



Victory Offices

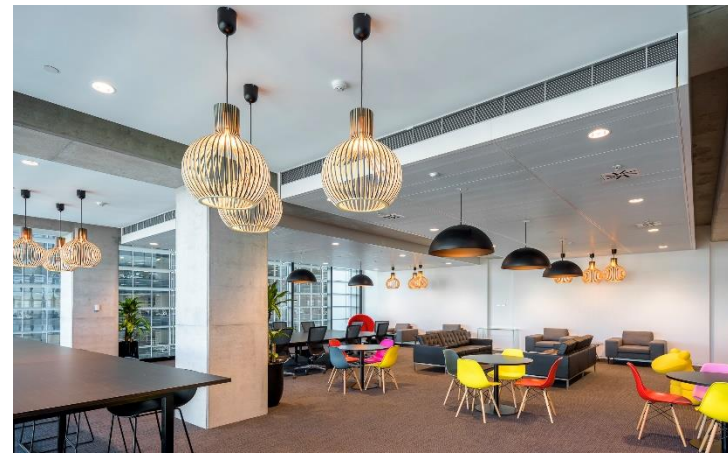
**Results Presentation | Year ended 30 June 2020 | 30 September 2020**

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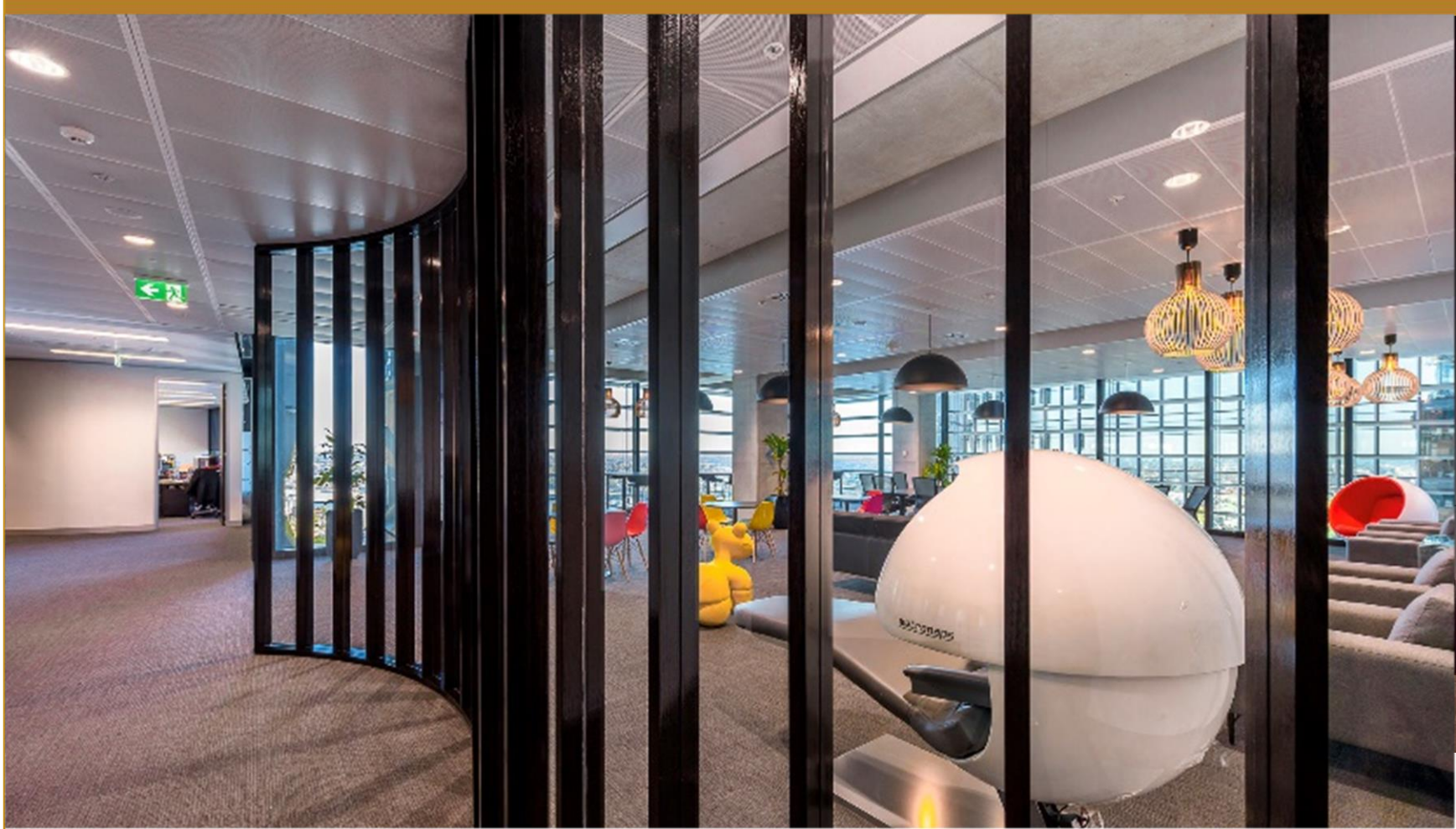


Victory Offices

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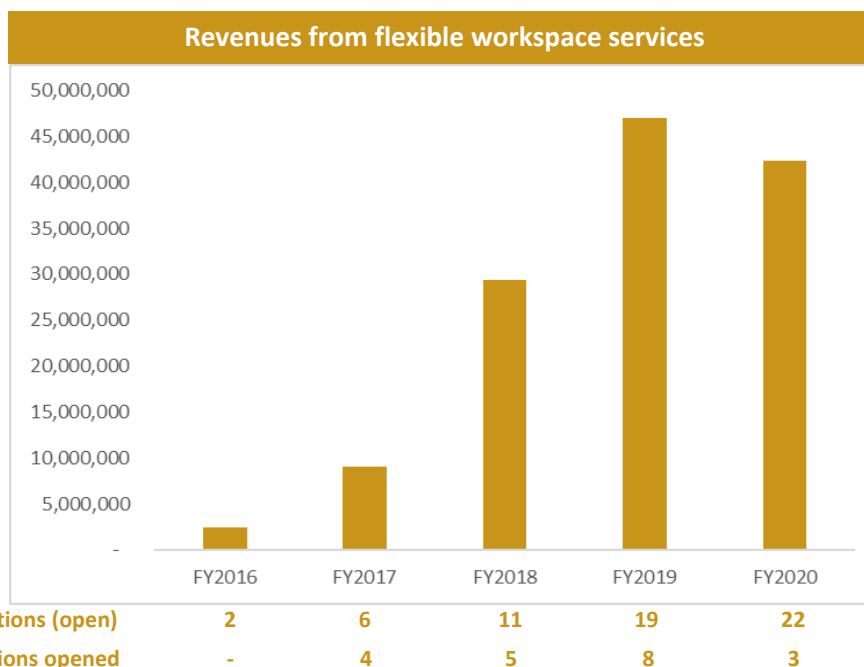
## 1. Overview



# Overview – FY2020 Highlights

- Revenue from flexible workspace services \$42.3 million (down 10%)
- Underlying EBITDA \$25.8 million
- Underlying NPAT (\$0.4) million
- Proactive approach to managing the impacts of COVID:
  - Lease negotiations
  - Cost reductions
  - Capital raising
- In July 2020 completed a \$14.6 million (net of costs) capital raising to strengthen balance sheet and provide working capital for FY2021
- Whilst 2021 expected to be challenging the business is cautiously optimistic of a gradual recovery during the year

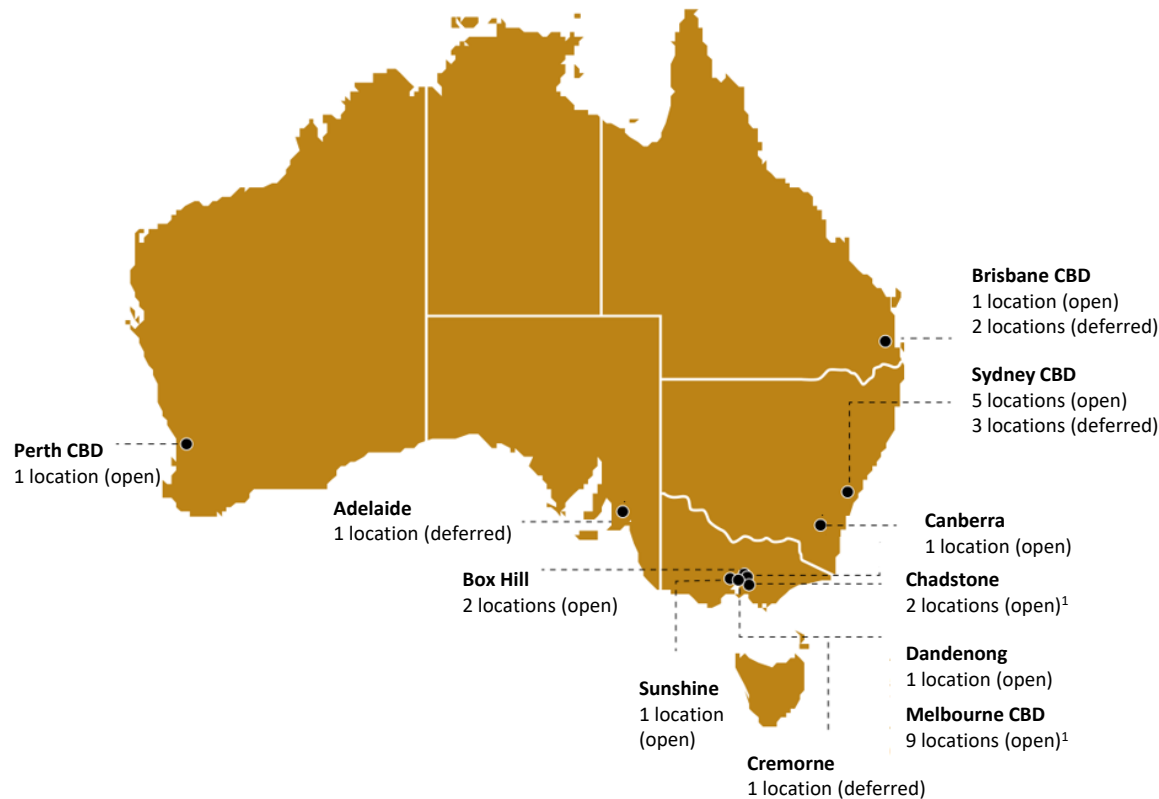
Summary metrics	FY2020 (\$'million)	FY2019 (\$'million)
Revenue from flexible workspace services	\$42.3	\$47.0
Underlying EBITDA <sup>(1)</sup>	\$25.8	\$33.6
Underlying NPAT <sup>(1)</sup>	(\$0.4)	\$9.6
NPAT	(\$8.1)	\$9.6
Operating cash flows	\$14.9	\$27.9
Net assets	\$36.6	\$44.7



**Company well-positioned to withstand COVID-19**

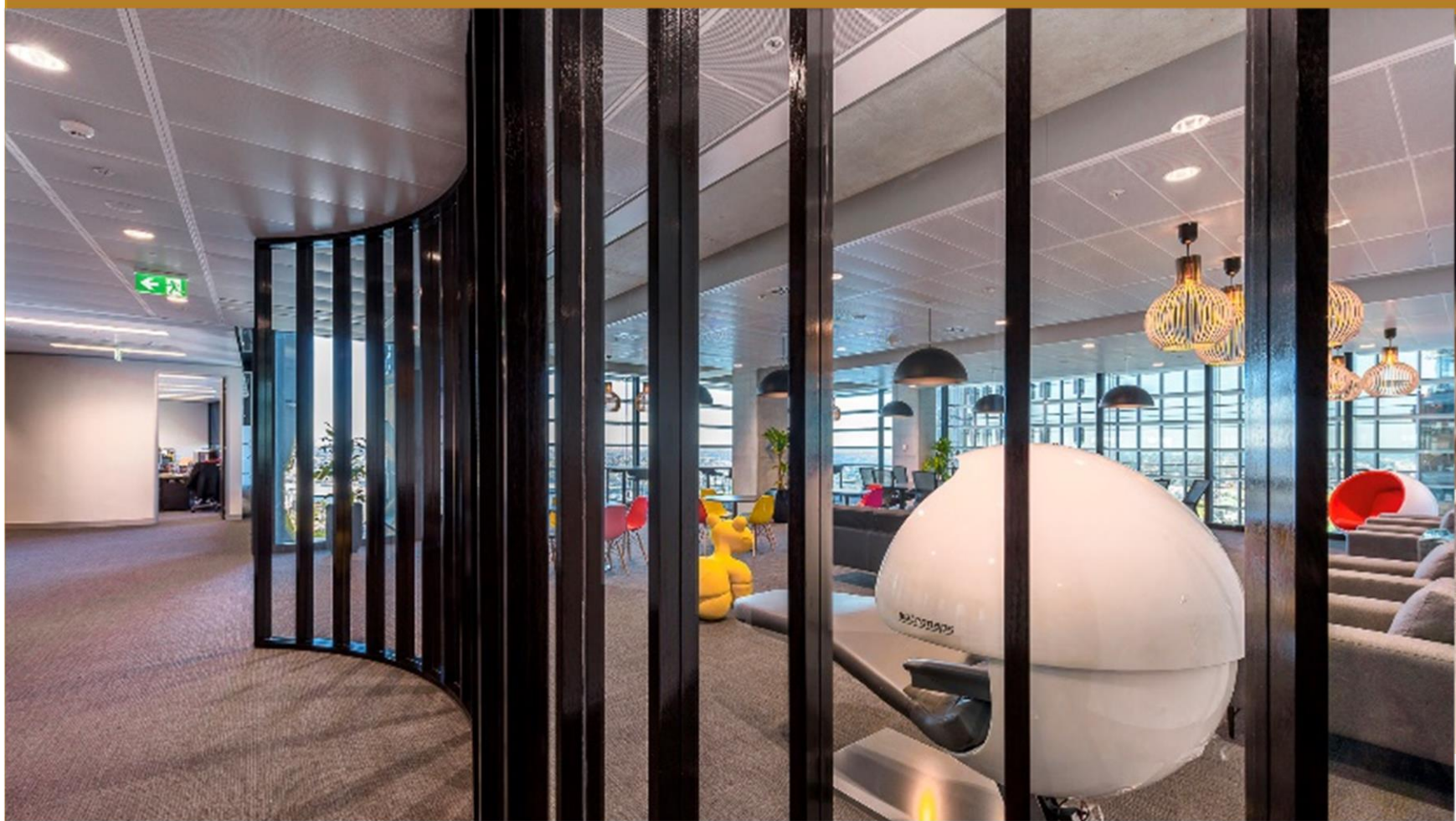


# Diversified Australian Portfolio



- Currently 23 locations<sup>1</sup>.
- Three locations (two Sydney CBD and one Canberra CBD) opened since December 2019.
- All Victorian locations temporarily in hibernation due to COVID-19.
- Seven locations that were expected to be open by June 2020 are now on hold, resulting in the deferral of these rental obligations until market conditions allow.
- Actively pursuing surrendering of four leases (locations on hold in Sydney and Brisbane) to reduce cost base.





## 2. Financial Information



# Profit and Loss

- VOL performed well up until early March 2020 and was then significantly impacted by the COVID-19 pandemic
- Based on Dec-19 to Feb-20 run rate (~\$5 million revenue per month) business was on track for revenues of +\$57 million pre COVID-19
- Conservative position adopted in relation to impairment of receivables (debtors) allowing for \$3.9m (expecting greater collections than this)
- Impairment of assets (\$8.5m) confined to two locations and will reduce expenditure in future years (refer slide 9 for further details)

Income Statement	FY2020 (\$'000)	FY2019 (\$'000)	% Movement
Revenue from suite services	42,309	46,985	▼ -10%
Service charges	-	584	▼
Other revenue	9	18	▼ -50%
<b>Revenue<sup>(1)</sup></b>	<b>42,318</b>	<b>47,587</b>	<b>▼ -11%</b>
Employee benefits	(7,555)	(6,899)	▲ 10%
Other expenses	(4,662)	(3,846)	▲ 21%
Occupancy costs	(4,264)	(3,201)	▲ 33%
<b>Operating expenses</b>	<b>(16,481)</b>	<b>(13,946)</b>	<b>▲ 18%</b>
<b>Underlying EBITDA<sup>(1)</sup></b>	<b>25,837</b>	<b>33,641</b>	<b>▼ -23%</b>
Depreciation and amortisation	(17,528)	(12,904)	▲ 36%
<b>Underlying EBIT<sup>(1)</sup></b>	<b>8,309</b>	<b>20,737</b>	<b>▼ -60%</b>
Interest revenue	21	36	▼ -42%
Finance costs	(8,904)	(7,293)	▲ 22%
<b>Underlying Net Profit (Loss) Before Tax<sup>(1)</sup></b>	<b>(574)</b>	<b>13,480</b>	<b>▼ -104%</b>
JobKeeper subsidy	668	-	▲
Rent Concession income	757	-	▲
Impairment of receivables	(3,900)	-	▲
Impairment of assets	(8,525)	-	▲
<b>Net Profit (Loss) Before Tax</b>	<b>(11,574)</b>	<b>13,480</b>	<b>▼ -186%</b>
Income tax (expense) benefit	3,505	(3,884)	▲ -190%
<b>Net Profit (Loss) Before Tax</b>	<b>(8,069)</b>	<b>9,596</b>	<b>▼ -184%</b>



# Cash Flows

- Operating cash flows impacted by a slowing in debtor collections
- Operating cash flows include notional interest paid component of lease payments pursuant to AASB 16
- Prior bank guarantees funded via founder, now funded via business cash flows
- Lease liabilities in total is \$11.8 million and is less than lease expenses due to rent-free period lease incentives
- Cash position at end of August 2020 \$10.7 million

Cash Flow Highlights	FY2020 (\$'000)	FY2019 (\$'000)	% Movement
Receipts from customers	39,917	52,808	
Operational payments	(18,003)	(19,261)	
JobKeeper subsidy	668	-	
Interest received	21	36	
Interest paid (leases)	(7,025)	(5,722)	
<b>Operational cash flows</b>	<b>14,910</b>	<b>27,861</b>	<b>▼ -46%</b>
Purchase of P,P&E	(17,173)	(26,226)	
Payment for bank guarantees	(18,094)	(1,372)	
Term deposits	18,079	(20,985)	
<b>Investing cash flows</b>	<b>(17,188)</b>	<b>(48,583)</b>	<b>▲ -65%</b>
Landlord incentives received	-	1,755	
IPO proceeds (net)	-	28,165	
Related parties (net)	4,586	(2,989)	
Lease liabilities (rent)	(4,836)	(4,399)	
Hire purchase	-	(58)	
<b>Financing cash flows</b>	<b>(250)</b>	<b>22,474</b>	<b>▼ &gt;100%</b>
<b>Net cash flows</b>	<b>(2,528)</b>	<b>1,752</b>	<b>▼ &gt;100%</b>
<b>Opening cash</b>	<b>3,199</b>	<b>1,447</b>	
<b>Closing cash</b>	<b>671</b>	<b>3,199</b>	





## Balance Sheet

- Conservative position taken in relation to \$3.9m impairment of receivables
- Trade receivables \$6.9m at 30-Jun down from \$9.2m at 31-Mar (monthly collections still ~\$0.5m per month in line with July investor presentation)
- Impairment of assets (\$8.5m) mainly relates to right of use assets and is confined to two locations
- If AASB 16 'Lease Accounting' didn't apply the resultant asset impairment would be minimal (effectively impairing right of use asset which is created by AASB 16)
- Borrowings relates to a related party loan (provided in Mar-20) and is not repayable until FY2022

Balance Sheet Highlights	FY2020 (\$'000)	FY2019 (\$'000)	% Movement	
Cash	671	3,199		
Trade and other receivables	8,518	1,080		
Impairment of receivables	(3,900)	-		
Financial assets - term deposits	2,042	10,795		
Financial assets - bank guarantees	28,904	20,136		
P,P&E - right of use assets	136,817	98,005		
P,P&E - other assets (inc. fit out)	52,348	41,447		
Impairment of assets	(8,525)	-		
Deferred tax assets (net)	11,321	5,375		
<b>Total assets</b>	<b>228,196</b>	<b>180,037</b>	<b>▲</b>	<b>27%</b>
Trade and other payables	17,553	14,025		
Provisions	2,727	1,384		
Lease liabilities	162,628	116,522		
Other liabilities	3,509	3,266		
Borrowings	2,566	-		
Provision for income tax	2,599	157		
<b>Total liabilities</b>	<b>191,582</b>	<b>135,354</b>	<b>▲</b>	<b>42%</b>
<b>Net assets</b>	<b>36,614</b>	<b>44,683</b>	<b>▼</b>	<b>-18%</b>

Completed capital raising (\$14.6m) in Jul-20 to strengthen balance sheet

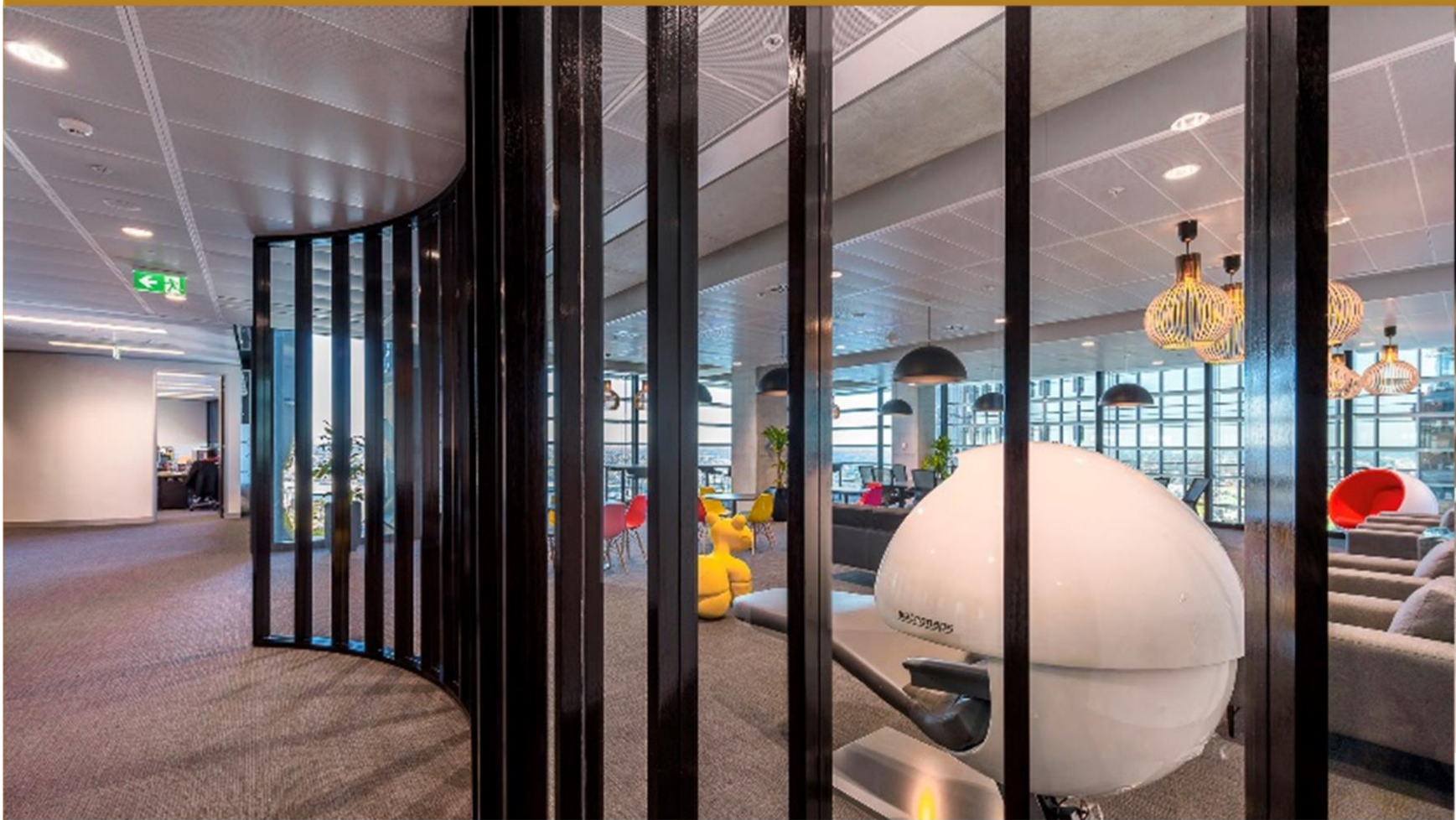


## Impact of Lease Accounting

- AASB 16 is the new leases accounting standard replacing AASB 117
- The new standard was mandatory from 1 January 2020 although Victory Offices had adopted early and retrospectively
- Under old standards leases treated as operating leases (only impact lease expense)
- Under new standard requirement to create a right of use asset and corresponding liability at fair value of expected lease payments
- Right of use asset amortised on a straight-line basis through depreciation & amortisation expense
- Lease liability unwound through finance costs
- Material impact on balance sheet and profit (including impairment)
- No impact on cash flows

Lease accounting impact	FY2020 (\$'000)	FY2019 (\$'000)
AASB 16 treatment		
Depreciation and amortisation	11,994	9,346
Finance costs	8,675	7,046
<b>Total AASB 16 lease expenses</b>	<b>20,669</b>	<b>16,392</b>
AASB 117 treatment		
Lease expense	18,274	14,261
<b>Total AASB 117 lease expenses</b>	<b>18,274</b>	<b>14,261</b>
<b>Impact on profit (pre-tax)</b>	<b>2,395</b>	<b>2,131</b>
<b>Impact on profit (post-tax)</b>	<b>1,677</b>	<b>1,492</b>

Lease accounting has a material impact on financial reporting



### 3. COVID-19 Impact & Measures



# Impacts of COVID-19 on Flexible Workspaces

## Industry Impact of COVID-19

- Recent growth in the Australian flexible workspace sector has been predominantly driven by an increase in co-working spaces rather than serviced offices.
- Co-working products are expected to take significantly longer to recover from COVID-19 as the segment will face additional headwinds in attracting returning clients driven by the segment's increased sensitivity to costs and macro economic drivers.
- Industry growth has become highly fragmented, with a growing number of price driven competitors. The liquidity pressures of COVID-19 create significant headwinds for a large portion of co-working offerings due to their inability to access additional funding, resulting in reduced margin pressure and competition.
- The initial lockdowns in April and May saw footfall plummet by 70-90% in Australia<sup>(1)</sup>.

## Victory Offices is well positioned to capitalise on the impact of COVID-19

- Cautiously optimistic of a steady increase in occupancy during the 2021 financial year. We are cognisant that this will be a 'two speed' increase. States less affected by the pandemic are expected to witness steady growth and return towards normal business. Victorian locations will most likely open in a meaningful way post-Christmas 2020.
- Anticipating a gradual increase in occupancy in line with industry studies that draw attention to modified work environments and flexible employment attitudes.
- International studies have reflected that "The Serviced Offices industry is anticipated to continue expanding over the coming five-year period as more companies opt for the flexibility and increasing suitability of serviced offices. According to property firm JLL, flexible working spaces are set to grow." <sup>(2)</sup>
- Victory Offices' offering is well placed to attract new clients post COVID-19, with working from home initiatives reinforcing the value proposition of serviced offices which specialise in providing clients with a full service offering.
- Whilst Victory Offices is not bound by the government guidelines surrounding rental relief, where appropriate the Company is seeking to ensure client retention by providing support to existing clients that have been impacted by COVID-19.





# Initiatives to Mitigate the Impact of COVID-19

<b>Operating items</b>	<ul style="list-style-type: none"><li>▪ Employee costs reduced by over 40% (prior to JobKeeper) with all employees and executives agreeing to a voluntary ~40% reduction in wages from April 2020 onwards.</li><li>▪ 13 casual employees who had been with VOL for less than 12 months were made redundant in April 2020.</li><li>▪ Marketing spend was minimal during initial lockdown period.</li><li>▪ Cost saving initiatives rolled out across all on-site teams, with a focus on reducing consumables and utilities costs.</li></ul>
<b>Capital expenditure / investing items</b>	<ul style="list-style-type: none"><li>▪ Capex has been deferred on 5 of the 10 new locations originally planned to open in 2HFY2020.</li><li>▪ 3 of the 10 forecast FY2020 new locations have opened and a further 2 which are ready to open will have their opening delayed until market conditions allow.</li><li>▪ Maintenance capex has been reviewed across the remaining portfolio, with all required maintenance being performed by Victory Office maintenance employees.</li><li>▪ Actively pursuing surrendering of four leases (locations on hold in Sydney and Brisbane) to reduce cost base.</li></ul>
<b>Lease rebate program</b>	<ul style="list-style-type: none"><li>▪ Negotiations are continuing with all landlords, with over two thirds of all locations resolved favourably.</li><li>▪ Remaining negotiations are underpinned by lease abatement legislation ensuring a minimum of 50% reduction in lease costs.</li><li>▪ Further discussions to be had with Victorian landlords in relation to October and November 2020 given likelihood that all Victorian locations will be in hibernation in these months. Current legislation only underpins negotiations until September 2020.</li></ul>



# Cashflow management and liquidity update

- Successfully raised \$14.6m (net of costs) in July 2020 via entitlement offer
- Liquidity position at end of August 2020 \$12.7 million<sup>(1)</sup>
- July 2020 investor presentation forecast available liquidity of \$11.1m as at June 2021
  - Current forecast liquidity as at June 2021 is ~\$9.3m
  - Reduction due to unforeseen further lockdown in Victoria with loss of revenues expected in 2QFY2021 and into 3QFY2021
- Underpinning the liquidity forecast above are the following assumptions around occupancy:
  - Growing to 55-75% (depending on location) by June 2021
  - Growth commencing from October (non-Victorian)
  - Growth commencing from January (Victorian)
  - By March 2021 expected to be 35-55% (depending on location)
  - Some locations (NSW) already operating at 35-40%
- The Company has deferred all capital expenditure programs pending growth in occupancy



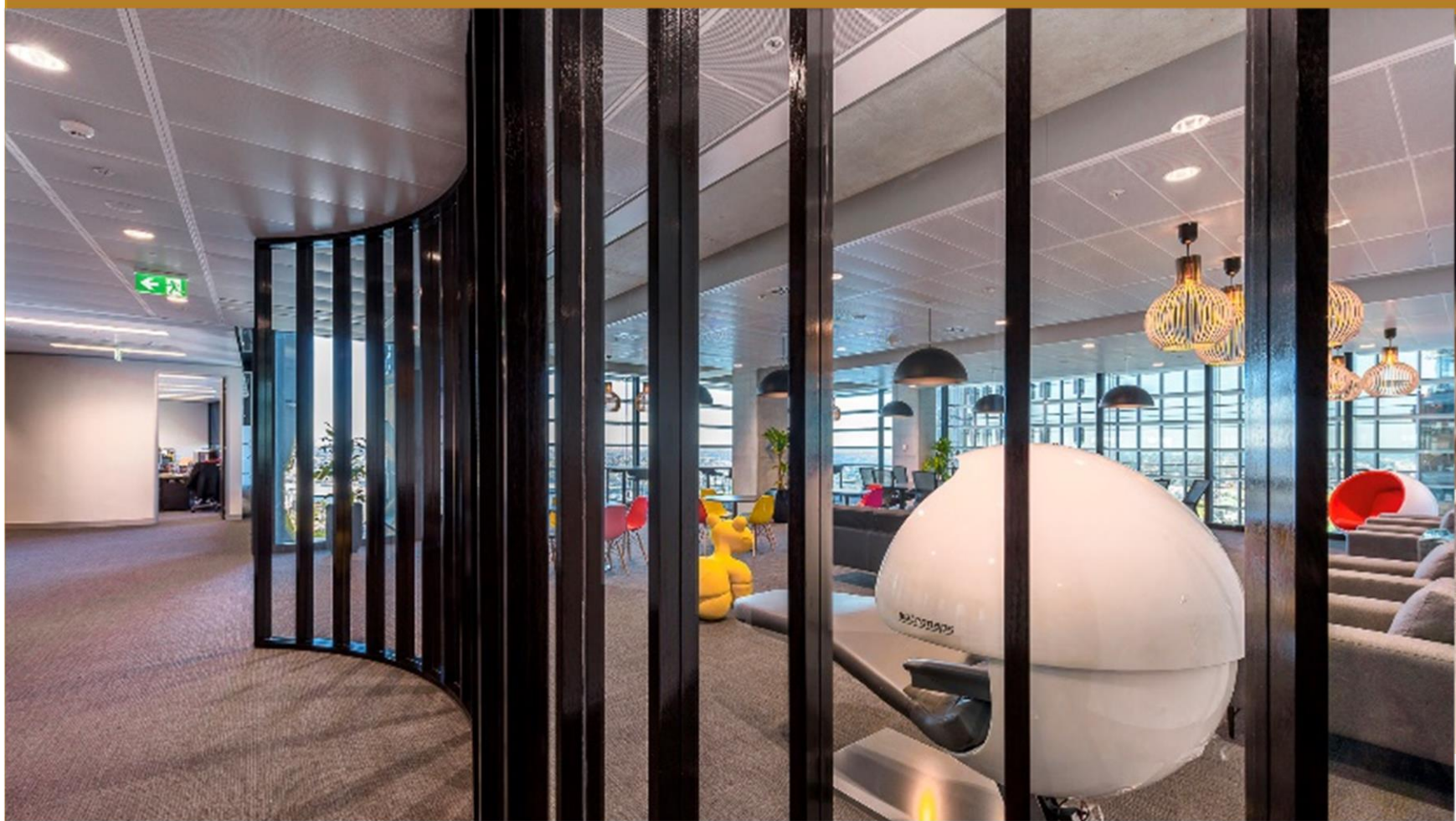
# Lease Abatement Update

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- The Code of Conduct for commercial tenancies and positive negotiations with landlords has provided substantial financial relief for Victory Offices.
- Victory Offices has favourably resolved negotiations with landlords for over two thirds of its portfolio of locations (and two thirds of rent roll).
- Varying outcomes have been reached including:
  - no rent for 3 - 6 months;
  - 50% reduction (mix of deferral and waiver) for 6 months;
  - combination of deferral/waiver and extension of lease; and
  - deferral of rent commencement (new locations).
- Remaining discussions (four landlords, seven locations) underpinned by the Code which is expected to achieve minimum rental reductions of 50% for the six month period (April to September 2020).
- Of leases negotiated to date the average cost reduction (over six months) is 62% (or 43% of total lease costs including those not yet negotiated).
- Still confident of achieving greater than 50% reduction in total lease costs for the six months





## 4. The Market





# The Market

## Global trends provide a positive outlook for Australian COVID-19 recovery

- By August, Europe has seen gradual increases in occupancy since lockdowns eased<sup>(2)</sup>:
  - Netherlands (57%), Germany (55%), Ireland (43%), Spain (35%), UK (23%)
  - Netherlands had a gradual easing of COVID-19 restrictions in May and June while Germany eased restriction in early May
  - UK only began easing COVID-19 restrictions in early July

## Optimism in the sector

- According to CBRE the long-term fundamentals of the sector remain positive with flexible workspace expected to be in demand by larger office users seeking a degree of agility in their footprints and smaller users wanting quality office space without the long-term commitment<sup>(3)</sup>

## Highly fragmented market

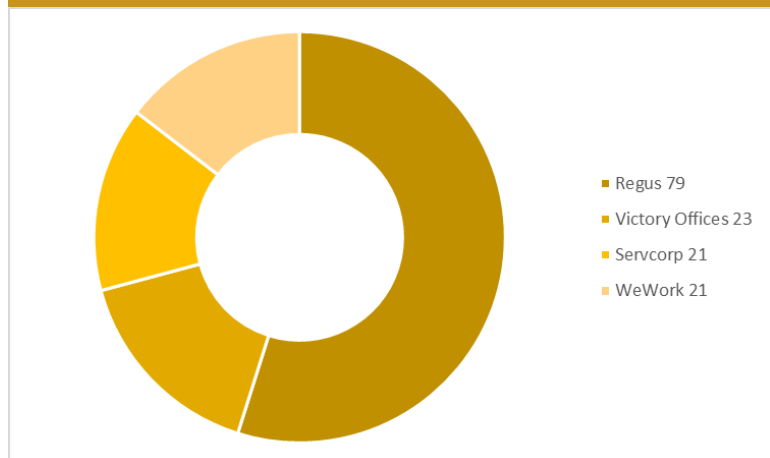
- The market is highly fragmented and segmented across differing key target markets
- The four large comparable Australian flexible solution providers account for only 144 centres
- Likely industry consolidation and therefore skew towards larger, established providers going forward as the sector recovers from COVID-19

## Office space occupied by flexible workspaces

City	Penetration
Sydney	2.8%
Melbourne	2.6%
Hong Kong	3.7%
Singapore	5.5%
London	7.1%
Shanghai	6.2%
APAC average	4.4%

Source: CBRE Research, *The Future is Flex*, August 2020

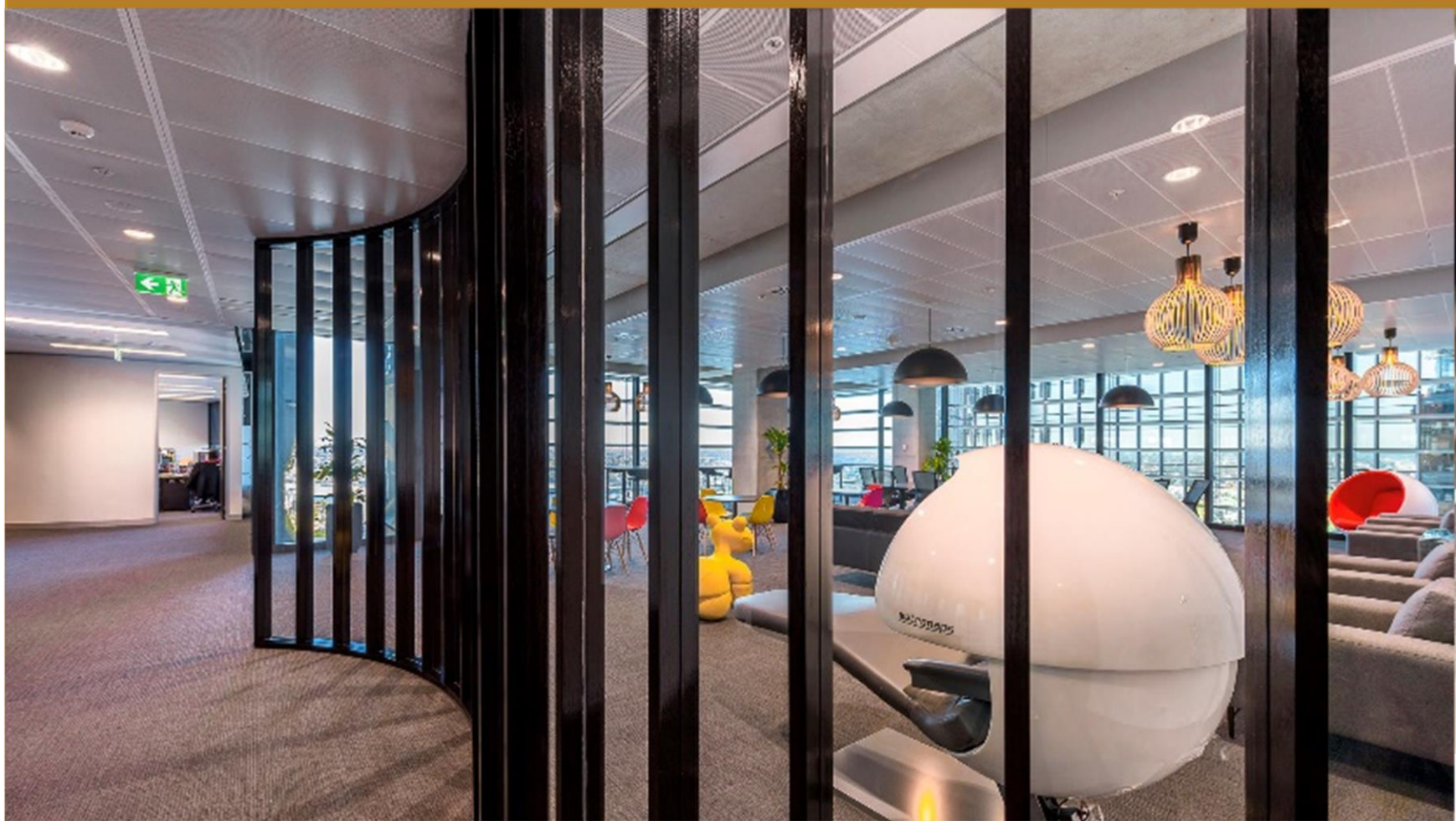
## Largest operators in the Australian market by locations<sup>(1)</sup>



Notes: (1) Company websites correct as at 25 September 2020 (open or ready to open locations)

(2) UK Flexible Market falls behind in Europe, Allwork.Space, 18 August 2020

(3) The Future is Flex, CBRE Research, August 2020



## 5. The Business

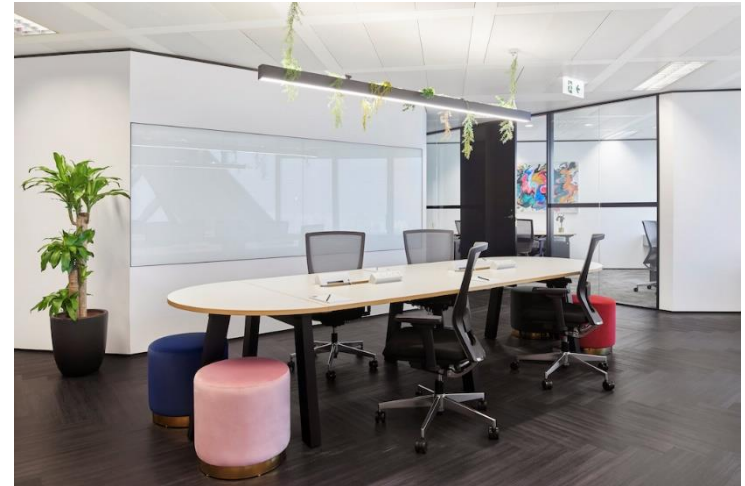


# The Victory Offering

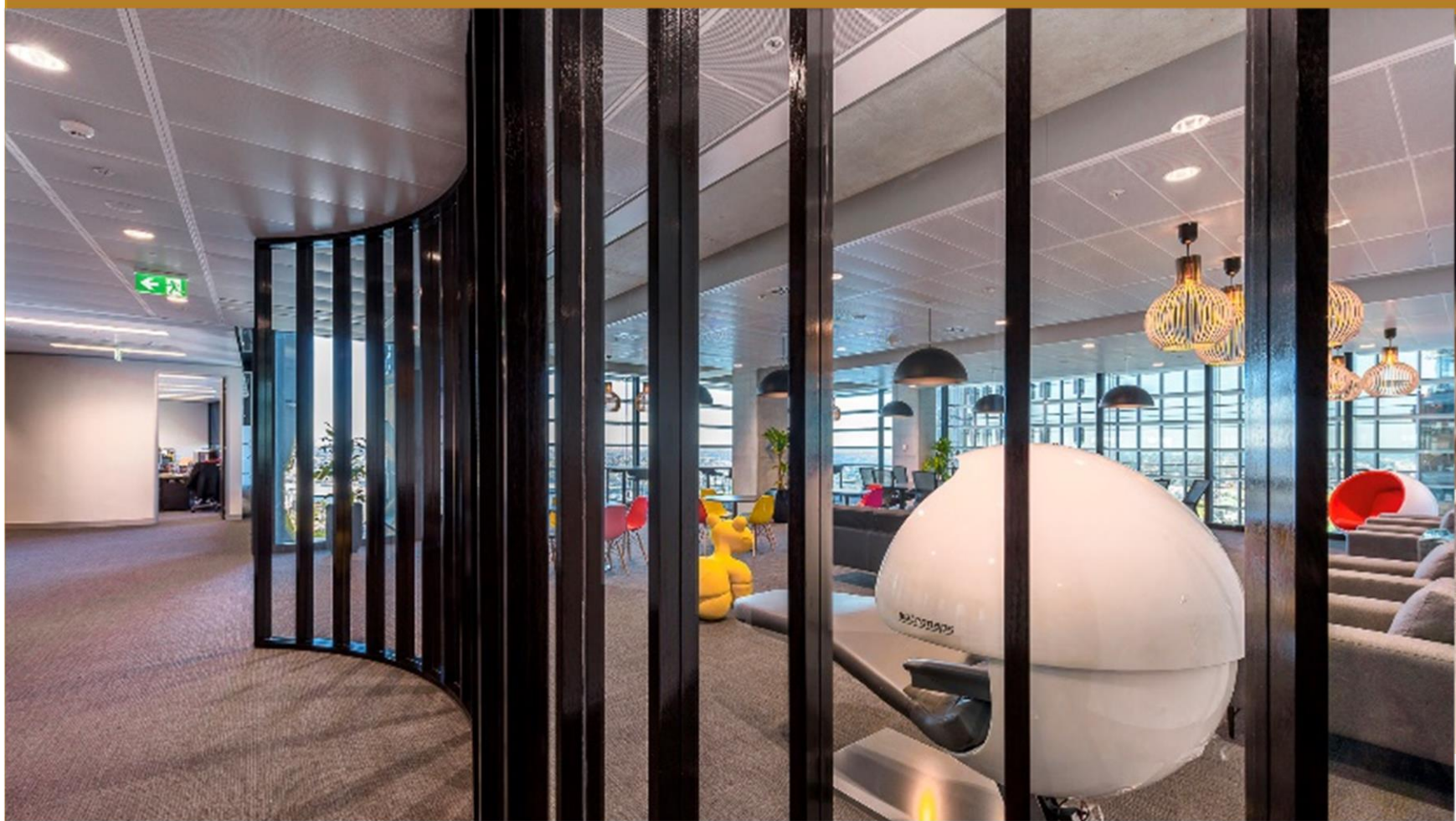
## Services offered by Victory Offices

<b>Serviced offices</b>	Serviced private offices, typically on 12-18 month terms.
<b>Virtual office services</b>	Provision of virtual receptionist services, including phone and mail handling and providing a primary business address.
<b>Coworking</b>	Space in coworking areas on typically 12-18 month terms.
<b>Day suites</b>	Single use licence fee for private offices.
<b>Meeting and training rooms</b>	Single use licence fee for meeting and training facilities.
<b>Hot desks</b>	Licensing of desks in coworking areas.
<b>Lounge membership</b>	Members of Victory Lounge can utilise meeting and entertaining facilities.

**Additional services offered by Victory include:** reception and administration; marketing and printing; professional (legal, financial, accounting, HR); finance administration (e.g. bookkeeping and payroll); chauffeur; concierge; health and wellbeing; interpreter; and office furniture hire. This list is not exhaustive.







## 6. Outlook



- FY2021 expected to be challenging
- Cautiously optimistic of a gradual recovery from Oct-20 onwards for non-Victorian locations
- Victorian locations currently in hibernation
- Anticipating a return to profitability in FY2022
- Expect flexible workplaces to become more strategically important to the way the world does business



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