

# Viva Leisure Limited

## Staying in shape

VVA continues to trade strongly coming out of COVID, member visitations eclipsing the levels seen pre-COVID and member numbers breaching the 100,000 mark. Recent restriction relaxation in NSW and early signs of opening in Victoria bode well for reactivation of suspended members, thereby improving yields. While FY21 remains a messy year with partial lockdowns, JobKeeper and rental waivers, we see strong momentum heading into FY22 thanks to the expanded club and member network, and VVA's position as industry consolidator on multiples of 1-3x EBITDA. We remain very bullish on VVA, with a Buy rating and \$4.25 price target which implies an FY22 PE of 20x and provides a total shareholder return of 54%.

### Member sign-ups and visitation above pre-COVID levels

VVA reported member visitation during September of ~553k, well above the peak pre-COVID of ~450k in February (partial month of FitnFast). Pleasingly, unique member visits were over 50k, even with 15,000 suspended/locked-down members. With NSW relaxing COVID marshal rules, VVA can now operate efficiently on a 24/7 basis in the state and will be reactivating a large proportion of members, leaving the VIC members still subject to restrictions as the final hurdle to be back at a full "earn" member yield rate. Total member numbers sat at 100,500, an increase of 4% on pre-COVID levels.

### Upsized facility needed to ramp up acquisitions/buybacks

With VVA almost fully drawn on its existing debt facility it should be looking to increase its headroom to support further acquisitions and franchise buybacks. This would provide additional firepower to take advantage of highly reduced vendor expectations coming out of COVID. Recent acquisitions have been made at as low as 1x EBITDA and we expect franchise buybacks to be below 3x. Franchise buybacks generate strong ROI as they require no rebranding and minimal equipment refit. Following management's recent trading update, we now assume 10 buybacks in lieu of 5 greenfields (now 20).

### High conviction Buy, muscling in on the big guys

We remain high conviction on VVA, retaining our Buy rating and price target of \$4.25 which offers a total shareholder return of 54%. With the acquisition, greenfield and franchise buyback pipelines as full and well-priced as ever, we see significant growth runway ahead and VVA well-priced on 13x PE FY22.

Year-end June (\$)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (\$m)	33.1	40.9	90.6	136.1	174.4
EBITDA (\$m)	7.5	6.1	21.0	37.6	50.9
EBIT (\$m)	5.3	2.0	11.3	24.0	33.7
Reported NPAT (\$m)	3.2	(6.2)	(3.4)	5.0	11.4
Reported EPS (c)	6.0	(10.3)	(4.7)	7.0	16.0
Normalised NPAT (\$m)	3.3	1.4	6.6	15.0	21.4
Normalised EPS (c)	6.2	2.4	9.3	21.0	30.0
EPS Growth (%)	-	(61.8)	292.0	126.7	42.4
Dividend (c)	-	-	-	-	7.5
Net Yield (%)	-	-	-	-	2.8
Franking (%)	-	-	-	-	100
EV/EBITDA (X)	18.1	-	18.5	10.7	8.1
Normalised P/E (x)	43.6	-	29.1	12.8	9.0
Normalised ROE (%)	25.3	3.2	10.8	24.1	30.8

Source: OML, Iress, Viva Leisure Limited

### Last Price

**A\$2.70**

### Target Price

**A\$4.25**

### Recommendation

**Buy**

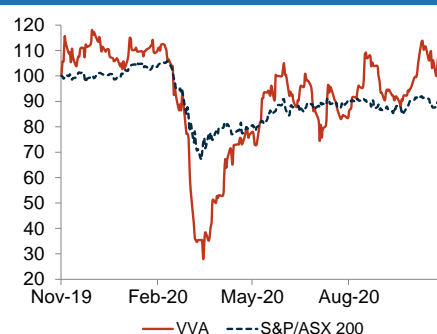
**Risk**

**Higher**

### Leisure Facilities

ASX Code	VVA
52 Week Range (\$)	0.73 - 3.07
Market Cap (\$m)	193.1
Shares Outstanding (m)	71.5
Av Daily Turnover (\$m)	0.0
3 Month Total Return (%)	23.3
12 Month Total Return (%)	3.8
Benchmark 12 Month Return (%)	-6.5
NTA FY21E (¢ per share)	14.4
Net Debt FY21E (\$m)	196.5

### Relative Price Performance



### Consensus Earnings

	FY21E	FY22E
NPAT (C) (\$m)	7.6	16.0
NPAT (OM) (\$m)	6.6	15.0
EPS (C) (c)	10.6	22.4
EPS (OM) (c)	9.3	21.0

Source: OML, Iress, Viva Leisure Limited

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## FY21 guidance and updates

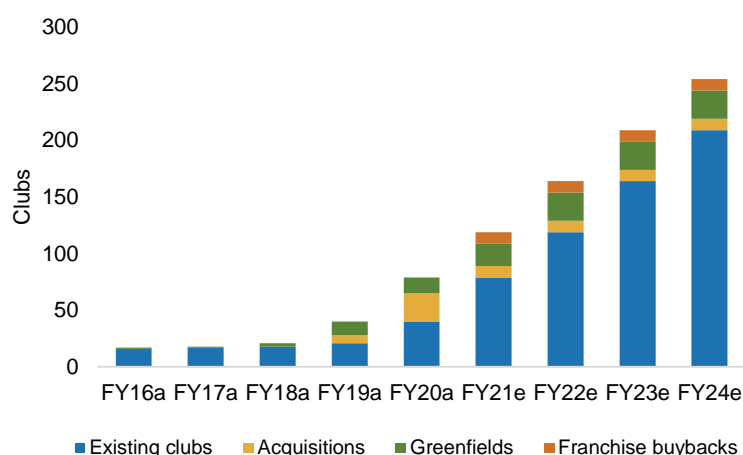
- VVA is tracking well against the guidance it provided at the FY20 result, with an expected 123 clubs by end-FY21 if it executed on all franchise buybacks under diligence, the four clubs being acquired and the remaining greenfield clubs with leases signed. We forecast 119, and are comfortable with this.

### Figure 1 – Guidance vs trading

Guidance at FY20 result	Latest commentary
82 currently open locations at 26 August	Now 86, with an additional 10 opening before end-2020 8 of these remain closed in Victoria
22 new locations in the pipeline secured, including 12 clubs in fit-out	15 clubs about to complete or about to commence construction
16 locations were under negotiation to acquire at the FY20 result	One acquired in NSW for 1x normalised EBITDA Two heads of agreements signed for an additional three clubs with 2,200 members on <2.5x normalised EBITDA
Five Plus franchises identified for potential acquisition	25 sites identified as attractive Agreed to terms on one site Final stages on another two sites Initial due diligence commenced on a further 15 sites Two greenfield corporate locations to open in 3Q21
Two plus franchises opened in FY21, and eight scheduled by end-2020	two franchises open, additional 16 set to open by end-FY21
98 clubs open by June 2021 (with 3 of the 22 secured sites in FY22)	86 currently open  15 completing or about to commence, including two new corporate-owned Plus clubs Four clubs acquired, or close to Three franchises bought-back, or close to Potential for a further 15 franchise buybacks  <b>Converting the above = 123 clubs by end-FY21 (OMLe 119)</b>

Source: OML and VVA

### Figure 2 – Club rollout profile

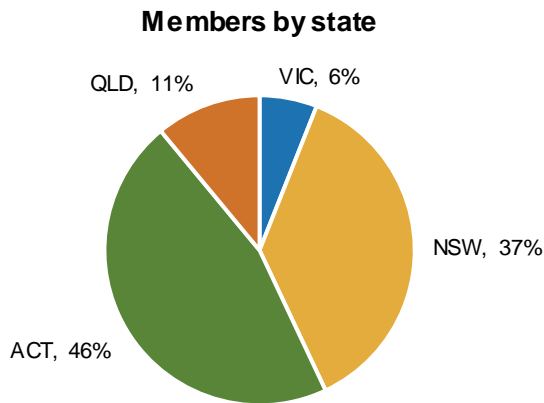


Source: OML and VVA

## FY21 outlook

- FY21 shapes up to be a year of re-growth for Viva, with ~94% 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).

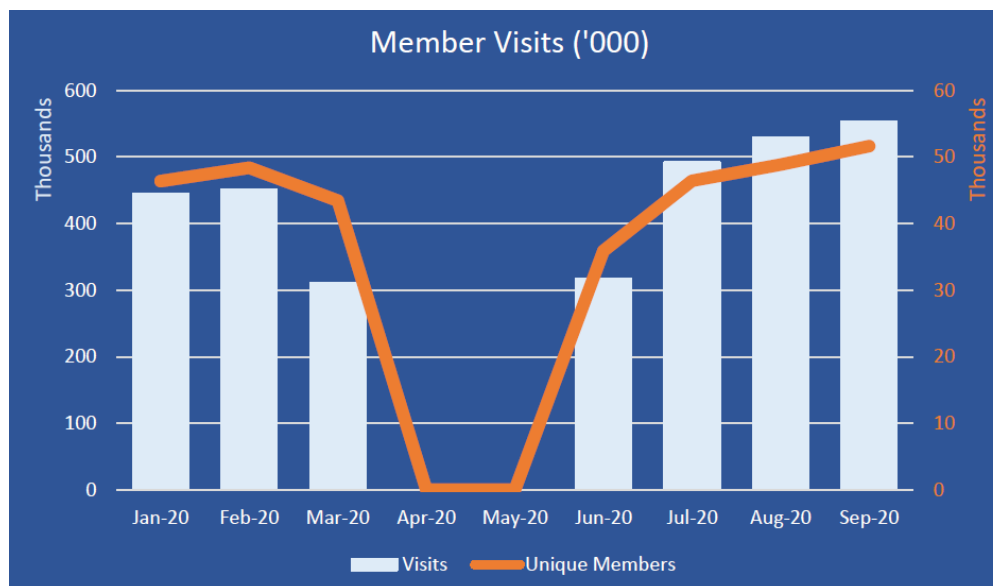
**Figure 3 – Approx. members by state**



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. With NSW now able to be operated efficiently on a 24/7 basis, VVA is likely to look to re-activate suspended members in the state.
- The bounce back in unique member visits to 50k+ out of a total active member base of ~85k 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 4 – Unique member visits and total visits**



Source: VVA, OMLe

## Changes to forecasts

- Assuming franchise buybacks in FY21, previously nil
- Less greenfields in FY21 (20 from 25 previously)
- Adjusted members per buyback and acquisition given transaction evidence
- Slightly higher yield given success of higher-price hiit republic
- Additional debt drawn to fund greenfield, acquisition and buyback pipeline

Figure 5 – Changes to forecasts

	FY21 old	FY21 new	%Δ	FY22 old	FY22 new	%Δ	FY23 old	FY23 new	%Δ
Owned clubs	76.8	78.6	2.3%	116.9	121.1	3.6%	148.8	159.4	7.1%
Franchise	12.0	12.0	na	15.0	15.0	na	15.0	15.0	na
<b>Sales revenue</b>	<b>88.8</b>	<b>90.6</b>	<b>2.0%</b>	<b>131.9</b>	<b>136.1</b>	<b>3.2%</b>	<b>163.8</b>	<b>174.4</b>	<b>6.5%</b>
Opex	-67.3	-69.5	-3.4%	-93.8	-98.5	-5.1%	-114.2	-123.5	-8.2%
<b>EBITDA</b>	<b>21.5</b>	<b>21.0</b>	<b>-2.4%</b>	<b>38.1</b>	<b>37.6</b>	<b>-1.4%</b>	<b>49.5</b>	<b>50.9</b>	<b>2.6%</b>
D&A	-9.6	-9.7	-1.5%	-13.4	-13.6	-1.5%	-16.7	-17.2	-2.8%
<b>Normalised EBIT</b>	<b>12.0</b>	<b>11.3</b>	<b>-5.5%</b>	<b>24.7</b>	<b>24.0</b>	<b>-3.0%</b>	<b>32.8</b>	<b>33.7</b>	<b>2.5%</b>
Net interest	-1.5	-1.8	-22.1%	-1.9	-2.5	-29.6%	-2.3	-3.1	-32.9%
<b>PBT</b>	<b>10.5</b>	<b>9.5</b>	<b>-9.4%</b>	<b>22.8</b>	<b>21.5</b>	<b>-5.8%</b>	<b>30.5</b>	<b>30.6</b>	<b>0.2%</b>
Tax	-3.1	-2.8	9.4%	-6.8	-6.4	5.8%	-9.2	-9.2	-0.2%
<b>Normalised NPATA</b>	<b>7.3</b>	<b>6.6</b>	<b>-9.4%</b>	<b>16.0</b>	<b>15.0</b>	<b>-5.8%</b>	<b>21.4</b>	<b>21.4</b>	<b>0.2%</b>
<b>Normalised EPS (NPATA)</b>	<b>10.2</b>	<b>9.3</b>	<b>-9.4%</b>	<b>22.3</b>	<b>21.0</b>	<b>-5.8%</b>	<b>29.9</b>	<b>30.0</b>	<b>0.2%</b>
Greenfield clubs	25.0	20.0	-20.0%	25.0	25.0	0.0%	25.0	25.0	0.0%
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	10.0	na	10.0	10.0	na	10.0	10.0	na
<b>Total clubs</b>	<b>114.0</b>	<b>119.0</b>	<b>4.4%</b>	<b>159.0</b>	<b>164.0</b>	<b>3.1%</b>	<b>194.0</b>	<b>209.0</b>	<b>7.7%</b>
<b>Members (owned clubs)</b>	<b>127,596</b>	<b>132,395</b>	<b>3.8%</b>	<b>175,548</b>	<b>179,102</b>	<b>2.0%</b>	<b>204,574</b>	<b>222,768</b>	<b>8.9%</b>
Average members	107,569	109,104	1.4%	151,572	155,749	2.8%	190,061	200,935	5.7%
Revenue/member p/month	59.5	60.0	0.8%	64.3	64.8	0.8%	65.2	66.1	1.3%
EBITDA/member p/year	200.1	192.6	-3.7%	251.5	241.3	-4.1%	260.7	253.1	-2.9%
<b>EBITDA margin</b>	<b>24.2%</b>	<b>23.2%</b>	<b>-1.0%pts</b>	<b>28.9%</b>	<b>27.6%</b>	<b>-1.3%pts</b>	<b>30.3%</b>	<b>29.2%</b>	<b>-1.1%pts</b>

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 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 6 – DCF valuation

DCF inputs		DCF valuation	
Beta	1.25	Forecast cash flows (\$m)	52.3
Risk free rate	3.3%	Terminal value (\$m)	240.4
Market risk premium	6.0%	<b>Enterprise value (\$m)</b>	<b>292.7</b>
Cost of equity	10.8%	add FY20e gross cash (\$m)	30.1
		<b>Equity value (\$m)</b>	<b>322.8</b>
Debt premium	4.0%	Equity value per share (\$)	4.51
Cost of debt (after tax)	5.1%		
D/E	0.0%	<b>CAGR (FY19-24)</b>	
<b>WACC</b>	<b>10.8%</b>	Members	37.6%
		Revenue	45.1%
<b>Terminal growth rate</b>	<b>2.0%</b>	EBITDA	53.4%
		Normalised NPAT	53.4%
		<b>FY22 metrics</b>	
		Implied FY22 EV/EBITDA (x)	7.8
		Implied FY22 PE NPAT (x)	21.5

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 7 – FY22 PE valuation

FY22 PE valuation	
FY22 NPAT	15.0
PE multiple (x)	15.00
<b>Equity value (\$m)</b>	<b>225.6</b>
Equity value per share (\$)	3.15
<b>FY22 metrics</b>	
Implied FY22 EV/EBITDA (x)	6.0
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 54% upside to the last price of \$2.66.

Our \$4.25 target implies a FY22 PE of 20x (falling to 14x in FY23).

### Figure 8 – Price target derivation

<b>Price target derivation</b>	
DCF valuation (\$ ps)	4.51
FY22 PE (\$ ps)	3.15
<b>Average</b>	<b>3.83</b>
Cost of equity (%)	10.8%
<b>Rolled-forward valuations (\$ ps)</b>	<b>4.25</b>
Less dividend (\$ ps)	0.00
<b>One-year forward price target (\$ ps)</b>	<b>4.25</b>
<b>FY22 metrics</b>	
Implied FY22 EV/EBITDA (x)	12.4
Implied FY22 PE NPATA (x)	20.2

Source: OML

## Comparables

Figure 9 – Domestic leisure and health comparison set

Domestic leisure											
Code	Company	Mkt Cap AUD	PE			EV/EBITDA			EPS Growth		
			FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
EVT AU	EVENT Hospitality	1,362	31.4	63.1	16.8	13.0	10.6	7.9	-61%	-50%	276%
SLK AU	SeaLink Travel Group Ltd	1,433	36.6	24.8	20.8	24.4	13.2	11.6	5%	48%	19%
VRL AU	Village Roadshow Ltd	459	-	-	29.0	23.9	14.2	8.3	n/a	n/a	n/a
THL NZ	Tourism Holdings Ltd	324	17.3	-	29.6	5.2	13.9	7.4	-38%	-182%	n/a
ALG AU	Ardent Leisure Group Ltd	357	-	-	-	73.9	23.7	11.5	n/a	n/a	n/a
EXP AU	Experience Co Ltd	133	-	-	24.0	24.1	30.1	9.4	-48%	n/a	n/a
ATL AU	Apollo Tourism & Leisure Ltd	48	-	-	20.0	8.0	15.0	7.4	-23%	n/a	n/a
<b>Average (excl. EXP/ATL/THL)</b>			<b>34.0</b>	<b>43.9</b>	<b>22.2</b>	<b>33.8</b>	<b>15.4</b>	<b>9.8</b>	<b>-28%</b>	<b>-1%</b>	<b>148%</b>
<b>Median (excl. EXP/ATL/THL)</b>			<b>31.4</b>	<b>43.9</b>	<b>24.9</b>	<b>23.9</b>	<b>13.9</b>	<b>8.3</b>	<b>-38%</b>	<b>-50%</b>	<b>148%</b>
Domestic discretionary and health (sub \$1b mkt cap)											
Code	Company	Mkt Cap AUD	PE			EV/EBITDA			EPS Growth		
			FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
LIC AU	Lifestyle Communities Ltd	1,105	39.7	29.6	16.8	20.1	16.1	10.7	-31%	34%	76%
GEM AU	G8 Education Ltd	1,008	21.3	20.2	14.3	17.6	16.2	12.5	-62%	5%	41%
LOV AU	Lovisa Holdings Ltd	862	40.7	41.6	25.6	18.1	14.4	10.4	-44%	-2%	62%
AX1 AU	Accent Group Ltd	917	15.8	15.1	14.3	8.6	6.8	6.4	9%	5%	5%
IDX AU	Integral Diagnostics Ltd	863	28.0	23.6	21.4	16.6	12.6	11.7	-7%	19%	10%
API AU	Australian Pharmaceutical	554	18.4	12.6	12.1	6.9	6.2	5.7	-44%	46%	4%
CCX AU	City Chic Collective Ltd	657	35.1	30.1	22.2	21.6	17.6	14.0	-4%	16%	36%
NCK AU	Nick Scali Ltd	718	18.3	12.1	15.2	14.3	8.7	11.2	-6%	51%	-21%
RDC AU	Redcape Hotel Group	583	15.7	13.9	13.2	22.8	20.0	19.2	0%	13%	5%
BBN AU	Baby Bunting Group Ltd	591	30.9	23.9	20.5	21.0	12.6	11.2	33%	29%	17%
ADH AU	Adairs Ltd	639	19.6	12.2	12.3	11.5	7.3	7.4	10%	61%	-1%
PFP AU	Propel Funeral Partners Ltd	292	19.6	19.0	16.7	11.8	10.6	9.7	18%	3%	14%
VRT AU	Virtus Health Ltd	387	18.9	17.4	12.0	9.1	8.9	8.5	-28%	9%	8%
TRS AU	Reject Shop Ltd/The	250	94.6	33.1	19.0	15.3	12.0	9.5	n/a	186%	74%
PSQ AU	Pacific Smiles Group Ltd	307	43.5	28.2	25.6	16.7	13.3	12.0	-25%	54%	10%
MVF AU	Monash IVF Group Ltd	249	13.3	13.3	12.1	9.2	7.4	6.8	-42%	0%	10%
CAJ AU	Capitol Health Ltd	272	29.4	24.1	18.9	16.8	12.7	9.4	-25%	22%	27%
ONT AU	1300SMILES Ltd	153	18.4	16.7	15.8	11.0	9.2	8.9	2%	10%	6%
<b>Average</b>			<b>29.0</b>	<b>21.5</b>	<b>17.1</b>	<b>14.9</b>	<b>11.8</b>	<b>10.3</b>	<b>-14%</b>	<b>31%</b>	<b>21%</b>
<b>Median</b>			<b>20.4</b>	<b>19.6</b>	<b>16.2</b>	<b>16.0</b>	<b>12.3</b>	<b>10.0</b>	<b>-7%</b>	<b>18%</b>	<b>10%</b>
Offshore fitness centres											
Code	Company	Mkt Cap AUD	PE			EV/EBITDA			EPS Growth		
			FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
PLNT US	Planet Fitness Inc	7,980	569.4	42.9	31.5	57.0	23.9	19.6	30%	-92%	1226%
BFIT NA	Basic-Fit NV	2,370	-	53.1	22.8	19.7	11.3	7.1	-2%	-	n/a
8462 TT	Power Wind Health Industry Inc	564	25.1	21.0	15.9	15.0	13.0	8.0	21%	-6%	19%
TVTY US	Tivity Health Inc	930	8.7	10.3	9.2	8.6	9.5	8.8	-1%	-26%	-16%
GYM LN	Gym Group PLC/The	412	-	-	22.9	39.9	10.8	7.1	18%	-	n/a
SPORTS MM	Grupo Sports World SAB de CV	33	-	-	-	4.3	3.9	-	-	n/a	-
ATIC SS	Actic Group AB	31	22.1	5.4	4.7	4.9	4.6	4.4	-73%	-38%	309%
<b>Average</b>			<b>156.3</b>	<b>26.5</b>	<b>17.8</b>	<b>21.4</b>	<b>11.0</b>	<b>9.2</b>	<b>-1%</b>	<b>-41%</b>	<b>385%</b>
<b>Median</b>			<b>23.6</b>	<b>21.0</b>	<b>19.3</b>	<b>15.0</b>	<b>10.8</b>	<b>7.6</b>	<b>9%</b>	<b>-32%</b>	<b>164%</b>

Source: OML and Bloomberg \*prices as at 9 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 10 – 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 – PSYCKLE 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**

PROFIT & LOSS (A\$m)	2019A	2020A	2021E	2022E	2023E
Revenue	33.1	40.9	90.6	136.1	174.4
Operating costs	(25.6)	(34.8)	(69.5)	(98.5)	(123.5)
<b>Operating EBITDA</b>	<b>7.5</b>	<b>6.1</b>	<b>21.0</b>	<b>37.6</b>	<b>50.9</b>
D&A	(2.1)	(4.1)	(9.7)	(13.6)	(17.2)
<b>EBIT</b>	<b>5.3</b>	<b>2.0</b>	<b>11.3</b>	<b>24.0</b>	<b>33.7</b>
Net interest	(0.7)	(0.8)	(1.8)	(2.5)	(3.1)
<b>Pre-tax profit</b>	<b>4.7</b>	<b>1.2</b>	<b>9.5</b>	<b>21.5</b>	<b>30.6</b>
Net tax (expense) / benefit	(1.4)	0.2	(2.8)	(6.4)	(9.2)
Significant items/Adj.	(0.1)	(7.7)	(10.0)	(10.0)	(10.0)
<b>Normalised NPAT</b>	<b>3.3</b>	<b>1.4</b>	<b>6.6</b>	<b>15.0</b>	<b>21.4</b>
<b>Reported NPAT</b>	<b>3.2</b>	<b>(6.2)</b>	<b>(3.4)</b>	<b>5.0</b>	<b>11.4</b>
Normalised dil. EPS (cps)	6.2	2.4	9.3	21.0	30.0
Reported EPS (cps)	6.0	(10.3)	(4.7)	7.0	16.0
Effective tax rate (%)	30.0	(15.3)	30.0	30.0	30.0
DPS (cps)	-	-	-	-	7.5
Dividend yield (%)	-	-	-	-	2.8
Payout ratio (%)	-	-	-	-	25.0
Franking (%)	-	-	-	-	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	21.0	37.6	50.9
Change in working capital	0.9	7.0	0.3	1.4	1.1
Net Interest (paid)/received	(0.6)	(7.9)	(1.8)	(2.5)	(3.1)
Income tax paid	(0.5)	(1.6)	(2.8)	(6.4)	(9.2)
Other operating items	-	-	-	-	-
<b>Operating Cash Flow</b>	<b>7.3</b>	<b>3.6</b>	<b>16.6</b>	<b>30.0</b>	<b>39.8</b>
Capex	(3.9)	(17.9)	(9.1)	(11.7)	(12.4)
Acquisitions	(7.1)	(17.7)	(29.1)	(14.0)	(12.2)
Other investing items	(0.3)	-	-	-	-
<b>Investing Cash Flow</b>	<b>(11.2)</b>	<b>(35.1)</b>	<b>(38.2)</b>	<b>(25.7)</b>	<b>(24.6)</b>
Inc/(Dec) in equity	22.5	43.2	-	-	-
Inc/(Dec) in borrowings	(3.5)	5.8	2.0	5.0	-
Dividends paid	-	-	-	-	(2.1)
Other financing items	(2.0)	(1.8)	(7.2)	(9.9)	(12.4)
<b>Financing Cash Flow</b>	<b>17.1</b>	<b>47.1</b>	<b>(5.2)</b>	<b>(4.9)</b>	<b>(14.5)</b>
FX adjustment	0.6	-	-	-	-
Net Inc/(Dec) in Cash	13.2	15.7	(26.8)	(0.6)	0.6

BALANCE SHEET (A\$m)	2019A	2020A	2021E	2022E	2023E
Cash	14.4	30.1	3.3	2.7	3.3
Receivables	0.2	2.7	1.8	2.7	3.5
Inventory	-	-	-	-	-
Other current assets	0.4	3.0	3.0	3.0	3.0
PP & E	19.2	28.6	42.4	58.4	73.5
Intangibles	6.6	20.5	49.6	63.6	75.8
Other non-current assets	3.5	234.6	234.6	234.6	234.6
<b>Total Assets</b>	<b>44.3</b>	<b>319.5</b>	<b>334.7</b>	<b>365.0</b>	<b>393.7</b>
Short term debt	2.3	16.1	21.0	29.0	31.8
Payables	2.5	5.1	4.5	6.8	8.7
Other current liabilities	4.0	3.2	3.2	3.2	3.2
Long term debt	5.7	174.5	178.8	183.7	188.4
Other non-current liabilities	1.4	4.5	14.5	24.5	34.5
<b>Total Liabilities</b>	<b>18.5</b>	<b>256.2</b>	<b>274.8</b>	<b>300.0</b>	<b>319.4</b>
<b>Total Equity</b>	<b>25.8</b>	<b>63.3</b>	<b>60.0</b>	<b>65.0</b>	<b>74.3</b>
Net debt (cash)	(6.4)	160.5	196.5	210.0	216.9

**Buy**

DIVISIONS	2019A	2020A	2021E	2022E	2023E
<b>KEY METRICS (%)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Revenue growth	37.1	23.6	121.5	50.3	28.1
EBITDA growth	79.1	(18.9)	246.3	78.8	35.3
EBIT growth	102.1	(62.5)	465.3	111.8	40.5
Normalised EPS growth	-	(61.8)	292.0	126.7	42.4
EBITDA margin	22.6	14.8	23.2	27.6	29.2
OCF /EBITDA	112.4	215.5	101.3	103.6	102.3
EBIT margin	16.1	4.9	12.5	17.6	19.3
Return on assets	13.4	1.3	2.4	4.8	6.2
Return on equity	25.3	3.2	10.8	24.1	30.8

VALUATION RATIOS (x)	2019A	2020A	2021E	2022E	2023E
Reported P/E	45.0	-	-	38.3	16.9
Normalised P/E	43.6	-	29.1	12.8	9.0
Price To Free Cash Flow	39.6	-	25.8	10.6	7.1
Price To NTA	7.4	3.6	18.7	140.0	-
EV / EBITDA	18.1	-	18.5	10.7	8.1
EV / EBIT	25.4	157.7	34.5	16.8	12.2

LEVERAGE	2019A	2020A	2021E	2022E	2023E
ND / (ND + Equity) (%)	(33.3)	71.7	76.6	76.4	74.5
Net Debt / EBITDA (%)	(86.1)	2,644.4	934.8	558.9	426.6
EBIT Interest Cover (x)	7.8	2.6	6.2	9.7	11.0
EBITDA Interest Cover (x)	11.0	8.0	11.5	15.2	16.6

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 (%)	-
<b>WACC (%)</b>	<b>10.8</b>

Forecast cash flow (\$m)	52.3
Terminal value (\$m)	240.4
Franking credit value (\$m)	-
Enterprise Value (\$m)	322.8
Less net debt / add net cash & investments (\$m)	(30.1)
<b>Equity NPV (\$m)</b>	<b>292.7</b>
<b>Equity NPV Per Share (\$)</b>	<b>4.51</b>

Multiples valuation method	FY22 PE
Multiples	15.0
Multiples valuation	3.15

Target Price Method	Rolled fwd DCF and PE
Target Price (\$)	4.25
Valuation disc. / (prem.) to share price (%)	57.4

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<b>BUY</b>	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
<b>ACCUMULATE</b>	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.
<b>HOLD</b>	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
<b>LIGHTEN</b>	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
<b>SELL</b>	We expect the total return to lose 15% or more.
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**Ord Minnett acted as lead manager to the IPO (Jun-19) and subsequent placements (Dec-19 and Jun-20) in VVA and received fees for acting in these capacities**