Viva Leisure Limited

Flexing into franchise

VVA have deployed the bulk of the $25m raise in June-20 with the purchase of Plus Fitness, a franchise group with 197 clubs across Australia, New Zealand and India. Viva has acquired the master franchisor, which has first right of refusal to acquire individual franchises, offering a significant pipeline of future acquisitions. The Plus network opens up new regions for Viva to further flex its hub and spoke model, with particular focus on the high-return hiit republic concept. The franchise model also offers Viva the opportunity to test offshore markets with minimal risk and capital, further ramping up the runway for long-term growth. We retain a Buy and our price target rises to $4 per share which implies an FY22 PE of ~17x against a FY22-25 EPS CAGR of 21%.

Super-setting up new drivers of growth

The benefit of this acquisition is not only limited to a positive EPS contribution, but more so in the growth avenues it opens and extends with: 1) acquisition from a fairly captive pool of 197 clubs, 2) rollout of a new low-cost model in Plus Fitness where the demographics suit, 3) fresh regions to rollout hiit republic studios around Plus Fitness sites and 4) a low cost and low risk entry to offshore markets via the franchise model. We estimate the buyback of 25 clubs would grow FY22 NPAT (pro-forma) by ~13%. Buying back 50 clubs would be ~27% additive.

Bulking up with 8% FY22 EPS accretion

We have adjusted forecasts for the Melbourne metro lock down and to factor in recent updates as well as the acquisition. Normalised (pre-AASB16) EPS rises 14% in FY21 and 8% in FY22. We assume no franchise buybacks in FY21 and 10 pa thereafter – a conservative assumption given management's intentions.

Management running hard at 500 clubs and 500k members

VVA continues to execute on strategically important acquisitions to underpin future acquired and greenfield growth. The purchase of the Master Franchisor rights to Plus Fitness positions VVA with first right of refusal over ~200 locations across Australia, NZ and India, while providing near-term profit at a fair price. While the COVID-19 second wave has had a small short-term impact (thus far); we see Viva remerging from the second wave as it did from the first – well capitalised with a strong active member base and opportunities to consolidate the industry. Retain the Buy rating, with our $4 target offering more than 60% upside.

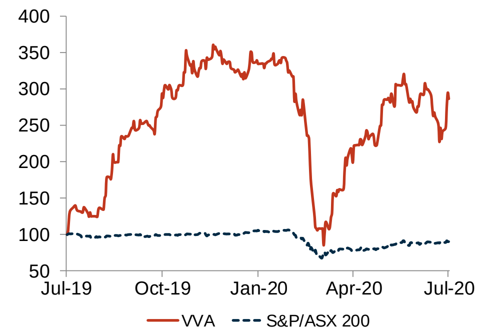
Year-end June ($)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue ($m)	24.1	33.1	39.6	88.1	132.0
EBITDA ($m)	4.2	7.5	5.3	21.0	38.4
EBIT ($m)	2.6	5.3	1.4	11.7	25.5
Reported NPAT ($m)	2.2	3.2	(5.4)	(2.7)	6.6
Reported EPS (c)	-	6.0	(8.5)	(3.8)	9.3
Normalised NPAT ($m)	2.2	3.3	0.6	7.3	16.6
Normalised EPS (c)	-	6.2	0.9	10.2	23.3
EPS Growth (%)	-	-	(84.9)	986.4	129.0
Dividend (c)	-	-	-	-	5.8
Net Yield (%)	-	-	-	-	2.4
Franking (%)	-	-	-	-	100
EV/EBITDA (X)	1.5	16.3	27.4	8.1	4.6
Normalised P/E (x)	-	39.4	-	24.0	10.5
Normalised ROE (%)	-	25.3	1.3	11.7	26.4

Source: OML, Iress, Viva Leisure Limited

Last Price
A$2.44
Target Price
A$4.00 *(Previously A$3.78)*
Recommendation
Buy
Risk
Higher

Leisure Facilities	
ASX Code	VVA
52 Week Range ($)	0.73 - 3.07
Market Cap ($m)	174.5
Shares Outstanding (m)	71.5
Av Daily Turnover ($m)	0.0
3 Month Total Return (%)	29.1
12 Month Total Return (%)	187.1
Benchmark 12 Month Return (%)	-9.5
NTA FY20E (¢ per share)	63.2
Net Cash FY20E ($m)	11.2

Relative Price Performance



Source: FactSet

Consensus Earnings	FY20E	FY21E
NPAT (C) ($m)	-	7.1
NPAT (OM) ($m)	0.6	7.3
EPS (C) (c)	-	11.9
EPS (OM) (c)	0.9	10.2

Source: OML, Iress, Viva Leisure Limited

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Ord Minnett acted as lead manager to the IPO (Jun-19), placement (Dec-19) and rights issue/placement (Jun-20) in VVA and received fees for acting in these capacities

23 July 2020

Acquisition of Plus Fitness

- Viva has acquired the Master Franchisor of Plus Fitness which has 190 clubs in Australia, three in NZ and four in India
- No clubs are being acquired as part of this deal, but Viva now has first right of refusal on all franchisees wishing to sell
- This provides VVA with incredible insight and opportunity to

  1. Acquire in attractive territories
  2. Operate with a full acquisition pipeline for a number of years
  3. Rollout a new low-cost model in Plus Fitness where the demographics favour such a concept
  4. Rollout hiit republic studios around existing Club Lime and now Plus Fitness sites to ramp up the concept
  5. Test the waters in offshore jurisdictions in a low risk and low cost way

- The acquisition multiple is higher than would be paid for an individual club or network of clubs, but comes with significant strategic appeal. The purchase price of $18m plus $2m in earn-out, equates to a pro-forma EBITDA multiple of 8x (on full earnout), assuming no synergies
- At the NPAT level, the multiple is 12x pre-synergies on the full earnout (predicated on 18 new franchises rolling out in the first 12m)
- Acquiring an individual club at 4x EBITDA may translate into an NPAT multiple of ~8.9-11.4x (depending on the conversion of EBITDA into NPAT), making the 12x paid for Plus appear reasonable given its strategic attractiveness
- On a pro-forma FY21 and FY22 basis, we calculate EPS accretion of 25% and 10% respectively (noting FY21 is somewhat depressed due to COVID normalisation). We had modelled in some application of proceeds, so our forecast changes do not mirror this (completion is end-August, so part-year in FY21). We also adjust forecasts for the COVID second-wave (minor impact)
- If we were to calculate accretion on EPS prior to the June capital raise, we see +8% for FY21 and slight dilution for FY22, but this only factors in the direct contribution of the master franchisor, and no upside from ongoing franchise buybacks

Figure 1: Plus fitness locations

Source: VVA acquisition presentation

Financials and the business model

- It is a franchise model that differs from how VVA has traditionally operated. It predominantly derives revenue from franchise-related fees and equipment sales and has opened 18 new clubs p.a. on average from 2010

Figure 2: Plus Fitness revenue split

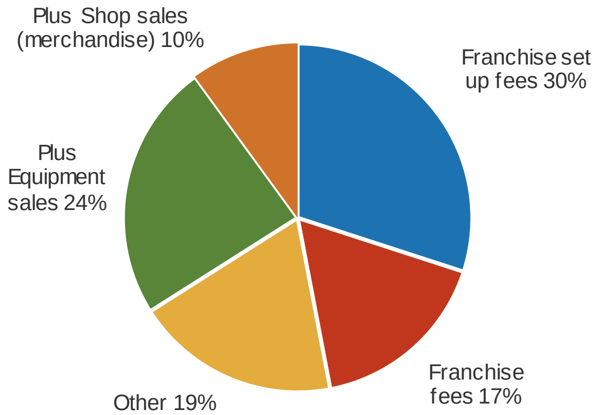
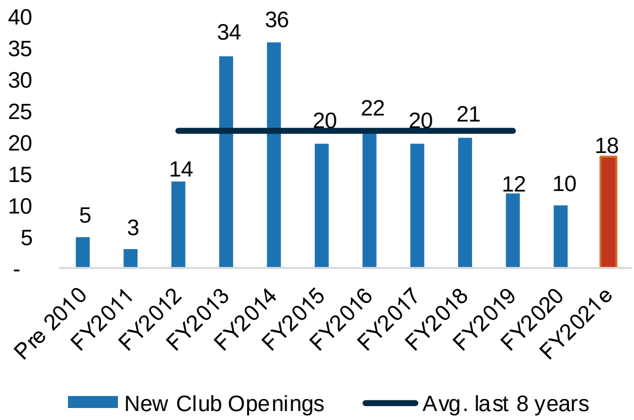


Figure 3: New club openings



Source: VVA acquisition presentation

- Plus is expected to provide pro-forma EBITDA of $2.5m assuming the rollout of 18 clubs. This is before any potential synergies that stem from the combined groups buying power (particularly in COGS)
  - Historical rollouts have averaged 22 over the last eight full years, making the forecast of 18 reasonable
  - The business has signed on 40+ territories with franchisees paying deposits, which bodes well for the near-term rollout
  - Much of the revenue earned by Plus from new clubs rolling out and refurbishments of existing clubs, making this new club profile important
- Anytime Fitness has sold ~500 territories, indicating Plus has runway fro more growth in the Australian market, particularly post-COVID if the independent club network shrinks

Figure 4: Plus Fitness summary P&L

Plus P&L	FY19	FY20	FY20pf
New clubs	12	10	18
Franchise setup			4.3
Franchise fees			2.4
Equipment			3.5
Merchandise			1.4
Other			2.7
Revenue	**11.8**	**11.4**	**14.4**
COGS	-6.6	-6.3	-8.6
GP	**5.2**	**5.1**	**5.8**
Employees			-1.9
Admin/other			-1.1
Rent			-0.3
Expenses	**-3.4**	**-3.1**	**-3.3**
EBITDA	**1.8**	**2.0**	**2.5**
NPAT			**1.7**

Source: VVA acquisition presentation

Captive club pool to shop from

- The long-term and significant upside is from ongoing franchise buybacks. We estimate below that acquiring 10-50 clubs would lead to an NPAT uplift of 5-27%. Basic assumptions are:
  - Average members of 888 per club (ie 175k divided into 197 clubs)
  - Member yield of $12-14 per week
  - Club-level EBITDA margin s of 25-40%
  - A maximum purchase multiple of 3x EBITDA, as VVA acts as a captive buyer for franchisees and would often be buying single clubs. This implies an EBITDA ROI of 33%
  - Conversion of EBITDA into NPAT conversion at 35-45%
- As a base case, we expect the buy-back of ~25 clubs over two years is reasonable, which we estimate would add ~13% to pro-forma FY22 NPAT at the mid-point of all of the above assumptions. We model no buybacks in FY21, but 10 pa thereafter, meaning we have priced in some of this accretion
- Further to buybacks, we see a much longer runway for hiit republic rollouts around new hubs created by the Plus network (190 Aus locations vs ~80 for VVA). The high-ROI nature of hiit republics means the overall business will continue to generate strong returns as it balances greenfield investments, acquisitions and buybacks

Figure 5: Franchise buy-back analysis

Club metrics			
Franchise clubs	197		
Members	175,000		
Average members	888		
Average yield $ pw	12	14	
Revenue per club	554,315	646,701	
EBITDA margin	25.0%	40.0%	
EBITDA per clubs	138,579	258,680	
Multiple	3	3	
Price	415,736	776,041	
Clubs bought back	**10**	**25**	**50**
EBITDA bought back low	1.4	3.5	6.9
Mid-point	2.0	5.0	9.9
EBITDA bought back high	2.6	6.5	12.9
Earnings upside			
FY22 prior EBITDA	36.3	36.3	36.3
Pro-forma EBITDA uplift	*5%*	*14%*	*27%*
EBITDA to NPAT conversion low	35%	35%	35%
EBITDA to NPAT conversion high	45%	45%	45%
NPAT mid-point low conv	0.7	1.7	3.5
NPAT mid-point at mid-point conv	0.8	2.0	4.0
NPAT mid-point high conv	0.9	2.2	4.5
FY22 prior NPAT	15.0	15.0	15.0
Pro-forma NPAT uplift	*5%*	*13%*	*27%*

Source: OMLe

VVA's recent market update

- VVA's market update last week highlighted it has five locations closed due to the recent restrictions implemented in Victoria. Further, two of these five Melbourne clubs were already closed due to scheduled refurbishment and upgrades.
  - This means that ~94% of the VVA portfolio is currently open or undergoing scheduled refurbishments.
  - We also note that three locations in Regional Victoria are not subject to lockdowns and remain operational.
  - The remaining states and territories' new members enrolments, visits and active member balances are all performing "above management expectations".
- Membership numbers have continued to perform strongly since the last reported on 4 June 2020, with total members now at 95.4k, with ~13.5k suspended or not billed due to refurbishments. This is relatively in-line with OMLe of 85.4k members at FY20.
  - The total member number is pleasing considering the total member-base is 98% of pre-COVID levels.
  - Had the Melbourne shutdown not been implemented, VVA would have significantly surpassed OMLe.
  - Visitation has remained positive with VVA averaging ~18k visits per day, with the current 30-day rolling average above 15k.
  - These numbers are strong in context as restrictions in ACT are currently limiting 24-hour access. This impacts ~48% of the portfolio
- Rental waivers and deferral arrangements have now been negotiated with ~75% of landlords. The remainder are predominantly institutional landlords which have been slow to respond. No rent has been paid to these landlords since April-2020.

Changes to forecasts

- Factoring in Plus Master Franchisor earnings
- Franchise buybacks of 10 pa from FY22 on
- Reduction in acquired clubs pa from 15 to 10 given the franchise buybacks
- Adjusting member numbers for reported updates and potential second wave impacts

Figure 6 – Changes to forecasts

	FY20 old	FY20 new	%∆	FY21 old	FY21 new	%∆	FY22 old	FY22 new	%∆
Owned clubs	39.5	39.6	0.3%	78.9	76.1	-3.6%	124.0	117.0	-5.6%
Franchise	0.0	0.0	na	0.0	12.0	na	0.0	15.0	na
Sales revenue	**39.5**	**39.6**	**0.3%**	**78.9**	**88.1**	**11.6%**	**124.0**	**132.0**	**6.5%**
Opex	-34.4	-34.4	0.0%	-59.0	-67.1	-13.6%	-87.7	-93.5	-6.7%
EBITDA	**5.1**	**5.3**	**2.0%**	**19.9**	**21.0**	**5.6%**	**36.3**	**38.4**	**5.9%**
D&A	-3.9	-3.9	0.0%	-9.6	-9.3	2.9%	-13.1	-12.9	1.2%
Normalised EBIT	**1.3**	**1.4**	**8.0%**	**10.3**	**11.7**	**13.6%**	**23.2**	**25.5**	**9.9%**
Net interest	-0.5	-0.5	0.1%	-1.4	-1.3	7.3%	-1.8	-1.8	2.4%
PBT	**0.7**	**0.8**	**14.0%**	**8.9**	**10.4**	**17.0%**	**21.4**	**23.8**	**11.0%**
Tax	-0.2	-0.3	-14.0%	-2.7	-3.1	-17.0%	-6.4	-7.1	-11.0%
Normalised NPATA	**0.5**	**0.6**	**14.0%**	**6.2**	**7.3**	**17.0%**	**15.0**	**16.6**	**11.0%**
One-offs/Amort	-6.0	-6.0	0.0%	-10.0	-10.0	0.0%	-10.0	-10.0	0.0%
Reported NPAT	**-5.5**	**-5.4**	**1.3%**	**-3.8**	**-2.7**	**27.8%**	**5.0**	**6.6**	**32.9%**
Normalised EPS (NPATA)	**0.8**	**0.9**	**12.2%**	**8.9**	**10.2**	**14.1%**	**21.5**	**23.3**	**8.2%**
Greenfield clubs	18.0	18.0	0.0%	25.0	25.0	0.0%	26.0	26.0	0.0%
Acquired clubs	25.0	25.0	0.0%	15.0	10.0	-33.3%	15.0	10.0	-33.3%
Franchises bought back	0.0	0.0	na	0.0	0.0	na	0.0	10.0	na
Total clubs	**83.0**	**83.0**	**0.0%**	**118.0**	**118.0**	**0.0%**	**154.0**	**164.0**	**6.5%**
Members (owned clubs)	**85,426**	**92,295**	**8.0%**	**134,346**	**130,177**	**-3.1%**	**172,125**	**170,698**	**-0.8%**

Source: OML

Recommendation, valuation and price target

Recommendation

- We retain a Buy recommendation, with management proving highly adept during the COVID-19 shutdown, preserving significant cash, negotiating effectively with landlords, keeping the greenfield and acquisition pipelines alive and reopening safely, effectively and profitably in the ACT and QLD.
- Whilst the resurgence in cases and subsequent lockdowns in Melbourne has been unfortunate, it is only a small portion of VVA's current business. We see VVA to continue to grow.
- The new strategic acquisition is likely to provide further upside outside of VVA's current geographical region. Plus Fitness' strong Western Australian presence (~20% of clubs) is another positive as VVA expands.

Valuation

Discounted cash flow (DCF) – Captures the long-term nature of Viva's greenfield and acquisition plans and balances the short-term headwind from the COVID-19 factored in, Viva's finance leases and strong cash flow conversion.

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

The DCF also captures some value for the long-term acquisition strategy on some conservative assumptions.

We have reduced our assumed risk-free rate to 3.25%, from 5%.

Figure 7 – DCF valuation

DCF inputs	
Beta	1.25
Risk free rate	3.3%
Market risk premium	6.0%
Cost of equity	10.8%
Debt premium	4.0%
Cost of debt (after tax)	5.1%
D/E	0.0%
WACC	**10.8%**
Terminal growth rate	**2.0%**

DCF valuation	
Forecast cash flows ($m)	37.8
Terminal value ($m)	198.4
Enterprise value ($m)	**236.1**
add FY20e gross cash ($m)	31.4
Equity value ($m)	**267.5**
Equity value per share ($)	3.74
CAGR (FY19-24)	
Members	34.0%
Revenue	42.0%
EBITDA	50.7%
Normalised NPAT	50.1%
FY22 metrics	
Implied FY22 EV/EBITDA (x)	6.1
Implied FY22 PE NPAT (x)	16.1

Source: OML

FY22 PE comp – compares Viva to other domestic leisure and discretionary businesses, as well as international fitness centres. We apply an FY22 PE multiple of 15x to FY22 NPAT as this will be the first full year post-COVID and is in line with comps.

Figure 8 – FY22 PE valuation

FY22 PE valuation	
FY22 NPAT	16.6
PE multiple (x)	15.00
Equity value ($m)	**249.4**
Equity value per share ($)	3.49
FY22 metrics	
Implied FY22 EV/EBITDA (x)	6.5
Implied FY22 PE NPATA (x)	15.0

Source: OML

Price target

Price target – Based on the average of our DCF and PE valuations, rolled forward at our cost of equity, we derive a price target of $4 per share, implying >60% upside to the last price of $2.44

Figure 9 – Price target derivation

Price target derivation	
DCF valuation ($ ps)	3.74
FY22 PE ($ ps)	3.49
Average	**3.61**
Cost of equity (%)	10.8%
Rolled-forward valuations ($ ps)	**4.00**
Less dividend ($ ps)	0.00
One-year forward price target ($ ps)	**4.00**
FY22 metrics	
Implied FY22 EV/EBITDA (x)	7.2
Implied FY22 PE NPATA (x)	17.2

Source: OML

Comparables

Figure 10 – Domestic leisure discretionary and health comparison set

Domestic leisure	Mkt Cap	PE			EV/EBITDA			EPS Growth		
Company	AUD	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
EVENT Hospitality	1,261	29.1	24.9	13.1	14.5	10.9	7.8	-61%	17%	90%
SeaLink Travel Group Ltd	913	23.4	17.2	14.0	12.2	7.3	6.4	5%	36%	23%
Village Roadshow Ltd	394	-	43.9	11.5	11.0	9.5	7.6	n/a	n/a	280%
Tourism Holdings Ltd	248	13.8	-	11.8	4.9	9.0	5.7	-38%	-128%	n/a
Ardent Leisure Group Ltd	187	-	-	-	44.7	30.9	10.5	n/a	n/a	n/a
Experience Co Ltd	69	-	-	31.3	16.1	21.4	5.4	-48%	n/a	n/a
Apollo Tourism & Leisure Ltd	49	-	6.5	4.3	9.8	7.3	6.5	-23%	n/a	51%
Average (excl. EXP/ATL/THL)		**26.2**	**28.7**	**12.9**	**20.6**	**14.6**	**8.1**	**-28%**	**26%**	**131%**
Median (excl. EXP/ATL/THL)		**23.4**	**24.9**	**12.5**	**12.2**	**9.5**	**7.6**	**-38%**	**17%**	**90%**

Domestic discretionary and health (sub $1b mkt cap)	Mkt Cap	PE			EV/EBITDA			EPS Growth		
Company	AUD	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Lifestyle Communities Ltd	907	32.6	21.7	14.3	16.8	12.3	9.0	-31%	50%	52%
G8 Education Ltd	703	93.3	15.6	9.5	32.6	18.2	12.3	-94%	500%	63%
Lovisa Holdings Ltd	695	32.8	26.1	18.0	15.0	12.6	9.3	-44%	26%	45%
Accent Group Ltd	691	11.9	12.3	11.0	7.5	7.7	7.1	9%	-3%	12%
Integral Diagnostics Ltd	773	25.6	22.1	18.7	15.4	12.8	11.4	-7%	16%	18%
Australian Pharmaceutical	542	16.7	12.4	11.0	7.3	6.1	5.5	-39%	35%	12%
City Chic Collective Ltd	621	38.3	28.2	20.7	20.8	16.8	13.0	-1%	36%	36%
Nick Scali Ltd	544	13.9	13.6	13.0	12.1	12.1	11.2	-6%	2%	5%
Redcape Hotel Group	359	9.7	8.8	8.9	19.7	19.0	17.1	0%	10%	-1%
Baby Bunting Group Ltd	446	24.1	20.6	17.2	18.1	15.6	12.9	31%	17%	20%
Adairs Ltd	402	12.3	12.9	11.2	8.4	8.6	7.8	10%	-5%	15%
Propel Funeral Partners Ltd	285	19.4	17.0	15.3	11.8	9.9	9.0	18%	14%	11%
Virtus Health Ltd	216	10.3	9.7	12.0	6.9	6.8	6.5	-26%	6%	10%
Reject Shop Ltd/The	261	99.1	48.9	22.4	19.0	16.1	12.5	n/a	103%	119%
Pacific Smiles Group Ltd	238	33.7	28.7	21.5	13.9	12.6	10.5	-25%	17%	33%
Monash IVF Group Ltd	207	12.9	12.9	10.8	11.1	9.5	8.0	-51%	0%	20%
Capitol Health Ltd	210	22.8	18.6	11.4	15.0	13.3	9.1	-25%	22%	64%
1300 Smiles Ltd	130	15.7	14.4	13.1	9.7	9.0	8.4	2%	9%	10%
Average		**29.2**	**19.1**	**14.4**	**14.5**	**12.2**	**10.0**	**-16%**	**48%**	**30%**
Median		**21.1**	**16.3**	**13.0**	**14.4**	**12.4**	**9.2**	**-7%**	**17%**	**19%**

Offshore fitness centres	Mkt Cap	PE			EV/EBITDA			EPS Growth		
Company	AUD	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Planet Fitness Inc	7,044	85.4	32.5	26.2	33.5	19.4	17.0	30%	-57%	162%
Basic-Fit NV	2,270	-	34.9	19.4	21.3	11.9	9.0	-2%	-	n/a
Power Wind Health Industry Inc	635	23.1	20.0	-	11.1	9.8	-	21%	17%	16%
Tivity Health Inc	881	51.1	10.7	8.8	10.8	8.6	7.8	-1%	-88%	379%
Gym Group PLC/The	441	-	24.1	14.5	32.2	8.1	6.9	18%	-	n/a
Grupo Sports World SAB de CV	67	-	-	-	4.9	4.5	-	-	n/a	-
Actic Group AB	36	-	6.0	4.8	5.4	4.7	4.5	-73%	n/a	n/a
Average		**53.2**	**21.4**	**14.8**	**17.0**	**9.6**	**9.0**	**-1%**	**-43%**	**186%**
Median		**51.1**	**22.0**	**14.5**	**11.1**	**8.6**	**7.8**	**9%**	**-57%**	**162%**

Source: OML and Bloomberg *prices as at 22 July 2020

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, regional Victoria and now Queensland.

Viva has improved its utilisation rate (assuming a baseline of two members per square metre) to 75% at FY19, 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.

Key brands

Figure 11 – Key brands in the Viva Leisure portfolio

- **CLUB LIME**
  - Core brand offering
- **PLUS FITNESS**
  - Express 24/7 franchise clubs
- **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 class 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
- **STUDIO BY CLUB LIME**
  - Group exercise in a boutique club

Source: OML and Viva Leisure

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 generated ~40% of its revenue in FY19 from the CISAC site, dropping to <20% going forward, 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).

Viva Leisure Limited

Buy

PROFIT & LOSS (A$m)	2018A	2019A	2020E	2021E	2022E
Revenue	24.1	33.1	39.6	88.1	132.0
Operating costs	(20.0)	(25.6)	(34.4)	(67.1)	(93.5)
Operating EBITDA	**4.2**	**7.5**	**5.3**	**21.0**	**38.4**
D&A	(1.5)	(2.1)	(3.9)	(9.3)	(12.9)
EBIT	**2.6**	**5.3**	**1.4**	**11.7**	**25.5**
Net interest	(0.5)	(0.7)	(0.5)	(1.3)	(1.8)
Pre-tax profit	**2.1**	**4.7**	**0.8**	**10.4**	**23.8**
Net tax (expense) / benefit	0.1	(1.4)	(0.3)	(3.1)	(7.1)
Significant items/Adj.	-	(0.1)	(6.0)	(10.0)	(10.0)
Normalised NPAT	**2.2**	**3.3**	**0.6**	**7.3**	**16.6**
Reported NPAT	**2.2**	**3.2**	**(5.4)**	**(2.7)**	**6.6**
Normalised dil. EPS (cps)	-	6.2	0.9	10.2	23.3
Reported EPS (cps)	-	6.0	(8.5)	(3.8)	9.3
Effective tax rate (%)	(2.9)	30.0	30.0	30.0	30.0
DPS (cps)	-	-	-	-	5.8
Dividend yield (%)	-	-	-	-	2.4
Payout ratio (%)	-	-	-	-	25.0
Franking (%)	-	-	-	-	100.0
Diluted # of shares (m)	-	52.6	63.6	71.5	71.5

CASH FLOW (A$m)	2018A	2019A	2020E	2021E	2022E
EBITDA incl. adjustments	4.2	7.5	5.3	21.0	38.4
Change in working capital	(2.0)	0.9	0.5	3.4	3.1
Net Interest (paid)/received	(0.5)	(0.6)	(0.5)	(1.3)	(1.8)
Income tax paid	-	(0.5)	(0.3)	(3.1)	(7.1)
Other operating items	-	-	-	-	-
Operating Cash Flow	**1.7**	**7.3**	**4.9**	**20.0**	**32.6**
Capex	(1.8)	(3.9)	(17.5)	(6.8)	(7.0)
Acquisitions	(0.0)	(7.1)	(18.5)	(5.8)	(11.2)
Other investing items	-	(0.3)	-	-	-
Investing Cash Flow	**(1.8)**	**(11.2)**	**(36.0)**	**(12.5)**	**(18.2)**
Inc/(Dec) in equity	-	22.5	42.9	-	-
Inc/(Dec) in borrowings	0.6	(5.5)	5.2	(6.8)	(9.2)
Dividends paid	-	-	-	-	(1.7)
Other financing items	-	-	-	-	-
Financing Cash Flow	**0.6**	**17.1**	**48.1**	**(6.8)**	**(10.8)**
FX adjustment	-	0.6	-	-	-
Net Inc/(Dec) in Cash	0.4	13.2	17.0	0.7	3.6

BALANCE SHEET (A$m)	2018A	2019A	2020E	2021E	2022E
Cash	1.1	14.4	31.4	32.1	35.6
Receivables	0.1	0.2	0.3	0.6	0.9
Inventory	0.1	-	-	-	-
Other current assets	0.1	0.4	0.4	0.4	0.4
PP & E	9.6	19.2	41.9	53.3	65.5
Intangibles	0.0	6.6	23.1	28.8	40.0
Other non-current assets	0.3	3.5	143.5	143.5	143.5
Total Assets	**11.4**	**44.3**	**240.6**	**258.7**	**286.0**
Short term debt	4.9	2.3	12.1	14.9	18.5
Payables	2.0	2.5	3.0	6.8	10.1
Other current liabilities	2.1	4.0	4.0	4.0	4.0
Long term debt	2.5	5.7	8.1	12.4	17.8
Other non-current liabilities	0.0	1.4	147.4	157.4	167.4
Total Liabilities	**11.5**	**18.5**	**177.3**	**198.2**	**220.5**
Total Equity	**(0.1)**	**25.8**	**63.3**	**60.5**	**65.5**
Net debt (cash)	6.3	(6.4)	(11.2)	(4.7)	0.7

DIVISIONS	2018A	2019A	2020E	2021E	2022E

KEY METRICS (%)	2018A	2019A	2020E	2021E	2022E
Revenue growth	-	37.1	19.8	122.2	49.8
EBITDA growth	-	79.1	(29.8)	300.4	82.8
EBIT growth	-	102.1	(73.9)	738.3	118.3
Normalised EPS growth	-	-	(84.9)	986.4	129.0
EBITDA margin	17.3	22.6	13.2	23.9	29.1
OCF /EBITDA	53.0	112.4	108.8	116.2	108.0
EBIT margin	10.9	16.1	3.5	13.3	19.3
Return on assets	-	13.4	0.7	3.3	6.6
Return on equity	-	25.3	1.3	11.7	26.4

VALUATION RATIOS (x)	2018A	2019A	2020E	2021E	2022E
Reported P/E	-	40.7	-	-	26.3
Normalised P/E	-	39.4	-	24.0	10.5
Price To Free Cash Flow	-	35.8	-	13.2	6.8
Price To NTA	-	6.7	3.9	5.5	6.9
EV / EBITDA	1.5	16.3	27.4	8.1	4.6
EV / EBIT	2.4	22.9	103.3	14.5	6.9

LEVERAGE	2018A	2019A	2020E	2021E	2022E
ND / (ND + Equity) (%)	101.1	(33.3)	(21.4)	(8.5)	1.0
Net Debt / EBITDA (%)	151.8	(86.1)	(212.4)	(22.5)	1.7
EBIT Interest Cover (x)	5.0	7.8	2.6	8.9	14.4
EBITDA Interest Cover (x)	7.9	11.0	9.6	16.0	21.7

SUBSTANTIAL HOLDERS	m	%
Konstantinou Family	21.7	30.3%
BAEP	9.1	12.8%
Mark McConnell	4.5	6.4%

VALUATION	
Cost of Equity (%)	10.8
Cost of debt (after tax) (%)	7.3
D / EV (%)	-
WACC (%)	**10.8**
Forecast cash flow ($m)	37.8
Terminal value ($m)	198.4
Franking credit value ($m)	-
Enterprise Value ($m)	267.5
Less net debt / add net cash & investments ($m)	(31.4)
Equity NPV ($m)	**236.1**
Equity NPV Per Share ($)	**3.74**
Multiples valuation method	FY22 PE
Multiples	15.0
Multiples valuation	3.49
Target Price Method	Rolled fwd DCF and PE
Target Price ($)	4.00
Valuation disc. / (prem.) to share price (%)	63.9

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