

REAL ESTATE PRO FORMA MODELING FOR A WELLNESS AND FITNESS SERVICES PROVIDER

ABOUT THE CLIENT

Client is a **PE-owned yoga fitness chain** in the U.S. with more than 200 studios across 25+ states



SITUATION

- Client **lacked visibility into strategic financial information** that could enable them to finalize the locations to rent/lease new properties
- Merilytics partnered with client to develop a **predictive model to project cash flow and profitability (for 10 successive years), operating expense, and financial performance KPIs** to take informed decision on expanding their geographical presence



VALUE ADDITION

- Collaborated with the *Real Estate, Operations, and Marketing teams* for forecasting future cashflows to enable the client estimate financial performance KPIs such as **Cash on Cash Return, Payback Period, IRR and SLEBITDA**, for the prospective studios
- Leveraged the historical sales trend from client's studios located geographically closer to the prospective/new property, to synthesize long term cash flow projections which **enabled the client to finalize the properties to lease based on the expected payback period**
- Modelled the **operation expenses** based on **current market trends** as the baseline values, and provided **user over-rides to assess the sensitivity of change in labor expenses on overall profitability**



IMPACT

- Based on the forecasting and comparative analyses, the client successfully executed **post pandemic geographical expansion** into multiple territories
- The model provided a **bespoke template** for finalizing the location of new properties, thus enabling the client to **save ~15 person-hours per prospective property** on the analysis

METHODOLOGY/ APPROACH

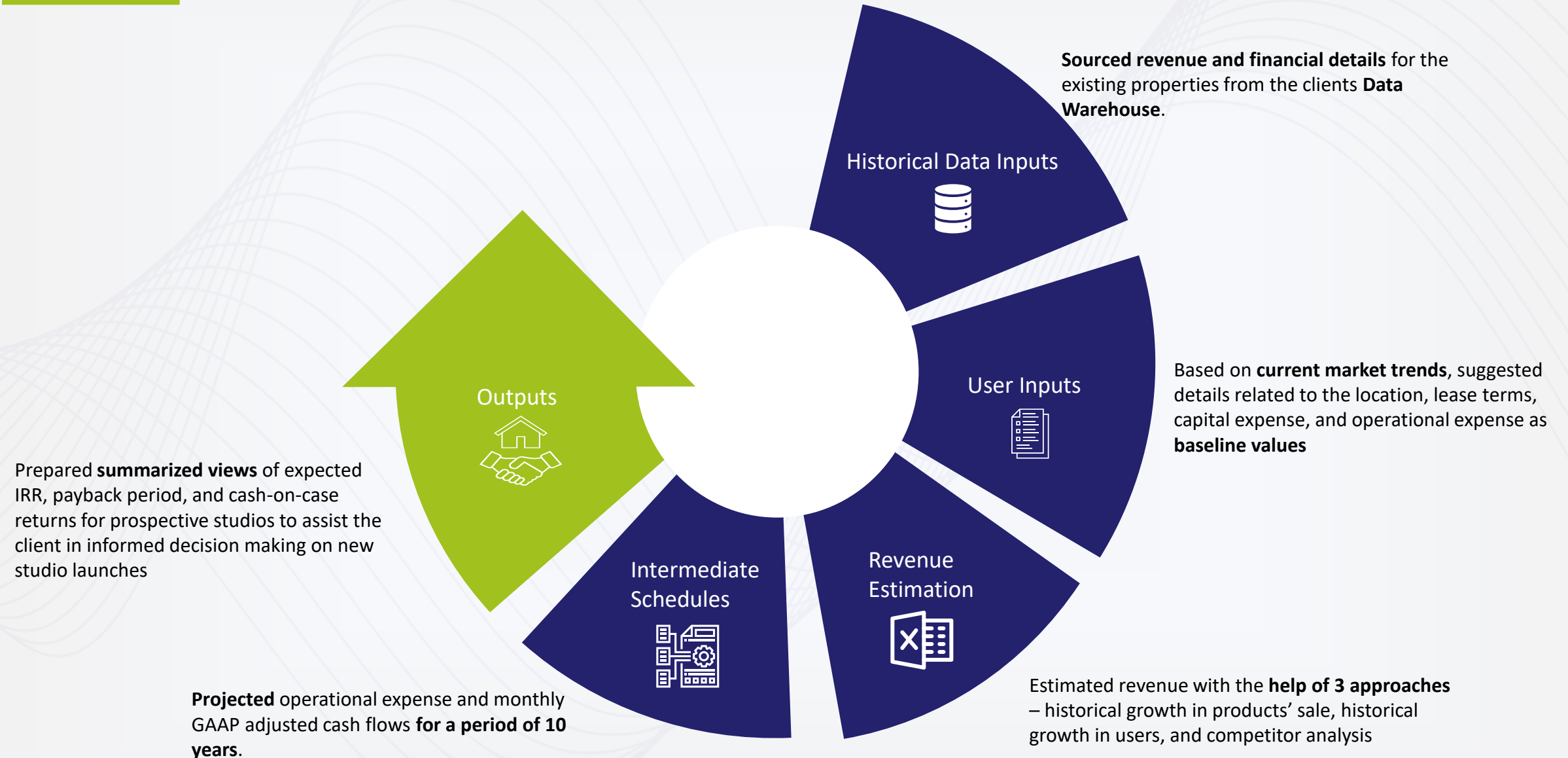


EXHIBIT 1: 10 YEAR CASH FLOW PROJECTION

ILLUSTRATIVE

Net Income- Annual	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Product Category 1 Revenue	\$1,774,450	\$1,057,124	\$1,750,050	\$1,041,822	\$1,365,893	\$1,447,037	\$1,812,219	\$1,026,556	\$1,578,184	\$1,479,798	\$1,371,457
Product Category 2 Revenue	\$319,829	\$218,301	\$385,297	\$236,935	\$214,853	\$351,388	\$368,155	\$359,575	\$313,313	\$297,196	\$352,494
Product Category 3 Revenue	\$75,414	\$79,892	\$95,515	\$96,814	\$61,890	\$84,701	\$62,317	\$96,704	\$94,334	\$80,906	\$65,266
Product Category 4 Revenue	\$15,758	\$13,664	\$15,920	\$18,581	\$20,106	\$25,274	\$0	\$0	\$0	\$0	\$0
Total Property Revenue	\$2,185,451	\$1,368,981	\$2,246,782	\$1,394,152	\$1,662,742	\$1,908,400	\$2,242,691	\$1,482,835	\$1,985,831	\$1,857,900	\$1,789,217
% Increase		-37%	64%	-38%	19%	15%	18%	-34%	34%	-6%	-4%
COGS		\$55,924	\$66,861	\$67,770	\$43,323	\$59,291	\$43,622	\$67,693	\$66,034	\$56,634	\$45,686
Retail Gross Margin	\$75,414	\$23,968	\$28,655	\$29,044	\$18,567	\$25,410	\$18,695	\$29,011	\$28,300	\$24,272	\$19,580
Property Expense											
Labour	\$277,340	\$319,700	\$187,892	\$219,017	\$310,801	\$495,443	\$363,271	\$386,022	\$117,888	\$391,679	\$186,750
Other OpEx	\$73,666	\$61,445	\$64,446	\$78,766	\$61,482	\$66,810	\$66,440	\$77,379	\$50,613	\$69,779	\$55,590
Total Property Expense (ex Rent & NNN)	\$351,006	\$381,145	\$252,338	\$297,783	\$372,283	\$562,253	\$429,711	\$463,401	\$168,501	\$461,458	\$242,340
SLEBITDA-XO (ex Occupancy)	\$1,759,031	\$963,868	\$1,965,790	\$1,067,325	\$1,271,892	\$1,320,737	\$1,794,285	\$990,423	\$1,789,030	\$1,372,170	\$1,527,297
Occupancy (Cash Rent & NNN)	\$126,818	\$164,001	\$161,276	\$226,441	\$121,620	\$288,930	\$179,704	\$295,829	\$213,575	\$166,564	\$221,898
SLEBITDA	\$1,632,213	\$799,867	\$1,804,514	\$840,884	\$1,150,272	\$1,031,807	\$1,614,581	\$694,594	\$1,575,455	\$1,205,606	\$1,305,399
% of Revenue		58%	80%	60%	69%	54%	72%	47%	79%	65%	73%
Depreciation & Amortization	\$80,497	\$91,531	\$89,738	\$88,924	\$65,798	\$97,636	\$87,707	\$50,659	\$73,305	\$50,508	\$84,683
Net Income	\$1,551,716	\$708,336	\$1,714,776	\$751,960	\$1,084,474	\$934,171	\$1,526,874	\$643,935	\$1,502,150	\$1,155,098	\$1,220,716
% of Revenue		52%	76%	54%	65%	49%	68%	43%	76%	62%	68%

Monthly cash flow estimated till 10 years of operation of the new property

EXHIBIT 2: ASSISTED OPERATING EXPENSES USER INPUTS

ILLUSTRATIVE

Pricing Zone Chosen	\$300
Labour Role 1/Labour Role 2	<u>Labour Role 1</u>
Labour Role 3	<u>Required</u>

Pre-Opening Expense Overrides		Suggested Value	User Input
Employee Burden (Benefits)	Pre-Opening Expense	\$1,617	
Labour Role 1	Pre-Opening Expense	\$11,200	
Labour Role 2	Pre-Opening Expense	\$0	
Occupancy (Rent)	Pre-Opening Expense	\$0	
Communication	Grand Opening Expense	\$300	
Travel & Entertainment	Grand Opening Expense	\$11,000	
G&A	Grand Opening Expense	\$2,000	
Supplies	Grand Opening Expense	\$15,000	
Utilities	Grand Opening Expense	\$400	
Instructor Labor	Grand Opening Expense	\$2,000	
Marketing (Pre-Opening)	Grand Opening Expense	\$10,000	
Total Operations (Pre-Opening)	Grand Opening Expense	\$43,517	\$0
Total Pre-Opening Expense	Grand Opening Expense	\$53,517	\$0

Reference values provided to client to assist in **entering user inputs for operating expenses** of the new property

EXHIBIT 3: KEY FINANCIAL DRIVERS

ILLUSTRATIVE

Financial Performance: New Property		Projected
Cash on Cash Return:	(Yr. 3 Cash EBITDA / Net Capex)	40%
Payback (Months):		22
IRR:	(Not tax burdened)	50%
SLEBITDA/ 4 Wall Contribution	(@ Yr. 3)	26%

Key financial metrics (at the end of 3rd year of operation) projected for the new property

		LTM Results								KPIs		
Nearest Properties		LTM Attendance	LTM Revenue TY('000)	LTM Revenue LY('000)	YOY Revenue	Average Rev/Visit	LTM SLEBITDA TY ('000)	LTM SLEBITDA LY ('000)	YOY SLEBITDA	Sales PSF	Occup. % of Rev.	SLEBITDA % of Rev.
ID1	Property 1	20,649	\$931	\$1,473	-37%	\$45	\$142	\$164	-13%	\$466	16%	15%
ID2	Property 2	48,606	\$1,372	\$436	215%	\$28	\$367	\$224	64%	\$686	11%	27%
ID3	Property 3	27,842	\$619	\$911	-32%	\$22	\$116	\$442	-74%	\$310	24%	19%
ID4	Property 4	45,104	\$246	\$733	-66%	\$5	\$308	\$239	29%	\$123	61%	125%
Average		35,550	\$792	\$888	-10.8%	\$25	\$233	\$267	-13%	\$396	28%	46%
Yr.3	New Property	1,050	\$645			\$614						

Last 12 Months' Financial KPIs (revenue, SLEBITDA and average revenue per visit) analysed with respect to the new property

LEARNINGS

- To assist the client in providing user inputs to the model, the team implemented an approach in which **the historical data were used to suggest reference values**. Hence, this manual overriding functionality made the model flexible with respect to the inputs provided by the user.
- For predicting long-term cash flow projections, the team **used past revenue and growth rate data from the properties with similar (geographical) characteristics**. This approach could also be leveraged for executing predictive analysis in absence of data which could be directly attributed to the subject of the analysis.