



YogaWorks, Inc. (YOGA: \$1.14 Outperform; \$3.50 PT)

Street Too Pessimistic, In Our View; YOGA Has Options—Maintaining Our Outperform Rating and \$3.50 Price Target

Figure 1. YogaWorks, Inc.—Key Company Data, Prices as of 8/28/18

Key Data	FY: Dec	2017	2018E	2019E
Price:	\$1.14			
Price Target:	\$3.50			
52-Week Range:	\$1.05-\$4.50			
Market Cap (\$mn):	19			
Shares Out. (mn):	16.4			
Avg. Daily Vol.:	200,000			
	Adj EBITDA:			
	Q1	0.8	(1.1)A	(1.5)
	Q2	(0.6)	(1.4)A	(1.4)
	Q3	(0.4)	(1.8)	(1.2)
	Q4	(1.1)	(1.5)	(1.2)
	Year	(1.2)	(5.7)	(5.4)
	EV/EBITDA	NA	NA	NA
	Revenue (\$mn)			
	Q1	14.0	15.5A	15.5
	Q2	12.5	14.9A	14.9
	Q3	13.5	14.7	14.9
	Q4	14.5	14.5	14.7
	Year	54.5	59.6	59.9
Total Debt (\$mn):	0			
Cash (\$mn):	15			
EV (\$mn):	3			
Annual Dividend:	0.00			
Dividend yield:	0.0%			

Sources: Company data and Imperial Capital, LLC.

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Key Data
Symbol: YOGA
Price (8/28/18): \$1.14
Rating: Outperform
Price Target: \$3.50

Estimates:
2018E EBITDA: (\$5.7)
2019E EBITDA: (\$5.4)
2018E EV/EBITDA: NA
2019E EV/EBITDA: NA

Company Description
YogaWorks is an owner and operator of yoga studios.

■ Financial Summary

YogaWorks, Inc. (YOGA) generated sales of \$58mn and EBITDA of (\$4mn) in the latest twelve month (LTM) period ended 6/30/18. The company had \$15mn in cash and no debt as of that date.

■ View and Valuation

We are maintaining our Outperform rating and one-year price target of \$3.50 on YOGA shares. Our price target is based on 0.7x 2019E revenue and 4.5x 2019E studio-level EBITDA. We are maintaining our estimates; see Figure 1.

■ Rationale

We were surprised at the market reaction following YOGA's 2Q18 report. While results were disappointing, we believe the 40% decline and resulting \$3mn enterprise value takes too myopic a view of YOGA's outlook and strategy. We believe management has more options that appear little appreciated by the Street, options that would help drive scale without major dilution. In this report, we present several potential scenarios, while also providing a quick background on YOGA.

Quick history: Before delving into the "scenarios," it is important to provide some background, especially given YOGA's short life as a public company. YOGA went public in August 2017 at \$5.50 per share with the strategy of rolling-up the fragmented yoga studio market. The management team and private equity sponsor, Great Hill Partners, wanted to leverage YOGA's outstanding brand and infrastructure to create a scale yoga studio operator, and industry M&A dynamics are attractive. The strategy was viewed skeptically by the Street and the stock traded down soon after the IPO. More recently, the stock hit a new low after mixed quarterly reports and management's decision to pause its M&A strategy. With the stock well-below the IPO, management's go-forward funding options are unclear.

Consensus view: We believe the consensus view is that YOGA's cash burn will continue indefinitely, forcing management into a dilutive equity offering or risky financing – hence the \$3mn enterprise value. In our opinion, that view is too inflexible. We believe the management team has other options that could drive shareholder value, as presented on pages 2 and 3.

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Additional information is available upon request.

Capitalization

Figure 2. YogaWorks, Inc.—Capitalization as of 6/30/18, Prices as of 8/28/18

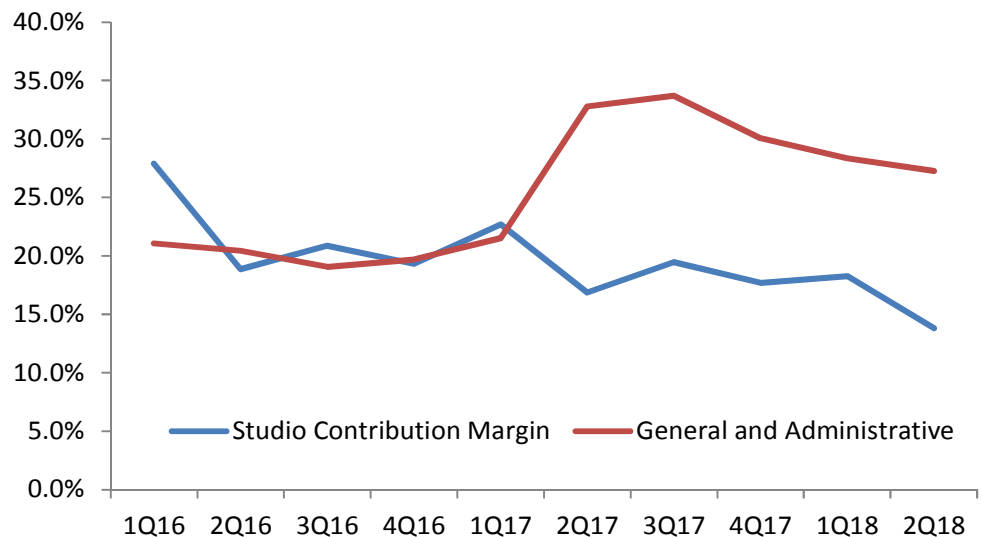
			Debt		Net Debt		Net Debt			Price / YTM			Interest Exp.	
			Face		Face		Market			Analysis			Analysis	
LTM Revenue	(06/30/18)	58.4												
LTM ADJ EBITDA	(06/30/18)	(3.9)												
LTM EBITDA %	(06/30/18)	-6.7%												
LTM FCF	(06/30/18)	(5.1)												
Settlement Date	NA													
	M/S&P	Balance	Cum. Debt	LTM EBITDA	Net Cum. Debt	LTM EBITDA	Debt Mkt	Net Cum. Debt	LTM EBITDA	Price	YTM	Mat.	Rate/Coup.	Est. Int. Exp.
	Rating		Face	Mult.	Face	Mult.								
Cash		15		-4		-4			-4					
Debt														
None		-	-											-
Total		-	-											-
Common Equity														
Common Stock (YOGA)		19												
Total Equity		19			(15)									Interest -

Sources: Company data and Imperial Capital, LLC.

Rationale (continued)

Scenario Overview: Below we present three scenarios that address YOGA's key priorities, which are, in our opinion: **1)** reducing cash burn, **2)** getting scale without significant dilution/debt, and **3)** surfacing the value of the YogaWorks' 4-wall profitability, brand, and infrastructure. All scenarios presented are our own opinions.

Scenario #1: Get to scale slower; focus on studio-level margin and corporate costs, pursue a more "opportunistic" acquisition strategy: Scenario #1 most closely reflects the course management articulated on its 2Q18 conference call. Under this scenario, management focuses on improving 4-wall profitability (walking away from select unprofitable leases, downsizing certain studios, reworking the labor model) while also looking for efficiencies at corporate, both with the aim of reducing ongoing cash burn and stabilizing the business. We believe the focus on core operations and cash drag are needed given the recent trend in studio contribution margin and corporate costs, both shown in Figure 3.

Figure 3. YogaWorks, Inc.—Margin Trends


Sources: Company data and Imperial Capital, LLC.

With a more measured M&A approach and disciplined cost strategy, cash burn could improve from the current range of \$5mn to \$10mn to something nearer to breakeven. YOGA has \$15mn of cash and no debt, so the strategy gives management several years to improve the model and margin structure. To pursue "opportunistic" acquisitions, the company may have access to funding from Great Hill Partners, which owns 70% of the equity and has significant capital resources.

Pros of scenario #1: Time to stabilize business, reduces cash burn, continuation of previous strategy

Cons of scenario #1: Rebuilding investor confidence can be lengthy, limited funding options

Scenario #2: Pair with another boutique brand: We believe other boutique brands could be interested in merging with YogaWorks. For YOGA, a pairing would have plenty of benefits, key being diversification, scale, and ability to cross sell. Additionally, a transaction may be a lever to set a new mark on valuation. For the subsumed brand, it would offer a path to the public market and liquidity without the onerous IPO process. Many stand-alone boutique brands are owned by private equity firms after a heavy period of M&A earlier in the 2010s.

The emergence of several “consolidator” fitness groups, generally PE-backed, may give standalone brands a sense of urgency to pair up. Examples of “consolidator” groups are shown in Figure 4 below.

Figure 4. YogaWorks, Inc.—“Consolidator” Fitness Groups

Equinox		L Catterton		TPG (Xponential)		Town Sports	
Equinox	Gyms	ClassPass	Fitness Tech	Life Time Fitness	Gyms	New York Sports Clubs	Gyms
Blink Fitness	Gyms	CorePower Yoga	Studio - Yoga	Club Pilates	Studio - Pilates	Total Woman	Wellness
Pure Yoga	Studio - Yoga	Pure Barre	Studio - Barre	CycleBar	Studio - Cycling	Lucille Roberts	Gyms
SoulCycle	Studio - Cycling	Equinox	Gyms	Row House	Studio - Rowing	TMPL	Gyms
Rumble	Studio - Boxing	Peloton	Fitness Tech	StretchLab	Studio - Stretching	Other Legacy Gym Brands	Gyms
				AKT	Studio - Training		
				Yoga Six	Studio - Yoga		
North Castle		Roark		Norwest Equity			
Barry's Bootcamp	Studio - HIIT	Anytime Fitness	Gyms	Edge Fitness	Gyms		
SLT	Studio - Pilates	Orangetheory	Studio - HIIT	Movati Athletic	Gyms		

Sources: Company data and Imperial Capital, LLC.

Pros of scenario #2: Reset investor outlook, provide diversification, quicken scale

Cons of scenario #2: Dilution, change of strategy from IPO

Scenario #3: Sell to someone with scale: We believe YOGA's financial profile and brand would be attractive to a larger fitness/leisure operator.

Financial profile: YOGA's 4-wall free cash flow and EBITDA remain solidly profitable, albeit the trend is not positive. As shown in Figure 5, LTM studio level FCF and EBITDA are \$11mn and \$10mn, respectively. Fully offsetting studio-level profitability are corporate expenses burdened by public company costs and M&A infrastructure, which could be mitigated at a larger enterprise.

Figure 5. YogaWorks, Inc.—4-Wall Profitability

	2016	2017	LTM 2Q18
Studio Level FCF	11,624	12,001	11,197
Studio Level EBITDA	12,373	10,731	10,393
Consolidated FCF	(1,334)	(1,220)	(5,109)
Consolidated EBITDA	1,699	(1,210)	(3,949)
Corporate Drag FCF	12,958	13,221	16,306
Corporate Drag EBITDA	10,674	11,941	14,342

Sources: Company data and Imperial Capital, LLC.

Depending on strategy, an acquirer would likely carry forward some of YOGA's regional infrastructure (\$2–3mn) and marketing (\$1mn), lessening 4-wall contribution. Still, we believe an acquirer would have the opportunity to greatly reduce estimated corporate (\$5mn) and professional costs (\$3mn).

Attractive brand: YogaWorks is a leading brand in the yoga industry, dating back to 1987. It has a strong position in many large MSAs, including Atlanta, Los Angeles, New York, San Francisco, Boston, and Washington DC. The industry is large and growing, with approximately 37mn American practitioners in 2016, up from 20mn in 2012, and \$5.8bn in instructional spending. The company also offers what it believes is the “gold standard” in teacher training, having trained 12K graduates.

Sampling of recent transactions: There have been many recent transactions in the wellness space, including YOGA itself, which sold for \$45mn in 2014.



Figure 6. YogaWorks, Inc.—Sampling of Recent M&A

<u>Year</u>	<u>Brand</u>	<u>Acquirer/Investor</u>	<u>Year</u>	<u>Brand</u>	<u>Acquirer/Investor</u>
2018	Yoga Six	TPG (Xponential)	2015	Pure Barre	Catterton
2018	Message Retreat	Life Time	2015	Life Time Fitness	TPG, Leonard Green
2018	Rumble	Equinox	2014	Movati	Norwest Equity Partners
2018	TMPL, Total Woman	Town Sports	2014	Flywheel	Benvolio Group
2017	Exhale Spa	Hyatt	2014	YogaWorks	Great Hill
2017	CycleBar	TPG Growth	2014	The EDGE Fitness	Norwest Equity Partners
2017	ClubCorp	Apollo Global	2014	24 Hour Fitness	AEA, Ontario Teachers
2017	Peloton	Misc	2014	Anytime Fitness	Roark Capital
2017	Equinox	L Catterton	2013	CorePower Yoga	Catterton
2017	Lucille Roberts	Town Sports	2013	Snap Fitness	TZP Capital Partners
2016	Orangetheory	Roark Capital	2012	Pure Barre	WJ Partners
2015	Barry's Bootcamp	North Castle			

Sources: Company data and Imperial Capital, LLC.

Pros of scenario #3: Eliminate uncertainty, liquidity

Cons of scenario #3: Change of strategy from IPO, limited premium (especially to IPO price)

Conclusion: Great Hill ultimately controls the path YogaWorks takes, but as explained, we believe there are several options available that are not properly reflected in YOGA's current value.

Figure 7. YogaWorks, Inc.—Income Statement, 2016-2019E

YogaWorks (YOGA)	2016	1Q17 March	2Q17 June	3Q17 Sept	4Q17 Dec	2017	1Q18 March	2Q18 June	3Q18E Sept	4Q18E Dec	2018E	2019E
Sales	55,090	13,990	12,493	13,519	14,512	54,514	15,530	14,870	14,735	14,512	59,647	59,940
<i>Growth</i>	13.6%	-7.3%	-6.3%	0.2%	10.2%	-1.0%	11.0%	19.0%	9.0%	0.0%	9.4%	0.5%
Cost of Goods Sold	20,535	5,129	4,806	5,153	5,470	20,558	5,924	5,756	5,747	5,660	23,086	22,929
Gross Profit	34,555	8,861	7,688	8,365	9,042	33,956	9,606	9,114	8,988	8,852	36,561	37,011
Center Operations	22,469	5,687	5,583	5,733	6,474	23,477	6,772	7,062	7,073	6,675	27,582	27,572
General and Administrative	11,067	3,010	4,094	4,557	4,365	16,026	4,405	4,054	4,273	4,208	16,941	17,087
Depreciation and Amortization	8,893	2,201	2,168	2,161	2,365	8,895	2,379	2,218	2,250	2,250	9,097	11,000
Other	0	0	0	0	7,695	7,695	0	2,475	0	0	2,475	0
Operating Income	(7,874)	(2,037)	(4,158)	(4,086)	(11,858)	(22,138)	(3,950)	(6,694)	(4,608)	(4,282)	(19,533)	(18,649)
Interest	1,587	562	249	533	0	1,344	(6)	(44)	0	0	(50)	0
Other	0	0	0	0	0	0	0	0	0	0	0	0
Pretax Income	(9,461)	(2,599)	(4,407)	(4,619)	(11,858)	(23,482)	(3,944)	(6,650)	(4,608)	(4,282)	(19,483)	(18,649)
Taxes	43	18	41	(28)	(77)	(45)	17	1	0	0	18	0
Net Income	(9,504)	(2,617)	(4,448)	(4,591)	(11,781)	(23,437)	(3,961)	(6,651)	(4,608)	(4,282)	(19,501)	(18,649)
GAAP EPS		(\$0.29)	(\$0.50)	(\$0.28)	(\$0.72)	(\$1.43)	(\$0.24)	(\$0.40)	(\$0.28)	(\$0.26)	(\$1.18)	(\$1.12)
Shares Outstanding		8,908	8,908	16,208	16,333	16,333	16,350	16,461	16,511	16,561	16,470	16,686
Adj EBITDA	1,699	841	(551)	(432)	(1,068)	(1,210)	(1,069)	(1,380)	(1,798)	(1,482)	(5,728)	(5,409)
Studio Level EBITDA	12,373	3,205	2,172	2,627	2,727	10,731	2,829	2,210	1,852	2,168	9,060	9,191
Gross Margin	62.7%	63.3%	61.5%	61.9%	62.3%	62.3%	61.9%	61.3%	61.0%	61.0%	61.3%	61.7%
Center Operations	40.8%	40.7%	44.7%	42.4%	44.6%	43.1%	43.6%	47.5%	48.0%	46.0%	46.2%	46.0%
Studio Contribution Margin	21.9%	22.7%	16.8%	19.5%	17.7%	19.2%	18.2%	13.8%	13.0%	15.0%	15.1%	15.7%
General and Administrative	20.1%	21.5%	32.8%	33.7%	30.1%	29.4%	28.4%	27.3%	29.0%	29.0%	28.4%	28.5%
Taxes	-0.5%	-0.7%	-0.9%	0.6%	0.6%	0.2%	-0.4%	0.0%	0.0%	0.0%	-0.1%	0.0%
Operating Margin	-14.3%	-14.6%	-33.3%	-30.2%	-81.7%	-40.6%	-25.4%	-45.0%	-31.3%	-29.5%	-32.7%	-31.1%
Studio Level EBITDA Margin	22.5%	22.9%	17.4%	19.4%	18.8%	19.7%	18.2%	14.9%	12.6%	14.9%	15.2%	15.3%

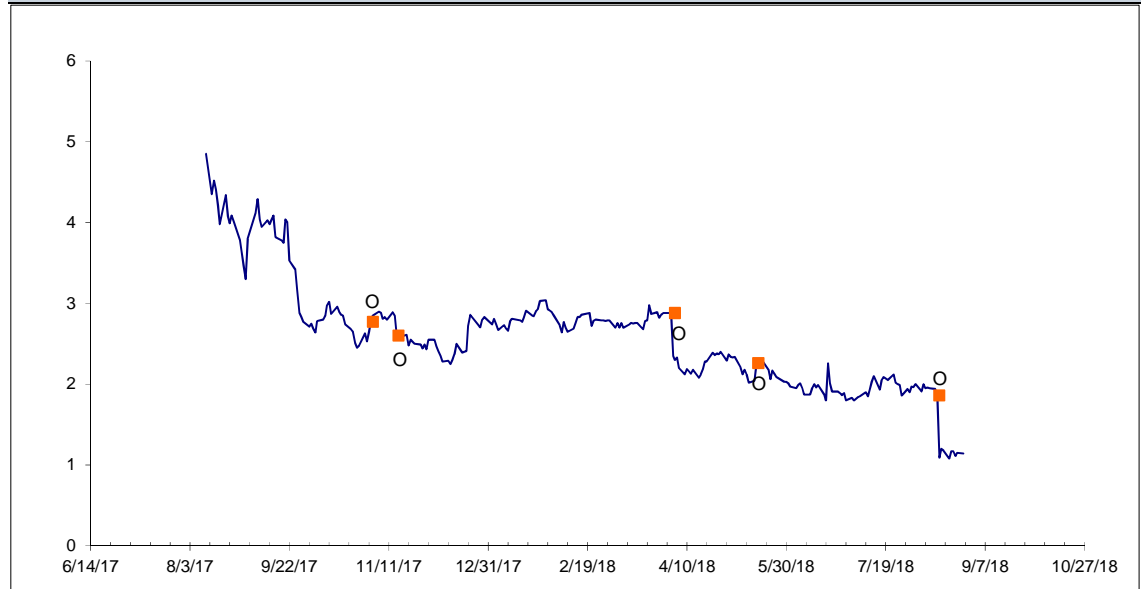
Sources: Company data and Imperial Capital, LLC.

Risk Factors

- **Leases:** YogaWorks leases all of its studios and could be negatively impacted if lease rates increase.
- **Minimum wages:** Laws are changing across the U.S., affecting several markets in which YOGA operates.
- **Consumer:** Any weakness in consumer spending would negatively impact YOGA.

Price Chart and Ratings History

Figure 8. YogaWorks, Inc.—Price Chart and Ratings History



Description	Price	IC Rating	Report Date
Common Stock	\$1.86	Outperform	8/15/18
Common Stock	\$2.26	Outperform	5/16/18
Common Stock	\$2.88	Outperform	4/4/18
Common Stock	\$2.60	Outperform	11/16/17
Common Stock	\$2.77	Outperform	11/3/17

Sources: Bloomberg and Imperial Capital, LLC.

Companies under coverage: George Kelly, CFA: Acushnet Holdings (GOLF), Brunswick (BC), Callaway Golf Company (ELY), Drive Shack (DS), Freshpet (FRPT), Johnson Outdoors (JOUT), Lindblad Expeditions (LIND), MINDBODY (MB), National Beverage (FIZZ), Nautilus (NLS), Planet Fitness (PLNT), Town Sports (CLUB), YogaWorks (YOGA).

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Ratings Distribution and Definitions

Equity Ratings Definitions (as of 7/1/09)		
Outperform	65.45%	Outperform: TRR expected to exceed basket by at least 10%
In-Line	30.91%	In-Line: TRR expected to be in-line with basket
Underperform	3.64%	Underperform: TRR expected to underperform basket by at least 10%
This Equity Ratings Distribution reflects the percentage distribution for rated equity securities for the twelve month period 7/1/17 through 6/30/18. Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Within the twelve month period ended 6/30/18, IC has provided investment banking services to 16.66% of companies with equity rated an Outperform, 0.00% of companies with equity rated an Underperform, and 8.82% of companies with equity rated an In-Line. As of 6/30/18.		
Fixed Income Ratings Definitions and Equity Ratings Definitions (prior to 7/1/09)		
Buy: TRR expected to exceed basket by at least 10%		
Hold: TRR expected to be in-line with basket		
Sell: TRR expected to underperform basket by at least 10%		
Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Please refer to our publication dated 7/1/09 for details associated with the transition of our Equity Ratings to the current definitions.		

For a discussion of the valuation methods used to determine our price target, if any, please see pages 1. See page 6 for the risks that may impede achievement of such price target, and page 6 for our ratings history and price chart.

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