ORD MINNETT RESEARCH

Viva Leisure Limited

No pain, no gain

VVA have navigated COVID-19 with aplomb, positioning the business for strong organic and acquired growth heading into FY21. The FY20 result was a beat vs our forecast, but the most pleasing statistics in the result were 1) member retention of >95% pre and post COVID, 2) member re-engagement through visitations were above pre-COVID levels in July, 3) hiit republic sites are producing "mature" EBTIDA margins of 50% and member revenue yields >2x the remaining network and 4) the roll-out and roll-up pipeline remains as strong as ever, with 98 clubs secured for end-FY21 without accounting for potential acquisitions. We retain a high conviction Buy call on VVA, with management's quality reinforced through the crisis and the business positioned as the dominant consolidator in the highly fragmented fitness industry. Our updated $4.25 target offers 60% capital upside and implies an FY22 PE of 19x (FY23 14x).

FY20 a financial write-off, but strategically pivotal

While FY20 was disrupted by COVID, management continued to position the business for long-term growth by 1) acquiring two large club networks in new geographies, thereby offering more runway for hiit republic, 2) bolstering the balance sheet at the right time to provide flexibility for future consolidation, 3) proved-out the hiit republic concept to provide confidence to accelerate the roll-out and 4) secured the acquisition of Plus Fitness in early-FY21 which provides a significant franchise buyback opportunity over the medium-term. All said, the FY20 EBITDA beat OMLe by 16%, and 34% if we normalise for one-off costs.

Member numbers offer strong foundation for re-growth

Member numbers at Jun-20 saw at 94.2k (now 96k), >95% the level they were pre-COVID. While 15k members remain suspended, ~7k of these are in VIC. Member visits in July bounced back to higher levels than pre-COVID, which provides confidence that Australians want to get back to the gym. More than 80% of paying members visited a club in July.

Buy retained as market position improved through COVID

While COVID has been a challenging force, management have navigated the issues incredibly well, providing increased confidence in their abilities and the outlook for VVA's future. VVA is now the strongest-growing club network in Australia and the dominant consolidator in a fragmented industry. Retain Buy.

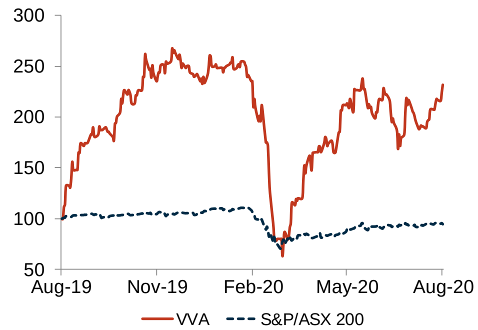
Year-end June ($)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue ($m)	33.1	40.9	88.8	131.9	163.8
EBITDA ($m)	7.5	6.1	21.5	38.1	49.5
EBIT ($m)	5.3	2.0	12.0	24.7	32.8
Reported NPAT ($m)	3.2	(6.2)	(2.7)	6.0	11.4
Reported EPS (c)	6.0	(10.3)	(3.7)	8.3	15.9
Normalised NPAT ($m)	3.3	1.4	7.3	16.0	21.4
Normalised EPS (c)	6.2	2.4	10.2	22.3	29.9
EPS Growth (%)	-	(61.8)	332.7	117.9	33.9
Dividend (c)	-	-	-	5.6	12.0
Net Yield (%)	-	-	-	2.1	4.5
Franking (%)	-	-	-	100	100
EV/EBITDA (X)	17.8	-	16.7	9.6	7.5
Normalised P/E (x)	43.0	-	26.0	11.9	8.9
Normalised ROE (%)	25.3	3.2	11.8	25.4	31.5

Source: OML, Iress, Viva Leisure Limited

Last Price
A$2.66
Target Price
A$4.25 *(Previously A$4.00)*
Recommendation
Buy
Risk
Higher

Leisure Facilities	
ASX Code	VVA
52 Week Range ($)	0.73 - 3.07
Market Cap ($m)	190.2
Shares Outstanding (m)	71.5
Av Daily Turnover ($m)	0.0
3 Month Total Return (%)	8.6
12 Month Total Return (%)	132.3
Benchmark 12 Month Return (%)	-5.4
NTA FY21E (¢ per share)	48.1
Net Debt FY21E ($m)	169.6

Relative Price Performance



Source: FactSet

Consensus Earnings	FY21E	FY22E
NPAT (C) ($m)	7.2	15.0
NPAT (OM) ($m)	7.3	16.0
EPS (C) (c)	10.2	12.6
EPS (OM) (c)	10.2	22.3

Source: OML, Iress, Viva Leisure Limited

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Ord Minnett was lead manager to the IPO in 2019 and raisings in December 2019 and June 2020 and received fees for acting in these capacities

26 August 2020

Strategic year, but financials hit by lockdown

- **Member numbers** as at 30-Jun 2020 were ~94k, including ~8k members on a requested suspension and ~6k suspended by virtue of the VIC lockdowns. Member numbers were up 74% on pcp thanks to the acquisitions of Healthworks and FitnFast, as well as new club rollouts.
- **Revenue** was up 24% despite the Viva gym network completely shutting down on 23 March, with revenues for the first eight months of FY21 growing 62% (with only roughly one month of FnF included).
- **Costs** were in line with expectation and excluded ~$2.8m of JobKeeper benefit passed through. We are unsure of the quantum of rental waivers and deferrals. Management included a number of one-off legal/advisory items in the operating costs for FY20 which won't repeat.
- **EBITDA** of $6.1m was 16% ahead of OMLe ($5.3m) and was down just 19% on pcp.

  EBITDA for the first eight months of the year was $7.8m, up 73%, implying a loss over Mar-Jun of $1.7m. EBITDA margin for the first eight months was 23.4%, up 1.5% points on pcp.

  Management note that the business was on track to achieve EBITDA guidance of $14.3m for FY20 should COVID not have become an issue.

Figure 1: FY20 result summary

	FY19a	FY20a	%∆ pcp	FY20e	%∆ OMLe
Sales revenue	**33.1**	**40.9**	**23.6%**	**39.6**	**3.1%**
Rental expense	-7.1	-9.7	35.6%	-12.7	-24.1%
Staff	-10.2	-13.6	33.0%	-11.7	15.7%
Other expenses	-8.3	-11.6	40.1%	-9.9	16.7%
Other	0.0	0.0	-	0.0	-
Opex	**-25.6**	**-34.8**	**36.0%**	**-34.4**	**1.2%**
EBITDA	**7.5**	**6.1**	**-18.9%**	**5.3**	**15.6%**
D&A	-2.1	-4.1	89.6%	-3.9	5.5%
Normalised EBIT	**5.3**	**2.0**	**-62.5%**	**1.4**	**43.4%**
Net interest	-0.7	-0.8	11.3%	-0.5	39.5%
PBT	**4.7**	**1.2**	**-73.3%**	**0.8**	**45.9%**
Tax	-1.4	0.2	-113.6%	-0.3	-174.5%
Normalised NPATA	**3.3**	**1.4**	**-56.1%**	**0.6**	**140.4%**
Adjustments	-0.1	-7.7	7434.4%	-6.0	27.8%
Reported NPAT	**3.2**	**-6.2**	**-297.8%**	**-5.4**	**15.4%**
EBITDA margin	22.6%	14.8%	-7.8%pts	13.2%	1.6%pts
Members	54,039	94,196	74.3%	92,295	2.1%

Source: OML and VVA

Figure 2: Results for FY20 to Feb-20

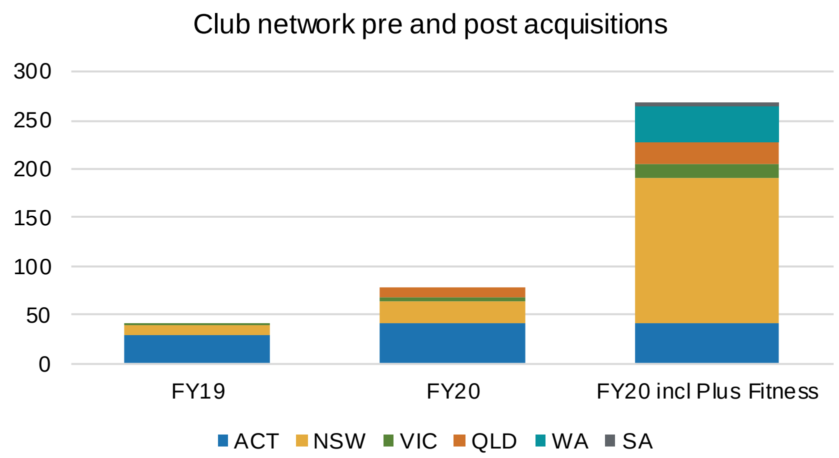
	8 Months (July to February)			12 Months (July to June)		
Profit and Loss ($m)	FY2020 Underlying	FY2019 Underlying	Variance %	FY2020 Underlying	FY2019 Underlying	Variance %
Revenue	**33.16**	**20.48**	**61.9%**	**40.89**	**33.08**	**23.6%**
Operating Costs	(25.39)	(15.99)	58.8%	(34.82)	(25.80)	35.0%
EBITDA	**7.78**	**4.49**	**73.1%**	**6.07**	**7.29**	**(16.7%)**
EBITDA Margin	23.4%	21.9%		14.8%	22.0%	

Source: VVA

hiiting its straps

- VVA provided an update on some key metrics for the new hiit republic concept, the highlights being:
  - 13 clubs opened at Aug-20, with the first opened in March 2019
  - 10 clubs "opening soon"
  - Total members 3,520, or ~270 per club
  - Implied capacity ~50% assuming 1.5 members per sqm
  - Average EBITDA margin at 50% within six months!
  - **Average revenue per member of $34.21 per week, or $148 per month versus VVA's average (pre-COVID) of ~$65 per month**
  - Current revenue run-rate $522k per month, at a 50% EBITDA margin implied $261k per month, or annualised >$3m EBITDA pa on the existing 13 clubs
- The success of the hiit republic concept provides us increased confidence in the roll-out profile, and the strategic importance of the acquisitions of Healthworks, Fit n Fast and Plus Fitness as new hubs around which hiits can be rolled out around.
- Prior to the acquisitions, VVA was restricted to the ACT and regional pockets of NSW, but post the acquisitions, VVA can now launch hiit republics in all states, NZ and India (the latter two thanks to Plus Fitness).
- This means instead of having 100 clubs (end-FY21) around which a hiit can be launched, VVA now has close to 300 clubs around which a hiit concept can be added to the member proposition.
- **If we assume that a hiit sits best in between 2-3 full-sized clubs, we calculate an "opportunity runway" of ~39 clubs (ie 100 owned clubs at end-FY21, less 23 hiits, divided by 2-3).**
- With the Plus Fitness network in the mix, that runway now stands at 80-120 potential hiits. VVA intends to launch a new hiit concept in order to align the economics with the franchise network.

Figure 3: Club growth across states

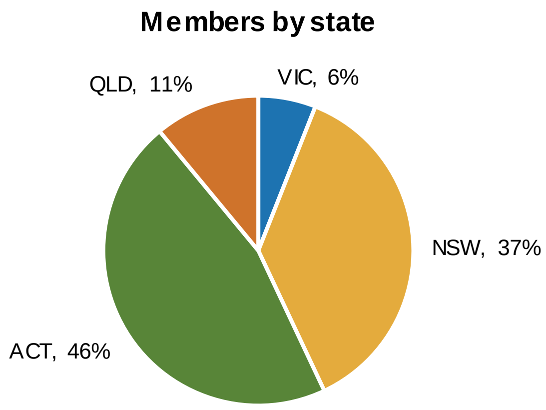


Source: OMLe, VVA

FY21 outlook

- FY21 shapes up to be a year of re-growth for Viva, with ~96% of its members currently out of lockdown (ie ex-VIC) and re-engaged. Visit numbers have bounced back quickly, eclipsing pre-COVID levels in July (see below).

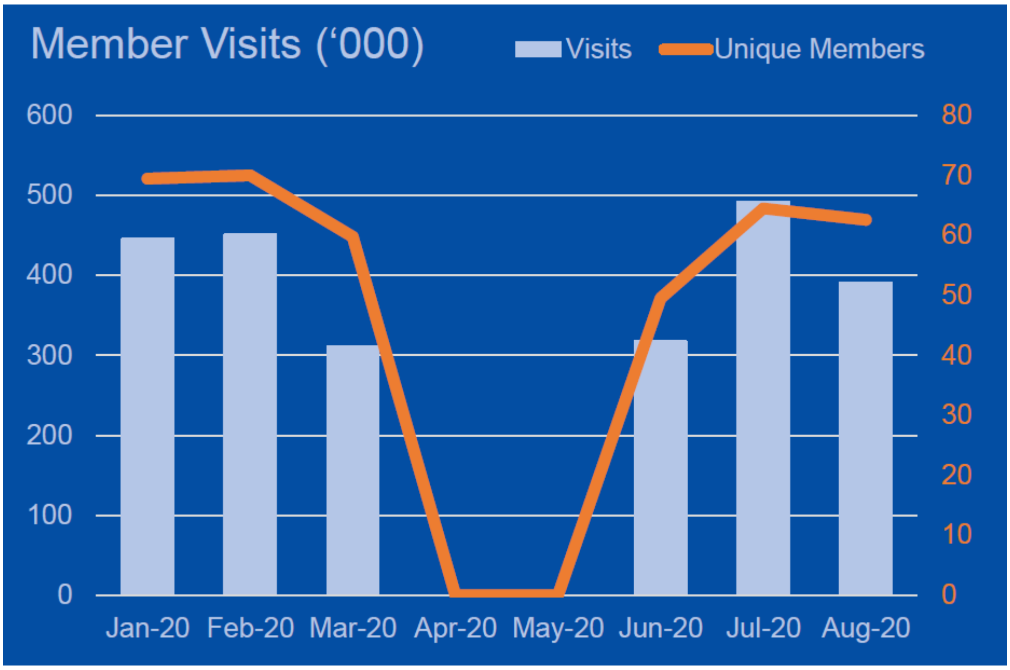
Figure 4: Members by state Feb-20



Source: OMLe, VVA

- While ~15k members remain suspended voluntarily (~8,500) or because they are in VIC (~6,500), re-engagement through visitation gives us confidence that conditions will bounce back quickly.
- The bounce back in unique member visits to 60-70k out of a total active member base of ~80k is testament to the fact that people want to get active again and in the gym. We see a swift bounce back in Victorian visitation and a re-activation of suspended members as virus fears subside.
- We assume ongoing acquisitions, greenfields and reactivation of suspended members in our modelling, but try to err on the side of caution.

Figure 5: Unique member visits and total visits

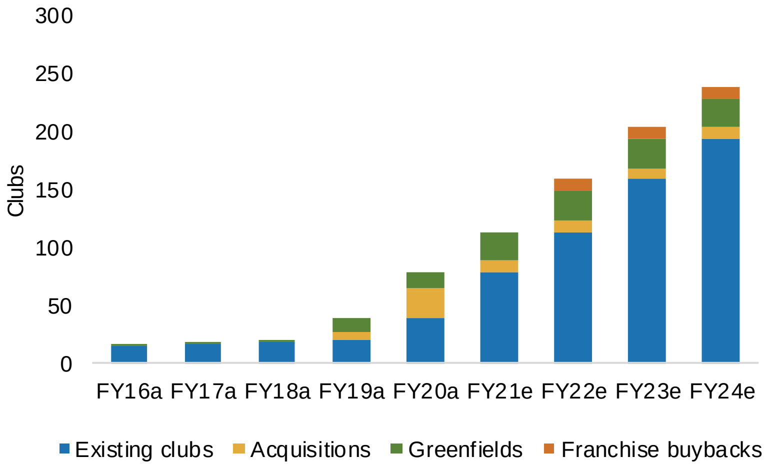


Source: VVA, OMLe

FY21 guidance summary

- Formal guidance for FY21 is
  - 82 currently open locations at 26 August
  - 22 new locations in the pipeline secured, including 12 clubs in fit-out
  - 11 clubs under lease negotiation
  - “Opportunities for hiit republic locations has increased”
  - 16 locations are under negotiation to acquire
  - five Plus franchises identified for potential acquisition
  - two plus franchises opened in FY21, and eight scheduled to be open by Dec-2020
  - 98 clubs open by June 2021 (with 3 of the 22 secured sites in FY22)
  - New “Ground Up” concept to launch in Nov-20 in Belconnen – Yoga, Pilates and Barre studio concept
- We model 25 new clubs pa, 10 franchise buybacks and 10 acquisitions, all on conservative member per club assumptions. This leads to a strong club growth profile over the medium-term (see below)

Figure 6: Club rollout profile



Source: OMLe and VVA

Changes to forecasts

- Adjusted member yield and numbers
- Tapered long-term yield and lfl member growth assumptions

Figure 7: Changes to forecasts

	FY21 old	FY21 new	%∆	FY22 old	FY22 new	%∆	FY23 old	FY23 new	%∆
Owned clubs	76.1	76.8	0.9%	117.0	116.9	-0.1%	147.6	148.8	0.8%
Franchise	12.0	12.0	na	15.0	15.0	na	15.0	15.0	na
Sales revenue	**88.1**	**88.8**	**0.8%**	**132.0**	**131.9**	**-0.1%**	**162.6**	**163.8**	**0.7%**
Opex	-67.1	-67.3	-0.3%	-93.5	-93.8	-0.2%	-114.1	-114.2	-0.1%
EBITDA	**21.0**	**21.5**	**2.4%**	**38.4**	**38.1**	**-0.8%**	**48.5**	**49.5**	**2.2%**
D&A	-9.3	-9.6	-2.5%	-12.9	-13.4	-4.0%	-16.5	-16.7	-1.1%
Normalised EBIT	**11.7**	**12.0**	**2.3%**	**25.5**	**24.7**	**-3.2%**	**32.0**	**32.8**	**2.7%**
Net interest	-1.3	-1.5	-13.9%	-1.8	-1.9	-7.6%	-2.2	-2.3	-3.1%
PBT	**10.4**	**10.5**	**0.8%**	**23.8**	**22.8**	**-4.0%**	**29.7**	**30.5**	**2.7%**
Tax	-3.1	-3.1	-0.8%	-7.1	-6.8	4.0%	-8.9	-9.2	-2.7%
Normalised NPATA	**7.3**	**7.3**	**0.8%**	**16.6**	**16.0**	**-4.0%**	**20.8**	**21.4**	**2.7%**
One-offs/Amort	-10.0	-10.0	0.0%	-10.0	-10.0	0.0%	-10.0	-10.0	0.0%
Reported NPAT	**-2.7**	**-2.7**	**2.2%**	**6.6**	**6.0**	**-10.1%**	**10.8**	**11.4**	**5.2%**
Normalised EPS (NPATA)	**10.2**	**10.2**	**0.8%**	**23.3**	**22.3**	**-4.0%**	**29.1**	**29.9**	**2.7%**
Greenfield clubs	25.0	25.0	0.0%	26.0	25.0	-3.8%	27.0	25.0	-7.4%
Acquired clubs	10.0	10.0	0.0%	10.0	10.0	0.0%	10.0	10.0	0.0%
Franchises bought back	0.0	0.0	na	10.0	10.0	na	10.0	10.0	na
Total clubs	**118.0**	**114.0**	**-3.4%**	**164.0**	**159.0**	**-3.0%**	**201.0**	**194.0**	**-3.5%**
Members (owned clubs)	**130,177**	**127,596**	**-2.0%**	**170,698**	**175,548**	**2.8%**	**201,371**	**204,574**	**1.6%**
Average members	105,674	107,569	1.8%	150,437	151,572	0.8%	186,034	190,061	2.2%
Revenue/member p/month	60.0	59.5	-0.8%	64.8	64.3	-0.8%	66.1	65.2	-1.3%
EBITDA/member p/year	199.0	200.1	0.6%	255.5	251.5	-1.5%	260.7	260.7	0.0%
EBITDA margin	**23.9%**	**24.2%**	**0.4%pts**	**29.1%**	**28.9%**	**-0.2%pts**	**29.8%**	**30.3%**	**0.4%pts**

Source: OML

Acquisition of Plus Fitness

- Viva acquired the Master Franchisor of Plus Fitness in July 2020 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

Figure 8: Plus fitness locations

Source: VVA acquisition presentation

Plus' financials and 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 9: Plus Fitness revenue split

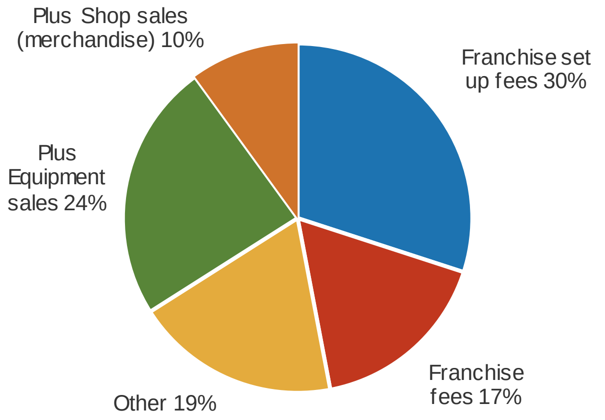
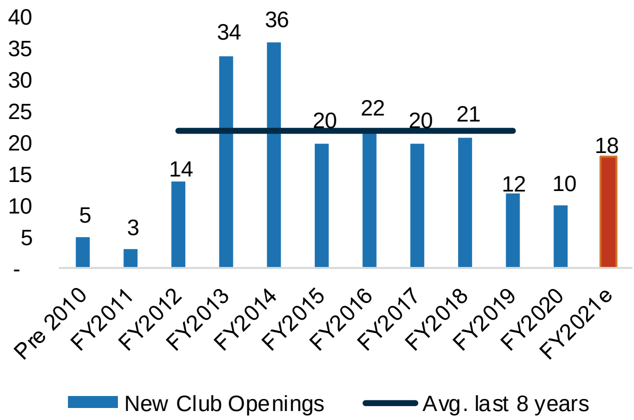


Figure 10: New club openings



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 for more growth in the Australian market, particularly post-COVID if the independent club network shrinks

Figure 11: 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 franchise 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 12: 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

Recommendation, valuation and price target

Recommendation

- We retain a Buy recommendation, seeing the business well placed to continue expanding its footprint in regional and suburban Australia through concerted club roll-outs and sensible roll-ups.
- The acquisition of Plus Fitness provides a significant pool of franchise-club buyback opportunities and new regions in which to extend the greenfield roll-out strategy.
- VVA remains well funded and has numerous club acquisition opportunities in the pipeline.

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.

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.

The reason for a large jump in the DCF is owed to the roll-forward off FY20 and addition of FY28 forecasts.

Figure 13: 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 ($m)	82.2
Terminal value ($m)	197.3
Enterprise value ($m)	**279.5**
add FY20e gross cash ($m)	30.1
Equity value ($m)	**309.6**
Equity value per share ($)	4.33
CAGR (FY19-24)	
Members	34.1%
Revenue	41.7%
EBITDA	50.8%
Normalised NPAT	50.5%
FY22 metrics	
Implied FY22 EV/EBITDA (x)	7.3
Implied FY22 PE NPAT (x)	19.4

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, in line with the Domestic discretionary and healthcare comps.

Gym Group in the UK is trading at 17x FY22, while Planet Fitness in the US is 29x.

Figure 14: FY22 PE valuation

FY22 PE valuation	
FY22 NPAT	16.0
PE multiple (x)	15.00
Equity value ($m)	**239.4**
Equity value per share ($)	3.35
FY22 metrics	
Implied FY22 EV/EBITDA (x)	6.3
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 $4.25 per share, implying 60% upside to the last price of $2.66.

Our $4.25 target implies a FY22 PE of 19x (falling to 14x in FY23).

Figure 15: Price target derivation

Price target derivation	
DCF valuation ($ ps)	4.33
FY22 PE ($ ps)	3.35
Average	**3.84**
Cost of equity (%)	10.8%
Rolled-forward valuations ($ ps)	**4.25**
Less dividend ($ ps)	0.00
One-year forward price target ($ ps)	**4.25**

FY22 metrics	
Implied FY22 EV/EBITDA (x)	12.2
Implied FY22 PE NPATA (x)	19.0

Source: OML

Comparables

Figure 16: Domestic leisure and health comparison set

Domestic leisure											
		Mkt Cap	PE			EV/EBITDA			EPS Growth		
Code	Company	AUD	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
EVT AU	EVENT Hospitality	1,377	31.7	27.2	14.3	15.3	11.4	8.2	-61%	17%	90%
SLK AU	SeaLink Travel Group Ltd	983	25.1	18.5	15.1	13.1	7.8	6.8	5%	36%	23%
VRL AU	Village Roadshow Ltd	410	-	-	15.0	20.8	13.0	8.1	n/a	n/a	n/a
THL NZ	Tourism Holdings Ltd	275	15.3	-	13.0	5.3	9.7	6.2	-38%	-123%	n/a
ALG AU	Ardent Leisure Group Ltd	221	-	-	-	57.2	32.4	11.0	n/a	n/a	n/a
EXP AU	Experience Co Ltd	75	-	-	33.8	16.9	22.5	5.7	-48%	n/a	n/a
ATL AU	Apollo Tourism & Leisure Ltd	53	-	7.0	4.6	9.9	7.4	6.6	-23%	n/a	51%
	Average (excl. EXP/ATL/THL)		**28.4**	**22.9**	**14.8**	**26.6**	**16.2**	**8.5**	**-28%**	**26%**	**57%**
	Median (excl. EXP/ATL/THL)		**25.1**	**22.9**	**14.6**	**15.3**	**11.4**	**8.1**	**-38%**	**17%**	**57%**

Domestic discretionary and health (sub $1b mkt cap)											
		Mkt Cap	PE			EV/EBITDA			EPS Growth		
Code	Company	AUD	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
LIC AU	Lifestyle Communities Ltd	956	34.4	25.6	14.6	17.6	14.1	9.4	-31%	34%	76%
GEM AU	G8 Education Ltd	853	24.9	17.6	12.3	18.4	14.8	11.4	-72%	41%	43%
LOV AU	Lovisa Holdings Ltd	808	38.2	30.3	20.9	17.1	14.3	10.6	-44%	26%	45%
AX1 AU	Accent Group Ltd	899	15.5	16.0	14.3	8.9	9.2	8.5	9%	-3%	12%
IDX AU	Integral Diagnostics Ltd	794	26.3	22.8	19.7	15.7	12.7	11.5	-7%	15%	16%
API AU	Australian Pharmaceutical	552	17.0	12.6	11.2	7.4	6.2	5.5	-39%	35%	12%
CCX AU	City Chic Collective Ltd	782	41.8	30.6	22.6	26.0	19.9	15.6	-4%	37%	35%
NCK AU	Nick Scali Ltd	752	19.1	14.7	17.4	14.9	11.0	13.1	-6%	31%	-16%
RDC AU	Redcape Hotel Group	453	12.2	10.8	10.3	21.2	18.6	17.8	0%	13%	5%
BBN AU	Baby Bunting Group Ltd	561	29.7	23.9	20.6	21.0	14.2	12.5	33%	24%	16%
ADH AU	Adairs Ltd	575	17.6	14.2	13.0	10.5	7.7	7.3	10%	24%	10%
PFP AU	Propel Funeral Partners Ltd	279	19.0	17.3	15.6	11.6	10.0	9.1	18%	10%	10%
VRT AU	Virtus Health Ltd	273	13.3	13.3	12.0	7.9	8.0	7.5	-28%	0%	11%
TRS AU	Reject Shop Ltd/The	255	96.5	35.2	19.1	18.7	14.7	11.6	n/a	174%	84%
PSQ AU	Pacific Smiles Group Ltd	276	39.1	28.1	23.7	15.6	13.0	11.5	-25%	39%	19%
MVF AU	Monash IVF Group Ltd	236	12.6	14.1	12.1	10.9	9.5	8.4	-42%	-10%	16%
CAJ AU	Capitol Health Ltd	230	25.0	20.5	12.5	15.9	14.2	9.8	-25%	22%	64%
ONT AU	1300SMILES Ltd	154	18.5	17.6	16.4	11.3	9.8	9.3	2%	5%	8%
	Average		**27.8**	**20.3**	**16.0**	**15.0**	**12.3**	**10.6**	**-15%**	**29%**	**26%**
	Median		**22.0**	**17.6**	**15.1**	**15.7**	**12.9**	**10.2**	**-7%**	**24%**	**16%**

Offshore fitness centres											
		Mkt Cap	PE			EV/EBITDA			EPS Growth		
Code	Company	AUD	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
PLNT US	Planet Fitness Inc	7,062	219.4	36.4	28.8	45.0	21.3	18.3	30%	-83%	503%
BFIT NA	Basic-Fit NV	2,376	-	46.4	22.6	18.9	10.8	8.1	-2%	-	n/a
8462 TT	Power Wind Health Industry Inc	599	23.4	19.1	17.2	10.5	9.4	8.3	21%	9%	23%
TVTY US	Tivity Health Inc	1,115	12.3	10.7	9.6	8.8	7.4	6.2	-1%	-38%	14%
GYM LN	Gym Group PLC/The	464	-	25.9	16.6	24.9	8.6	7.2	18%	-	n/a
SPORTS MM	Grupo Sports World SAB de CV	61	-	-	-	5.0	4.5	-	-	n/a	-
ATIC SS	Actic Group AB	35	-	6.3	5.2	5.2	4.6	4.4	-73%	-141%	n/a
	Average		**85.0**	**24.1**	**16.7**	**16.9**	**9.5**	**8.8**	**-1%**	**-63%**	**180%**
	Median		**23.4**	**22.5**	**16.9**	**10.5**	**8.6**	**7.7**	**9%**	**-60%**	**23%**

Source: OML and Bloomberg *prices as at 25 August 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 17: 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)	2019A	2020A	2021E	2022E	2023E
Revenue	33.1	40.9	88.8	131.9	163.8
Operating costs	(25.6)	(34.8)	(67.3)	(93.8)	(114.2)
Operating EBITDA	**7.5**	**6.1**	**21.5**	**38.1**	**49.5**
D&A	(2.1)	(4.1)	(9.6)	(13.4)	(16.7)
EBIT	**5.3**	**2.0**	**12.0**	**24.7**	**32.8**
Net interest	(0.7)	(0.8)	(1.5)	(1.9)	(2.3)
Pre-tax profit	**4.7**	**1.2**	**10.5**	**22.8**	**30.5**
Net tax (expense) / benefit	(1.4)	0.2	(3.1)	(6.8)	(9.2)
Significant items/Adj.	(0.1)	(7.7)	(10.0)	(10.0)	(10.0)
Normalised NPAT	**3.3**	**1.4**	**7.3**	**16.0**	**21.4**
Reported NPAT	**3.2**	**(6.2)**	**(2.7)**	**6.0**	**11.4**
Normalised dil. EPS (cps)	6.2	2.4	10.2	22.3	29.9
Reported EPS (cps)	6.0	(10.3)	(3.7)	8.3	15.9
Effective tax rate (%)	30.0	(15.3)	30.0	30.0	30.0
DPS (cps)	-	-	-	5.6	12.0
Dividend yield (%)	-	-	-	2.1	4.5
Payout ratio (%)	-	-	-	25.0	40.0
Franking (%)	-	-	-	100.0	100.0
Diluted # of shares (m)	52.6	60.4	71.5	71.5	71.5

CASH FLOW (A$m)	2019A	2020A	2021E	2022E	2023E
EBITDA incl. adjustments	7.5	6.1	21.5	38.1	49.5
Change in working capital	0.9	7.0	0.2	1.3	1.0
Net Interest (paid)/received	(0.6)	(7.9)	(1.5)	(1.9)	(2.3)
Income tax paid	(0.5)	(1.6)	(3.1)	(6.8)	(9.2)
Other operating items	-	-	-	-	-
Operating Cash Flow	**7.3**	**3.6**	**17.1**	**30.7**	**39.0**
Capex	(3.9)	(17.9)	(6.8)	(6.8)	(6.8)
Acquisitions	(7.1)	(17.7)	(5.7)	(11.1)	(11.3)
Other investing items	(0.3)	-	-	-	-
Investing Cash Flow	**(11.2)**	**(35.1)**	**(12.5)**	**(17.9)**	**(18.0)**
Inc/(Dec) in equity	22.5	43.2	-	-	-
Inc/(Dec) in borrowings	(5.5)	4.0	(7.1)	(9.7)	(12.1)
Dividends paid	-	-	-	(1.6)	(5.8)
Other financing items	-	-	-	-	-
Financing Cash Flow	**17.1**	**47.1**	**(7.1)**	**(11.3)**	**(17.9)**
FX adjustment	0.6	-	-	-	-
Net Inc/(Dec) in Cash	13.2	15.7	(2.4)	1.5	3.1

BALANCE SHEET (A$m)	2019A	2020A	2021E	2022E	2023E
Cash	14.4	30.1	27.7	29.2	32.3
Receivables	0.2	2.7	1.8	2.6	3.3
Inventory	-	-	-	-	-
Other current assets	0.4	3.0	3.0	3.0	3.0
PP & E	19.2	28.6	39.6	50.6	59.9
Intangibles	6.6	20.5	26.2	37.4	48.6
Other non-current assets	3.5	234.6	234.6	234.6	234.6
Total Assets	**44.3**	**319.5**	**332.9**	**357.3**	**381.7**
Short term debt	2.3	16.1	18.8	21.8	24.5
Payables	2.5	5.1	4.4	6.6	8.2
Other current liabilities	4.0	3.2	3.2	3.2	3.2
Long term debt	5.7	174.5	178.6	183.4	188.0
Other non-current liabilities	1.4	4.5	14.5	24.5	34.5
Total Liabilities	**18.5**	**256.2**	**272.2**	**292.3**	**311.1**
Total Equity	**25.8**	**63.3**	**60.6**	**65.0**	**70.6**
Net debt (cash)	(6.4)	160.5	169.6	176.1	180.2

DIVISIONS	2019A	2020A	2021E	2022E	2023E

KEY METRICS (%)	2019A	2020A	2021E	2022E	2023E
Revenue growth	37.1	23.6	117.2	48.5	24.2
EBITDA growth	79.1	(18.9)	254.6	77.1	30.0
EBIT growth	102.1	(62.5)	498.0	106.6	32.9
Normalised EPS growth	-	(61.8)	332.7	117.9	33.9
EBITDA margin	22.6	14.8	24.2	28.9	30.3
OCF /EBITDA	112.4	215.5	101.0	103.4	101.9
EBIT margin	16.1	4.9	13.5	18.7	20.1
Return on assets	13.4	1.3	2.6	5.0	6.2
Return on equity	25.3	3.2	11.8	25.4	31.5

VALUATION RATIOS (x)	2019A	2020A	2021E	2022E	2023E
Reported P/E	44.4	-	-	31.9	16.7
Normalised P/E	43.0	-	26.0	11.9	8.9
Price To Free Cash Flow	39.0	-	18.4	8.0	5.9
Price To NTA	7.3	3.6	5.5	6.9	8.7
EV / EBITDA	17.8	-	16.7	9.6	7.5
EV / EBIT	25.0	156.5	30.1	14.8	11.3

LEVERAGE	2019A	2020A	2021E	2022E	2023E
ND / (ND + Equity) (%)	(33.3)	71.7	73.7	73.0	71.9
Net Debt / EBITDA (%)	(86.1)	2,644.4	788.1	461.8	363.6
EBIT Interest Cover (x)	7.8	2.6	8.0	13.0	14.2
EBITDA Interest Cover (x)	11.0	8.0	14.4	20.0	21.5

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 ($m)	82.2
Terminal value ($m)	197.3
Franking credit value ($m)	-
Enterprise Value ($m)	309.6
Less net debt / add net cash & investments ($m)	(30.1)
Equity NPV ($m)	**279.5**
Equity NPV Per Share ($)	**4.33**
Multiples valuation method	FY22 PE
Multiples	15.0
Multiples valuation	3.35
Target Price Method	Rolled fwd DCF and PE
Target Price ($)	4.25
Valuation disc. / (prem.) to share price (%)	59.8

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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.

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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 was lead manager to the IPO in 2019 and raisings in December 2019 and June 2020 and received fees for acting in these capacities