

Viva Leisure temporarily closes all its clubs due to COVID-19

25 March 2020

- Gyms across Australia closed by direction of the Federal Government to assist with the slowing the spread of COVID-19
- Viva Leisure has activated their 'at home' work-out and work-in options via apps for members at a reduced rate to provide some certainty of service and income for the business
- Currently \$11 million cash on hand
- OPEX reduced significantly by standing down of staff during this temporary closure
- Expected cash outflows pre any lease incentives or Government assistance expected to be \$1.8 million per month
- Related party property lease Landlords have agreed to significant rent abatement for April 2020, with further abatement possible should shutdown continue
- Equipment finance lease payments will be deferred for six months¹
- Application for overdraft facility as a standby facility with Commonwealth Bank expected to receive support in the coming days²

Mandated Closure of Gyms

All of Viva Leisure Limited's (**Viva Leisure**) (ASX:VVA) clubs were closed as of Midday 23rd March 2020 in accordance with the Federal Government directive. At present, there is no date specified for reopening of gyms or indoor sporting venues. As outlined the Stage 1 restrictions put in place will be reviewed monthly by the Federal Government.

Launch of new at-home workout options

While the closure of our clubs will affect the health and wellbeing of our 98,000 members (and over 4 million members across Australia), Viva Leisure is committed to ensuring that our members continue to have a fit and healthy lifestyle during this period.

To this end, over the weekend, we launched our first at-home workout application or 'app'. **Club Lime LMOD** (LesMills on Demand) offers members access to 100 workouts supplied by industry-leading group fitness provider LesMills International. This app is available now on Android, iOS and iPadOS.

Later this week, Viva Leisure expects to launch **Club Lime Workouts on Demand**, another at-home workout app with over 500 different workouts from Yoga to hiit classes. These classes comprise licenced content from all around the world.

In addition, our team at hiit republic will from this week be running **Home Work-in** classes on both Facebook Live and Youtube Live for members to maintain their training regime.

¹ Awaiting written confirmation

² Awaiting written confirmation

The majority of Viva Leisure's members have been transferred to a Digital Only membership encompassing the above options at the cost of \$4.00 per week in place of their existing physical club membership (at an average of \$16.00 per week). Members have the ability to turn off the digital option and suspend their membership at zero cost for the duration of the shutdown. As a further incentive, members who remain on the \$4.00 digital membership will have a credit applied to their account for the value of digital membership fees paid during the duration of the shutdown once facilities reopen.

Current Trading and Operations moving forward

The first two months of CY2020 saw the business trade extremely well with membership exceeding 98,000 members.

However, since the middle of March 2020, the COVID-19 pandemic had begun to impact our business with attendance at our clubs starting to drop. New member signups continued however at a much lower rate, and cancellations and suspensions were higher than expected.

Notwithstanding the lower attendance, our loyal members still visited and utilised our facilities over 100,000 times last week, which represented a reduction of approximately 13% over the previous week.

Viva Leisure prides itself on being a quick to respond business which utilises reliable and accurate live data for decision making. Before the recent announcement by the Federal Government, Viva Leisure had commenced the process of reducing costs in anticipation of member declines due to social distancing measures.

These included:

- Removing substantial controllable costs out of the business;
- Reducing marketing and advertising costs to minimum contracted amounts (that are also currently under negotiation);
- Freezing all new hires;
- Ceasing all negotiations concerning acquisition opportunities; and
- Slowing the rate of club refurbishments and rollouts.

Following the Government announcement, Viva Leisure closed all of its facilities as of Midday Monday 23rd March, and this led to a far more significant and immediate restructure of our operational cost base:

- Cancellation of all casual shifts from the time of closure (affecting circa 800 staff);
- Non-essential permanent staff placed on either paid or unpaid leave;
- Redundancies offered for some permanent roles not required during the shutdown period;
- Reduction of over 90% of total headcount (including casual staff);
- Removal of all non-essential variable or discretionary spending; and
- Postponement of all club refurbishments and rollouts other than three (Aspley (QLD), Gungahlin (ACT) and hiit republic Wagga Wagga (NSW)) which are currently underway, nearing completion and costs contracted.

During this challenging period, head office staff will monitor the situation and operate necessary parts of the business in anticipation of reopening. In particular, steps of planning are being taken to ensure the reopening in due course is as seamless as possible.

In addition, during this shutdown period, Viva Leisure management is taking the opportunity to fast-track the cost synergies of the two recent acquisitions which will create immediate and permanent savings of over \$1 million per annum post reopening..

Management is confident that when Viva Leisure ‘reopens for business’ we will have created greater efficiencies to assist in driving increased margins.

Related Party Property Leases

Viva Leisure will receive a significant rent abatement for the month of April 2020 on all related-party property leases. Further rent abatements are possible should the shutdown continue past the end of April 2020. Viva Leisure will commence negotiations with all Landlords to also assist with rent abatements or other incentives.

Strong Balance Sheet

Viva Leisure has undertaken extensive financial modelling and sensitivity analysis given the uncertainty of the timing and impact of the mandated closures forced upon the business. The primary objective of all analysis is cash preservation.

Viva Leisure currently holds approximately \$11 million cash at bank, the majority of which was scheduled to be deployed on rollouts and refurbishments. These funds will now be preserved as a safety net to ensure the business remains viable for the foreseeable future.

To further assist cashflow, Viva Leisure has requested its financiers and key suppliers’ assistance with the following:

- Establishment of an overdraft stand by facility to act as a safety net should the shutdown extend beyond six months;
- Equipment finance lease repayments moratorium for six months;
- Deferred all equipment purchases until further notice;
- Senior debt principal repayments deferred for six months;
- Relaxation of covenant testing until December 2020; and
- Rent abatements from Landlords.

Cash Preservation

In line with our significant cuts to our operational cost base, our estimates show that our ongoing net cash outflows during the shutdown period will be approximately \$1.8 million per month. This includes full property rental payments (approximately \$1.9 million per month) and does not assume any rent abatement.

As we have now also suspended all rollouts, equipment purchases and capital works, as well as requested payment moratoriums with our key financiers, Viva Leisure believes it has sufficient cash reserves and facilities until the end of CY2020 if required. We believe this length of shut down is unlikely, but have conservatively modelled for this eventuality.

In addition to this, the industry is expecting compensation from the Government for the forced closure. Whilst this is not guaranteed, evidence from overseas jurisdictions indicates that this should eventuate.

Viva Leisure's CEO and Managing Director, Harry Konstantinou said:

"This week we face the challenging and unimaginable position to be legally required to close our clubs, together with the entire industry. This industry is made up of over 5,000 fitness businesses, that provides jobs for over 40,000 people and personal trainers and assists over 4 million Australians to achieve and maintain a healthy, active lifestyle.

This is an unprecedented situation. The decision by the Federal Government to temporarily close all gyms and indoor sporting venues affects the livelihood of over 1,000 of Viva Leisure team members who work tirelessly each and every day in our 24-hour business to help people live better lives.

We encourage our members to stay healthy by accessing our digital services (Club Lime Workout on Demand and Club Lime LMOD) in their homes. All members will receive personal notifications of how to access and enjoy these .

I am confident that Viva Leisure will come out of this temporary closure and uncertainty significantly stronger, with new opportunities and possibilities, and with a raised awareness of the importance of fitness for many more Australians."

ENDS

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Future performance

This announcement contains certain forward-looking statements and comments about future events, including Viva Leisure's expectations about the performance of its businesses. Forward looking statements can generally be identified by the use of forward looking words such as, "expect", "anticipate", "likely", "intend", "should", "could", "may", "predict", "plan", "propose", "will", "believe", "forecast", "estimate", "target" and other similar expressions within the meaning of securities laws of applicable jurisdictions. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward-looking statements. Forward looking statements involve inherent risks and uncertainties, both general and specific, and there is a risk that such predictions, forecasts, projections and other forward-looking statements will not be achieved. A number of important factors could cause Viva Leisure's actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements, and the many factors which are beyond Viva Leisure's control. Forward looking statements are provided as a general guide only and should not be relied on as an indication or guarantee of future performance and involve known and unknown risks, uncertainty and other factors, many of which are outside the control of Viva Leisure. As such, undue reliance should not be placed on any forward-looking statement.

Past performance information given in this announcement is given for illustrative purposes only and is not necessarily a guide to future performance and no re-announcement or warranty is made by any person as to the likelihood of achievement or reasonableness of any forward-looking statements, forecast financial information or other forecasts.

No independent third party has reviewed the reasonableness of the forward-looking statements or any underlying assumptions. Nothing contained in this announcement nor any information made available to you is, or shall be relied upon as, a promise, re-announcement, warranty or guarantee as to the past, present or the future performance of Viva Leisure.

About Viva Leisure:

Founded in 2004, Viva Leisure operates health clubs (gymnasiums) within the health and leisure industry. Viva Leisure's mission is to connect health and fitness to as many people as possible and aims to provide its members with affordable, accessible and awesome facilities.

Viva Leisure offers customers several different membership options and a range of different types of facilities from big-box fitness facilities to boutique fitness facilities. The Company currently operates within the Australian Capital Territory, New South Wales, Victoria and Queensland, with the majority operating under the Club Lime brand.