

# Viva Leisure Limited

## Feel the burn

Viva has responded quickly to minimise its cash burn during the government mandated shutdown of fitness clubs. It has reduced its workforce by >90%, cut discretionary spending and paused all non-committed roll-outs and roll-ups. In order to remain leveraged to the re-opening of fitness clubs Viva has moved its members to a digital-only membership which keeps some revenue flowing and provides the opportunity to re-start memberships once the shutdown is lifted. We have priced in a three-month shutdown with no lease abatements in our modelling, providing a price target of \$3 and a FY22 PE at \$1.30 per share of ~6x. Any lease abatements offer upside, while a longer shutdown offers potential downside. We see VVA well positioned to come out of this shutdown with liquidity intact and a natural consolidator of the industry.

### Rapid response to the shutdown to minimise burn

Viva began trimming its cost base before the official shutdown of gyms, and accelerated that process following, including reducing its headcount >90%, pausing all uncommitted roll-outs and roll-ups and deferring finance lease payments. Members have been switched to a digital-only membership of \$4 per week which is rebated against fees upon reopening.

### Lease abatements key to shortening the burn further

VVA has reduced its cash burn to \$1.8m per month, which is inclusive of \$1.9m in lease costs and no JobKeeper subsidies. Our reading of the government's lease guidance is that landlords should match lease abatements with the tenant's approximate revenue decline. Starting with a \$11m cash balance and based on a three-month shutdown with no lease abatements or JobKeeper subsidies, we forecast VVA holding cash of \$3-4m at its lowest. If VVA negotiate 50-80% lease reductions, the monthly burn would fall 50-85% with cash at \$6-8m at its lowest.

### Progress delayed 6-12 months, but growth story intact

With \$11m on balance sheet and a debt facility available, VVA is in a strong position to weather the shutdown and emerge with significant liquidity to continue the roll-up and roll-out strategy in a market that is likely more attractive (ie less competitors, cheaper leases, available sites).

#### Key Financials

Year-end June (\$)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (\$m)	24.1	33.1	40.7	69.0	96.9
EBITDA (\$m)	4.2	7.5	2.9	16.0	29.2
EBIT (\$m)	2.6	5.3	(1.0)	8.3	19.1
Reported NPAT (\$m)	2.2	3.2	(7.2)	(5.0)	2.3
Reported EPS (c)	-	6.0	(12.7)	(8.4)	3.9
Normalised NPAT (\$m)	2.2	3.3	(1.2)	5.0	12.3
Normalised EPS (c)	-	6.2	(2.2)	8.3	20.5
EPS Growth (%)	-	-	-	-	147.9
Dividend (c)	-	-	-	3.3	8.7
Net Yield (%)	-	-	-	2.5	6.7
Franking (%)	-	-	-	100	100
EV/EBITDA (X)	1.5	8.3	30.8	5.7	3.1
Normalised P/E (x)	-	21.0	-	15.7	6.3
Normalised ROE (%)	-	25.3	-	14.4	39.5

Source: OML, Iress, Viva Leisure Limited Ord Minnett acted as lead manager to the IPO and Placement in VVA shares in 2019 and received fees for acting in this capacity

#### Last Price

**A\$1.30**

#### Target Price

**A\$3.00** (Previously A\$3.80)

#### Recommendation

**Buy**

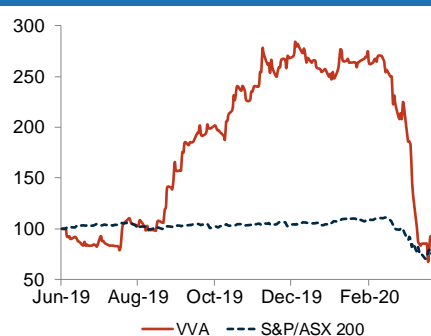
#### Risk

**Higher**

#### Leisure Facilities

ASX Code	VVA
52 Week Range (\$)	-
Market Cap (\$m)	78.2
Shares Outstanding (m)	60.1
Av Daily Turnover (\$m)	-
3 Month Total Return (%)	-51.9
12 Month Total Return (%)	-
Benchmark 12 Month Return (%)	-14.5
NTA FY20E (¢ per share)	25.3
Net Debt FY20E (\$m)	14.5

#### Relative Price Performance



Source: FactSet

#### Consensus Earnings

	FY20E	FY21E
NPAT (C) (\$m)	-	-
NPAT (OM) (\$m)	(1.2)	5.0
EPS (C) (c)	-	-
EPS (OM) (c)	(2.2)	8.3

Source: OML, Iress, Viva Leisure Limited

#### Nicholas McGarrigle

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

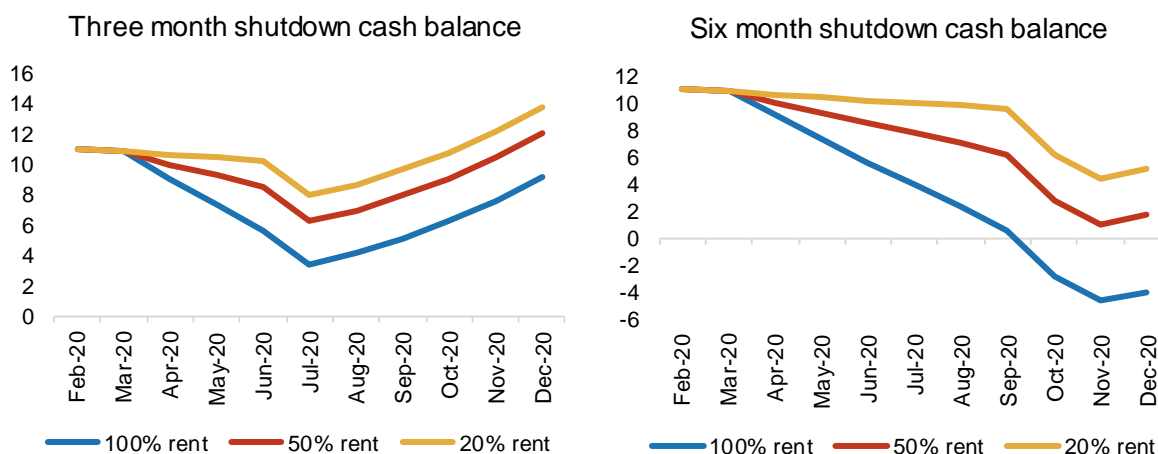
#### Jason Korchinski

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

## Weathering the shutdown

- Viva has responded quickly to the government-mandated closure of fitness facilities, both with its staff and with its members:
  - Viva has automatically suspended memberships for free (normally \$5 per week to suspend)
  - Activated digital membership for all members for \$4 per week to facilitate exclusive Les Mills at-home training programs
    - This payment is credited back to the member on the re-opening of gyms (ie, net \$0 cost to the member through the shutdown)
  - Prior to the shut-down, VVA had taken a range of actions to reduce variable cost including lowering casual hours, reducing marketing, slowing the roll-out, freezing new hires
  - Post the shut-down, VVA has also cancelled all 800 casual staff shifts, non-essential permanent staff on paid or unpaid leave, offered redundancies selectively, postponed refurbishments and roll-outs
  - Synergies from recent FitnFast and Healthworks acquisitions have been fast-tracked, creating permanent savings
- The impact of these actions sees VVA burn ~\$1.8m per month during the shutdown, of which \$1.9m are lease payments as they stand
- Negotiations are ongoing with landlords to quantify any abatements, with our interpretation of the government’s guidance on the issue being that the abatement should be “in-line” with the business’ revenue reduction
- If VVA loses no members, its revenues will fall by 75% (ie \$4 pw vs \$16 pw), but as we expect VVA will lose some members who opt to cancel, we anticipate revenues to be down 80% or more
- Achievement of significant lease reductions will shorten up VVA’s cash burn materially – if it is able to achieve a 50% reduction, this would reduce the monthly cash burn to \$850k, an 80% reduction to \$280k
- We show scenarios below based on three- and six-month shutdown and 0%, 50% and 80% lease reduction finding that in all but the six month shutdown/no lease reduction scenario, VVA has enough cash to weather the shutdown. In the case where it does not, we note the business has access to a debt facility which should prove sufficient to see out the shut-down.

Figure 1 – Cash balance for various lease rates



Source: OML

- The scenarios on the prior page reflect
  - A lower cost base for three-month shutdown
  - Another step down in costs for the next three months in the six-month shutdown
  - A reduction in members from 98k to ~63k in the three-month shutdown and 48k in the six-month shutdown
  - Rebating of the \$4 per week digital-only member fee against the member yields achieved upon re-opening
  - No ongoing capex (beyond the initial three months committed activities)
  - Rapid re-growth in members upon re-opening which sees Jun-21 members at 111k and 103k respectively for the three- and six-month shutdowns

## Ready to go once the ban is lifted

- We believe the company's approach to automatic suspensions of membership and rolling over to a digital-only membership is a smart strategy as it is the best result for the business if it retains as many members as possible coming into the re-opening that can be immediately re-activated and hence revenue producing
- We see upside to our member reduction scenarios given the \$0 cost nature of staying on as a member, the utility of the at-home training app and the simplicity of doing nothing as opposed to going through a cancellation/re-signing procedure
- Hence, we expect VVA can bounce back incredibly quickly coming out of the shutdown
- The same can probably not be said for all of the small (and some of the large) competitors in the fitness industry. We expect some boutique gyms to struggle under the weight of lost-revenue and a high likelihood that clubs will close or be in a position to be acquired opportunistically (potentially by VVA).
- Either way, we see rapid member growth coming out of the shutdown for VVA (from less competition) and potential acceleration of the roll-up strategy, particularly as we see the company navigating this period with a reasonable cash balance intact.
- While the shutdown creates a permanent loss of opportunity as VVA slows its club roll-out and roll-up schedules, the business can get back on track and be just six to twelve months behind out originally planned schedule (see forecast changes on the next page).

## Changes to forecasts

- Three month shutdown assumed, including rebate of digital only membership fees in first month post shutdown
- Zero lease abatements – any progress here will be incrementally positive vs our forecasts**
- No JobKeeper subsidies
- Reduced greenfields in FY21 (10, down from 20)
- Permanent EBITDA margin improvement post FY22 reflecting synergies and efficiencies

Figure 2 – Changes to forecasts

	FY20 old	FY20 new	%Δ	FY21 old	FY21 new	%Δ	FY22 old	FY22 new	%Δ
<b>Sales revenue</b>	<b>60.1</b>	<b>40.7</b>	<b>-32.3%</b>	<b>94.7</b>	<b>69.0</b>	<b>-27.2%</b>	<b>113.3</b>	<b>96.9</b>	<b>-14.5%</b>
Opex	-45.3	-37.8	16.6%	-68.2	-53.0	22.3%	-80.8	-67.7	16.3%
<b>EBITDA</b>	<b>14.8</b>	<b>2.9</b>	<b>-80.6%</b>	<b>26.5</b>	<b>16.0</b>	<b>-39.7%</b>	<b>32.5</b>	<b>29.2</b>	<b>-9.9%</b>
D&A	-4.1	-3.9	4.9%	-7.9	-7.6	3.0%	-9.9	-10.1	-1.9%
<b>Normalised EBIT</b>	<b>10.7</b>	<b>-1.0</b>	<b>-109.2%</b>	<b>18.6</b>	<b>8.3</b>	<b>-55.3%</b>	<b>22.5</b>	<b>19.1</b>	<b>-15.1%</b>
Net interest	-0.7	-0.8	-17.6%	-1.3	-1.2	3.9%	-1.5	-1.5	-0.8%
<b>PBT</b>	<b>10.1</b>	<b>-1.8</b>	<b>-117.8%</b>	<b>17.3</b>	<b>7.1</b>	<b>-59.0%</b>	<b>21.1</b>	<b>17.6</b>	<b>-16.2%</b>
Tax	-3.0	0.5	117.8%	-5.2	-2.1	59.0%	-6.3	-5.3	16.2%
<b>Normalised NPATA</b>	<b>7.0</b>	<b>-1.2</b>	<b>-117.8%</b>	<b>12.1</b>	<b>5.0</b>	<b>-59.0%</b>	<b>14.7</b>	<b>12.3</b>	<b>-16.2%</b>
One-offs/Amort	-3.7	-6.0	-62.9%	-5.4	-10.0	-85.2%	-5.2	-10.0	-91.9%
<b>Reported NPAT</b>	<b>3.4</b>	<b>-7.2</b>	<b>-316.1%</b>	<b>6.7</b>	<b>-5.0</b>	<b>-174.6%</b>	<b>9.5</b>	<b>2.3</b>	<b>-75.4%</b>
<b>Normalised EPS (NPATA)</b>	<b>12.3</b>	<b>-2.2</b>	<b>-117.8%</b>	<b>20.2</b>	<b>8.3</b>	<b>-59.0%</b>	<b>24.5</b>	<b>20.5</b>	<b>-16.2%</b>
Greenfield clubs	18.0	18.0	0.0%	20.0	10.0	-50.0%	20.0	25.0	25.0%
Acquired clubs	25.0	25.0	0.0%	2.0	2.0	0.0%	2.0	2.0	0.0%
<b>Members</b>	<b>107,958</b>	<b>63,257</b>	<b>-41.4%</b>	<b>130,928</b>	<b>110,538</b>	<b>-15.6%</b>	<b>152,003</b>	<b>134,857</b>	<b>-11.3%</b>
Average members	76,948	62,753	-18.4%	119,443	92,980	-22.2%	141,466	122,698	-13.3%
Revenue/member p/month	65.1	54.0	-17.0%	66.1	61.8	-6.5%	66.7	65.8	-1.4%
EBITDA/member p/year	192.2	45.8	-76.2%	221.6	171.6	-22.6%	229.5	238.4	3.9%
<b>EBITDA margin</b>	<b>24.6%</b>	<b>7.1%</b>	<b>-18%pts</b>	<b>28.0%</b>	<b>23.1%</b>	<b>-5%pts</b>	<b>28.7%</b>	<b>30.2%</b>	<b>1.5%pts</b>

Source: OML

## Recommendation, valuation and price target

### Recommendation

- We retain a Buy recommendation, seeing the business well placed to weather the COVID-19 shutdown, emerge from the crisis with significant member numbers intact and well-positioned to further consolidate the fitness industry.
- Our analysis of VVA's cash position indicates the business can weather a six-month shutdown with no additional liquidity needed (ie using existing cash and debt reserves), even without any lease abatements.
- In cases where the shutdown is shorter than six months and lease abatements of any quantum are organised the business will emerge from the shutdown without significant drawn and in a position to ramp back up on the roll-out and roll-up strategy.

### 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.

**Figure 3 – DCF valuation**

DCF inputs		DCF valuation	
Beta	1.20	Forecast cash flows (\$m)	41.7
Risk free rate	5.0%	Terminal value (\$m)	138.6
Market risk premium	6.0%	<b>Enterprise value (\$m)</b>	<b>180.4</b>
Cost of equity	12.2%	add FY20e gross cash (\$m)	5.6
		<b>Equity value (\$m)</b>	<b>186.0</b>
Debt premium	4.0%	Equity value per share (\$)	<b>3.09</b>
Cost of debt (after tax)	6.3%		
D/E	0.0%	<b>CAGR (FY19-24)</b>	
<b>WACC</b>	<b>12.2%</b>	Members	25.9%
		Revenue	32.1%
<b>Terminal growth rate</b>	<b>2.0%</b>	EBITDA	42.3%
		Normalised NPAT	42.4%
		<b>FY22 metrics</b>	
		Implied FY22 EV/EBITDA (x)	6.2
		Implied FY22 PE NPAT (x)	15.1

Source: OML

**FY20 PE comp** – compares Viva to other domestic leisure and discretionary businesses, as well as international fitness centres. We apply an FY22 PE multiple of 11x to FY22 NPAT as this will be the first full year post-COVID.

We note consensus EPS for the comp set likely needs to be downgraded, and the real consensus PE is likely higher than reported on the following page.

Hence, while the median PE in our two focus comp sets is ~10x, we believe 11x is fair for VVA.

#### Figure 4 – FY22 PE valuation

FY22 PE valuation	
FY22 NPAT	12.3
PE multiple (x)	11.00
<b>Equity value (\$m)</b>	<b>135.5</b>
Equity value per share (\$)	2.25

FY22 metrics	
Implied FY22 EV/EBITDA (x)	4.6
Implied FY22 PE NPATA (x)	11.0

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 \$3.00 per share, implying 130% upside to the last price of \$1.30.

Our \$3.00 target only implies a 14.6x PE on an FY22 basis.

#### Figure 5 – Price target derivation

Price target derivation	
DCF valuation (\$ ps)	3.09
FY22 PE (\$ ps)	2.25
<b>Average</b>	<b>2.67</b>
Cost of equity (%)	12.2%
<b>Rolled-forward valuations (\$ ps)</b>	<b>3.00</b>
Less dividend (\$ ps)	0.00
<b>One-year forward price target (\$ ps)</b>	<b>3.00</b>

FY22 metrics	
Implied FY22 EV/EBITDA (x)	6.7
Implied FY22 PE NPATA (x)	14.6

Source: OML

## Comparables

Figure 6 – Domestic leisure discretionary and health comparison set

Domestic leisure														
Code	Company	Mkt Cap AUD	PE			EV/EBITDA			EPS Growth			PEG		
			FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
EVT AU	EVENT Hospitality	1,157	15.0	12.3	11.0	9.3	7.8	7.0	-31%	22%	11%	-	0.55	0.98
SLK AU	SeaLink Travel	705	15.7	11.7	10.1	10.4	6.2	5.5	5%	34%	16%	3.08	0.34	0.65
VRL AU	Village Roadshow Ltd	289	23.9	13.2	8.9	8.6	7.5	6.5	n/a	81%	49%	-	0.16	0.18
THL NZ	Tourism Holdings Ltd	139	6.0	4.6	3.5	3.7	3.6	3.3	-38%	29%	33%	-	0.16	0.11
ALG AU	Ardent Leisure Group	137	-	-	20.4	8.9	6.3	4.7	n/a	n/a	n/a	-	-	-
EXP AU	Experience Co Ltd	43	-	7.0	4.5	6.9	4.0	3.3	-48%	n/a	55%	-	-	0.08
ATL AU	Apollo Tourism	26	5.0	2.7	2.3	7.4	6.7	6.2	-23%	82%	22%	-	0.03	0.10
<b>Average (excl. EXP/ATL/THL)</b>			<b>18.2</b>	<b>12.4</b>	<b>12.6</b>	<b>9.3</b>	<b>6.9</b>	<b>6.0</b>	<b>-13%</b>	<b>46%</b>	<b>25%</b>	<b>3.08</b>	<b>0.35</b>	<b>0.60</b>
<b>Median (excl. EXP/ATL/THL)</b>			<b>15.4</b>	<b>12.0</b>	<b>10.1</b>	<b>8.9</b>	<b>6.3</b>	<b>5.5</b>	<b>-31%</b>	<b>32%</b>	<b>24%</b>	<b>3.08</b>	<b>0.25</b>	<b>0.42</b>
Domestic discretionary and health														
Code	Company	Mkt Cap AUD	PE			EV/EBITDA			EPS Growth			PEG		
			FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
BAP AU	Bapcor Ltd	1,197	13.3	11.8	10.4	10.6	9.0	8.0	-7%	13%	13%	-	0.88	0.79
LIC AU	Lifestyle Communities	680	20.4	13.5	12.1	11.8	8.5	7.9	-17%	52%	11%	-	0.26	1.10
LOV AU	Lovisa Holdings Ltd	494	19.4	14.4	10.0	10.4	8.0	5.7	-32%	35%	44%	-0.60	0.42	0.23
IDX AU	Integral Diagnostics	492	15.3	14.1	12.0	10.9	9.5	8.5	-1%	8%	16%	-	1.67	0.77
AX1 AU	Accent Group Ltd	447	10.3	8.6	7.5	6.7	6.0	5.4	-18%	20%	15%	-	0.43	0.51
NCK AU	Nick Scali Ltd	301	9.3	9.3	7.7	9.4	8.7	7.6	-22%	0%	20%	-	37.11	0.39
BBN AU	Baby Bunting Group	286	15.4	13.9	11.0	12.6	11.2	9.1	31%	11%	26%	-	1.26	0.42
ADH AU	Adairs Ltd	147	6.0	6.2	4.4	5.4	5.4	4.3	-18%	-2%	39%	-	-	0.11
CAJ AU	Capitol Health Ltd	135	13.5	9.7	9.2	7.9	6.8	6.2	8%	38%	6%	1.62	0.25	1.66
<b>Average</b>			<b>13.7</b>	<b>11.3</b>	<b>9.4</b>	<b>9.5</b>	<b>8.1</b>	<b>7.0</b>	<b>-8%</b>	<b>20%</b>	<b>21%</b>	<b>0.51</b>	<b>5.28</b>	<b>0.67</b>
<b>Median</b>			<b>13.5</b>	<b>11.8</b>	<b>10.0</b>	<b>10.4</b>	<b>8.5</b>	<b>7.6</b>	<b>-17%</b>	<b>13%</b>	<b>16%</b>	<b>0.51</b>	<b>0.65</b>	<b>0.51</b>
Offshore fitness centres														
Code	Company	Mkt Cap AUD	PE			EV/EBITDA			EPS Growth			PEG		
			FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
PLNT US	Planet Fitness Inc	5,311	24.0	17.1	15.0	15.5	12.5	10.7	30%	-2%	41%	0.80	-	0.37
BFIT NA	Basic-Fit NV	1,321	42.0	13.7	8.6	10.1	7.6	6.0	-2%	-45%	208%	-	-	0.04
8462 TT	Power Wind Health	497	15.5	13.4	-	7.8	6.8	-	21%	-	-	0.74	-	-
TVTY US	Tivity Health Inc	381	4.0	3.6	2.3	6.5	5.9	5.3	-1%	-45%	12%	-	-	0.19
GYM LN	Gym Group PLC/The	381	24.2	11.4	10.3	7.8	6.9	7.5	18%	-43%	113%	1.34	-	0.09
SPORTS MM	Grupo Sports World	85	-	-	-	5.2	4.7	-	na	na	na	-	-	-
ATIC SS	Actic Group AB	27	4.9	3.3	3.6	4.7	4.4	-	-73%	138%	50%	-	0.02	0.07
<b>Average</b>			<b>19.1</b>	<b>10.4</b>	<b>7.9</b>	<b>8.2</b>	<b>7.0</b>	<b>7.4</b>	<b>-1%</b>	<b>1%</b>	<b>85%</b>	<b>0.96</b>	<b>0.02</b>	<b>0.15</b>
<b>Median</b>			<b>19.8</b>	<b>12.4</b>	<b>8.6</b>	<b>7.8</b>	<b>6.8</b>	<b>6.8</b>	<b>9%</b>	<b>-43%</b>	<b>50%</b>	<b>0.80</b>	<b>0.02</b>	<b>0.09</b>

Source: OML and Bloomberg \*prices as at 6 April 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% currently, driven by strong visitation (~6 visits per month per member in FY18) effective new member sign-up and strong churn management.

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

### Key brands

Figure 7 – Key brands in the Viva Leisure portfolio



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

Source: OML and Viva Leisure



## 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 <25% in FY20, across the Club Lime, MMM and aquatic operations. This has come down in concentration from FY18 (48%), but we note the site remains vitally important to group earnings. This concentration reduces over time as new sites are built or acquired. A number of competing operations exist around CISAC already, but further competition could impede the centre's earnings. We note that no proposed project is of the scale of CISAC nor as centrally located, helping to mitigate this competitive risk. Further, the club's rating on Google reviews is 4.3 stars (4.1 for MMM – Ladies).

## Viva Leisure Limited

PROFIT & LOSS (A\$m)	2018A	2019A	2020E	2021E	2022E
Revenue	24.1	33.1	40.7	69.0	96.9
Operating costs	(20.0)	(25.6)	(37.8)	(53.0)	(67.7)
<b>Operating EBITDA</b>	<b>4.2</b>	<b>7.5</b>	<b>2.9</b>	<b>16.0</b>	<b>29.2</b>
D&A	(1.5)	(2.1)	(3.9)	(7.6)	(10.1)
<b>EBIT</b>	<b>2.6</b>	<b>5.3</b>	<b>(1.0)</b>	<b>8.3</b>	<b>19.1</b>
Net interest	(0.5)	(0.7)	(0.8)	(1.2)	(1.5)
<b>Pre-tax profit</b>	<b>2.1</b>	<b>4.7</b>	<b>(1.8)</b>	<b>7.1</b>	<b>17.6</b>
Net tax (expense) / benefit	0.1	(1.4)	0.5	(2.1)	(5.3)
Significant items/Adj.	-	(0.1)	(6.0)	(10.0)	(10.0)
<b>Normalised NPAT</b>	<b>2.2</b>	<b>3.3</b>	<b>(1.2)</b>	<b>5.0</b>	<b>12.3</b>
<b>Reported NPAT</b>	<b>2.2</b>	<b>3.2</b>	<b>(7.2)</b>	<b>(5.0)</b>	<b>2.3</b>
Normalised dil. EPS (cps)	-	6.2	(2.2)	8.3	20.5
Reported EPS (cps)	-	6.0	(12.7)	(8.4)	3.9
Effective tax rate (%)	(2.9)	30.0	30.0	30.0	30.0
DPS (cps)	-	-	-	3.3	8.7
Dividend yield (%)	-	-	-	2.5	6.7
Payout ratio (%)	-	-	-	40.1	42.5
Franking (%)	-	-	-	100.0	100.0
Diluted # of shares (m)	-	52.6	57.0	60.1	60.1

CASH FLOW (A\$m)	2018A	2019A	2020E	2021E	2022E
EBITDA incl. adjustments	4.2	7.5	2.9	16.0	29.2
Change in working capital	(2.0)	0.9	0.5	2.0	2.0
Net Interest (paid)/received	(0.5)	(0.6)	(0.8)	(1.2)	(1.5)
Income tax paid	-	(0.5)	0.5	(2.1)	(5.3)
Other operating items	-	-	-	-	-
<b>Operating Cash Flow</b>	<b>1.7</b>	<b>7.3</b>	<b>3.1</b>	<b>14.6</b>	<b>24.4</b>
Capex	(1.8)	(3.9)	(17.5)	(3.0)	(6.8)
Acquisitions	(0.0)	(7.1)	(18.5)	(2.0)	(2.0)
Other investing items	-	(0.3)	-	-	-
<b>Investing Cash Flow</b>	<b>(1.8)</b>	<b>(11.2)</b>	<b>(36.0)</b>	<b>(5.0)</b>	<b>(8.8)</b>
Inc/(Dec) in equity	-	22.5	19.0	-	-
Inc/(Dec) in borrowings	0.6	(5.5)	5.2	(5.1)	(6.6)
Dividends paid	-	-	-	(0.8)	(3.3)
Other financing items	-	-	-	-	-
<b>Financing Cash Flow</b>	<b>0.6</b>	<b>17.1</b>	<b>24.2</b>	<b>(5.9)</b>	<b>(9.9)</b>
FX adjustment	-	0.6	-	-	-
Net Inc/(Dec) in Cash	0.4	13.2	(8.7)	3.7	5.8

BALANCE SHEET (A\$m)	2018A	2019A	2020E	2021E	2022E
Cash	1.1	14.4	5.7	9.4	15.1
Receivables	0.1	0.2	0.3	0.5	0.6
Inventory	0.1	-	-	-	-
Other current assets	0.1	0.4	0.4	0.4	0.4
PP & E	9.6	19.2	41.9	44.4	54.1
Intangibles	0.0	6.6	23.1	25.1	27.1
Other non-current assets	0.3	3.5	143.5	143.5	143.5
<b>Total Assets</b>	<b>11.4</b>	<b>44.3</b>	<b>214.9</b>	<b>223.3</b>	<b>240.9</b>
Short term debt	4.9	2.3	12.1	12.7	15.3
Payables	2.0	2.5	3.1	5.3	7.4
Other current liabilities	2.1	4.0	4.0	4.0	4.0
Long term debt	2.5	5.7	8.1	9.5	13.4
Other non-current liabilities	0.0	1.4	147.4	157.4	167.4
<b>Total Liabilities</b>	<b>11.5</b>	<b>18.5</b>	<b>177.4</b>	<b>191.6</b>	<b>210.2</b>
<b>Total Equity</b>	<b>(0.1)</b>	<b>25.8</b>	<b>37.5</b>	<b>31.7</b>	<b>30.7</b>
Net debt (cash)	6.3	(6.4)	14.5	12.8	13.5

## Buy

DIVISIONS	2018A	2019A	2020E	2021E	2022E
<b>KEY METRICS (%)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Revenue growth	-	37.1	22.9	69.6	40.5
EBITDA growth	-	79.1	(61.6)	455.1	83.4
EBIT growth	-	102.1	-	-	129.7
Normalised EPS growth	-	-	-	-	147.9
EBITDA margin	17.3	22.6	7.1	23.1	30.2
OCF /EBITDA	53.0	112.4	118.6	112.5	106.7
EBIT margin	10.9	16.1	-	12.1	19.7
Return on assets	-	13.4	-	2.7	5.8
Return on equity	-	25.3	-	14.4	39.5

VALUATION RATIOS (x)	2018A	2019A	2020E	2021E	2022E
Reported P/E	-	21.7	-	-	33.7
Normalised P/E	-	21.0	-	15.7	6.3
Price To Free Cash Flow	-	19.1	-	6.7	4.4
Price To NTA	-	3.6	5.1	11.8	21.4
EV / EBITDA	1.5	8.3	30.8	5.7	3.1
EV / EBIT	2.4	11.6	-	10.9	4.8

LEVERAGE	2018A	2019A	2020E	2021E	2022E
ND / (ND + Equity) (%)	101.1	(33.3)	27.9	28.8	30.6
Net Debt / EBITDA (%)	151.8	(86.1)	505.3	80.5	46.3
EBIT Interest Cover (x)	5.0	7.8	-	6.8	12.6
EBITDA Interest Cover (x)	7.9	11.0	3.6	13.1	19.3

SUBSTANTIAL HOLDERS	m	%
Konstantinou Family	21.7	36.1%
Mark McConnell	4.5	7.6%
Harry Konstantinou	1.5	2.6%

VALUATION	
Cost of Equity (%)	12.2
Cost of debt (after tax) (%)	9.0
D / EV (%)	-
<b>WACC (%)</b>	<b>12.2</b>

Forecast cash flow (\$m)	41.8
Terminal value (\$m)	138.6
Franking credit value (\$m)	-
Enterprise Value (\$m)	186.2
Less net debt / add net cash & investments (\$m)	(5.7)
<b>Equity NPV (\$m)</b>	<b>180.4</b>
<b>Equity NPV Per Share (\$)</b>	<b>3.10</b>

Multiples valuation method	FY20 EV/EBITDA
Multiples	11.0
Multiples valuation	2.25

Target Price Method	Rolled fwd DCF and EV/EBITDA
Target Price (\$)	3.00
Valuation disc. / (prem.) to share price (%)	130.8

**Institutional Research**

Nicholas McGarrigle	Head of Institutional Research	+61 2 8216 6345	nmcgarrigle@ords.com.au
Dylan Kelly	Senior Research Analyst	+61 2 8216 6417	dkelly@ords.com.au
Ian Munro	Senior Research Analyst	+61 3 9608 4127	ian.munro@ords.com.au
John O'Shea	Senior Research Analyst	+61 3 9608 4146	joshea@ords.com.au
Jules Cooper	Senior Research Analyst	+61 3 9608 4117	julescooper@ords.com.au
Phillip Chippindale	Senior Research Analyst	+61 2 8216 6346	pchippindale@ords.com.au
William MacDiarmid	Research Analyst	+61 2 8216 6514	wmacdiarmid@ords.com.au
Harry Macansh	Research Associate	+61 2 8216 6333	hmacansh@ords.com.au
Jack Lynch	Research Associate	+61 2 8216 6368	jlynch@ords.com.au
Jason Korchinski	Research Associate	+61 2 8216 6348	jkorchinski@ords.com.au
Joshua Goodwill	Research Associate	+61 3 9608 4121	jgoodwill@ords.com.au

**Institutional Sales (Australia)**

Nick Burmester	Head of Institutional Equities	+61 2 8216 6363	nburmester@ords.com.au
Chris McDermott	Institutional Equities Sales	+61 2 8216 6335	cmcdermott@ords.com.au
Jim Bromley	Institutional Equities Sales	+61 2 8216 6343	jbromley@ords.com.au
Matt White	Institutional Equities Sales	+61 3 9608 4133	mwhite@ords.com.au
Richard Wolff	Institutional Equities Sales	+61 2 8216 6429	rwoff@ords.com.au
Scott Ramsay	Institutional Equities Sales	+61 3 9608 4100	sramsay@ords.com.au
Stephen Jolly	Institutional Equities Sales	+61 2 8216 6424	sjolly@ords.com.au
Zac Whitehead	Institutional Equities Sales Support	+61 2 8216 6350	zwhitehead@ords.com.au
Brendan Sweeney	Operator	+61 2 8216 6781	bsweeney@ords.com.au

**Institutional Sales (Hong Kong)**

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

**Ord Minnett Offices**

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

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

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

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

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

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

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

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

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

**International**  
**Hong Kong**  
1801 Ruttonjee House  
11 Duddell Street Central  
Hong Kong  
Tel: +852 2912 8980  
Fax: +852 2813 7212  
[www.ords.com.hk](http://www.ords.com.hk)

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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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## Ord Minnett acted as lead manager to the IPO and Placement in VVA shares in 2019 and received fees for acting in this capacity