Viva Leisure Limited

No time to weight

Powered by a renegotiated debt facility and capital raise, Viva is now positioned to grow to 400 clubs by FY25 via greenfields, acquisitions and buybacks. Viva's greenfields generate NPAT returns on investment up to 63% (hiit republic in year two). Acquisitions and buybacks offer more meaningful opportunities to deploy capital at NPAT ROIs of up to 30%. COVID has flushed out a plethora of willing sellers at cheap multiples (<3x EBITDA). Viva is cognisant of the need to invest in overhead to support the expanded network and growth profile, ensuring the business does not fall into the rollup/rollout trap of underinvesting in support infrastructure. While our near-term EPS forecasts decline due to the dilution of the capital raise, our long-term EPS is up ~10% on the ramped up club network. We retain a Buy and our target is now $4.60 per share, implying 16x FY23 PE vs health/discretionary comps on 15x with inferior growth.

Capitalising on a rare opportunity

Viva has secured an upsized debt facility and the equity needed to draw down on it, providing runway to 400 clubs by end-FY25. This positions Viva with 7-9% share of Australian club and ~10% of industry revenue vs Fitness and Lifestyle group at 10% and 20% respectively. With a regional and suburban focus, a compelling hiit republic concept and a 24/7, low cost model in Plus Fitness, we see 400 clubs as a realistic aspiration. If Viva can generate $400k per club of club-level EBITDA (achieved in 1H20) this would equate to $160m, and $130m after $30m of overheads (OMLe EBITDA for FY25 is $92m).

Strong unit economics and paybacks support ramp up

Year-2 NPAT return on investment for VVA's greenfields range from 47% for a Club Lime to 63% for hiit republic (year one positive). This supports continued rollout into new geographies and between existing locations. There is also a network effect that comes with a larger footprint. Acquisitions and buybacks offer the chance to write bigger cheques and still generate ROIs of 14-31%.

Valuation supported by growth and value

Our $4.60 price target implies an FY23 (the first year where returns from material capital deployment is realised) PE of 16x, which is in line with the health and discretionary comp set at 15x. Viva is expected to grow EPS 52% in FY23, however, versus the comp set at 8%. Retain Buy recommendation.

Year-end June ($)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue ($m)	33.1	40.9	92.0	146.6	197.4
EBITDA ($m)	7.5	6.1	22.1	38.9	56.1
EBIT ($m)	5.3	2.0	12.3	24.5	37.0
Reported NPAT ($m)	3.2	(6.2)	(2.6)	5.2	13.0
Reported EPS (c)	6.0	(10.3)	(3.3)	6.4	16.0
Normalised NPAT ($m)	3.3	1.4	7.4	15.2	23.0
Normalised EPS (c)	6.2	2.4	9.6	18.6	28.3
EPS Growth (%)	-	(61.8)	306.8	93.5	51.7
Dividend (c)	-	-	-	-	-
Net Yield (%)	-	-	-	-	-
Franking (%)	-	-	-	-	-
EV/EBITDA (X)	20.8	26.9	10.5	6.7	4.8
Normalised P/E (x)	52.2	-	33.6	17.3	11.4
Normalised ROE (%)	25.3	3.2	9.7	16.5	22.8

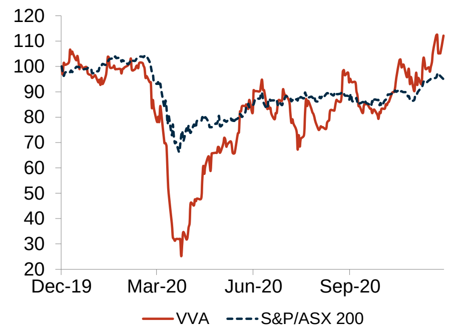
Source: OML, Iress, Viva Leisure Limited

Ord Minnett acted as lead manager to the IPO in June 2019, placements in December 2019. June 2020 and November 2020

Last Price
A$3.23
Target Price
A$4.60 *(Previously A$4.25)*
Recommendation
Buy
Risk
Higher

Leisure Facilities	
ASX Code	VVA
52 Week Range ($)	0.73 - 3.24
Market Cap ($m)	231.0
Shares Outstanding (m)	71.5
Av Daily Turnover ($m)	0.6
3 Month Total Return (%)	14.9
12 Month Total Return (%)	12.2
Benchmark 12 Month Return (%)	-4.8
NTA FY21E (¢ per share)	47.4
Net Cash FY21E ($m)	17.0

Relative Price Performance



Source: FactSet

Consensus Earnings	FY21E	FY22E
NPAT (C) ($m)	7.2	15.5
NPAT (OM) ($m)	7.4	15.2
EPS (C) (c)	10.1	21.7
EPS (OM) (c)	9.6	18.6

Source: OML, Iress, Viva Leisure Limited

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One raise to rule them all

- Viva has expedited its capital needs with its most recent raise, seeing it all but through to its target of 400 clubs by end-FY25. In conjunction with the upsized $25m bank facility, the $30m equity raise will provide support for an annual profile of:
  - 40 greenfield clubs
  - 25-30 franchise buybacks and acquisitions
- This is an increase of ~15 greenfield clubs pa on FY20's 25 clubs and an even more active acquisition profile than FY20's 25 acquired clubs
- Accompanying this accelerated profile, Viva will make material investments in its overhead capacity to facilitate further support for current management in scoping new geographies and clubs as well as conducting due diligence franchise buybacks and third-party acquisitions
- This ramped up profile of rollouts and roll-ups sees Viva on track for 400 clubs by end-FY25 vs our prior forecast of 299 clubs (now 392 clubs)
- In this note we detail:
  - Viva's **market share** at 400 would account for ~7-9% of Australian clubs and ~10% of industry revenue on our forecast. This is half the revenue share of Fitness and Lifestyle Group (Fitness First, Goodlife etc) at the same number of clubs (ie conservative)
  - Unit **economics remain strong for Viva**, with member yields, EBITDA per member and per club recovering to pre-COVID levels fairly quickly. The capital accessed through the recent cap raise and debt facility will drive strong group EBITDA despite considerable overhead investment
  - **FY21 is tracking ahead of OMLe** based on memberships and active (ie not suspended) member numbers. We are comfortable with our FY21 and FY22 forecasts on a lower-than-guided roll-out/up profile
  - **NPAT ROI on greenfields range from 47-63%** (Club Lime to hiit) while acquisitions and franchise buybacks can yield 14-30% returns. While greenfield capital deployment is smaller-ticket, it provides strong return. Acquisitions move the EBITDA needle more quickly.
  - Growth in **hiit republic which comes at a higher member yield** provides potential for a 12% run-rate EBITDA beat by FY25 vs OMLe

Figure 1 – Guidance vs trading

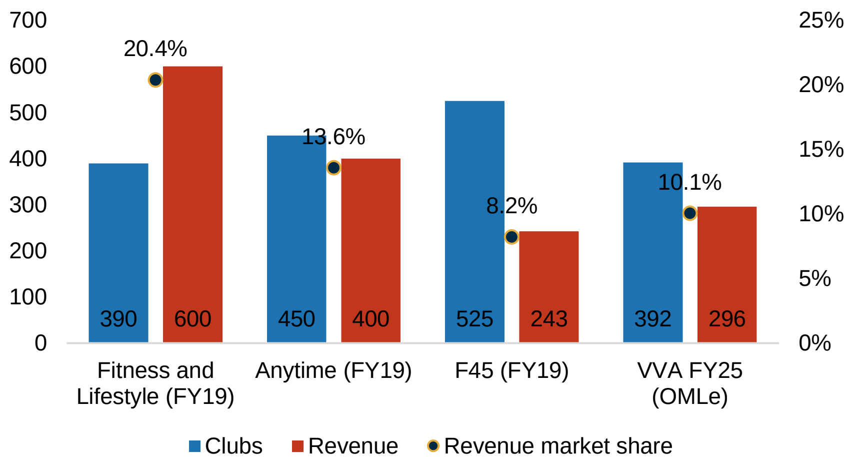
	FY20 result	November raise	Growth	OML FY21e
Greenfields complete	0	12		
Greenfields to complete	22	20+		
Total greenfields FY21	**22**	**32+**	45%	**25**
Clubs by end-FY21 (excl acquisitions)	98	110+	12%	104
Members	96,000	102,960	7%	139,645
Franchise buyback pipeline	Five clubs	$9-10m		$6m pa (for 12 clubs)
Greenfield guidance pa	n/a	40		25 FY21 35 FY22 40 FY23 onward
Buybacks & acquisitions pa	n/a	25-30		25 FY21 27 FY22 onward
2025 corporate club target	n/a	400+		Prior FY25e 299 clubs Now 392 clubs

Source: OMLand VVA

What market share does 400 clubs imply?

- Definitions of fitness clubs varies by data source, with estimates of Australian clubs ranging between 4,400 (Viva prospectus) and 6,000 (IBISWorld). Member numbers are estimated at just under 4m, or ~15% of the population
- Based on our estimated FY25 member base of 391k and club numbers of 392, our implied market shares equates to:
  - ~10% of all members and of industry revenue
  - 7-9% of all clubs
- Viva's current market shares are ~2.5% of members and 1.5-2.0% of clubs
  - Franchise business, Plus Fitness', market share accounts for a further 3-5% of clubs and ~4.4% of members
- With Viva in a position to buy back a large number of Plus clubs, expand into new geographies in Australia via greenfield development, acquire existing single and multi-club businesses and potentially grow into New Zealand, we see the 400+ target a realistic aspiration.
- Fitness and Lifestyle group currently operates ~400 clubs in Australia across its four brands, Fitness First, Goodlife, Zap, Jetts and Barry's. These tend to be larger clubs with a CBD or metro focus, and hence large member numbers and yields. FLG accounts for 7-9% of clubs, but ~20% of industry revenue (IBISWorld).
- In FY25, we estimate VVA to generate club revenue of $295m, or 10% market share compaed with FLG's $600m of revenue in FY19. Anytime generated ~$400m of revenue in FY19, while F45 generated $243m (in aggregate across franchises).
- VVA's FY25 target of 400 clubs is achievable thanks to its:
  - Captive Plus Fitness franchise buyback pool
  - Compelling quality and price of VVA's hiit offering taking on F45 which has 550 franchisees
  - Regional and suburban focus opening up significant greenfield opportunities for both Club Lime and hiit republic
  - Minimal current presence in Greater-Sydney, QLD, VIC, SA and WA

Figure 2 – FY19 Australian clubs and revenue vs VVA FY25 target



Source: OML and IBISWorld

Growth for profit's sake

- VVA intends to expand its club network aggressively because of its high conviction in the return on investment being generated through both greenfields and acquisitions (see figure 7).
- We show below that we are not forecasting club EBITDA per member to reach the highs of FY19 until FY25, which is a conservative assumption given the permanent efficiency gains extracted through COVID (eg reduced class timetables, higher take-up of app entrance, higher online membership sign-ups).
- EBITDA per member could actually rise dramatically given the high-margin nature of hiit republic membership which has a significantly higher yield Club Lime (see figure 8)
- We also assume significant overhead investment, with implied overheads (OML assumption) of $9.4m in FY20 (excluding AFM) rising to $30m in FY25. This is structured around the assumption that blended club-level EBITDA margins are ~40%, with mature clubs at >50%.

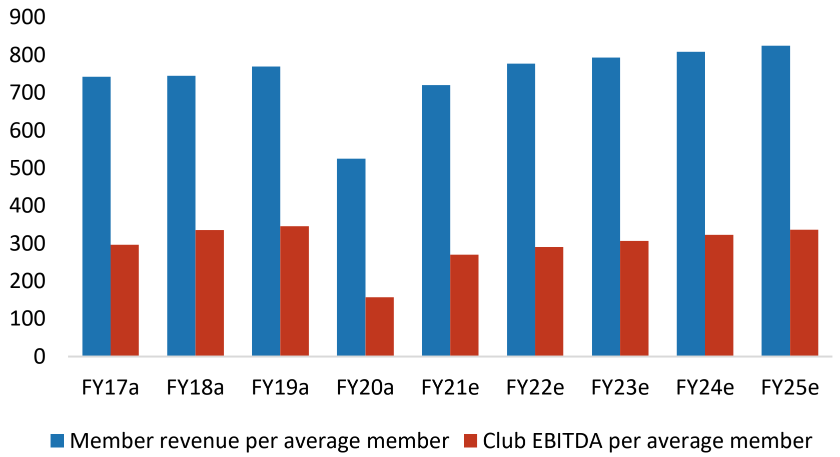
Figure 3 – Per club and per member metrics

	FY18a	FY19a	FY20a	FY21e	FY22e	FY23e	FY24e	FY25e
Clubs	21	40	79	129	191	258	325	392
Average clubs	20	29	61	104	160	225	292	359
Growth in average clubs	*11.4%*	*47.0%*	*112.8%*	*70.5%*	*53.8%*	*40.3%*	*29.8%*	*23.0%*
Members	35,631	54,039	94,196	139,645	197,272	258,476	322,225	387,249
Average members	32,378	42,985	77,823	111,075	168,458	227,874	290,351	354,737
Growth in average members	*15.9%*	*32.8%*	*81.0%*	*42.7%*	*51.7%*	*35.3%*	*27.4%*	*22.2%*
Member revenue	24.1	33.1	40.9	80.0	131.0	180.7	234.9	292.7
AFM revenue	0.0	0.0	0.0	12.0	15.0	15.0	15.0	15.0
Total revenue	**24.1**	**33.1**	**40.9**	**92.0**	**146.0**	**195.7**	**249.9**	**307.7**
AFM overheads	0.0	0.0	0.0	-10.5	-12.5	-12.5	-12.5	-12.5
Club overheads	-13.3	-18.2	-28.6	-49.9	-82.1	-110.9	-141.0	-173.2
Group overheads	-6.7	-7.4	-6.2	-9.4	-12.7	-16.8	-23.4	-30.0
Total overheads	**-20.0**	**-25.6**	**-34.8**	**-69.9**	**-107.3**	**-140.2**	**-177.0**	**-215.7**
Member EBITDA	10.9	14.9	12.3	30.0	48.9	69.8	93.9	119.5
AFM EBITDA	0.0	0.0	0.0	1.5	2.5	2.5	2.5	2.5
Group overheads	-6.7	-7.4	-6.2	-9.4	-12.7	-16.8	-23.4	-30.0
Group EBITDA	**4.2**	**7.5**	**6.1**	**22.1**	**38.7**	**55.5**	**72.9**	**92.0**
Growth	*85.5%*	*79.1%*	*-18.9%*	*264.0%*	*75.3%*	*43.3%*	*31.4%*	*26.2%*
Member revenue per average member	**745**	**770**	**525**	**720**	**778**	**793**	**809**	**825**
Growth	*0.3%*	*3.3%*	*-31.7%*	*37.0%*	*8.0%*	*2.0%*	*2.0%*	*2.0%*
Club EBITDA per average member	**335**	**346**	**158**	**270**	**290**	**307**	**323**	**337**
Growth	*12.9%*	*3.3%*	*-54.5%*	*71.6%*	*7.3%*	*5.6%*	*5.5%*	*4.2%*
Revenue per average club	**1,237,305**	**1,153,953**	**670,328**	**768,978**	**818,708**	**805,072**	**805,825**	**816,533**
Growth	*4.4%*	*-6.7%*	*-41.9%*	*14.7%*	*6.5%*	*-1.7%*	*0.1%*	*1.3%*
Club EBITDA per average club	**556,787**	**519,279**	**201,098**	**288,814**	**305,622**	**311,107**	**321,958**	**333,279**
Growth	*17.4%*	*-6.7%*	*-61.3%*	*43.6%*	*5.8%*	*1.8%*	*3.5%*	*3.5%*
Group EBITDA (ex-AFM) per average club	214,177	260,965	99,508	198,039	226,432	236,123	241,574	249,623
Growth	*66.5%*	*21.8%*	*-61.9%*	*99.0%*	*14.3%*	*4.3%*	*2.3%*	*3.3%*

Source: OML and VVA

- Revenue and EBITDA per member are expected to improve considerably from the COVID-affected FY20 level, but not eclipse FY19 metrics for some time. These metrics could change rapidly if the hiit republic business ramps up faster than expected as the concept produces a revenue yield ~2x that of a Club Lime and higher EBITDA margins.

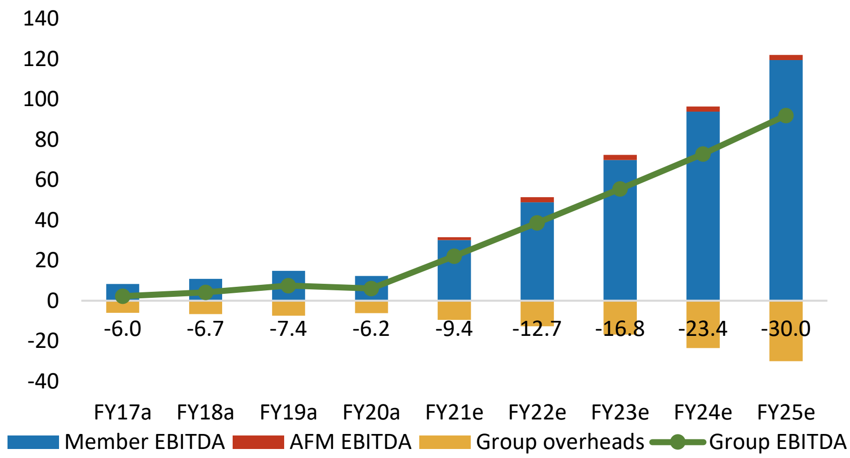
Figure 4 – Revenue and EBITDA per member



Source: OML

- We expect VVA to invest heavily into overhead infrastructure across:
  - State offices to support growth in newer hubs
  - Increased state and regional managers
  - Command centre to provide centralised support to clubs
  - Offshore capability
- In aggregate, we model overheads to increase roughly $20m between FY21e and FY25e, partly made up of natural growth, but largely consisting of investments to support the ramped up growth profile of the business.

Figure 5 – EBITDA growth and overhead investment



Source: OML

FY21 on track for OMLe, and FY22 bridge

- VVA guided to $5.7m of club revenue in October, and $20.7m of revenue for the first four months of FY21. With suspended members coming back online in November and December, acquisitions and greenfields in the pipeline, we are highly comfortable with our $80m club revenue forecast for FY21.
- The table below shows a potential breakdown assuming:
  - The existing monthly $5.7m revenue run-rate which implies ~87.5k active members on a full yield (note, returning members from suspension may have some credits owing before beginning to be charged full fees)
  - 6,000 returned VIC members from COVID suspension
  - Gradual ramp-up between November and March of 5,000 current members who are suspended
  - Acquisition of 15 clubs and 10 franchises at 900 members per club from 1-Jan-21
  - Organic member growth of 800 per month
  - Greenfield members added of 1,650 per month Dec-Jun, totalling 11,550 members (ie three clubs per month with 550 members per club)
- Adding these components and assuming acquisition execution from 1-Jan offers $84.5m of FY21 revenue. We currently forecast $80m, implying the 25 acquisitions complete by end-Mar 2021 (ie three months later, or $1.5m per month). Management expect to deploy up to $10m within 90 days.
- The annualised revenue run-rate at end-FY21 is $108.5m vs OMLe for FY22 of $131m. This additional $22.5m is made up of:
  - 27 combined acquisitions and buybacks contributing $9.5m (assuming a linear execution profile over the year)
  - Greenfield member revenues of $7.5m on the same basis
  - Maturation of FY21 greenfields adds $2.7m
  - Organic growth adds $1.9m
  - Growth in acquired clubs adds $900k

Figure 6 - Monthly revenue run-rates and annualisation

	Actual	VIC	Suspended	Acquisitions	Greenfields	Organic	Cumulative	Monthly run-rate	Annualised revenue
July	4.4						**4.4**	4.4	52.8
August	5.1						**9.5**	5.1	61.2
September	5.2						**14.7**	5.2	62.4
October	5.7						**20.4**	5.7	68.4
November	5.7	0.2	0.1			0.1	**26.4**	6.0	72.1
December	5.7	0.4	0.1		0.1	0.1	**32.8**	6.4	77.2
January	5.7	0.4	0.2	1.5	0.2	0.2	**41.0**	8.1	97.4
February	5.7	0.4	0.3	1.5	0.3	0.2	**49.3**	8.3	100.1
March	5.7	0.4	0.3	1.5	0.4	0.3	**57.9**	8.6	102.8
April	5.7	0.4	0.3	1.5	0.5	0.3	**66.6**	8.7	104.7
May	5.7	0.4	0.3	1.5	0.6	0.4	**75.5**	8.9	106.6
June	5.7	0.4	0.3	1.5	0.8	0.4	**84.5**	9.0	**108.5**

Source: OML and VVA

Compelling return on investment

- While COVID has disrupted the profile of VVA's return on capital invested in recent years, we have seen early signs of the return in 1H20 and FY19, offering a compelling profile and giving us confidence that the debt and equity capital recently provided can be invested for strong reward.
- We estimate greenfield ROI of 63-85% at the EBITDA line (using cash capital cost and assumed equipment leases as the denominator) and 47-63% at the NPAT (using cash capital cost as the denominator) line in year two of a club's life. We use cash capital cost as the denominator in NPAT ROI as D&A captures lease payments which equate approximately to depreciation.
- Acquisitions are expected to deliver year two EBITDA ROIs of 26-30% and NPAT ROIs of 14-19%. The P&L, member base, acquisition multiple and myriad other details can vary with acquisitions, making the ROI somewhat more difficult to derive – simply said, a 3-4x multiple at EBITDA implies 25-33% ROI on consideration.
- Franchise buybacks, by virtue of the lower multiple being targeted, provide for EBITDA ROIs of 31-42% and NPAT ROIs of 21-31%
- These ROI figures are supported by club-level EBITDA per average club in FY18, FY19 and 1H20 of >$400,000 (ie mature clubs would be higher, new clubs lower). This accords with our estimate that Club Lime and hiit's contribute year two EBITDA of $300-500k (hiits were brand new in 1H20).

Figure 7 – ROI calculations

	Greenfield		Acquisition		Franchise buyback	
	Lime	hiit	Large	Small	L multiple	H multiple
Day 0 members	300	100	2,000	750	900	900
Day 365 members	1,000	300	2,100	788	923	923
Day 730 members	1,250	375	2,200	825	945	945
Yield per week (after GST)	16.4	30.9	16.4	16.4	13.6	13.6
Year one revenue	553,091	321,455	1,744,364	654,136	646,159	646,159
Year two revenue	957,273	542,455	1,829,455	686,045	662,114	662,114
Year one EBITDA margin (post-synergy)	25.0%	30.0%	35.0%	30.0%	25.0%	25.0%
Year two EBITDA margin (post-synergy)	52.5%	55.0%	38.5%	33.0%	30.0%	30.0%
Year one EBITDA	138,273	96,436	610,527	196,241	161,540	161,540
Year two EBITDA	502,568	298,350	704,340	226,395	198,634	198,634
D&A	-100,000	-40,000				
Interest	-20,000	-10,000				
Year one PBT	18,273	46,436				
Year two PBT	382,568	248,350				
Year one NPAT	12,791	32,505	305,264	98,120	80,770	80,770
Year two NPAT	267,798	173,845	352,170	113,198	99,317	99,317
EBITDA multiple paid			4.0	3.0	2.0	3.0
Capital cost	575,000	275,000	2,442,109	588,723	323,080	484,619
Lease assumption	225,000	75,000	250,000	150,000	150,000	150,000
Total investment	**800,000**	**350,000**	**2,692,109**	**738,723**	**473,080**	**634,619**
Year one EBITDA ROI over total investment	**17.3%**	**27.6%**	**22.7%**	**26.6%**	**34.1%**	**25.5%**
Year two EBITDA ROI over total investment	**62.8%**	**85.2%**	**26.2%**	**30.6%**	**42.0%**	**31.3%**
Year one NPAT ROI over capital cost	**2.2%**	**11.8%**	**12.5%**	**16.7%**	**25.0%**	**16.7%**
Year two NPAT ROI over capital cost	**46.6%**	**63.2%**	**14.4%**	**19.2%**	**30.7%**	**20.5%**

Source: OML

Yield uplift from hiit rollout

- Viva achieves a much higher member yield from its hiit republic sites compared with its standard clubs, with the initial 13 clubs seeing weekly revenue per member of $34.21 (we assume excluding GST)
- This leads to superior EBITDA margins, with six-month margins coming in at 50%
- As the hiit network ramps up, we expect member yield to improve markedly despite the Plus Fitness franchise buyback (member fees $14-16 per week incl GST)
- Below we show an approximate sensitivity of the average monthly member yield. Based on our assumed club profile in FY25, we estimate an improved yield of ~7% from that implied by current member splits between club types, from $66.4 currently to $71.1 potentially in FY25 (OMLe FY25 $68.8)
- We forecast a lower yield in FY21 of $60 to account for the elevated levels of member voluntary and COVID suspensions, rising to $64.80 in FY22
- Assuming that this potentially higher yield comes to be, we estimate a run-rate revenue uplift pa of ~$11m, equating to an EBITDA upgrade vs OMLe FY25 of ~12%. This assumes a complete drop-through of the revenue uplift to EBITDA, which is fair given the uplift is driven by higher prices, not volumes (which may have some margin cost attached)

Figure 8 – Member yield sensitivity

November 2020	Clubs	Member split	Members	Yield pw incl GST	Yield pm excl GST	Weighted average
Club Lime + FNF	67	92%	94,760	16.0	63.0	57.99
hiit republic	17	5%	5,150	33.0	130.0	6.50
Plus	0	0.0	0.0	na	na	0.00
Other	7	3%	3,090	16.0	63.0	1.89
Total	**91**	**100%**	**103,000**			**66.38**

FY25	Clubs	Member split	Members	Yield pw incl GST	Yield pm excl GST	Weighted average
Club Lime	160	63%	242,899	16.0	63.0	39.54
hiit republic	132	14%	56,100	33.0	130.0	18.83
Plus	85	21%	80,750	14.0	55.2	11.50
Other	15	2%	7,500	16.0	63.0	1.22
Total	**392**	**100%**	**387,249**			**71.09**
OMLe FY25 member yield pm						68.77
% uplift						3.4%
Run-rate revenue uplift potential						10.79
EBITDA upgrade *						**11.7%**

Source: OML & VVA *upgrade vs OMLe FY25 EBITDA assuming 100% revenue drop-through

- FY25e club numbers above are based on:
  - The current 17 hiit clubs, plus 23 new clubs pa over five years from here
  - Five greenfield Plus Fitness sites pa, plus 12 bought back pa
  - An additional eight new concepts in “other”
  - Club Lime accounting for the balance

Changes to forecasts

- Rollout and rollup profile now
  - 40 greenfields pa from FY23 onward, up from 25 pa
  - 15 acquired clubs pa FY21 onward, up from 10 pa
  - 12 franchise buybacks pa FY21 onward, up from 10 pa
- Investment in overheads to support expanded club network and accelerated club ramp up
- Dilution for the capital raise
- Drawdown on debt facility

Figure 9 – Changes to forecasts

	FY21 old	FY21 new	%∆	FY22 old	FY22 new	%∆	FY23 old	FY23 new	%∆
Owned clubs	78.6	80.0	1.8%	121.1	131.0	8.2%	159.4	180.7	13.4%
Franchise	12.0	12.0	0.0%	15.0	15.0	0.0%	15.0	15.0	0.0%
Sales revenue	**90.6**	**92.0**	**1.6%**	**136.1**	**146.0**	**7.3%**	**174.4**	**195.7**	**12.3%**
Opex	-69.5	-69.9	-0.5%	-98.5	-107.3	-8.9%	-123.5	-140.2	-13.5%
EBITDA	**21.0**	**22.1**	**5.1%**	**37.6**	**38.7**	**3.1%**	**50.9**	**55.5**	**9.2%**
D&A	-9.7	-9.8	-0.8%	-13.6	-14.4	-5.5%	-17.2	-19.1	-10.9%
Normalised EBIT	**11.3**	**12.3**	**8.8%**	**24.0**	**24.4**	**1.7%**	**33.7**	**36.4**	**8.3%**
Net interest	-1.8	-1.7	8.8%	-2.5	-2.7	-8.0%	-3.1	-3.5	-15.2%
PBT	**9.5**	**10.6**	**12.2%**	**21.5**	**21.7**	**1.0%**	**30.6**	**32.9**	**7.6%**
Tax	-2.8	-3.2	-12.2%	-6.4	-6.5	-1.0%	-9.2	-9.9	-7.6%
Normalised NPATA	**6.6**	**7.4**	**12.2%**	**15.0**	**15.2**	**1.0%**	**21.4**	**23.0**	**7.6%**
Normalised EPS (NPATA)	**9.3**	**9.6**	**3.8%**	**21.0**	**18.6**	**-11.4%**	**30.0**	**28.3**	**-5.6%**
Greenfield clubs	20.0	25.0	25.0%	25.0	35.0	40.0%	25.0	40.0	60.0%
Acquired clubs	10.0	15.0	50.0%	10.0	15.0	50.0%	10.0	15.0	50.0%
Franchises bought back	10.0	10.0	0.0%	10.0	12.0	20.0%	10.0	12.0	20.0%
Total clubs	**119.0**	**129.0**	**8.4%**	**164.0**	**191.0**	**16.5%**	**209.0**	**258.0**	**23.4%**
Members (owned clubs)	**132,395**	**139,645**	**5.5%**	**179,102**	**197,272**	**10.1%**	**222,768**	**258,476**	**16.0%**
Average members	109,104	111,075	1.8%	155,749	168,458	8.2%	200,935	227,874	13.4%
Revenue/member p/month	60.0	60.0	0.0%	64.8	64.8	0.0%	66.1	66.1	0.0%
EBITDA/member p/year	192.6	198.9	3.3%	241.3	229.9	-4.7%	253.1	243.6	-3.7%
EBITDA margin	**23.2%**	**24.0%**	**0.8%pts**	**27.6%**	**26.5%**	**-1.1%pts**	**29.2%**	**28.4%**	**-0.8%pts**

Source: OML

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, sensible roll-ups and attractive franchise buybacks.
- This capital raise, in conjunction with the recently expanded debt facility, provides Viva with sufficient runway to reach their 400 club target by FY25, with additional equity only needed in cases of large acquisitions. The high cash flow generative nature of the business means the rollout profile is self-funding (run-rate) by FY23.
- With greenfields providing an estimated NPAT ROI of 47-63%, acquisitions at 13-19% and franchise buybacks at 21-31%, Viva is a business capable of compounding compelling returns on capital, making the equity, debt and cash flow funding of the business capital very well invested.

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 roll-off from FY21 in our model will yield a substantial improvement as 1) it was a large investment year, 2) underlying earnings were impacted by COVID and 3) growth embedded in the network comes through strongly in FY22.

With this note and on the assumption that VVA draws fully on its facility, we now model a target D/E of 15%.

The result is a DCF equity value per share of $4.07 which implies a FY22 PE of 22x, but thanks to the growth that comes in year two of a greenfield, FY23's PE drops to 14x (vs current trading at ~11x).

Figure 10 – 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	15.0%
WACC	**9.9%**
Terminal growth rate	**2.0%**

DCF valuation	
Forecast cash flows ($m)	25.9
Terminal value ($m)	284.0
Enterprise value ($m)	**309.9**
less (add) FY20 net bank debt (cash) ($m)	22.1
Equity value ($m)	**332.0**
Equity value per share ($)	4.07

CAGR (FY19-24)	
Members	2240.5%
Revenue	49.8%
EBITDA	57.7%
Normalised NPAT	57.5%

Implied metrics	FY22	FY23
EV/EBITDA (x)	8.0	5.5
PE NPATA (x)	21.9	14.4

Source: OML

FY23 PE comp – because of the significant investment in greenfields and acquisitions being made in FY21 and FY22, we roll our PE valuation forward to FY23, the first year we begin to see the benefits of the additional capital recently raised in the earnings profile of the business.

In deriving our 15x PE multiple for FY23, we reference domestic leisure businesses (FY23 PE median of 19x) and domestic health/discretionary comps (FY23 median PE 15x). VVA's growth profile is far more impressive than the comp set, with OMLe EPS growth in FY21/22/23 at 307/94/52% compared with the median growth rate in health/discretionary comps at 13/10/8%.

Gym Group in the UK is trading at 34x FY22, while Planet Fitness in the US is 35x FY23.

Figure 11 – FY22 PE valuation

FY23 PE valuation	
FY23 NPAT	23.0
PE multiple (x)	15.00
Equity value ($m)	**345.6**
Equity value per share ($)	4.24

Implied metrics	FY22	FY23
EV/EBITDA (x)	8.3	5.8
PE NPATA (x)	22.8	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 $4.60 per share, implying 44% upside to the last price of $3.20.

Our $4.60 target implies a FY22 PE of 25x, falling to 16x in FY23.

Figure 12 – Price target derivation

Price target derivation	
DCF valuation ($ ps)	4.07
FY23 PE ($ ps)	4.24
Average	**4.16**
Cost of equity (%)	10.8%
Rolled-forward valuations ($ ps)	**4.60**
Less dividend ($ ps)	0.00
One-year forward price target ($ ps)	**4.60**

Implied metrics by rarget	FY22	FY23
EV/EBITDA (x)	9.1	6.3
PE NPATA (x)	24.7	16.3

Source: OML

Comparables

Figure 13 – Domestic leisure and health comparison set

Domestic leisure											
		Mkt Cap	PE			EV/EBITDA			EPS Growth		
Code	**Company**	**AUD**	**FY21**	**FY22**	**FY23**	**FY21**	**FY22**	**FY23**	**FY21**	**FY22**	**FY23**
EVT AU	EVENT Hospitality	1,738	431.2	24.2	19.1	14.8	10.3	8.9	-96%	1680%	27%
SLK AU	SeaLink Travel Group Ltd	1,559	26.3	22.0	18.7	13.7	11.9	10.5	19%	20%	17%
VRL AU	Village Roadshow Ltd	581	-	33.8	18.7	16.2	9.3	8.1	-198%	n/a	81%
THL NZ	Tourism Holdings Ltd	360	-	32.4	12.2	14.7	7.8	5.4	-153%	n/a	166%
ALG AU	Ardent Leisure Group Ltd	402	-	-	-	24.8	12.1	8.3	n/a	n/a	n/a
EXP AU	Experience Co Ltd	136	-	22.3	11.1	23.7	9.5	6.0	-113%	n/a	100%
ATL AU	Apollo Tourism & Leisure Ltd	61	-	25.4	6.1	15.6	7.7	5.9	-182%	n/a	315%
	Average (excl. EXP/ATL/THL)		**na**	**26.7**	**18.9**	**17.3**	**10.9**	**9.0**	**-92%**	**na**	**41%**
	Median (excl. EXP/ATL/THL)		**na**	**28.3**	**18.7**	**14.8**	**10.3**	**8.3**	**na**	**na**	**54%**
VVA AU	Viva Leisure OMLe	263	33.6	17.3	11.4	11.3	6.4	4.5	307%	94%	52%

Domestic discretionary and health (sub $1.2b mkt cap)											
		Mkt Cap	PE			EV/EBITDA			EPS Growth		
Code	**Company**	**AUD**	**FY21**	**FY22**	**FY23**	**FY21**	**FY22**	**FY23**	**FY21**	**FY22**	**FY23**
AX1 AU	Accent Group Ltd	1,141	18.5	17.1	15.7	7.7	7.3	6.9	16%	8%	9%
LOV AU	Lovisa Holdings Ltd	1,120	54.3	29.4	23.0	17.8	11.5	9.4	-45%	85%	28%
IDX AU	Integral Diagnostics Ltd	844	23.1	20.8	19.1	12.3	11.5	10.8	11%	11%	9%
NCK AU	Nick Scali Ltd	712	11.6	14.8	13.6	7.7	11.2	9.2	47%	-22%	9%
CCX AU	City Chic Collective Ltd	643	30.4	16.9	19.5	18.1	14.6	12.7	9%	80%	-13%
API AU	Australian Pharmaceutical	571	13.0	12.5	11.8	6.3	5.8	5.2	-18%	4%	5%
BBN AU	Baby Bunting Group Ltd	549	22.3	19.1	16.5	11.8	10.5	9.4	72%	17%	15%
ADH AU	Adairs Ltd	529	10.1	10.2	9.5	6.3	6.3	5.6	78%	-1%	8%
RDC AU	Redcape Hotel Group	522	12.4	11.7	10.9	19.2	18.1	17.0	13%	7%	7%
VRT AU	Virtus Health Ltd	434	14.7	15.5	12.0	8.3	8.5	8.2	4%	-5%	5%
BLX AU	Beacon Lighting Group Ltd	305	13.4	14.2	13.9	5.9	6.4	6.1	38%	-6%	2%
PSQ AU	Pacific Smiles Group Ltd	302	28.1	24.3	20.7	13.0	12.5	11.0	15%	16%	17%
PFP AU	Propel Funeral Partners Ltd	299	19.4	17.1	16.3	10.8	9.8	9.3	22%	14%	5%
MVF AU	Monash IVF Group Ltd	281	14.4	13.6	12.0	8.4	7.5	7.0	-40%	6%	13%
CAJ AU	Capitol Health Ltd	287	25.5	16.5	15.6	10.9	9.3	8.7	-8%	55%	6%
TRS AU	Reject Shop Ltd/The	263	34.8	20.0	13.7	12.4	9.9	8.1	n/a	74%	45%
ONT AU	1300SMILES Ltd	160	17.5	16.0	15.6	9.6	9.2	8.4	13%	10%	2%
	Average		**22.1**	**17.2**	**15.2**	**11.0**	**10.0**	**8.9**	**14%**	**24%**	**12%**
	Median		**18.9**	**16.7**	**14.7**	**10.8**	**9.9**	**8.5**	**13%**	**10%**	**8%**
VVA AU	Viva Leisure OMLe	263	33.6	17.3	11.4	11.3	6.4	4.5	307%	94%	52%

Offshore fitness centres											
		Mkt Cap	PE			EV/EBITDA			EPS Growth		
Code	**Company**	**AUD**	**FY21**	**FY22**	**FY23**	**FY21**	**FY22**	**FY23**	**FY21**	**FY22**	**FY23**
PLNT US	Planet Fitness Inc	8,453	47.5	35.2	34.8	25.5	20.8	19.0	-3%	35%	1%
BFIT NA	Basic-Fit NV	2,924	66.0	28.3	17.2	12.6	8.0	7.1	-21%	133%	65%
8462 TT	Power Wind Health Industry	566	19.2	16.2	-	13.2	8.1	-	26%	18%	na
TVTY US	Tivity Health Inc	1,166	13.4	11.7	-	11.6	11.1	-	-39%	14%	na
GYM LN	Gym Group PLC/The	633	-	34.7	-	13.4	9.3	-	-117%	n/a	na
SPORTS MM	Grupo Sports World	49	-	-	-	4.2	-	-	n/a	na	na
ATIC SS	Actic Group AB	32	5.6	4.8	-	4.6	4.4	-	152%	16%	na
	Average		**30.3**	**21.8**	**26.0**	**12.2**	**10.3**	**13.0**	**0%**	**43%**	**33%**
	Median		**19.2**	**22.3**	**26.0**	**12.6**	**8.7**	**13.0**	**-12%**	**18%**	**33%**
VVA AU	Viva Leisure OMLe	263	33.6	17.3	11.4	11.3	6.4	4.5	307%	94%	52%

Source: OML and Bloomberg *prices as at 30 November 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 16 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 63% at FY20, driven by strong visitation (5-6 visits per month per member on average), 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 14 – 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	92.0	146.6	197.4
Operating costs	(25.6)	(34.8)	(69.9)	(107.7)	(141.3)
Operating EBITDA	**7.5**	**6.1**	**22.1**	**38.9**	**56.1**
D&A	(2.1)	(4.1)	(9.8)	(14.4)	(19.1)
EBIT	**5.3**	**2.0**	**12.3**	**24.5**	**37.0**
Net interest	(0.7)	(0.8)	(1.7)	(2.7)	(3.5)
Pre-tax profit	**4.7**	**1.2**	**10.6**	**21.7**	**32.9**
Net tax (expense) / benefit	(1.4)	0.2	(3.2)	(6.5)	(9.9)
Significant items/Adj.	(0.1)	(7.7)	(10.0)	(10.0)	(10.0)
Normalised NPAT	**3.3**	**1.4**	**7.4**	**15.2**	**23.0**
Reported NPAT	**3.2**	**(6.2)**	**(2.6)**	**5.2**	**13.0**
Normalised dil. EPS (cps)	6.2	2.4	9.6	18.6	28.3
Reported EPS (cps)	6.0	(10.3)	(3.3)	6.4	16.0
Effective tax rate (%)	30.0	(15.3)	30.0	30.0	30.0
DPS (cps)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Payout ratio (%)	-	-	-	-	-
Franking (%)	-	-	-	-	-
Diluted # of shares (m)	52.6	60.4	77.3	81.5	81.5

CASH FLOW (A$m)	2019A	2020A	2021E	2022E	2023E
EBITDA incl. adjustments	7.5	6.1	22.1	38.9	56.1
Change in working capital	0.9	7.0	0.3	1.6	1.5
Net Interest (paid)/received	(0.6)	(7.9)	(1.7)	(2.7)	(3.5)
Income tax paid	(0.5)	(1.6)	(3.2)	(6.5)	(9.9)
Other operating items	-	-	-	-	-
Operating Cash Flow	**7.3**	**3.6**	**17.6**	**31.4**	**44.2**
Capex	(3.9)	(17.9)	(11.9)	(16.5)	(19.5)
Acquisitions	(7.1)	(17.7)	(32.3)	(18.5)	(16.8)
Other investing items	(0.3)	-	-	-	-
Investing Cash Flow	**(11.2)**	**(35.1)**	**(44.2)**	**(35.0)**	**(36.3)**
Inc/(Dec) in equity	22.5	43.2	28.8	-	-
Inc/(Dec) in borrowings	(3.5)	5.8	5.0	10.0	(5.0)
Dividends paid	-	-	-	-	-
Other financing items	(2.0)	(1.8)	(7.3)	(10.4)	(13.7)
Financing Cash Flow	**17.1**	**47.1**	**26.5**	**(0.4)**	**(18.7)**
FX adjustment	0.6	-	-	-	-
Net Inc/(Dec) in Cash	13.2	15.7	(0.1)	(4.2)	(11.4)

BALANCE SHEET (A$m)	2019A	2020A	2021E	2022E	2023E
Cash	14.4	30.1	30.0	25.8	14.4
Receivables	0.2	2.7	1.8	2.9	3.9
Inventory	-	-	-	-	-
Other current assets	0.4	3.0	3.0	3.0	3.0
PP & E	19.2	28.6	45.4	67.2	91.3
Intangibles	6.6	20.5	52.9	71.3	88.2
Other non-current assets	3.5	234.6	234.6	234.6	234.6
Total Assets	**44.3**	**319.5**	**367.6**	**404.9**	**435.4**
Short term debt	2.3	16.1	24.1	37.7	36.6
Payables	2.5	5.1	4.6	7.3	9.9
Other current liabilities	4.0	3.2	3.2	3.2	3.2
Long term debt	5.7	174.5	178.9	184.6	190.8
Other non-current liabilities	1.4	4.5	14.5	24.5	34.5
Total Liabilities	**18.5**	**256.2**	**278.1**	**310.1**	**327.7**
Total Equity	**25.8**	**63.3**	**89.6**	**94.7**	**107.8**
Net debt (cash)	(14.4)	(22.1)	(17.0)	(2.8)	3.6

DIVISIONS	2019A	2020A	2021E	2022E	2023E

KEY METRICS (%)	2019A	2020A	2021E	2022E	2023E
Revenue growth	37.1	23.6	124.9	59.4	34.7
EBITDA growth	79.1	(18.9)	264.0	76.2	44.1
EBIT growth	102.1	(62.5)	515.2	99.4	50.7
Normalised EPS growth	-	(61.8)	306.8	93.5	51.7
EBITDA margin	22.6	14.8	24.0	26.6	28.4
OCF /EBITDA	112.4	215.5	101.4	104.2	102.7
EBIT margin	16.1	4.9	13.4	16.7	18.7
Return on assets	13.4	1.3	2.5	4.4	6.2
Return on equity	25.3	3.2	9.7	16.5	22.8

VALUATION RATIOS (x)	2019A	2020A	2021E	2022E	2023E
Reported P/E	53.9	-	-	50.8	20.2
Normalised P/E	52.2	-	33.6	17.3	11.4
Price To Free Cash Flow	47.4	-	46.2	17.9	10.9
Price To NTA	8.8	4.3	6.8	11.3	13.4
EV / EBITDA	20.8	26.9	10.5	6.7	4.8
EV / EBIT	29.2	81.5	18.9	10.6	7.2

LEVERAGE	2019A	2020A	2021E	2022E	2023E
ND / (ND + Equity) (%)	(126.5)	(53.7)	(23.4)	(3.1)	3.3
Net Debt / EBITDA (%)	(192.3)	(364.3)	(76.9)	(7.2)	6.5
EBIT Interest Cover (x)	7.8	2.6	7.4	9.2	10.5
EBITDA Interest Cover (x)	11.0	8.0	13.3	14.6	15.9

SUBSTANTIAL HOLDERS	m	%
Konstantinou Family	21.7	30.3%
BAEP	12.0	16.8%
WAM	5.3	7.5%

VALUATION	
Cost of Equity (%)	10.8
Cost of debt (after tax) (%)	7.3
D / EV (%)	15.0
WACC (%)	**9.9**
Forecast cash flow ($m)	25.9
Terminal value ($m)	284.0
Franking credit value ($m)	-
Enterprise Value ($m)	332.0
Less net debt / add net cash & investments ($m)	(22.1)
Equity NPV ($m)	**309.9**
Equity NPV Per Share ($)	**4.07**
Multiples valuation method	FY23 PE
Multiples	15.0
Multiples valuation	4.24
Target Price Method	Rolled fwd DCF and PE
Target Price ($)	4.60
Valuation disc. / (prem.) to share price (%)	42.4

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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.

Ord Minnett acted as lead manager to the IPO in June 2019, placements in December 2019, June 2020 and November 2020