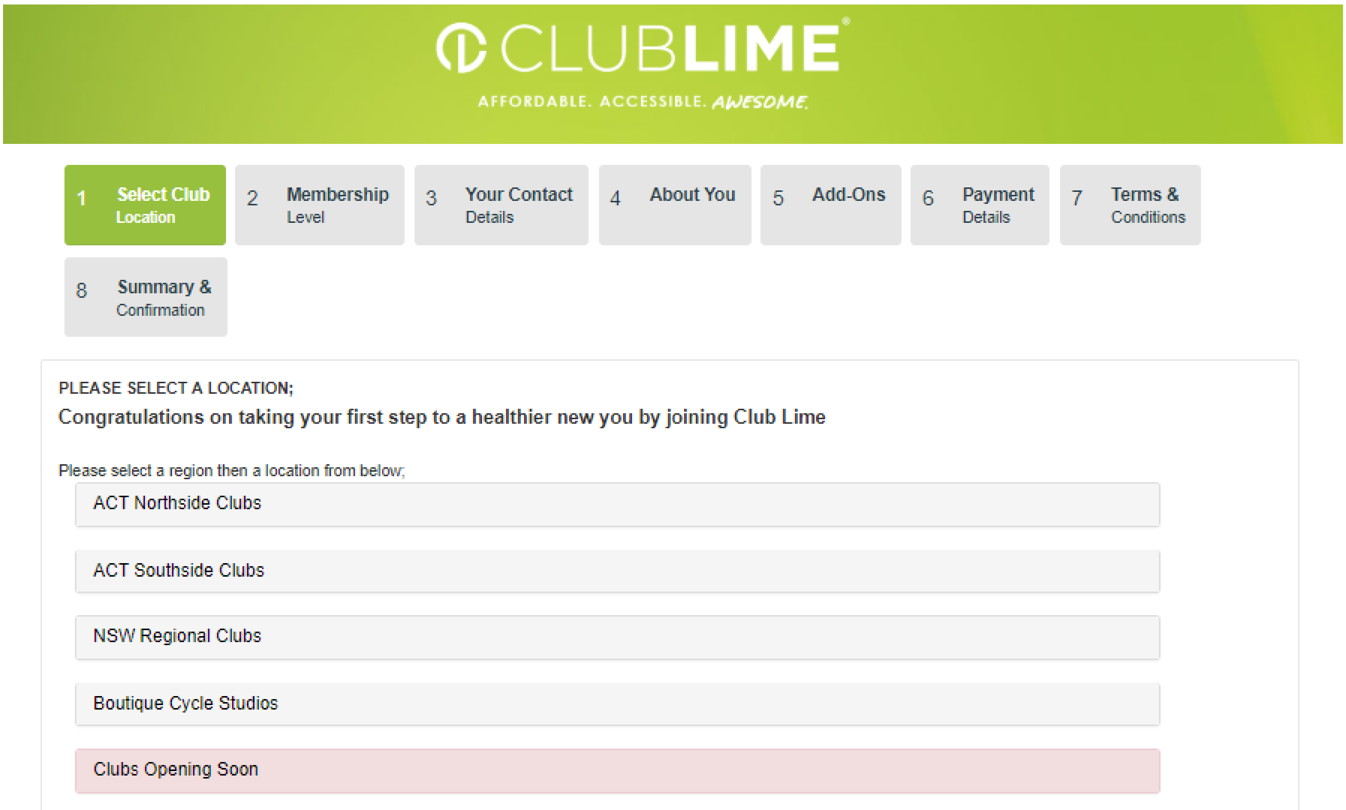
Members are able to select one of five membership payment category options; fortnightly, quarterly, annually, student and off-peak. It should be noted that there is no discount for paying quarterly or annually. Student memberships are able to be paid fortnightly or annually and off-peak are paid fortnightly. Given the lack of discounts, it is not surprising that ~85% of its customer base have elected to utilise the fortnightly payment option.

Each location will vary in price and they range from $13.90 per week (Crace) through to $24.90 per week (CISAC – Club Lime Ladies Only). Median price is $16 per week.

Simple joining process

Viva Leisure utilise an online eight step sign-up and activation process. The process involves selecting a club and membership type. The prospective member then updates their personal details, provides an emergency contact and answers a health-based questionnaire. Initial payment and direct debit authorisation is then completed. See figure 8 for further details.

Figure 11 – Initial sign-up page



Source: Viva Leisure

Given Viva's operating model is largely on a no contract basis, it is important to understand how Viva Leisure monitors this. Viva Leisure utilise three key metrics; retention rates, member churn and net growth in members.

Member retention and churn

Viva Leisure's retention rate for the period Jul-18 to Mar-19 was 74% (73% pcp). This means that over that period, 74% of existing members retained their memberships. From the opposing view, it also means that 26% of members (2.9% average per month) cancelled their Viva Leisure subscriptions.

It is important to view the aforementioned member retention in line with the churn rates as the monthly churn takes into account new members joining within the year. The churn rates help identify the month-on-month cancellation as a percentage of members at the beginning of the review period.

Viva manages churn quite effectively through seasonal troughs, with an average of 4.3% gross churn per month over the 12 months to Mar-19. In order to manage churn rates, Viva has implemented technology systems that enable staff the ability to pre-empt a member cancelling. One of the key methods utilised is reviewing member visitation history and following up with members whose usage has dropped to encourage them to try classes, different sites etc.

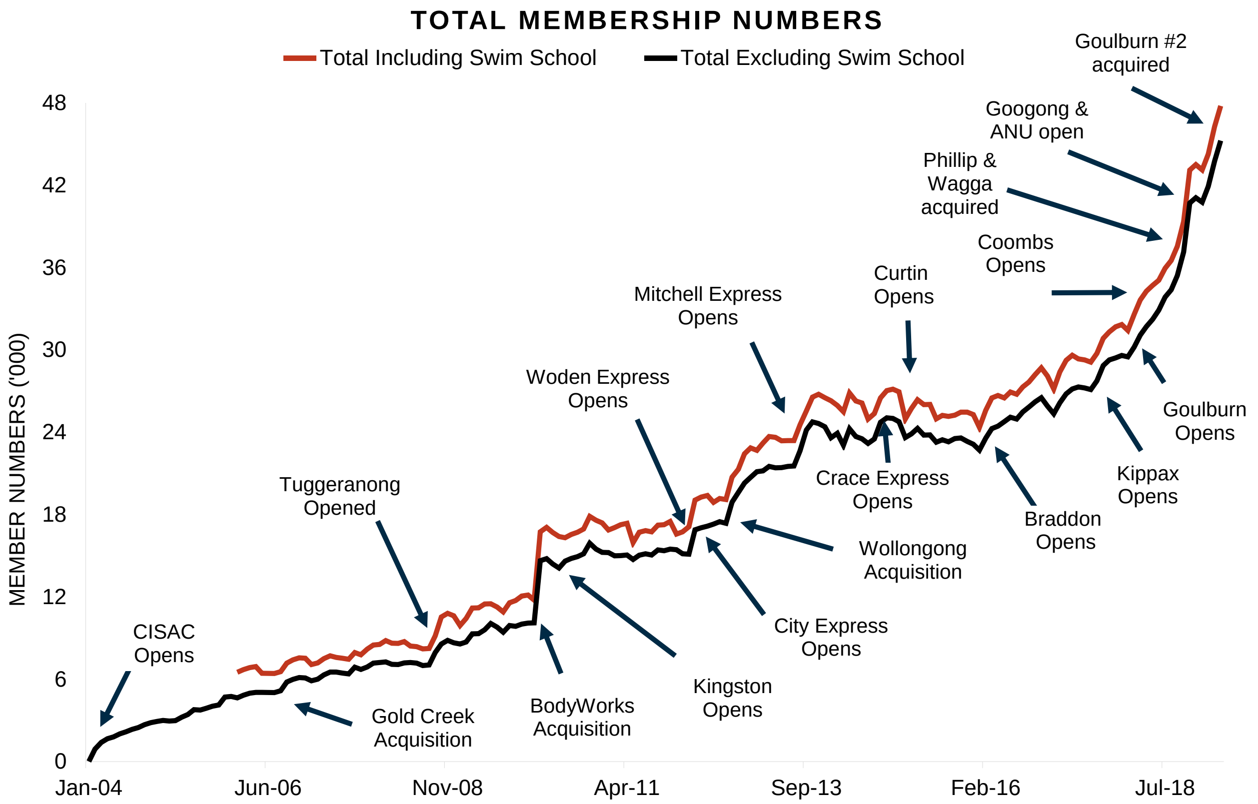
Member Growth

Viva has experienced relatively strong rates of member growth attributable to organic growth, new sites and acquisitions. The member growth rate over the three years to Apr-19 was 19% pa (excl. swim school). As at Jun-19, Viva Leisure had >53k members across all clubs following the Albury/Wodonga acquisition.

Seasonality

Viva Leisure also face a component of seasonality to its membership numbers. They traditionally notice a decline over the Christmas period and a sharp uplift in the January and February periods. This is likely to be attributable to a multitude of factors, including; New Year resolutions, back in routine and new employees moving to Canberra for work.

Figure 12: Historic member growth



Source: Viva Leisure (data only up until March 2019, doesn't include Albury acquisition)

Gyms and facilities

Viva Leisure's gym locations vary in size depending on the catchment. Its current sites range from 238m^2 to over 10,000m^2. The locations are selected on a bespoke basis with the target of 2 members per square metre being the optimal target. Should a location start to become too over-attended, i.e. exceeds the 2 members per m2 significantly, then through the hub and spoke model, Viva Leisure aims to identify a suitable nearby location to ensure the optimal member to space equilibrium is maintained.

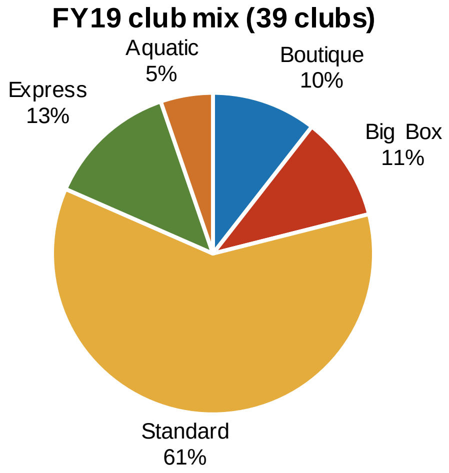
New locations typically vary in cost depending on size. A typical standard gym rollout of between 400m^2 and 700m^2 will generally cost ~$400k in finance leases to secure equipment assets and ~$200k in cash for the fitout. When looking at larger gyms, such as the ANU facility, the finance leases can rise to ~$600k for equipment. It should also be noted that the finance leases are typically for around four to five years and will generally come up for renewal prior to the end of the useful life of equipment.

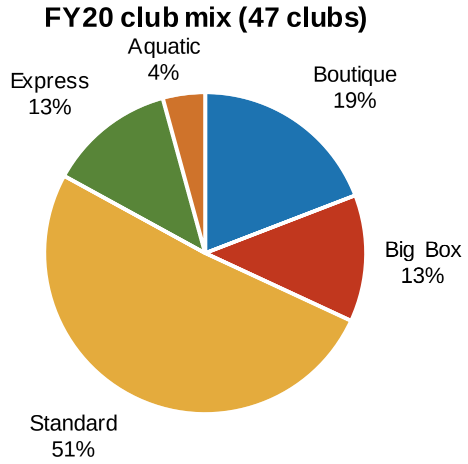
Given Viva Leisure's ability to target locations of any floor space, they have proven to be able to open locations that reach break-even relatively quickly. Further affirming this, the last three locations opened by Viva Leisure achieved break-even within 6 weeks.

Viva Leisure's clubs differ across five categories:

- **Boutique facility**
  - Varies in size dependent on the offering.
  - Generally one smaller and differentiated product offering.
  - Currently in the form of a cycle class studio facility, but may be other types of fitness offerings (e.g. group exercise classes).
  - Viva Leisure is looking to expand this offering by adding a group High Intensity Impact Training (HIIT) studio.
  - The studio is likely to be ~300m^2 and will only be operate on a class participation basis.
- **Express Club**
  - Less than 500m^2.
  - A smaller facility in convenient 24 hour locations for members that do not require a full-service gym.
  - These offerings are essentially equipment and base facilities only.
- **Standard Club**
  - Between 700m^2 and 2,000m^2.
  - Larger full-service facilities with access to classes and personal training.
  - Some clubs may also be 24 hours, with limited services outside of staffed hours.
- **Big Box Club**
  - Greater than 2,000m^2.
  - Largest operating floor space with full-service facilities and may also include aquatic facilities too.
- **Aquatic**
  - Member-based and casual access to aquatic facilities.

Figure 13: Club type breakdown





Source: Viva Leisure

By utilising different categories, price points and locations, Viva Leisure can target a larger share of the gym using market.

By offering a no contract solution, Viva Leisure need to ensure its facilities are modern and user friendly. They ensure this by undertaking the following approaches:

- **Quality of fitness equipment**
  - Viva Leisure have formed a partnership with the Life Fitness brand and Hammer Strength Cardio and Strength equipment to ensure all its equipment is of high quality and compliant with all safety standards.
  - Further emphasising the relationship with Life Fitness, Viva Leisure has been one of the gyms selected to implement the “Apple Gymkit” enabling seamless data collection and analyses by pairing with the member’s Apple Watch.
  - By ensuring exercising equipment is of a high quality, Viva Leisure is able to minimise potential maintenance and repair costs going forward.
- **Asset renewal program**
  - Viva Leisure expects cardiovascular equipment to have a life expectancy of five to seven years and strength equipment to last ten years.
  - Cardiovascular equipment generally comes with a four year full service warranty and seven year warranty over motors and frames.
  - Strength equipment has a five year warranty covering additional parts (e.g. handles and pulleys) and 10 years over the frames.
- **Data analysis**
  - Viva Leisure monitor equipment and gym usage to ensure member demand over specific equipment is met.
  - Given the fast paced nature of changing fitness trends, utilising data analysis to monitor initial class participation and recurring participation.
- On the next page we show a register of all sites and clubs in Viva’s portfolio, detailing the date of opening/acquisition, whether the club was built by Viva or acquired, the type of club, whether the landlord is external or the Konstantinou family and the size of the club. We note that only six clubs are operated across four sites owned by the family, with three of these clubs being at CISAC.

- Viva note that members at Mar-19 per square metre (sqm) sat at 1.55. With Viva indicating capacity of 2 members per square metre, this implies utilisation of the network at just 77.5%. Utilisation has risen from the low-60%'s five years ago. Across Viva's portfolio at Mar-19,
  - Clubs open more than 12 months have 1.7 members per sqm
  - Clubs open less than 12 months operate at 1.7 members per sqm
  - FY19 acquisitions are operating at 0.77 members per sqm (Apr-19) excluding Albury/Wodonga
- Based on two members per sqm, Viva could add an additional ~14k members before reaching "capacity", implying an incremental ~$11m of revenue.

Figure 14 – Club register

Club name	Opened/Acquired	Period	Club type	State/Territory	Landlord	Built/Bought
CISAC	Jan-04	FY04	Big Box	ACT	Family	Built
CISAC - AQUATIC	Jan-04	FY04	Aquatic	ACT	Family	Built
CISAC - LADIES ONLY	Jan-04	FY04	Standard	ACT	Family	Built
Gold Creek	May-06	FY06	Standard	ACT	External	Built
Tuggeranong	Jul-08	FY09	Big Box	ACT	External	Built
Tuggeranong – Ladies	Jul-08	FY09	Standard	ACT	External	Built
Belconnen – Oatley	Jan-10	FY10	Standard	ACT	External	Bought
Gungahlin	Jan-10	FY10	Standard	ACT	External	Bought
Mawson	Jan-10	FY10	Standard	ACT	External	Bought
Kingston	Oct-10	FY11	Standard	ACT	External	Built
Woden	Sep-11	FY12	Standard	ACT	External	Built
Canberra city	Mar-12	FY12	Express	ACT	External	Built
Wollongong	Nov-12	FY13	Big Box	NSW	External	Bought
Mitchell	Feb-13	FY13	Standard	ACT	Family	Built
Crace	Nov-13	FY14	Express	ACT	External	Built
Curtin	Aug-14	FY15	Standard	ACT	Family	Built
Braddon	Dec-15	FY16	Standard	ACT	External	Built
Psycle Life	Aug-16	FY17	Boutique	ACT	External	Built
Kippax	Jul-17	FY18	Standard	ACT	External	Built
Goulburn	Feb-18	FY18	Express	NSW	External	Built
Coombs	May-18	FY18	Standard	ACT	External	Built
Kambah	Aug-18	FY19	Standard	ACT	Family	Built
Phillip	Sep-18	FY19	Standard	ACT	External	Bought
Wagga Wagga	Sep-18	FY19	Big Box	NSW	External	Bought
Wagga Wagga – Ladies Only	Sep-18	FY19	Standard	NSW	External	Bought
ANU	Feb-19	FY19	Standard	ACT	External	Built
ANU – Aquatic	Feb-19	FY19	Aquatic	ACT	External	Built
Googong	Feb-19	FY19	Express	NSW	External	Built
Goulburn #2	Mar-19	FY19	Standard	NSW	External	Bought
Club Lime Conder	May-19	FY19	Standard	ACT	External	Built
Albury acquisition #1	Jun-19	FY19	Standard	NSW	External	Bought
Albury acquisition #2	Jun-19	FY19	Express	NSW	External	Bought
Wodonga acquisition	Jun-19	FY19	Standard	VIC	External	Bought
Hiit Republic Tuggeranong	Apr-19	FY19	Boutique	ACT	External	Built
Psycle Life Tuggeranong	Apr-19	FY19	Boutique	ACT	External	Built
Studio by Club Lime Tuggeranong	Apr-19	FY19	Boutique	ACT	External	Built
Club Lime Denman Prospect	Jun-19	FY19	Standard	ACT	External	Built
Club Lime Queanbeyan	Jun-19	FY19	Standard	NSW	External	Built
Hiit Republic Kingston	Jun-19	FY20	Boutique	ACT	External	Built
Hiit Republic Queanbeyan	Jun-19	FY20	Boutique	NSW	External	Built
Opening (acquiring) soon	**Opened/Acquired**	**Period**	**Club type**	**State/Territory**	**Landlord**	**Built/Bought**
Hiit Republic Campbell	Sep Q 2019	FY20	Boutique	ACT	External	Built
Hiit Republic Braddon	Sep Q 2019	FY20	Boutique	ACT	External	Built
Club Lime Erindale	Sep Q 2019	FY20	Standard	ACT	External	Built
Hiit Republic Erindale	Sep Q 2019	FY20	Boutique	ACT	External	Built
Club Lime Campbell	Dec Q 2019	FY20	Express	ACT	External	Built
Club Lime Gungahlin	Mar Q 2020	FY20	Big Box	ACT	External	Built
Club Lime Pyrmont	Jun Q 2020	FY20	Big Box	ACT	External	Built
Club Lime Tuggeranong #3	Jun Q 2021	FY21	Express	ACT	External	Built

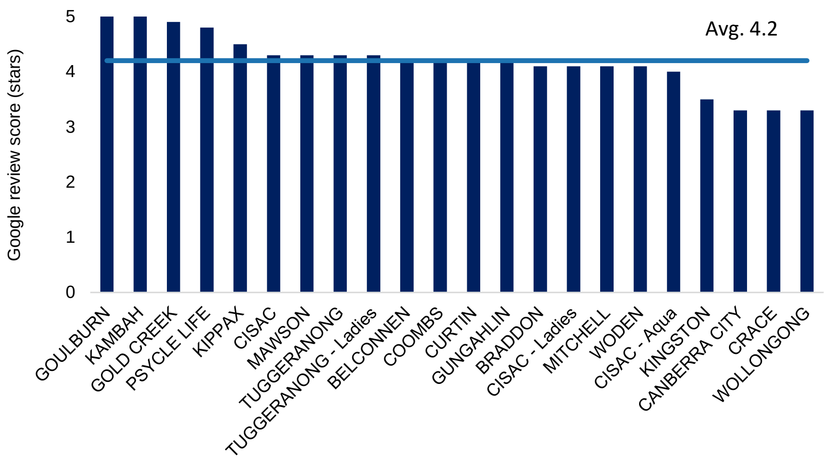
Source: OML and Viva

Key differentiators

Viva differentiates from the Australian gym and fitness industry through:

- **Offering members flexibility**
  - Viva Leisure's no lock-in fortnightly payment model enables member flexibility and reduces the potential overall commitment risk that potential members may face.
  - However, in order to maintain this model, Viva Leisure have to ensure that its gym product is maintained to a high standard of quality.
  - Ords' analysis over google reviews from Club Lime locations returns a 4.2/5 average google rating.
  - It should also be noted that the overall score of certain locations were slightly impacted by reviews that were pre-refurbishment or several years old.

Figure 15: Google reviews

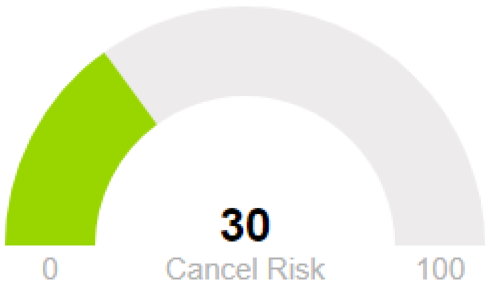


Source: Google, OML (October 2018)

- **Ease of joining**
  - Viva Leisure's online joining application, with potentially no staff contact, helps to reduce human related costs associated with joining.
  - The overall process can be conducted quickly, within 3 minutes, with minimum external information required. Viva Leisure also maintain a phone contact line should potential members have any queries. There are also facilities within locations enabling potential members to sign-up.
- **Efficient and predictable opening times**
  - Given Viva Leisure's diversified operating model amongst various categories of gyms, the time taken to open a gym may vary based on a variety of factors.
  - The general case though is, if the building is new, three months from signing heads of agreement and includes the fitout (6 – 8 weeks), pre-sales (8 weeks) and execution of appropriate documentation.
  - If the building is of an older construction date, it could require 3 months for the fitout. One of the key considerations when opening a new gym is the ensuring there is appropriate flooring, largely to minimise vibration impact for other tenants.
  - If the building is not yet constructed, it could be a period of up to 12 months.

- **Technological differentiation**
  - Whilst Viva Leisure utilises its technological advantage in sourcing new sites and tracking member data, they also leverage it to add value to members through a variety of market leading enhancements.
  - Viva is also able to utilise significant live data metrics to identify the overall cancellation risk of a member. Each individual member gets a different score that is presented in a gauge format. For example, if a member has not visited for a significant period of time, they would likely be of a higher risk of cancellation.

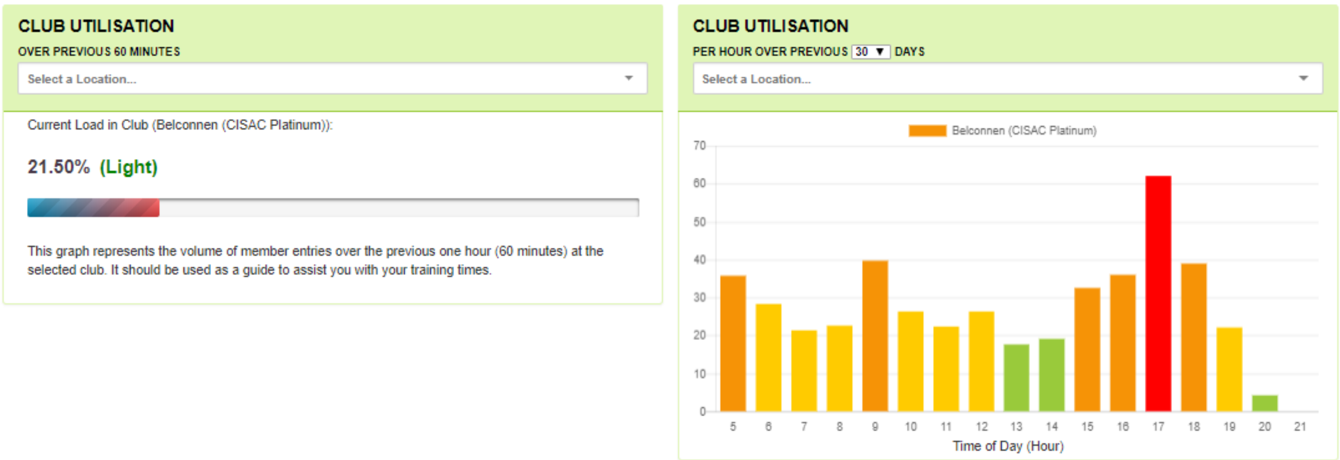
Figure 16: Cancellation indicator



Source: Viva Leisure

  - Another key area of technological differentiation is through the Club Lime dashboard. Members are able to log in and track their own personal data (e.g. visits per month etc.).
  - Members are also able to view club utilisation data too. Members are able to select any Viva Leisure location and see a live club load and utilisation figure. They are also able to see historical data in order to identify where there is likely to be the least demand.
  - Members are also able to see a life schedule of classes for all locations through the web portal.

Figure 17: Portal club utilisation



Source: Viva Leisure

Figure 18: Class schedule

By Class Name | By Class Day | By Location

SEARCH CLASS BY DAY

Saturday

Time	Length	Class Name	Teacher	Studio	Location
07:00	45 Mins	HIIT	Josh	FUNCTIONAL ZONE	KIPPAX
07:30	30 Mins	METAFIT	Emma	PINK STUDIO 1	CISAC, BELCONNEN
07:30	30 Mins	GRIT STRENGTH	Szabina	LIME STUDIO 1	KINGSTON
08:00	30 Mins	GRIT STRENGTH	Damien	LIME STUDIO 1	GUNGAHLIN
08:00	45 Mins	BODYATTACK	Ashleigh	LIME STUDIO 1	KINGSTON
08:00	60 Mins	BODYATTACK	Adam	LIME STUDIO 1	CISAC, BELCONNEN
08:00	45 Mins	CYCLE VIBES	Sherry	LIME STUDIO 2	CISAC, BELCONNEN

Source: Viva Leisure

- **Member engagement**
  - Viva Leisure aims to build positive member rapport by maintaining contact and utilising member historical data to help ensure members are satisfied with the health club product.
  - Added benefits are that this can also lead to additional member referrals.
- **Quality assurance**
  - Viva Leisure started to implement quality assurance control certifications and associated measures from 2014.
  - These certifications are audited annually.
  - Viva Leisure has:
    - ISO 9001:2015 – Quality Management Systems
    - AS/NZS 4801:2001 Occupational Health & Safety Management Systems
    - ISO 14001:2004 Environmental Management systems
  - The ISO 9001:2015 certification requires seven key requirements to be satisfied in order to be awarded certification. These are:
    - Context of the organisation – monitoring both internal and external factors;
    - Leadership;
    - Planning;
    - Support;
    - Operation;
    - Performance evaluation; and
    - Improvement.
  - The key benefits derived from these certifications are largely surrounding minimisation of risk and improving service quality.

Key drivers

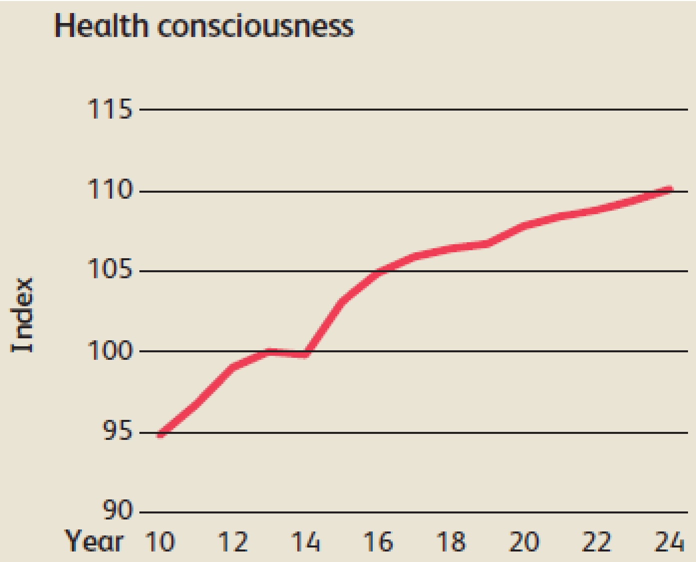
Recurring revenue and member return rates

- Over ~85% of Viva Leisure's revenue is derived from recurring fortnightly direct debit payments.
- Retention is up year on year by 1% point, while churn has fallen.
- Calendar year 2018 highlighted that 30% - 40% of new members joining club lime have been members at some point in the past.

Trend towards gyms and improving lifestyles

- Recent industry data tends to suggest that there has been a continued shift towards a health focussed approach.
- In part, this has been driven by the increased prevalence of social media influencers and television programs surrounding ultra-fitness challenges (e.g. Ninja Warrior).
- Per the Huffington post list of top fitness Instagram accounts, of the 10 accounts listed, there are a total of 40.8m Instagram followers. This highlights the overall exposure that this mix of fitness influencers are having through one platform alone.
- Other influencing factors that encourage potential members to join a gym are rising obesity rates. Per the Australian Institute of Health and Welfare research 2017, in 2014-15 just under two-thirds of Australian adults were obese or overweight, growing from 57% in 1995[2]
- Whilst rising obesity rates do not indicate a trend towards fitness, it does indicate that there may be an increased number of people looking to improve their lifestyle. The below highlights the increased rates of health consciousness as the population ages

Figure 19: IBISWorld health consciousness index



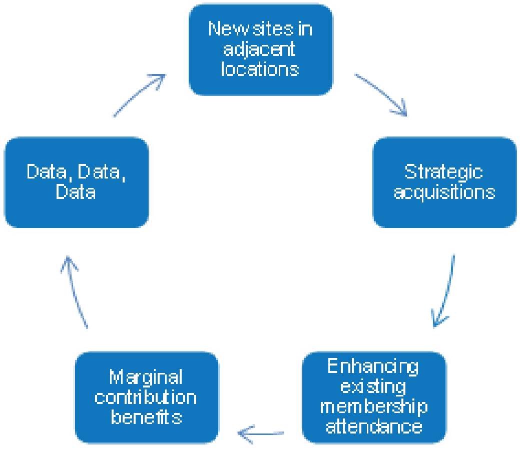
Source: IBISWorld

[2] https://www.aihw.gov.au/getmedia/172fba28-785e-4a08-ab37-2da3bbae40b8/aihw-phe-216.pdf.aspx?inline=true

Acquisition and greenfield strategy

- Viva Leisure have undertaken a combined acquisition and start-up approach in order to attain market share and help boost its incremental margin.
- Over FY17-FY20 Viva expects to build 23 and acquire seven clubs, and end FY20 with 47 clubs in operation.
- Viva have opened 12 greenfield sites in FY19 and acquired seven clubs, running ahead of the schedule provided in the prospectus. FY20 is expected to see a further 7 new clubs built.
- Viva Leisure maintain a strict acquisition criteria to ensure clubs opened or acquired are in-line with Viva Leisure's formula.
- Viva Leisure's recent openings have broken even at the EBITDA line within a short period time (within 6 weeks).

Figure 20: Viva Leisure expansion strategy



Source: Viva Leisure

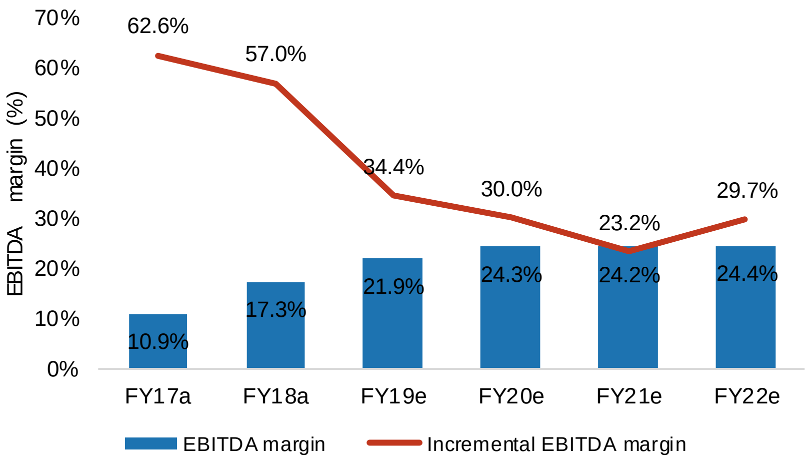
Regional focus

- Viva Leisure earn its competitive advantage by differentiating themselves from the large well known competitors within the Australian gym industry by opening locations within regional and Canberra markets.
- Part of the benefits attributable to focusing on these locations is that the cost of floor space is generally cheaper than in large cities.
- For example, Savills research from Q2 2018 the rental expense in Sydney (A-grade) for the period was $1,030 per m2. This means that a 700m2 property is likely to cost ~$721k per annum in rental expense.
- In contrast, Canberra Civic (A-grade) and Non-civic (A-grade) recorded values of $370 and $335 per m2 leading to annual rental expense of $259k and $235k.
- Based on the above, for every one Sydney 700m2 lease undertaken, 3 Canberra Non-civic gyms could be opened. Given one of the large overheads is rental expense, one of the clear benefits of the regional strategy is that lower rents help to improve overall margins.
- Other operating expenses, including, staff and administration expenses are generally not alleviated through regional operations. Rather, Viva Leisure aims to reduce these costs by implementing technological systems to automate as much of the process as possible. For example, fully-automated sign-ups.
- In FY19 (excluding Albury/Wodonga) and FY20, Viva expect EBITDA (including public company costs) margins of ~22% and ~24% respectively, up from 11% in FY17.

Additional concepts and incremental margin uplift

- In order to drive stronger EBITDA margins on a sustainable basis, Viva seeks opportunities to improve member yield atop the benefit of leveraging a fairly fixed overhead across more clubs.
- Viva Leisure have implemented a strategy of offering additional premium services to members such as access to exclusive services in the form of cycle classes and HIIT classes, upgrades to Platinum membership which offers access to all clubs in the network and aquatic/swim school memberships.
- These strategies provide for improved member yield without overt price rises.
- FY18 incremental EBITDA margins were 57% and 62.6% in FY17 versus reported margins in each year of 11% and 17% respectively.
- Moving into FY19 and FY20, Viva anticipate continued strong reported margin growth and incremental EBITDA margins which is encouraging in light of the roll-out schedule. We model relatively steady margins from FY21 onward, seeing this as a conservative assumption in light of the club economics and leverage in the overhead base.

Figure 21: Incremental margin and reported margin



Source: OML and Viva Leisure *FY19PF excludes the Albury/Wodonga acquisition ^FY20 onward excludes the impact of AASB16

Risks

Execution risk and reliance on membership

Due to Viva leisure's operating model offering "no contract" memberships, Viva Leisure is particularly exposed to execution risk.

Viva Leisure faces execution risk in the form of day-to-day management of the business. This includes management of budgets, people and individual locations. Management will also need to be diligent in assessing lease expirations, including finance and operational location leases.

Viva Leisure aim to mitigate this risk through the implementation of real-time reporting, analytics and operational technological enhancements. Viva Leisure are able to monitor facility engagement and customer satisfaction through a variety of previously discussed measures. Viva Leisure are therefore able to launch pre-emptive measures in order to mitigate any potential future execution risks coming to fruition.

Acquisition and start-up risk

Viva Leisure's current rapid rate of growth leads to the business facing heightened exposure to acquisition and new location start-up risk. This risk occurs in the form of a new business combination or built location not meeting growth or profitability expectations and requiring additional resources or liquidation.

In order to reduce the overall likelihood of acquisitions or new built locations not performing as planned, Viva Leisure's management undertake significant due diligence and utilise data analysis. Viva Leisure will leverage population statistics, proximity to current locations and previous acquisition experience to ensure that its acquisitions are successful. Viva's recent track record has had its last three recent Club Lime openings reaching break-even within 6 weeks.

In the history of its operations, Viva have only ever closed down one location. This was attributable to the property being at the end of its lease and the close-proximity to other newer locations. It should also be noted that this location was part of a purchase of four gyms.

Reputational risk

Viva Leisure could potentially suffer negative consequences should there be significant dissemination of negative publicity. The negative consequences could be in the form of non-renewal or cancellation of memberships, employee attrition and a reduction in the quality of talent attracted all combining to reduce Viva Leisure's capacity to earn.

Areas of risk that could drive negative publicity:

- Health and safety issues
- Maintenance of equipment and facilities
- Poor service
- Employment disputes
- Potential Australian consumer law breaches

Economic discretionary spend

As previously noted within the industry section of this report, there is currently economic pressure surrounding consumer discretionary spending. Given the substitute for a gym membership is exercising outdoors, Viva Leisure needs to ensure they are able to ensure consumers maintain their memberships.

Viva Leisure could also at risk should there be a decline in consumer discretionary spending attributable to adverse economic conditions.

Competition from new gyms, facilities and fitness concepts

Viva Leisure are potentially exposed to increased competition within the already saturated fitness and health club market. Given the large portion of consumers that select gym offerings based on location and convenience, Viva Leisure needs to ensure that they are either of significantly higher quality or they are able to compete on price.

Another area that Viva Leisure may be potentially impacted by are the ever-changing trends within the fitness market. Viva Leisure need to ensure that they remain on-trend and are able to target the next opportunity ahead of other competitors.

Concentration risk

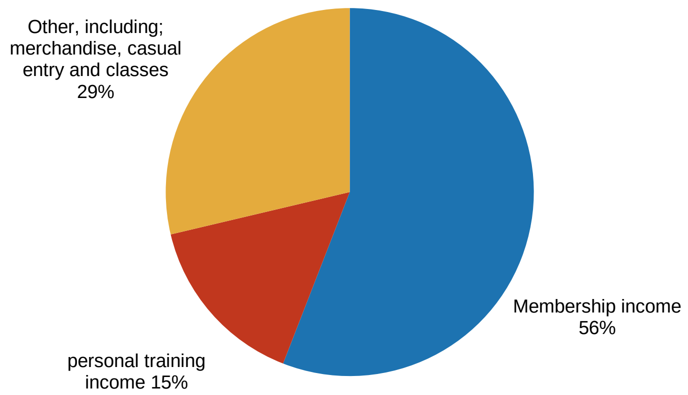
Viva expects to generate 39% of its revenue in FY19 from the CISAC site, dropping to 29% in FY20, across the Club Lime, MMM and aquatic operations. This has come down in concentration from FY18 (48%), but we note the site remains vitally important to group earnings. This concentration reduces over time as new sites are built or acquired. A number of competing operations exist around CISAC already, but further competition could impede the centre's earnings. We note that no proposed project is of the scale of CISAC nor as centrally located, helping to mitigate this competitive risk. Further, the club's rating on Google reviews is 4.3 stars (4.1 for MMM – Ladies).

Fitness and leisure industry

The fitness and leisure industry within Australian has seen significant growth over the past 5 years with 5.3% annual revenue growth from 2013 to 2018 (IBIS World). The 3,715 clubs operating within this segment range from small independent operators to the large consolidated holdings of Quadrant Private Equity.

Per Deloitte/IHRSA Asia Pacific Health Club 2018 research, one of the only markets within the Asian Pacific region to be deemed mature is the Australian market. At the time of issue, penetration rates in the Australian market were at 15.3% or 3.73m members (Health Club Management UK article). Whilst this is one of the strongest penetration rates in the APAC region, it does fall behind the United States at 20.3%.

Figure 22: Revenue breakdown

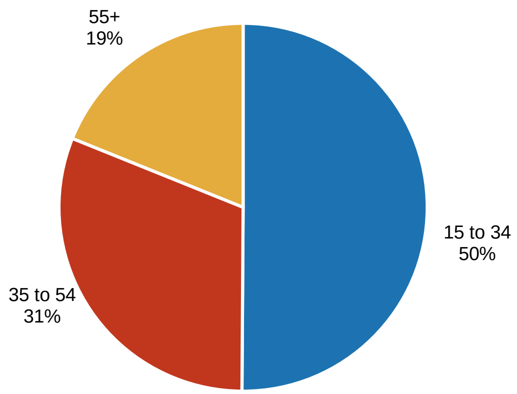


Source: Fitness Australia

Gym membership prices within Australia tend to vary from budget 24 hour gyms $12 USD (A$15.40) a week to super premium at $40 USD per week (A$51.20). We note these ranges to be slightly more expensive than majority of the Club Lime Silver memberships and slightly below the Platinum membership. The overall market size is estimated to be ~2,831m USD (A$3,624m) (Health Club Management UK article).

The main users of gyms in 2017 – 18 were the 15 to 34 year old demographic making up just over half of all gym users.

Figure 23: 2017 – 18 Market demographic breakdown



Source: IBISWorld

The past three years have seen increased saturation within the Australian market from the large gym operators within Australia. They make up ~38% of the market and have been continuously adding gyms in the past year.

Competitors

Quadrant Fitness and Lifestyle Group

- In late 2016, Quadrant Private Equity acquired a mix of some of Australia's largest fitness industry operators. One of the larger purchases was the Ardent Health Clubs business for $260m, representing 8.6x historical EV/EBITDA. The group now control ~27.5% of the fitness industry in Australia.
- The brands under the Quadrant umbrella, include;
  - Fitness First
  - Goodlife Health Clubs
  - Jetts Fitness
  - ZAP Fitness
  - Go Health Clubs (rebranded to Goodlife Health Clubs)
  - Vietnam-based CMG Asia
- Quadrant have been responsible for implementing a strategy focusing on; growing net member growth organically, 24/7 conversion of appropriate sites, increased technology, new products and greenfield and brownfield expansion.
- Fitness and Lifestyle group had >725k members and >470 gyms and >6,500 employees (prior to the CMG acquisition). The $200m CMG acquisition, made in early 2019, was completed at ~10x EBITDA with the group expected to add 100,000 members through Vietnam.
- The group recorded revenue of $526m and EBITDA of $95m for FY18 (18% EBITDA margin), up from $288m and $48m on pcp (16.6% EBITDA margin).
- Press articles indicate Quadrant is seeking ~$2b for the company, implying >17x EBITDA, ~3x sales. Articles indicate a sale to trade or another PE firm.

Functional 45 Training (F45)

- Established in Sydney's Eastern Suburbs by Rob Deutsch in 2012 and has 1,300 franchises across 36 countries. F45 is aiming for 8,000 by 2025[3].
- As at the end of 2017, F45 had ~360 clubs in Australia with ~200 new Australian clubs opening in the last three years.
- F45 operates under a different model to most of the established gym businesses in Australia. It offers a class based product that requires members to book prior to attendance.
- F45 differentiates from other brands by offering limited operating hours (generally mornings and evenings) and promoting a high fat loss circuit based intensive session.
- A typical session will generally include; a ~45 minute period spread out over 27 different stations. The gym will be staffed by a minimum of two trainers are any point with the purpose of assisting members with the exercises.
- Per the Sydney Morning Herald article published March 2017, 65% of members were female and membership is from ~$50 – ~$65 per week and dependent on location[4].
- At the time of publishing, franchise costs ~$150k ($100k of equipment) and franchisees pay $1.5k per month ($18k pa). Turnover was ~$400k pa per unit.
- The F45 model operates in a similar style to "hiit republic".

---

[3] https://www.afr.com/street-talk/private-equity-giant-tpg-limbers-up-for-f45-auction-20180918-h15ixs

[4] https://www.smh.com.au/business/small-business/f45-the-fastest-growing-franchise-youve-never-heard-of-20170317-gv05ki.html

Anytime fitness

- Anytime fitness is a global offering with ~450 clubs in Australia as at the end of 2017; 75 of these were new clubs added in the three years prior.
- Anytime differentiated to the market through its 24/7 budget operating model which has seen particularly high prevalence in NSW.
- As at May 2018, Anytime had ~4,000 locations in 30 countries[5].
- Anytime have proven popular in Australia due to its low cost, high convenience operating model and technologically advanced gyms.

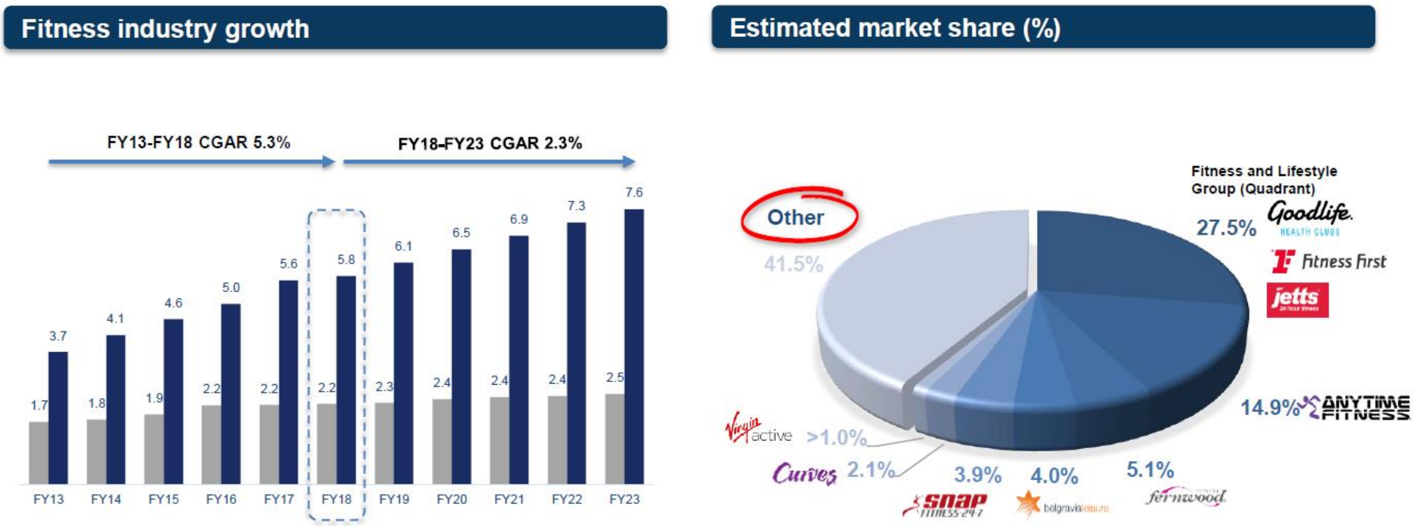
Fernwood

- Opened in 1989 and has ~70 fitness clubs in operation, with a number operating 24/7.
- Fernwood differentiate themselves through a "female only" offering with prices starting from $22 per week.
- Fernwood also offer additional services, including; meal planning, videos and 24 hour support from a women's only community.

NextGen Fitness

- Nextgen fitness offer full-service facilities within the Australian (6 clubs) and New Zealand (1 club) markets, usually based around tennis facilities.
- The NextGen facilities include fitness and workout equipment, pool, tennis courts, bar, restaurant and meeting rooms.
- The NextGen Canberra facilities also include 24 tennis courts, including 12 clay courts.
- NextGen are a premium service offering, which is reflected in its prices.

Figure 24: Industry breakdown



Source: IBISWORLD, Gyms and Fitness Centres in Australia May 2018

5 https://www.bizjournals.com/pittsburgh/news/2018/05/30/tecum-takes-stake-in-gym-franchisee.html

Locations

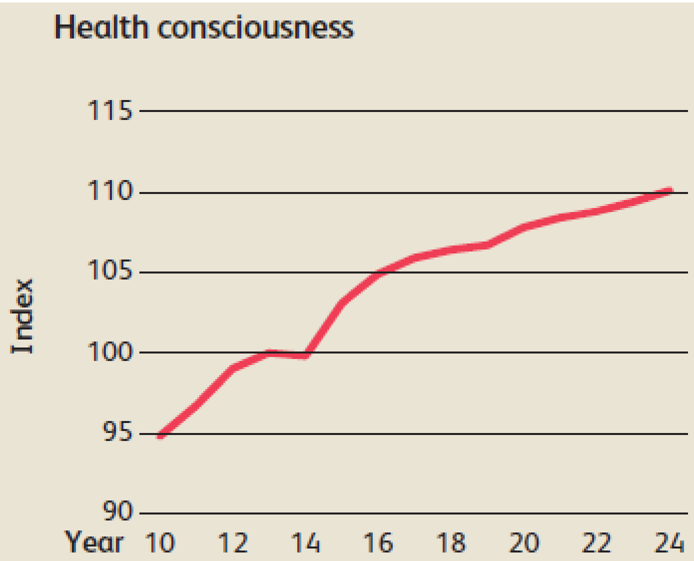
Location tends to be a significant factor in determining gym selection. Members are more likely to select a facility based on its proximity to their work or home when compared to other selection criteria.

Future trends

Healthy living and lifestyle

Whilst the trend towards healthy living and lifestyle is being bolstered by changing consumer values. Cardiovascular disease and obesity are currently on the rise. Per the Australian Institute of Health and Welfare research 2017, in 2014-15 just under two-thirds of Australian adults were obese or overweight, growing from 57% in 1995[6].

Figure 25: IBISWorld health consciousness index



Source: IBISWorld

Maturity and shift toward 24 hour offering

The overall fitness industry appears to be highly mature and saturated with a large amount of smaller brands and large brands with a significant number of locations. This type of market profile is likely to lead to slower revenue growth over the next 5 years. IBISWorld forecasts revenue growth over the next five years to slow to 2.3%[2].

Two key drivers of this slow down appears to be a decline in discretionary consumer spending and a shift towards lower cost 24 hour gyms.

Viva Leisure attempt to take advantage of these trends by keeping its membership fees comparatively lower promoting a shift from other gyms with higher membership costs. In addition, a large percentage of Viva Leisure's facilities are 24 hours and would therefore be able to meet this continued shift in consumer preference.

[6] https://www.aihw.gov.au/getmedia/172fba28-785e-4a08-ab37-2da3bbae40b8/aihw-phe-216.pdf.aspx?inline=true

What happened with Ardent Leisure Health Clubs?

- The Ardent Leisure Health Clubs business grew rapidly over eight years before being sold to Quadrant private equity in 2016 for $260m, representing an EV/EBIDA multiple of 8.6x.
- The business was seeded in 2007 by the purchase of a network of Good Life gyms, and grew through amalgamation of a number of small club networks, one-off clubs and greenfield developments. By FY16 the segment made $188m of revenue and $30m of EBITDA before being sold in early FY17.

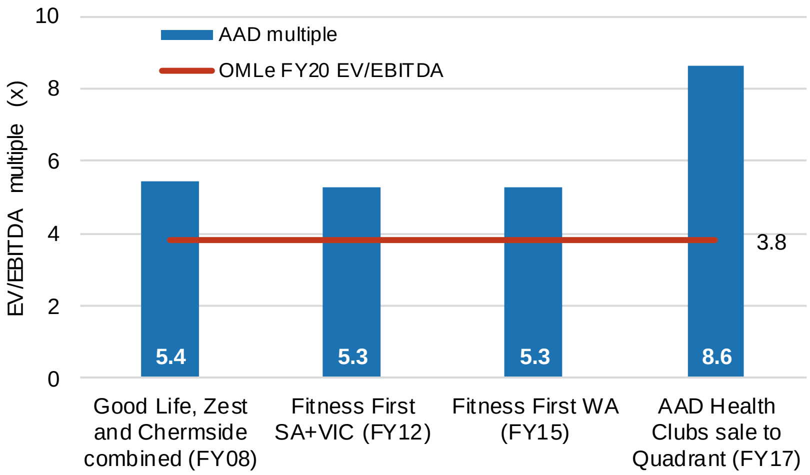
Where did it start?

- The genesis of the business was the purchase of 18 Good Life clubs, another Good Life club in Chermside and 10 Zest Health Clubs by the Macquarie Leisure Trust during FY08. The total capital deployed to acquire all three businesses was ~$74m, which when combined with a number of greenfield opportunities led to FY09 EBITDA of $13.7m, implying a blended EBITDA multiple of ~5.4x.
- In FY12 and FY15, Ardent respectively acquired Fitness First networks in SA/VIC and WA on multiples of ~5.3x each.
- Ardent rolled out a significant number of new clubs over its eight years of ownership and continued to make small acquisitions.

How do the multiples paid compare with OMLe valuation range for Viva?

- The chart below shows a comparison of the valuations paid by Ardent for its networks and for Ardent's business by Quadrant compared with our valuation range for Viva Leisure.
- We note that our low-end valuation is below the private multiples paid by Ardent for the larger networks it acquired and a 38% discount at the top-end to the eventual price paid for the Ardent business on acquisition by Quadrant.
- This underpins our valuation range, with Viva arguably at least deserving a private market multiple, but not warranting a takeover multiple at the top-end.

Figure 26 – Multiples paid for Ardent clubs vs OML Viva valuation



Source: OML and AAD

What went wrong, and what were the remedies?

- Ardent grew EBITDA in its Health Clubs segment from $13.7m in FY09 (first full year of ownership of Good Life and Zest) to ~$34m at its peak in FY14.
- Despite buying the Fitness First WA business for $32.5m in FY15 and expecting forward EBITDA of $6.2m, FY16 EBITDA for the segment was just $30.1m, implying a significant slowdown in the underlying operations.
- This slowdown was driven by:
  - Member market share losses to 24 hour clubs, which were expanding rapidly at that time
  - Slowing constant club growth driven by poor member growth
  - A step-up in head office costs to support the expanded network
  - Lower margin clubs acquired in the Fitness First WA deal
- Leading into the sale to Quadrant, Ardent began to see an improvement in results from the segment, driven by conversion of a number of clubs to 24/7. AAD reported that in FY16 those clubs that were converted to 24/7 had experienced a 34% increase in sales and that gross member losses had slowed by 18%% on pcp. Ardent also focussed on selling higher level memberships, which assisted the pricing mix and drove yield.
- The charts below show overall EBITDA results at left and constant club growth at right. We see that the lost market share to 24/7 clubs precipitated a sharp turn down in AAD Health Club's constant centre revenue and EBITDA growth, with FY15 seeing a constant centre revenue decline of 6.2% translate into a 17% EBITDA contraction.
- By the time of the sale to Quadrant, AAD had converted 45 of its clubs into 24/7 operation, with plans to convert a further 19 by the end of FY17.

Figure 27 – EBITDA and EBIT margin

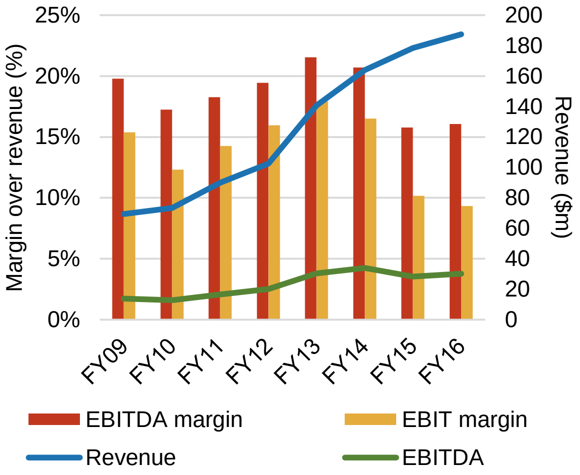
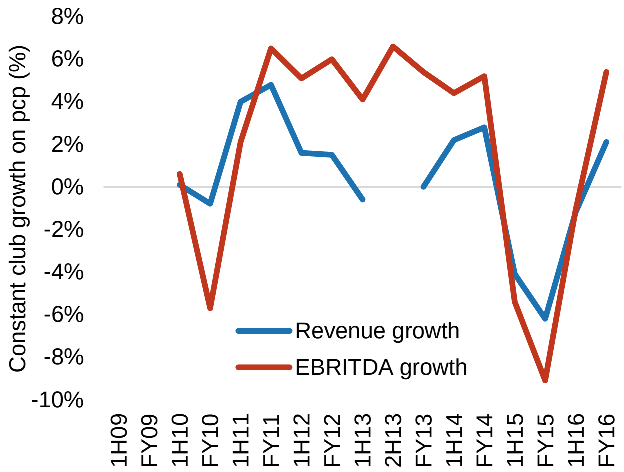


Figure 28 – Constant club growth



Source: OML and AAD

How much capital was deployed, and what were the returns?

- Over the eight years the segment was held by Ardent, ~$335m of cumulative capital was expended on the business, with $235m of that on acquisitions and ~$100m on development and maintenance capex. This led to an EBITDA return on cumulative capital deployed in FY16 of ~9% and ~5% at EBIT. On segment assets, FY16 EBITDA ROA was 12% and 7% at EBIT.
- As compared with Viva, FY19PF is set to deliver an EBITDA ROA of ~18% and EBIT ROA of ~12%, highlighting the benefit of growing off a small base and the superior return profile of regional clubs.

Figure 29 – ROIC on cum. capital deployed

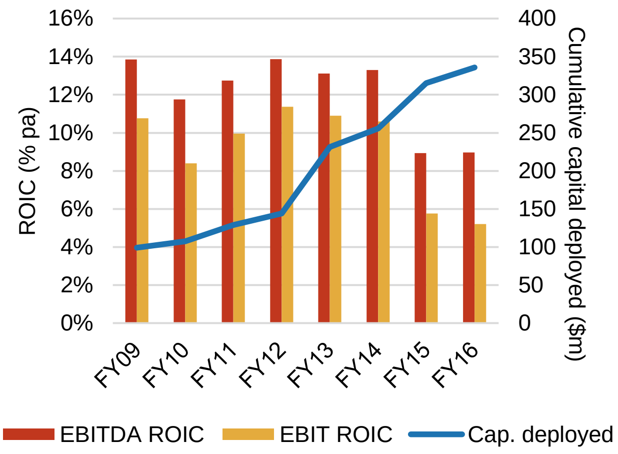
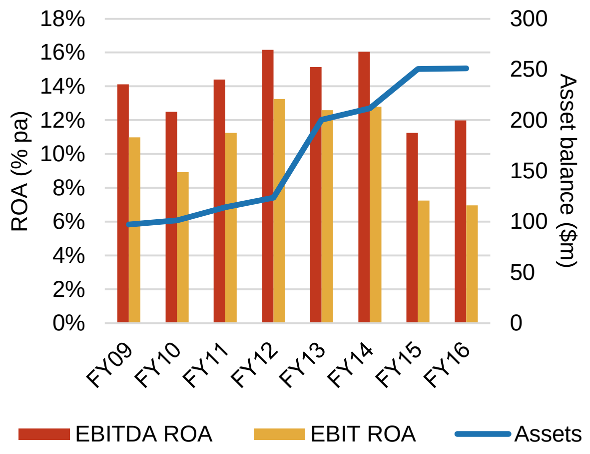


Figure 30 – Return on segment assets

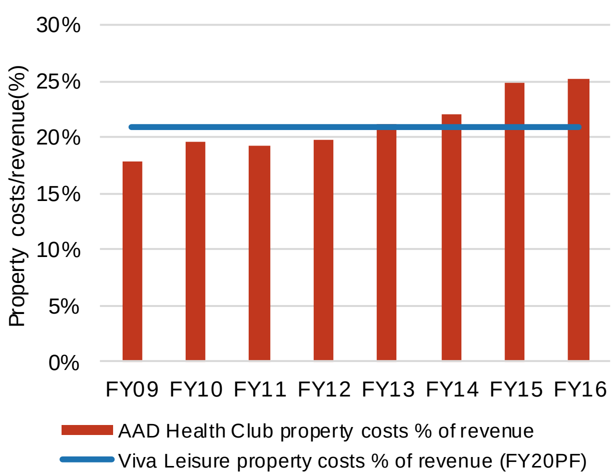


Source: OML and AAD

What were Ardent's margins and rental expense as a % of revenue?

- AAD Health Club's property costs as a proportion of revenue increased consistently over time, and following the Fitness First WA acquisition, rose to ~25%. This compares with Viva's FY19 ratio at ~21%.
- Ardent's EBITDA margin maxed out at ~21.6% in FY13, and bottomed at 15.8% in FY15 when the 24/7 market share losses were most felt. We see Viva operating at a 24% EBITDA margin in FY20PF, which is already better than AAD at its best. This is owed to:
  - A better ratio of membership revenue to rental cost (ie CBD gyms cost more to rent than regional gym's, but member yields are similar)
  - Technology is imbedded throughout the business to maintain lower staffing levels to clubs established without 24/7 at the outset

Figure 31 – AAD vs Viva property costs:revenue



Source: OML, Viva and AAD

Comparable listed companies

Domestic tourism and leisure: These businesses focus on leveraging a fixed asset base across a base of discretionary customers. Often these assets are leased and EBITDA margins are in the range of 15-25%.

Domestic discretionary and healthcare: Retailers and fixed asset healthcare companies also operate with high fixed lease obligations and are subject to both discretionary and recurring consumers. Fitness can be considered non-discretionary for some and discretionary for others, making a retailers/health blend sensible.

International fitness centres: We have identified seven international fitness club businesses that provide fairly direct comps to Viva.

Figure 32 – Domestic and international comps

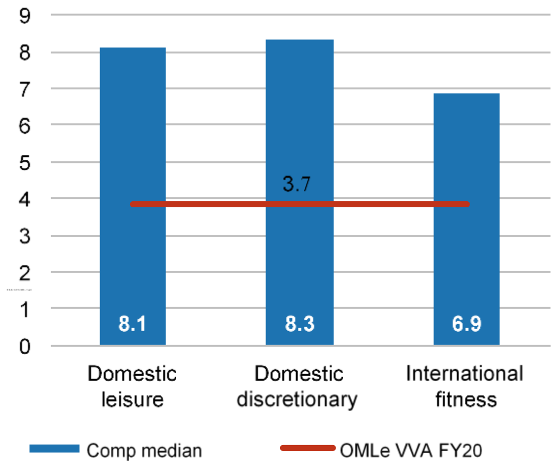
Domestic leisure										
		Mkt Cap	PE		EV/EBITDA		EPS Growth		PEG	
Code	Company	AUD	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
EVT AU	EVENT Hospitality and Entertainment	2,045	18.1	17.4	9.7	9.4	-9%	4%	-	3.92
VRL AU	Village Roadshow Ltd	542	23.3	17.9	6.0	5.5	n/a	n/a	-	-
ALG AU	Ardent Leisure Group Ltd	537	-	53.3	11.5	8.1	n/a	n/a	-	-
THL NZ	Tourism Holdings Ltd	444	16.8	14.4	6.2	5.9	-38%	17%	-	0.86
SLK AU	SeaLink Travel Group Ltd	377	16.0	14.0	9.8	9.1	6%	14%	2.70	1.02
EXP AU	Experience Co Ltd	128	15.3	14.4	5.5	5.2	-48%	7%	-	2.16
ATL AU	Apollo Tourism & Leisure Ltd	80	5.1	5.0	4.9	4.6	-22%	1%	-	4.25
	Average (excl. EXP/ATL)		**18.5**	**23.4**	**8.6**	**7.6**	**-14%**	**12%**	**2.70**	**1.94**
	Median (excl. EXP/ATL)		**17.5**	**17.4**	**9.7**	**8.1**	**-9%**	**14%**	**2.70**	**1.02**

Domestic discretionary & health (mkt cap <$500m, FY20 EPSg >5%)										
		Mkt Cap	PE		EV/EBITDA		EPS Growth		PEG	
Code	Company	AUD	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
IDX AU	Integral Diagnostics Ltd	484	18.1	16.9	11.2	10.5	31%	7%	0.59	2.40
VRT AU	Virtus Health Ltd	364	13.2	12.3	8.4	8.1	-12%	7%	-	1.76
CCX AU	City Chic Collective Ltd	358	22.7	19.6	13.2	11.3	n/a	16%	-	1.23
MVF AU	Monash IVF Group Ltd	336	16.0	15.0	11.0	10.3	-5%	7%	-	2.22
PFP AU	Propel Funeral Partners Ltd	315	25.4	23.0	12.9	10.6	4%	10%	6.15	2.23
BBN AU	Baby Bunting Group Ltd	279	19.6	15.1	10.9	8.6	61%	29%	0.32	0.52
BLX AU	Beacon Lighting Group Ltd	233	14.4	13.1	8.3	7.5	-19%	9%	-	1.39
MHJ AU	Michael Hill International Ltd	221	9.3	8.1	4.3	3.9	-10%	15%	-	0.55
CAJ AU	Capitol Health Ltd	189	20.4	14.4	8.2	7.3	-8%	42%	-	0.35
PSQ AU	Pacific Smiles Group Ltd	179	19.3	17.6	8.4	7.5	-10%	10%	-	1.79
ONT AU	1300 Smiles Ltd	150	18.5	16.2	10.4	9.0	-4%	14%	-	1.16
NVL AU	National Veterinary Care Ltd	145	17.0	14.4	11.1	9.2	22%	18%	0.77	0.80
TNK AU	Think Childcare Ltd	102	16.2	11.7	8.7	6.3	-2%	38%	-	0.30
HLA AU	Healthia Ltd	51	10.3	8.4	7.1	5.2	na	23%	-	0.37
	Average		**17.2**	**14.7**	**9.6**	**8.2**	**4%**	**18%**	**1.96**	**1.22**
	Median		**17.5**	**14.7**	**9.5**	**8.3**	**-4%**	**14%**	**0.68**	**1.20**

Offshore fitness centres										
		Mkt Cap	PE		EV/EBITDA		EPS Growth		PEG	
Code	Company	AUD	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
PLNT US	Planet Fitness Inc	10,199	49.8	40.1	29.9	25.6	28%	24%	1.76	1.67
BFIT NA	Basic-Fit NV	2,802	42.0	29.5	11.4	9.0	29%	42%	1.45	0.70
TVTY US	Tivity Health Inc	1,116	7.0	6.9	8.0	7.3	8%	2%	0.88	3.58
8462 TT	Power Wind Health Industry Inc	816	29.7	-	27.3	-	52%	-	0.57	-
GYM LN	Gym Group PLC/The	613	22.8	18.2	8.2	6.5	31%	n/a	0.73	n/a
SPORTS MM	Grupo Sports World SAB de CV	113	-	-	5.2	4.2	n/a	n/a	n/a	n/a
ATIC SS	Actic Group AB	62	7.4	7.0	5.7	5.6	2%	5%	3.77	1.55
	Average		**26.4**	**20.4**	**13.7**	**9.7**	**25%**	**18%**	**1.53**	**1.87**
	Median		**26.2**	**18.2**	**8.2**	**6.9**	**29%**	**14%**	**1.16**	**1.61**

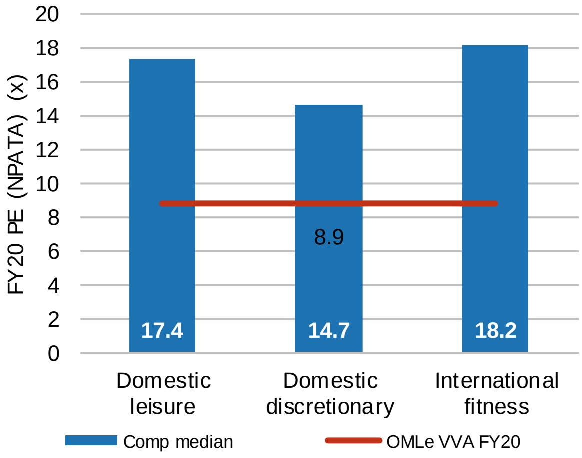
Source: OML and Bloomberg *prices as at 24 Apr 2019

Figure 33 – EV/EBITDA comps



Source: OML and Bloomberg

Figure 34 – PE comps



Source: OML and Bloomberg *Viva multiple presented ex-cash

Domestic leisure comps

- The domestic leisure comp set relates to Viva in that these companies:
  - Often carry high fixed overheads and so are driven by asset utilisation and price to improve margin
  - Operate with 15-25% EBITDA margins
  - Rely on providing good customer experience to drive repeat business
  - Are broadly exposed to the discretionary consumer wallet
- The comp set trades on a median FY20 EV/EBITDA multiple of 8.1x excluding EXP and ATL, which has had a difficult couple of years.
- We believe Viva deserves a discount to these comps given its size, lack of listed history, sector thematic/overhang and emerging nature of its growth story. As such, our FY20 EBITDA multiple of 5.5x offers a discount of ~32% vs the median domestic leisure multiple (excl. EXP and ATL).

Domestic discretionary and health

- The domestic discretionary and health comp set also relates as these companies are:
  - Exposed to discretionary and non-discretionary spend
  - Often focussed on greenfield rollout and acquisition-led growth
  - Exposed to a range of landlords and lease terms
  - Geographically spread across their networks
- The comp set trades on a median FY20 EV/EBITDA multiple of 8.3x. For similar reasons to those noted above, we believe Viva deserves a discount to this comp set, with our 5.5x FY20 EV/EBITDA range implying a ~34% discount to the median.

International fitness centres

- The international fitness centre comp set offers the most direct comparable to Viva, but these stocks are listed in the US, UK, Mexico, The Netherlands, Sweden, Taipei which makes multiple comparison difficult given the varying market forces driving valuation on each exchange. We note the median FY20 EV/EBITDA is 6.9x, but these range from 4.2x to 25.6x. We see solid EPS growth coming through most businesses, ranging from 2-42% for FY20. Viva expects to grow FY20 EBITDA by 58% including acquisitions.

Recommendation, valuation and price target

Recommendation

- We initiate with a Buy recommendation, seeing the business well placed to continue expanding its footprint in regional Australia through concerted club roll-outs and sensible roll-ups.
- The market seems tarred by the poor experience felt with Ardent Leisure's Health Clubs business, which is unfair. The turmoil of that business was driven by the proliferation of 24/7 clubs and a slowness in response. Viva has 24/7 at the core of its operating model and is already producing superior EBITDA margins.
- With the business delivering on its club opening pipeline ahead of prospectus expectations, we see upside risk to our forecasts which are set in line with prospectus for FY19 and FY20.
- Moving forward to FY22, we forecast a conservative 55 clubs (from 47 at end-FY20) at which point we assume NPATA of $6.4m. Applying a 15x multiple to this implies a market cap of $96m, double where the business sits today.

Valuation

Discounted cash flow (DCF) – Captures the long-term nature of Viva's greenfield and acquisition plans, Viva's finance leases and strong cash flow conversion.

Our DCF is driven by the following assumptions:

- Two greenfields and two acquired clubs per annum
- FY21-26 member growth per club and yield per member of ~1.0-1.5% each
- Flat EBITDA margins FY20-26 vs currently expanding margins

We capture all capex and finance lease payments in our free cash flow forecasts (and hence use gross cash to exclude finance leases), so as to appropriately account for all expenditures on maintenance and expansion capex.

Our assumed two greenfields and acquisitions per annum from FY21 onward is a very conservative number given the current pace of expansion, planned seven greenfields in FY20 and sizable balance sheet for deployment into roll-ups.

Figure 35 – DCF valuation

DCF inputs	
Beta	1.20
Risk free rate	5.0%
Market risk premium	6.0%
Cost of equity	12.2%
Debt premium	4.0%
Cost of debt (after tax)	6.3%
D/E	0.0%
WACC	**12.2%**
Terminal growth rate	**2.0%**

DCF valuation	
Forecast cash flows ($m)	22.9
Terminal value ($m)	34.0
Enterprise value ($m)	**56.9**
add FY19e gross cash ($m)	13.2
Equity value ($m)	**70.1**
Equity value per share ($)	$\boxed{1.33}$
CAGR (FY18-26)	
Members	10.5%
Revenue	13.0%
EBITDA	18.0%
Normalised NPATA	17.4%
FY20PF metrics	
Implied FY20PF EV/EBITDA (x)	5.0
Implied FY20PF PE NPATA (x)	13.1
Implied FY20PF PE NPATA (ex-cash) (x)	10.7

Source: OML

FY20 EV/EBITDA comp – compares Viva to other domestic leisure and discretionary businesses, as well as international fitness centres. We apply an FY20 EV/EBITDA multiple of 5.5x to FY20 EBITDA, implying a discount of ~30% to the most direct comparable.

We see a discount to these already listed comps as reasonable in light of Viva's lack of listed history, emerging expansion strategy into new, less known markets, finance leases (can distort EBITDA comparisons) and Viva's micro-cap status.

The company intends to invest the excess cash on the pro-forma balance sheet into new clubs, making it sensible to assess Viva's implied PE on an "ex-cash" basis. Excluding the cash from our equity valuation sees an FY20 PE (NPATA) ratio is 11.7x versus a current ratio of 8.2x.

Figure 36 – FY20 EV/EBITDA valuation

FY20 EV/EBITDA valuation	
FY20PF EBITDA ($m)	11.4
EV/EBITDA multiple (x)	5.50
Enterprise value ($m)	**62.6**
add FY19e net cash ($m)	5.2
Equity value ($m)	**67.8**
Equity value per share ($)	1.29
FY20PF metrics	
Implied FY20PF EV/EBITDA (x)	5.5
Implied FY20PF PE NPATA (x)	12.7
Implied FY20PF PE NPATA (ex-cash) (x)	11.7

Source: OML

Price target

Price target – Based on the average of our DCF and EV/EBITDA valuations, rolled forward at our cost of equity, we derive a price target of $1.50 per share for Viva, implying 69% upside to the current price.

Figure 37 – Price target derivation

Price target derivation	
DCF valuation ($ ps)	1.33
FY20 EV/EBITDA ($ ps)	1.29
Average	**1.31**
Cost of equity (%)	12.2%
Rolled-forward valuations ($ ps)	**1.50**
Less dividend ($ ps)	0.00
One-year forward price target ($ ps)	**1.50**
FY20PF metrics	
Implied FY20PF EV/EBITDA (x)	6.5
Implied FY20PF PE NPATA (x)	16.2
Implied FY20PF PE NPATA (ex-cash) (x)	13.8

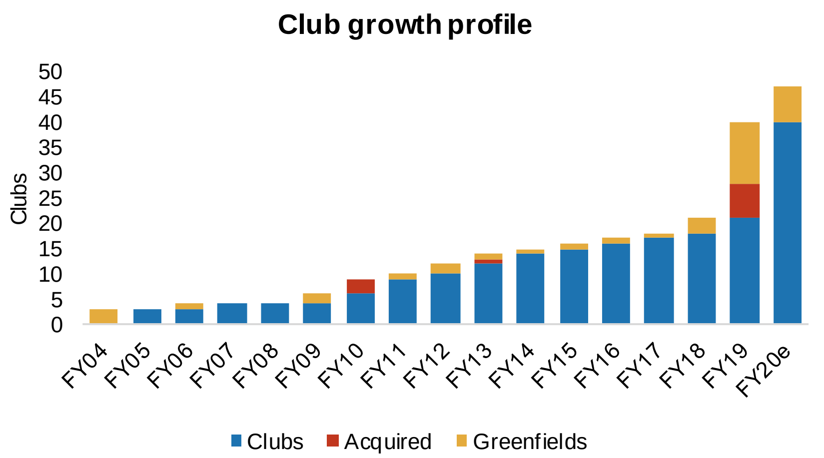
Source: OML

Financials

Clubs

- Viva has grown from just one club in 2004 to 40 by the end of FY19, with 12 added via greenfield development and seven by acquisition in FY19 alone. By the end of FY20, Viva anticipates a network of 47 clubs thanks to a further seven greenfield developments.
- Expansion of the network is important for:
  - Building a network effect (ie holding critical mass of clubs in a region provides a more convenient experience for the local populous)
  - Diversifying revenue concentration away from CISAC
  - Growing into new regions and providing new platforms for growth
  - Driving scale efficiencies across the overhead base
- Viva takes a different approach to new site rollouts and acquisitions, operating club models across a broad range of club sizes, providing a more agile rollout and growth path.
- Below we show the club count and combined club square metres across the network over FY16-FY20.
- We have also seen members per sqm rise in recent years to now sit at 1.55 following two acquisitions. With Viva indicating a "capacity" of 2 members per sqm, we see 29% upside to current member levels, absent new sqm being added to the network. This provides for >15k new members before the business would reach theoretical capacity.

Figure 38 – Club numbers



Source: OML and Viva

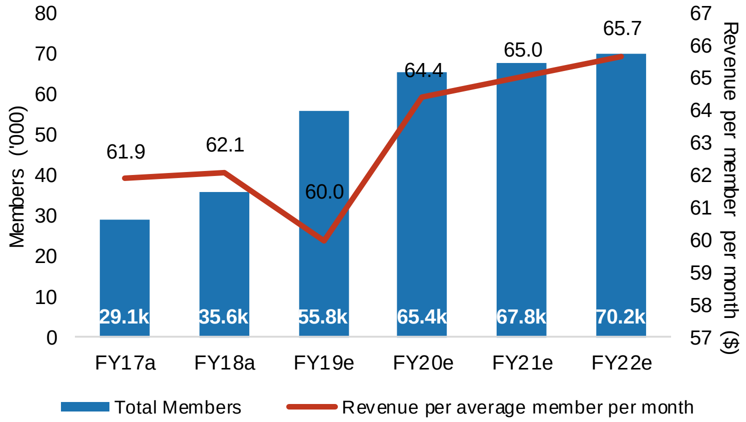
Acquisitions and greenfields

- Viva have developed 27 of its 40 clubs at end-FY19, with the remainder having been acquired from various vendors.
- While Viva expects to open 7 new clubs in FY20, it remains well positioned over the long-term to continue both organically roll-out and acquisitively roll-up – focussed on regional areas.
- With Viva's flexible club size model, new clubs can range from 300sqm to 2,000sqm, making it difficult to estimate the approximate expenditure expected for each opportunity. We expect a 500-1,000sqm club to cost ~$250k to fit out and $400k to fill with leased equipment.
- Among recent opening, Viva has broken even at the EBITDA line within a matter of weeks, indicating a strong pre-opening sale campaign and solid site selection discipline. We expect a payback period on a new club to be less than two years.

Members and revenue per member

- Viva has grown its member base at a CAGR of >10% over the five years to Apr-19 thanks to new club openings, acquisitions and better utilisation.
- Between FY17 and FY20, Viva expects to increase its monthly revenue per average member from $62 in FY17 to ~$64 in FY20PF, representing a CAGR of 1.3%, which is not a trivial accomplishment in what is a very mature market. We have not increased our revenue assumptions beyond prospectus, while member numbers have run ahead, implying upside to member yield metrics.
- Revenue per member going forward is likely to be driven by minimal headline pricing changes, but more so by improving:
  - the mix of premium memberships
  - the mix of "add-on" memberships to HIIT Republic and Psycle Life
- Member growth will be driven by new clubs, acquired clubs and increased capacity utilisation. With current utilisation at 1.55 members per square metre, we see ample headroom to the current membership base on the current combined club network.

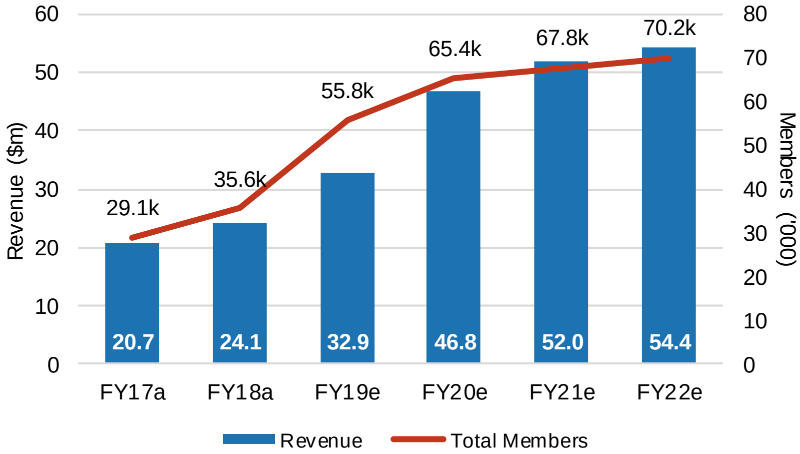
Figure 39 – Members and revenue per member per month



Source: OML and Viva

- In summary, our revenue forecasts are driven by:
  - Club network, whether greenfield or acquired
  - Member numbers, driven by members per club
  - Revenue per member per month

Figure 40 – Members and revenue per annum

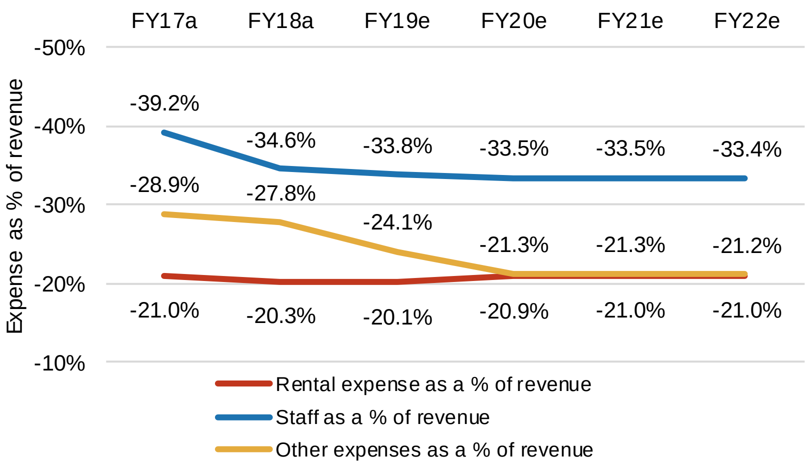


Source: OML and Viva

Operating expenses

- Viva's expenses are largely fixed, and broken down as:
  - Rental expenses across all clubs
  - Staff costs relate to regional managers, head office staff and club staff
  - Other expenses include items such as marketing, insurance, bank fees, supplies, repairs and maintenance and utilities
- We show below how these costs have tracked over time against revenues. We see that rental expense has been a fairly consistent 20-21%, while staff and other costs have reduced as a proportion of revenue over the period.
- We expect rental expense to remain at similar levels, and any operating leverage to present through the staff and other expense lines.
- Listed company costs add another layer of expense to the business and are captured below in "other expenses".
- While new clubs bring additional expense, the current Viva fixed overhead base retains capacity for a number of new clubs, supporting operating leverage for the group as developments turn to profit at the club level.

Figure 41 – Expenses as a % of revenues



Source: OML and Viva

P&L summary and new reporting standards (AASB16)

- It bears noting that Viva will adopt AASB16 from FY20 onward, which has significant effect on reported profits, with EBITDA close to doubling, and NPAT close to halving. This is owed to the operating leases Viva carried on its clubs and the way the new reporting standard treats lease payments. This has no impact on cash flow, and in fact, we see FY20 NPAT of $2.6m converting into a net cash inflow of $4.8m, highlighting the importance to look at underlying profitability and cash flow rather than simply the reported P&L.
- In essence, the new reporting standard has the effect of:
  - Removing all rental expense from the opex line
  - Creation of a "right of use asset" which is depreciated over time
  - Apportioning of the rental expense into an interest cost
  - Inflating EBITDA and understating NPAT
- The longer the lease terms are, the more impactful the standard is on the P&L at the outset, weighing on NPAT in early years and boosting in later years. As Viva will continue to enter new, long-dated leases, the new standard will likely continue to be a drag on NPAT, but will have no impact on cash flow.
- For FY20, Viva note that "The adjustments include removal of operating rental expenses of approximately $9.8m and addition of lease interest expense of approximately $6.0m and right of use amortisation expense of approximately $7.6m. This creates an overall adjustment to NPBT of approximately ($3.8m)".
- **Our FY19 forecasts below do not include a pro-forma adjustment for the Albury/Wodonga acquisition, and rather represents statutory NPAT with IPO costs added back and ongoing company costs subtracted. Hence, they differ to the pro-forma forecasts for FY19 in the prospectus, but represent an underlying view of the business.**

Figure 42 – P&L overview

P&L	FY17a	FY18a	FY19e	FY20e	FY21e	FY22e
Revenue	**20.7**	**24.1**	**32.9**	**46.8**	**52.0**	**54.4**
Overheads (ex-D&A)	-18.5	-20.0	-25.7	-35.4	-39.4	-41.1
EBITDA	**2.3**	**4.2**	**7.2**	**11.4**	**12.6**	**13.3**
D&A	-1.4	-1.5	-2.4	-3.3	-3.7	-3.8
EBIT	**0.8**	**2.6**	**4.8**	**8.1**	**8.8**	**9.5**
Net interest	-0.5	-0.5	-0.7	-0.8	-0.3	-0.3
PBT	**0.3**	**2.1**	**4.1**	**7.4**	**8.5**	**9.2**
Tax expense	0.3	0.1	-1.1	-2.0	-2.3	-2.5
Normalised NPATA	**0.6**	**2.2**	**3.0**	**5.3**	**6.2**	**6.6**
One-offs, AASB16 adj.	0.0	0.0	-0.4	-3.2	-3.2	-3.1
Reported NPAT (AASB16)	**0.6**	**2.2**	**2.5**	**2.1**	**3.0**	**3.6**
Revenue growth	12.5%	16.3%	36.4%	42.3%	11.0%	4.6%
Overheads (ex-D&A) growth	4.9%	7.9%	28.9%	37.9%	11.2%	4.3%
EBITDA growth	178.9%	85.5%	72.4%	58.1%	10.5%	5.7%
Incremental EBITDA margin	62.6%	57.0%	34.4%	30.0%	23.2%	29.7%
EBITDA margin	**10.9%**	**17.3%**	**21.9%**	**24.3%**	**24.2%**	**24.4%**
Normalised NPATA growth	-148.5%	281.5%	36.6%	79.9%	15.8%	7.7%
Normalised EPS (diluted)			5.6	10.1	11.7	12.6
Reported EPS (diluted)			4.8	4.0	5.7	6.8
Normalised EPS (diluted) growth				79.9%	15.8%	7.7%

Source: OML and Viva *figures based on pro-forma, not statutory

Working capital and cash flow

- Viva runs a negative working capital balance, with payables far out-stripping accounts receivable and inventories. This provides for solid operating cash conversion from EBITDA.
- Conversion in FY18 was low due to related party payables being reduced, and hence the negative working capital position shortening somewhat. Going forward, we expect consistently strong cash flow conversion.

Figure 43 – Working capital

Working Capital	FY18a	FY19e	FY20e	FY21e	FY22e
Days receivable (over revenue)	2.1	1.9	1.8	2.0	2.1
Current Receivables % of Revenue	0.6%	0.6%	0.6%	0.6%	0.6%
Accounts Receivables	**0.1**	**0.2**	**0.3**	**0.3**	**0.3**
Days inventory (over revenue)	2.2	1.9	1.9	2.1	2.2
Current Receivables % of Revenue	0.6%	0.6%	0.6%	0.6%	0.6%
Inventory	**0.1**	**0.2**	**0.3**	**0.3**	**0.3**
Days payable (over revenue)	30.1	22.0	16.0	15.7	16.2
Payables as a % of revenue	8.2%	6.0%	4.5%	4.5%	4.5%
Accounts Payable	**2.0**	**2.0**	**2.1**	**2.4**	**2.5**
Total working capital	**-1.8**	**-1.8**	**-1.8**	**-2.1**	**-2.1**
Change in working capital		0.1	-0.1	-0.2	-0.1
Gross operating cash flow	2.2	7.1	11.4	12.7	13.4
EBITDA	4.2	7.2	11.4	12.6	13.3
GCF to EBITDA conversion	**53.0%**	**98.4%**	**99.8%**	**101.4%**	**100.6%**

Source: OML and Viva *EBITDA is based on reported, not pro-forma

- Viva finances its equipment purchases so for valuation purposes we count finance lease principal repayments as part of capex. Ongoing capex plus finance lease principal repayment will grow as the business rolls out and acquires more clubs. We assume $4-5m pa of capex, principal repayments on equipment finance leases and business acquisitions costs.

Finance expenses

- We assume Viva ends FY19 with finance leases of ~$8m, up from ~$5.6m at 1H19PF. This balance grows as new sites and acquisitions are executed. We expect interest costs and lease amortisation payments to remain a strong feature in the cost line and financing cash outflows respectively.
- We calculate a fixed charge cover ratio of 1.5x, which is lower than a range of discretionary peers in our comp set owed to the short life of leases on equipment (ie lease amortisation charges are relatively high).

Figure 44 – Fixed charge cover

Fixed charge cover	FY19e	FY20e	FY21e	FY22e
EBIT	4.8	8.1	8.8	9.5
Finance lease amortisation	-2.2	-3.8	-3.2	-3.2
Finance lease interest	-0.5	-0.6	-0.6	-0.6
Rental expense	-6.6	-9.8	-10.9	-11.4
EBIT + fixed charges	13.6	21.7	22.9	24.1
Fixed charges + interest	9.4	14.1	14.6	15.2
Fixed charge cover	**1.5**	**1.5**	**1.6**	**1.6**

Source: OML and Viva *estimate of finance lease interest *FY20-22 not reflective of AASB16

Tax

- We expect a tax rate of 27.5% to apply going forward and for this to be paid in cash as expensed in the P&L.

Balance sheet

- We estimate the balance sheet below for FY19, noting that recent club openings and acquisitions may require some adjustment to lease and PP&E expectations.
- Viva maintains a conservatively geared balance sheet, with net cash (ie netting off finance leases) of $5.2m, and gross cash of $13.2m at FY19.
- Property, plant and equipment makes up the bulk of the non-current asset base, most of which is leased. Equipment is depreciated over 3-10 years.
- The intangibles balance relates to goodwill and customers acquired, giving rise to non-cash amortisation.

Figure 45 – Balance sheet

Balance sheet	2018A	2019F	2020F	2021F	2022F
Current Assets					
Cash and cash equivalents	1.1	13.2	17.7	22.3	25.8
Trade receivables	0.1	0.2	0.3	0.3	0.3
Inventories	0.1	0.2	0.3	0.3	0.3
Other current assets	0.1	0.9	1.2	1.2	1.2
Total Current Assets	**1.5**	**14.5**	**19.5**	**24.2**	**27.6**
Non-Current Assets					
Deferred Tax Assets	0.3	0.3	0.3	0.3	0.3
Property, Plant & Equipment (Net)	9.6	17.2	18.7	18.7	18.7
Intangibles	0.0	6.8	6.4	6.8	7.3
Total Non-Current Assets	**9.9**	**24.3**	**25.4**	**25.7**	**26.3**
Total Assets	**11.4**	**38.8**	**44.9**	**49.9**	**53.9**
Other NCA for Factset	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
EBITDA ROA	36.6%	18.6%	25.4%	25.2%	24.7%
EBIT ROA	23.1%	12.4%	18.1%	17.7%	17.6%
Current Liabilities					
Trade payables	2.0	2.0	2.1	2.4	2.5
Interest-bearing liabilities	3.5	0.0	0.0	0.0	0.0
Finance lease liabilities	1.4	3.1	3.3	3.1	3.0
Current Tax Liabilities	0.5	1.2	1.7	1.7	1.7
Provisions	0.7	0.7	0.7	0.7	0.7
Other	0.9	1.4	1.4	1.4	1.4
Total Current Liabilities	**9.0**	**8.3**	**9.2**	**9.2**	**9.2**
Non-Current Liabilities					
Provisions		0.5	0.5	0.5	0.5
Finance lease liabilities	2.5	4.9	5.4	5.6	5.8
Employee benefits	0.0	0.0	0.0	0.0	0.0
Other			2.6	5.3	8.1
Total Non-Current Liabilities	**2.5**	**5.3**	**8.5**	**11.4**	**14.4**
Total Liabilities	**11.5**	**13.6**	**17.6**	**20.6**	**23.7**
Net Debt (Cash)	6.3	-5.2	-9.0	-13.7	-16.9
Equity					
Capital	0.0	22.7	22.7	22.7	22.7
Retained Profits (Accumulated Losses)	-0.1	2.4	4.5	6.6	7.5
Shareholders Equity	**-0.1**	**25.1**	**27.2**	**29.3**	**30.2**

Source: OML and Viva

Appendix 1 – Management and Board

Management

Harry Konstantinou (CEO/MD) – Harry has been leading Viva since the Konstantinou family built the CISAC site and commenced club operations there in January 2004. Harry has overseen the growth of Viva from this one club to an expected 30 by the end of FY19PF. Along this roll-out and acquisition path, Harry has been keenly focussed on embedding technology with clubs to drive efficiencies and strong club-level financial performance.

Harry was previously a business owner outside of Viva, having established and sold a number of IT businesses, including an Internet Service Provider over the last 25 years.

Kym Gallagher (CFO) – Kym is a Chartered Accountant with experience across media and other listed businesses. Kym worked as CFO of RG Capital Radio into its 2000 IPO and as CFO of the radio group of the radio group formed upon privatisation by Macquarie which became Macquarie Media Group (MMG). Upon MMG's IPO, Kym was retained as the Australian Media Asset CFO. In 2011, MMG acquired Austereo, and Kym was appointed General Manager Corporate Integration in charge of the merger and extraction of significant synergies.

In 2014, Kym was appointed as a contracting CFO with Viva Leisure Group, with a full-time appointment in 2017.

Sean Hodges (COO) – Sean has worked with Viva Leisure as Group Operations Manager and now Chief Operating Officer for the past five years.

Prior to this, he was the Chief Executive Officer for Royal Life Saving Society Australia (ACT Branch) (RLSSA) for seven years. Before his role with RLSSA he held facility management positions within the health and fitness sector. Sean's skill set has been a strong force behind Viva's growth over the last five years.

Angelo Konstantinou (CTO) – Angelo is the architect behind the industry leading front and back of house IT systems used by Viva. Responsible for the design, build and implementation of all IT systems, and the chief programmer of the Viva Leisure staff and member portal, Angelo's role and responsibility involves everything IT at Viva. Managing a small team of six dedicated IT personnel who need to be available 24/7 while developing and continually improving the online and offline systems which occupies most of Angelo's time.

Angelo is a board member of the Hellenic Club of Canberra, and Capital Football.

Board of Directors (update)

Bruce Glanville (Independent Non-Executive Chairman) – Bruce has been an advisor and mentor to the Konstantinou family for over 20 years, initially as the external accountant for a range of the family businesses and more recently as independent chair.

Bruce is a Chartered Accountant. Previously a Partner in Duesburys (1976-1998), Rolins (1998-2004) and Deloitte (2004-2010). He is now sole principal of Rolins Consulting.

Bruce has held various roles and served in a wide range of commercial appointments as a Director, including on listed companies and business ventures in both the public and private sectors.

Bruce's extensive experience as a Director and Chair provides Board leadership and governance through the planned growth of Viva. He provides a skilled link between the entrepreneurial ability of management and the solid foundation of long term success developed by Viva's Advisory Board.

Harry Konstantinou (CEO/MD) – See Management section.

Mark McConnell (Independent Non-Executive Director) – Mark joined the Viva Advisory Board in July 2017. He is a Non-Executive Director of the ASX listed Citadel Group (CGL). After serving as an officer in the Royal Australian Air Force for 8 years, Mark moved into the corporate world and has spent the last 17 years in a range of executive roles in the fields of aviation, technology and investment finance. He has been a director of Citadel since its formation in 2007.

His skills cover areas of business strategy, investor relations, capital raising and innovation. Mark has founded several private companies and has been recognised with a number of entrepreneurial awards.

Having moved back to the Canberra region several years ago with his family, Mark has a strong passion to assist high growth Canberra based companies to strategically expand and provide their product or service both nationally and internationally.

Mark is the Director of several private companies as well as on the board of Cricket ACT and Red Shied Appeal.

Susan Forrester (Independent Non-Executive Director) – Susan Forrester joined the Viva Leisure Board in 2018. Susan draws upon her previous experience within law, finance, Human Resources, business and governance, having held senior management roles for over 25 years.

Post-departing her Commercial CEO role in 2010, Susan has led the Strategy and Executive Management Practice at Board Matters. Her prior experience also includes board level responsibility in corporate transactions and capital raisings.

Susan currently serves as the chair and non-executive director of National Veterinary Care Ltd (ASX:NVL) and a non-executive director of G8 Education Limited (ASX:GEM), Over the Wire Holdings Limited (ASX:OTW) and Xenith IP Group Limited (ASX:XIP). Susan also chairs and serves as a member of a variety of ASX-listed audit, risk management and remuneration committees.

Viva Leisure Limited

Buy

PROFIT & LOSS (A$m)	-	2018A	2019E	2020E	2021E
Revenue	-	24.1	32.9	46.8	52.0
Operating costs	-	(20.0)	(25.7)	(35.4)	(39.4)
Operating EBITDA	-	**4.2**	**7.2**	**11.4**	**12.6**
D&A	-	(1.5)	(2.4)	(3.3)	(3.7)
EBIT	-	**2.6**	**4.8**	**8.1**	**8.8**
Net interest	-	(0.5)	(0.7)	(0.8)	(0.3)
Pre-tax profit	-	**2.1**	**4.1**	**7.4**	**8.5**
Net tax (expense) / benefit	-	0.1	(1.1)	(2.0)	(2.3)
Significant items/Adj.	-	-	(0.4)	(3.2)	(3.2)
Normalised NPAT	-	**2.2**	**3.0**	**5.3**	**6.2**
Reported NPAT	-	**2.2**	**2.5**	**2.1**	**3.0**
Normalised dil. EPS (cps)	-	-	5.6	10.1	11.7
Reported EPS (cps)	-	-	4.8	4.0	5.7
Effective tax rate (%)	-	(2.9)	27.5	27.5	27.5
DPS (cps)	-	-	-	-	4.7
Dividend yield (%)	-	-	-	-	5.3
Payout ratio (%)	-	-	-	-	40.0
Franking (%)	-	-	-	-	100.0
Diluted # of shares (m)	-	-	52.6	52.6	52.6

CASH FLOW (A$m)	-	2018A	2019E	2020E	2021E
EBITDA incl. adjustments	-	4.2	7.2	11.4	12.6
Change in working capital	-	(2.0)	(0.1)	(0.0)	0.2
Net Interest (paid)/received	-	(0.5)	(0.7)	(0.7)	(0.3)
Income tax paid	-	-	(0.6)	(1.0)	(2.3)
Other operating items	-	-	-	-	-
Operating Cash Flow	-	**1.7**	**5.8**	**9.6**	**10.1**
Capex	-	(1.8)	(3.8)	(1.3)	(0.5)
Acquisitions	-	(0.0)	(6.8)	-	(0.8)
Other investing items	-	-	-	-	-
Investing Cash Flow	-	**(1.8)**	**(10.6)**	**(1.3)**	**(1.3)**
Inc/(Dec) in equity	-	-	22.7	-	-
Inc/(Dec) in borrowings	-	0.6	(5.7)	(3.8)	(3.2)
Dividends paid	-	-	-	-	(1.0)
Other financing items	-	-	-	-	-
Financing Cash Flow	-	**0.6**	**17.0**	**(3.8)**	**(4.2)**
FX adjustment	-	-	-	-	-
Net Inc/(Dec) in Cash	-	0.4	12.1	4.5	4.6

BALANCE SHEET (A$m)	-	2018A	2019E	2020E	2021E
Cash	-	1.1	13.2	17.7	22.3
Receivables	-	0.1	0.2	0.3	0.3
Inventory	-	0.1	0.2	0.3	0.3
Other current assets	-	0.1	0.9	1.2	1.2
PP & E	-	9.6	17.2	18.7	18.7
Intangibles	-	0.0	6.8	6.4	6.8
Other non-current assets	-	0.3	0.3	0.3	0.3
Total Assets	-	**11.4**	**38.8**	**44.9**	**49.9**
Short term debt	-	4.9	3.1	3.3	3.1
Payables	-	2.0	2.0	2.1	2.4
Other current liabilities	-	2.1	3.2	3.8	3.8
Long term debt	-	2.5	4.9	5.4	5.6
Other non-current liabilities	-	0.0	0.5	3.0	5.8
Total Liabilities	-	**11.5**	**13.6**	**17.6**	**20.6**
Total Equity	-	**(0.1)**	**25.1**	**27.2**	**29.3**
Net debt (cash)	-	6.3	(5.2)	(9.0)	(13.7)

DIVISIONS	-	2018A	2019E	2020E	2021E

KEY METRICS (%)	-	2018A	2019E	2020E	2021E
Revenue growth	-	-	36.4	42.3	11.0
EBITDA growth	-	-	72.4	58.1	10.5
EBIT growth	-	-	81.9	68.9	9.0
Normalised EPS growth	-	-	-	79.9	15.8
EBITDA margin	-	17.3	21.9	24.3	24.2
OCF /EBITDA	-	53.0	98.4	99.8	101.4
EBIT margin	-	10.9	14.6	17.3	17.0
Return on assets	-	-	13.9	14.1	13.5
Return on equity	-	-	23.6	20.4	21.9

VALUATION RATIOS (x)	-	2018A	2019E	2020E	2021E
Reported P/E	-	-	18.6	22.5	15.5
Normalised P/E	-	-	15.8	8.8	7.6
Price To Free Cash Flow	-	-	23.4	5.6	4.9
Price To NTA	-	-	2.6	2.2	2.1
EV / EBITDA	-	1.5	5.8	3.3	2.6
EV / EBIT	-	2.4	8.7	4.7	3.7

LEVERAGE	-	2018A	2019E	2020E	2021E
ND / (ND + Equity) (%)	-	101.1	(26.2)	(49.5)	(87.6)
Net Debt / EBITDA (%)	-	151.8	(72.5)	(79.2)	(108.6)
EBIT Interest Cover (x)	-	5.0	6.7	10.7	26.9
EBITDA Interest Cover (x)	-	7.9	10.1	15.1	38.2

SUBSTANTIAL HOLDERS	m	%
Konstantinou Family	21.7	41.2%
Mark McConnell	4.5	8.6%
Harry Konstantinou	1.5	2.9%

VALUATION	
Cost of Equity (%)	12.2
Cost of debt (after tax) (%)	9.0
D / EV (%)	-
WACC (%)	**12.2**
Forecast cash flow ($m)	22.9
Terminal value ($m)	34.0
Franking credit value ($m)	-
Enterprise Value ($m)	70.1
Less net debt / add net cash & investments ($m)	(13.2)
Equity NPV ($m)	**56.9**
Equity NPV Per Share ($)	**1.33**
Multiples valuation method	FY20 EV/EBITDA
Multiples	5.5
Multiples valuation	1.29
Target Price Method	Rolled fwd DCF and EV/EBITDA
Target Price ($)	1.50
Valuation disc. / (prem.) to share price (%)	68.5

Institutional Research			
Nicholas McGarrigle	Head of Institutional Research	+61 2 8216 6345	nmcgarrigle@ords.com.au
Jules Cooper	Senior Research Analyst	+61 3 9608 4117	julescooper@ords.com.au
John O'Shea	Senior Research Analyst	+61 3 9608 4146	joshea@ords.com.au
Phillip Chippindale	Senior Research Analyst	+61 2 8216 6346	pchippindale@ords.com.au
Dylan Kelly	Senior Research Analyst	+61 2 8216 6417	dkelly@ords.com.au
William MacDiarmid	Research Analyst	+61 2 8216 6514	wmacdiarmid@ords.com.au
Jason Korchinski	Research Associate	+61 2 8216 6348	jkorchinski@ords.com.au
Joshua Goodwill	Research Associate	+61 3 9608 4121	jgoodwill@ords.com.au

Institutional Sales (Australia)			
Nick Burmester	Head of Institutional Equities	+61 2 8216 6363	nburmester@ords.com.au
Chris McDermott	Institutional Equities Sales	+61 2 8216 6335	cmcdermott@ords.com.au
Jim Bromley	Institutional Equities Sales	+61 2 8216 6343	jbromley@ords.com.au
Frida Bohlenius	Institutional Equities Sales	+61 2 8216 6365	fbohlenius@ords.com.au
Matt White	Institutional Equities Sales	+61 3 9608 4133	mwhite@ords.com.au
Richard Wolff	Institutional Equities Sales	+61 2 8216 6429	rwolff@ords.com.au
Stephen Jolly	Institutional Equities Sales	+61 2 8216 6424	sjolly@ords.com.au
Zac Whitehead	Institutional Equities Sales Support	+61 2 8216 6350	zwhitehead@ords.com.au
Brendan Sweeney	Operator	+61 2 8216 6781	bsweeney@ords.com.au

Institutional Sales (Hong Kong)			
Timothy Last	Institutional Equities Sales	+852 2912 8988 +61 8 8203 2526	tlast@ords.com.hk
Chris Moore	Institutional Equities Sales	+61 2 8216 6362	cmoore@ords.com.hk

Ord Minnett Offices

Adelaide
Level 5
100 Pirie Street
Adelaide SA 5000
Tel: (08) 8203 2500
Fax: (08) 8203 2525

Buderim
Sunshine Coast
1/99 Burnett Street
Buderim QLD 4556
Tel: (07) 5430 4444
Fax: (07) 5430 4400

Gold Coast
Level 7
50 Appel Street Surfers
Paradise QLD 4217
Tel: (07) 5557 3333
Fax: (07) 5557 3377

Melbourne
Level 7
161 Collins Street
Melbourne VIC 3000
Tel: (03) 9608 4111
Fax: (03) 9608 4142

Head Office
Sydney
Level 8, NAB House
255 George Street
Sydney NSW 2000
Tel: (02) 8216 6300
Fax: (02) 8216 6311
www.ords.com.au

Brisbane
Level 31
10 Eagle St
Brisbane QLD 4000
Tel: (07) 3214 5555
Fax: (07) 3214 5550

Canberra
101 Northbourne Avenue
Canberra ACT 2600
Tel: (02) 6206 1700
Fax: (02) 6206 1720

Mackay
45 Gordon Street
Mackay QLD 4740
Tel: (07) 4969 4888
Fax: (07) 4969 4800

Newcastle
426 King Street
Newcastle NSW 2300
Tel: (02) 4910 2400
Fax: (02) 4910 2424

International
Hong Kong
1801 Ruttonjee House
11 Duddell Street
Central, Hong Kong
Tel: +852 2912 8980
Fax: +852 2813 7212
www.ords.com.hk

Guide to Ord Minnett Recommendations

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historic volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

Analyst Certification: The analyst certifies that: (1) all of the views expressed in this research accurately reflect their personal views about any and all of the subject securities or issuers; (2) no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed herein.

For summary information about the qualifications and experience of the Ord Minnett Limited research service, please visit http://www.ords.com.au/our-team-2/

For information regarding Ord Minnett Research's coverage criteria, methodology and spread of ratings, please visit http://www.ords.com.au/methodology/

For information regarding any potential conflicts of interest and analyst holdings, please visit http://www.ords.com.au/methodology/

The analyst has certified that they were not in receipt of inside information when preparing this report; whether or not it contains company recommendations. This report has been authorised for distribution by Nicholas McGarrigle, Head of Institutional Research at Ord Minnett Limited.

Ord Minnett acted as lead manager to the IPO of Viva Leisure in June 2019 and received fees for acting in this capacity.