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Victory Offices

Results Presentation | Half-Year 2021 ended 31 December 2020 |



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1. Overview



#2 in Australia with 25 currently operating locations

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- VIC occupancy rates increased to above 40% from low of 20% during lockdown, one centre recording occupancy of over 80%
- NSW average occupancy of 60% with three centres recording occupancy ranges of over 75%
- WA and QLD also both improving with occupancy rates 60% and 48% respectively



Green shoots of recovery



Green shoots of recovery across a diversified portfolio

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Well positioned to meet demands from workers to be able to work flexibly nearer home in Melbourne suburbs

Optimism on continued recovery for non-Victorian locations while COVID-19 remains significantly unpredictable with border closures and travel bans



Green shoots of recovery



2. Financial Information



H1 FY2021 Profit and Loss

- Revenues significantly impacted by COVID-19 in Q1 and Q2
- Continued focus on cost management
- Additional impairment of receivables (debtors) allowing for \$2.8m
- Further impairment of assets (\$3.9m) will reduce expenditure in future years
- Income tax benefit of \$3.5m stems from deferred tax treatment of leases

	1HY2021	FY2020	FY2019
Income Statement	(' \$000)	(' \$000)	(' \$000)
Revenue from suite services	6,597	42,309	46,985
Services charges	-	-	584
Other revenue		9	18
Revenue	6,597	42,318	47,587
Employee benefits	(2,749)	(7,555)	(6,899)
Other expenses	(2,310)	(4,662)	(3,846)
Occupancy costs	(2,179)	(4,264)	(3,201)
Operating expenses	(7,238)	(16,481)	(13,946)
Underlying EBITDA	(641)	25,837	33,641
Depreciation and amortisation	(11,111)	(17,528)	(12,904)
Underlying EBIT	(11,752)	8,309	20,737
Interest revenue	11	21	36
Finance costs	(5,614)	(8,904)	(7,293)
Underlying Net Profit(Loss) Before Tax	(17,355)	(574)	13,480
JobKeeper subsidy	1,277	668	-
Rent Concession income	903	757	-
Impairment of receivables	(2,757)	(3,900)	-
Impairment of assets	(3,924)	(8,525)	-
Reversal of impairment of assets	966	-	-
Net Profit(Loss) Before Tax	(20,890)	(11,574)	13,480
Income tax (expense) benefit	3,208	3,505	3,884
Net Profit(Loss) After Tax	(17,682)	(8,069)	9,596



H1 FY2021 Cash Flows

- Operating cash flows continued to be impacted by COVID and Government lockdowns
- Operating cash flows include a notional interest paid component of lease payments pursuant to AASB 16
- Cash position at end of December 2020 \$4.4 million
- A new lending facility has been arranged of \$15 million provided by the co-founders. This provides a debt facility to enable the group to meet liabilities when they fall due. The facility has not been drawn down upon at this time.

	1HY2021	FY2020	FY2019
Cash Flow Highlights	(' \$000)	(' \$000)	(' \$000)
Receipts from customers	6,637	39,917	52,808
Operational payments	(8,046)	(18,003)	(19,261)
JobKeeper subsidy	1,266	668	-
Interest received	12	21	36
Interest paid (leases)	(4,519)	(7,025)	(5,722)
Operational cash flows	(4,650)	14,910	27,861
Purchase of PP&E	(1,686)	(17,173)	(26,226)
Payment for bank guarantees	(1,412)	(18,094)	(1,372)
Term deposits	-	18,079	(20,985)
Investing cash flows	(3,098)	(17,188)	(48,583)
Landlord initiatives received	-	-	1,755
IPO proceeds (net)	-	-	28,165
Capital raising proceeds (net)	14,665	-	-
Related parties (net)	-	4,586	(2,989)
Lease liabilities (rent)	(3,165)	(4,836)	(4,399)
Hire purchase	-	\$0.00	(58)
Financing cash flows	11,500	(250)	22,474
Net cash flows	3,752	(2,528)	1,752
Opening cash	671	3,199	1,447
Closing cash	4,423	671	3,199

Notes: (1) Excludes \$2.0m in short-term term deposits.

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H1 FY2021 Balance Sheet

- Further \$2.8m impairment of pre-March 20 receivables
- Impairment of assets (\$3.9m) mainly relates to right of use assets and refers to 2 locations
- Without AASB 16 'Lease Accounting' 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. Interest for the period relates to interest charge
- A new lending facility has been arranged of \$15 million provided by the co-founders. This provides a debt facility to enable to group to meet liabilities when they fall due. The facility has not been drawn down upon at this time.

Balance Sheet Highlights	1HY2021 ('\$000)	FY2020 ('\$000)	FY2019 ('\$000)
Cash	4,423	671	3,199
Trade and other receivables	9,590	8,518	1,080
Impairment of receivables	- 6,658 -	3,900	-
Financial assets - term deposits	2,042	2,042	10,795
Financial assets - bank guarantees	30,317	28,904	20,136
PP&E - right of use assets	157,591	136,817	98,005
PP&E - other assets (inc. fit out)	47,665	52,348	41,447
Impairment of assets	- 11,483 -	8,525	-
Deferred tax assets (net)	14,529	11,321	5,375
Total assets	248,016	228,196	180,037
Trade and other payables	17,454	17,553	14,025
Provisions	2,879	2,727	1,384
Lease Liabilities	185,696	162,628	116,522
Other Liabilities	3,160	3,509	3,266
Borrowings	2,631	2,566	-
Provision for income tax	2,599	2,599	157
Total liabilities	214,419	191,582	135,354
Net assets	33,596	36,614	44,683



Mitigating the Impact of COVID-19

Operating items

- Employee costs reduced by over 40% (prior to JobKeeper) with all employees and executives agreeing to a voluntary ~40% reduction in wages from July 2020 onwards.
- Casual employees who had been with VOL for less than 12 months were made redundant in July 2020.
- Marketing spend was minimal during initial lockdown period.
- Cost saving initiatives rolled out across all on-site teams, with a focus on reducing consumables and utilities costs.

Capital expenditure / investing items

- Capex has been deferred on 5 of the 10 new locations originally planned to open in 2HFY2020.
- 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.
- Maintenance capex has been reviewed across the remaining portfolio, with all required maintenance being performed by Victory Office maintenance employees.
- Actively pursuing surrendering of five leases to reduce cost base.

Rent relief program

- Negotiations are continuing with all landlords, with over two thirds of all locations resolved favourably.
- Remaining negotiations are underpinned by lease abatement legislation ensuring a minimum of 50% reduction in lease costs.

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Rent Relief Update



- 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 85% 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 (two landlords, three locations) underpinned by the Code which is expected to achieve minimum rental reductions of 50% for the six month period (April to September 2020).



3. COVID-19 and the Future of Work



COVID-19 and 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⁽¹⁾. Further lockdowns will impact similarly.

Victory Offices is weathering the COVID-19 storm and is well positioned to capitalise on the 'new world of work' beyond

- 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."⁽²⁾
- Victory Offices' offering is well placed to attract new clients once the country comes through 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.

Notes: (1) CBRE, The Future is Flex, August 2020.

(2) Ibis World Study UK, August 2020.

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The Victory Offering

Services offered by Victory Offices

Serviced Offices – Serviced private offices, typically 12-18 months

Virtual Office Services – Provision of virtual receptionist services, including telephony services, mail handling and business address usage

Coworking – Space in coworking areas on typically 12-18 month terms

Day Suites – Single use licence fee for private offices

Meeting and Training Rooms – Single use licence fee for meeting and training facilities

Hot Desks – Licensing of desks in coworking areas

Lounge Membership – Members of the Victory Lounge can utilise meeting and entertaining facilities

Shared Services – Dedicated desks in a private office with like-minded individuals

Additional Services Offered by Victory Offices include –

Reception and administration services; marketing and printing; professional (legal, financial, accounting, HR); finance administration (eg bookkeeping and payroll); chauffeur; concierge; health and well being; interpreter; and office furniture hire. Note list is not exhaustive



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Providing support to Victory Members during COVID-19

We are committed to **supporting our customers and SME's** during the impact of COVID-19 over 2020 and into 2021 in the form of relief, waivers, deferrals, free months and incentives.

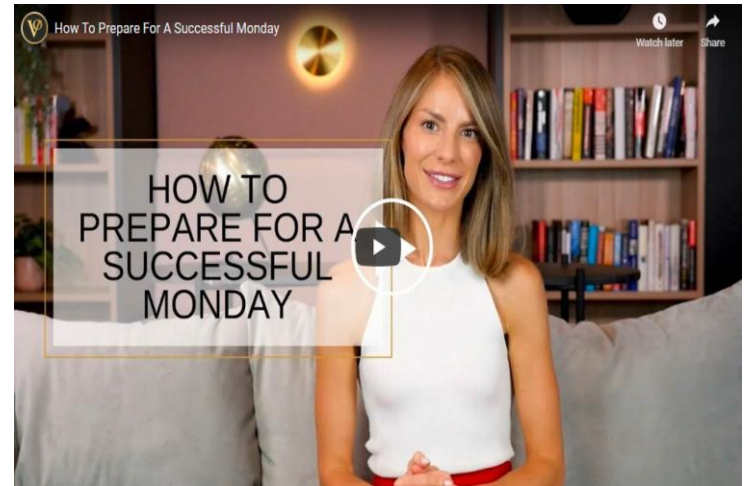
Our success relies on their success and whilst we are not a landlord and not required to provide such support as per the National Cabinet's Code of Conduct the success of the business relies on payment from services provided to members, clients and customers.

COVID Relief and Support commenced in April 2020 and is still **ongoing throughout Australia**, especially in Victoria due to the multiple lockdowns and the adverse affect on all businesses.

To ensure that Victory Members were still serviced throughout the pandemic we ensured all services such as phone handling could be conducted remotely for Members. Events were redirected online to build and drive **Community engagement**.

We launched the **V-Library initiative** in mid 2020, which published free content on our website to help with navigating the new working normal, for example focussing on health and well being, liquid workforce, benefits of flexible working, market updates and promoting Members' business'.

Our **high level of support to Victory Members has focussed on helping them navigate the impact of the pandemic**. We've offered more flexibility in providing how they can access to the services they have paid for, being able to spread their teams over multiple locations while ensuring our working environments adhered to social distancing requirements.



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Outlook

- FY2021 expected to be challenging with an unpredictable and unprecedented operating environment
- \$15 million facility provided by co-founders secures access to capital; signals confidence and commitment to navigating COVID-19
- Continue to support our customers where we can in managing COVID-19 impact
- Anticipating a potential gradual return to profitability in FY2022
- Positive to see Australian COVID-19 Vaccination roll-out commence
- See continued positive trends on the future of work and that flexible workplaces are becoming more strategically important to the way the world does business



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