

# Clear Leisure plc

7 March 2013

## Relax and enjoy

**Clear Leisure (formerly Brainspark) is an AIM listed investment company pursuing a dynamic strategy to create a comprehensive portfolio of companies within the leisure sector and its broader associated industries. Clear Leisure (CLP) is headquartered in London with the majority of its operations located within Italy.**

The past year has seen a profound reorganisation carried out at Clear Leisure. The company has significantly reduced its debt, enhanced the value of its assets and has developed a clear strategy going forward:

- It has acquired control of its investee companies in its three chosen sectors in Italy: Hotels and Tour Operators (ORH), Theme Parks (Sipiem) and Restaurants (You Can Group). A strategy to brand and scale Italy's leisure industry puts CLP in an excellent position to consolidate in a fragmented market.
- As part of the structural streamlining, CLP is seeking to dispose of the Mediapolis land in a cash deal, and of its now non-core digital entertainment assets, eg Bibop and Geosim.
- A €9.9m zero coupon convertible bond currently under issue will allow the company to buy back at discount some former company debt (thus realising a non-recurring profit), to provide finance for CLP's acquisition strategies, and to grow without the need to issue new shares. In recent times these shares have been sold by the vendors of the acquired companies to realise cash, and have weighed heavily on CLP's share price.
- The transition from a holding company with minority stakes in a number of diversified companies to a medium sized player in the Italian leisure industry should see the discount to net asset value diminish with increasing control and transparency.

**Although market conditions in Italy are challenging, and unlikely to improve in the near future, CLP has targeted assets in the hotel and leisure sector that can be enhanced and thereby garner a greater share of recovering consumer spend in the future.**

**A positive future for both the company and hence the shares looks achievable.**

### Company Details

|                          |           |
|--------------------------|-----------|
| EPIC                     | CLP       |
| Share price p            | 4.0       |
| High/Low since renamed p | 5.0 / 3.8 |
| Market cap £m            | 7.2       |

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## Today's Group

By the end of 2012, Clear Leisure (AIM: CLP - formerly Brainspark, having changed its name on 5 December 2012) had made the transition from being a holding company with minority stakes in diversified industries to a medium size player in the Italian leisure sector. It has implemented its medium term strategy, achieving:

- The completion of all its outstanding acquisitions;
- The appointment of a highly experienced Board of Directors;
- The creation of a strong base of new long term shareholders;
- The establishment of **three** operational divisions with a focus on investing within Italy and with CLP having a majority holding in each.

CLP has direct control of the three divisions through a majority shareholding in each of the primary investee companies:

- **ORH SpA** (Hotels and Tour Operator) – operating as Ora Hotels, a leading Italian hotel management company; plus a medium size Tour operator including Staff and Co, which has the brands, My Africa, Un Altro Sole, and Albatur
- **Sipiem SpA** (Theme Parks) – including Ondaland, Italy's largest and most successful water park
- **You Can Group srl** (Restaurants) – Sosushi, Italy's largest sushi restaurant chain.

CLP also controls Mediapolis, a 450,000 sq m tract of real estate, which has approval for the development of a major theme park, hotel, shopping complex and commercial activities.

Over the past year CLP has significantly strengthened its balance sheet, enhanced asset value, reduced debt and has appointed a CFO and Chairman in the UK.

As per a recent announcement, CLP is currently raising up to €9.9m through the issue of zero coupon secured callable and convertible bonds (maturing December 2015), with Deutsche Bank (London) as paying agent and arranger. This will allow the company to buy back at discount some former company debt, thus realising a non-recurring profit, and to finance CLP's acquisition strategies and to grow without the need to issue new shares.

## Background

Brainspark was created as an internet incubator in 1999. The organisation underwent a strategic realignment in September 2009 when Alfredo Villa joined the company as a board member and, subsequently, CEO. Under Alfredo Villa's leadership, Brainspark adopted a more focused business plan, particularly targeting the leisure and interactive digital entertainment sectors. The renewed Brainspark adopted a differentiated investment strategy with the aim of creating long-term share price appreciation and income for Brainspark investors.

Brainspark acquired assets, mainly in Italy, through the issue of new Brainspark shares and cash raised via private placements, with the company taking positions that ranged from a minority status with strategic influence, to taking controlling positions over time.

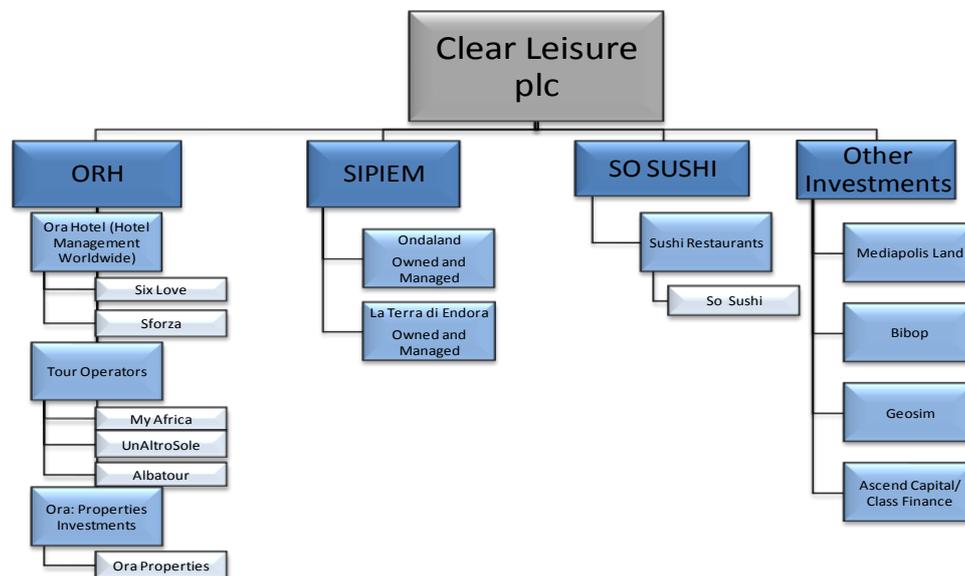
2012 was an exciting and strategically rewarding year for the company, including the very significant completion of a share placing on 25 October 2012 to raise £2.8m before costs. These monies allowed completion in the acquisition of a controlling stakes in ORH SpA (Ora Hotels Group) and Sipiem SpA (the owner of Ondaland Waterpark). Following the admission of these new shares, Luke Johnson, who made a £1m investment in the company, was appointed Non-Executive Chairman of the Company. At that point, Alfredo Villa was appointed Chief Executive Officer. Luke Johnson is the Chairman of Risk Capital Partners LLP, a private equity house, and Chairman and part-owner of Giraffe Restaurants and Patisserie Valerie. Further details on Management are later in this note.

Earlier in the year, on 15 June 2012, the company announced the acquisition of a 50.1% equity interest in **You Can Group S.r.l.** the controlling company of Sosushi restaurant chain.

On 2 August 2012 the company announced that it had completed the first stage of its investment in **Sipiem SpA** ("Sipiem"), the construction and Leisure Company in Biella, Italy. Sipiem owns 66% of Ondaland and we look forward to the completion of a new indoor theme park, this new attraction will be opened in time for the summer of 2013, and will enable parts of Ondaland to operate for the entire 12 months of the year.

On 9 November 2012, the company announced that it had completed its 51% acquisition of **ORH SpA**, the hotel chain which operates under the brand, Ora Hotel Group. The increase in capital will allow ORH to further develop its portfolio of hotels around the world.

## Divisions and structure



## Hotels and Leisure

In January 2013, CLP increased its stake in ORH SpA from 51% to 60.8% (plus an additional 2.56% of voting control).

ORH SpA is a Hotel chain and Tour Operator created by the merger of Ora Hotels Group, which specialises in the management of hotel / accommodation, and Staff & Co Ltd, a medium-sized specialty tour operator focused primarily on African territories (Zanzibar, Kenya, Madagascar, and Mozambique).

Ora has four categories of hotel:

- Ora Luxury – located in urban or international leisure destinations and attracting high average tariffs;
- Ora City – high quality hotels at affordable rates located in Italian regional capitals;
- Ora Resort – quality hotels and resorts located in Italy and various African destinations including Kenya, Madagascar and Zanzibar;
- Ora Domus – quality hotels located in pilgrimage destinations – eg Ora Domus in Assisi.

Out of a total of 40 hotels in the ORH Group that operate in Italy and other parts of the world, ORH currently has 18 hotels under **direct management**, whereby Ora-branded hotels and resorts are operated by the company which pays a rent to the owners. Ora Consulting is the 'master' franchisor, so these hotels pay Ora Consulting a franchise fee, which in turn pays a fee to ORH.

ORH also offers a **Management and Franchising** service, under which hotels and resorts (currently two) pay an annual franchise fee for the brand, the shopping network (website, network, services and clients) and a hotel manager trained by Ora Hotels.

A third option offered by ORH is a **straight franchise** deal under which the hotel receives the benefits of the Ora brand and network but retains independent management. CLP has nominated a new Board for ORH SpA and its subsidiaries, including a new CEO, General Counsel and CFO. All legal, financial and administrative activities and control are to be relocated to CLP's office in Milan. In addition, the minority stakes acquired by CLP over time in Sforza (short let apartments company) and Room Theme srl (Six Love themed motels) were reversed into ORH SpA in December 2012, so that all CLP's hotel and leisure assets are held within the same holding company.

### Results

ORH SpA has recently published the highlights of its audited consolidated results for the year ended 31 December, 2012 which reflect good growth. It recorded revenues of €46.7m (2011: €37.9m), EBITDA of €1.52m (2011: €0.23m) and a consolidated profit of €0.69m (2011: loss of €0.15m).

### Theme Parks

CLP owns 51% of Sipiem SpA (Italian construction and development company), which in turn controls 66% of TLT SpA, the sole owner of Ondaland, Italy's largest water park. Ondaland is located in Vicolungo (Novara) between Milan and Turin. Opened in 2005, Ondaland occupies 45 acres, and has 27 attractions, including more than 20 water slides for children and grown-ups, a 2200 sq m wave pool, 5000 sq m white "Caribbean" themed beaches, 50000 sq m of grassy area, and 11 catering points.

An issue in the past for Ondaland was that it had a restricted opening season. To capitalize on demand and increase revenues, work commenced on the construction of "La Terra d'Endora" a 7,000 sq m indoor Family Entertainment Centre, located close to Ondaland and scheduled for opening in the summer of 2013. Also in 2013, Ondaland will launch its "Double Death" ride, which will be a unique global water park attraction and so it is expected to significantly increase the number of visitors.

In December 2012, Alfredo Villa was nominated CEO of Sipiem SpA.

### Restaurants

You Can Group srl, the owner of the Sosushi restaurant chain, is currently implementing its new strategy to acquire some of its existing franchised restaurants. This will have the long-term effect of an increase in direct control and lead to greater revenue participation. The Sosushi chain has grown to 20 outlets across Italy since it was established in 2006.

## Other investments

### Financial and Real Estate

The prevailing economic conditions in Italy in recent years have thwarted CLP's attempts to develop and/or sell the Mediapolis site, of which CLP has direct and indirect investments amounting to 69.5%. Long and intense discussions with Sorgente Sgr and Torre Fund Sgr in the past two years have both proved unsuccessful, the former proposed a deal that was nominally attractive (value of €25-30m) but the transaction currency was 'share-based' as opposed to 'cash' consideration. CLP has decided that, due to the current economic situation in Italy, only a cash deal, or a majority of consideration in cash, will be considered for disposal of the land. Given the current strengthened balance sheet of CLP, the company can wait for an attractive deal for the Mediapolis land, its largest asset.

The Mediapolis site is located on the Milan-Turin-Aosta highway junction; 60 minutes drive from Milan, 50 minutes from Turin and 60 minutes from the Mont Blanc Tunnel, one of the main arteries between France and Northern Italy. Mediapolis has the potential of being the largest entertainment venue in the Milan - Turin urban area. The catchment area is impressive: it can be reached by *4 million* people within one hour's drive, within two hour's drive by *12 million*, within three hour's drive by *18-20 million*, and within 4 hour's drive by *45 million*.

The Milan-Turin area is one of the most important in Europe, with over 18 million inhabitants, and with the Alps - Mediterranean region, it accounts for a total of 35 million people. Consequently it is the third largest European 'urban macro-aggregate' with its high purchasing power, and benefitting from a lack of competition in this sector.

With an area of 450,000 sq m, and fronting the A6 motorway for 1 km, a "major league" theme park could act as an "engine" able to generate visibility and attract visitors from this wide catchment area.

Given the recent appointment of a new board at Mediapolis, as well as a new team of advisors (including a new project manager, real estate and capital market advisor), CLP believes that the best way to enhance and realise the Mediapolis land value, is to divide the land into four different areas of development, (theme park, hotels, commercial centre and power plant) and to offer these internationally to different real estate investors.

### Ascend Capital

Ascend Capital is an AIM Nominated Broker offering a variety of integrated funding solutions for smaller, fast growing companies. In August 2012, CLP acquired a 9.9% holding in Ascend Capital, which successfully completed two fundraisings for Brainspark (23 February 2012 and 3 April 2012) totaling £2.6m. It was also announced then that Alfredo Villa would join the board of Ascend Capital as a Non-Executive Director.

## Digital Sector

The company has taken the decision to seek an exit from all its digital end entertainment assets: Bibop SpA, (which owns 100% of Mycast and 8% of Aislin), and Geosim.

Bibop was founded in 1995 by Gabriele Gresta as a new media content production company. Bibop operates as a digital publisher of entertainment web productions and interactive videos. Bibop applies a business pattern that makes use of digital formats and libraries in partnership and sharing revenues (VAS) with the web portals. Bibop also owns the second largest gossip Italian channel online (<http://gossip.virgilio.it/>) and the **MyCast** platform. MyCast is a system enabling participative TV formats where consumers can be 'inserted' in live TV shows using off-the-shelf equipment (either a webcam or a 3G videophone), under the control of the show director and conductor.

The proposed sale of Mycast, announced by the company in 2012, did not complete due to issues regarding US patent rights, however the discussions are still ongoing and further buyers are actively being sought.

The company has apparently received a firm offer of US\$150,000 for Geosim, which is currently under consideration.

## Strategy

Appropriately, CLP can be *clearly* seen to comprise of three operating divisions (Hotels and Tour Operators, Theme Parks and Restaurants), and a fourth leg comprising of 'assets for sale' whose combined value appears greater than CLP's current market capitalisation. The medium term strategy for Clear Leisure (ie 2013 to 2015) is to increase revenues and profits in the company's three main divisions, and to execute a divestment strategy for the Mediapolis investment. For the core operating divisions, the overarching strategy is to brand and scale the Italian leisure industry. The Italian industry is highly fragmented and, given economic conditions, ready for consolidation – hence an excellent growth opportunity for CLP's brands.

In more detail over this period, by division:

- Hotels and Tour Operators – the aim is to grow and expand the ORH hotel franchise internationally, ORH's Tour Operators in Italy, and to acquire more Tour Operators;
- Theme Parks – to acquire and manage a variety of independent theme parks in Italy;
- Restaurants – to increase direct ownership of existing Sosushi franchise restaurants and to look for other small to medium sized restaurant chains to acquire.

In terms of the financial strategy, the key targets pursued by the company in the course of 2012 (debt reduction, a simplified structure and acquiring majority stakes in its cash producing assets) have been met to a significant extent.

Debt reduction will continue during Q1 2013 with the €9.9m bond issue, of which €3m can repay at a discount the outstanding debt on the 2010 bond.

## Financials

The key financial achievements over the past year to 31 December 2012 have been the strengthening of the company's balance sheet, with considerable debt reduction and increase in NAV. Prior to release of Group year-end results, our analysis of news and reported transactions suggests debt reduction of over 60% over the period, and asset enhancement of around 85%.

| Key Metrics, £m       |       |       |
|-----------------------|-------|-------|
| Year to 31 December   | 2011A | 2012E |
| <b>Debt Reduction</b> |       |       |
| Long term Debt        | 7.3   | 1.4   |
| Acquisition costs     | 4.1   | 0.8   |
| Short term creditors  | 0.8   | 2.4   |
| Total Debt/ Creditors | 12.1  | 4.6   |
| <b>Asset Increase</b> |       |       |
| Net Asset Value       | 13.6  | 25.1  |

Source: Company historic / ED estimates

## Conclusion

Following October 2012's equity placement and once the zero coupon bond issue is completed, CLP will be strongly placed for future growth, without need for further equity issue expected in the foreseeable future.

The problems of selling the Mediapolis land in the past two years has meant that Brainspark / Clear Leisure lacked the cash for its acquisitions and had to issue shares, which have mostly been sold to raise cash at any price for the vendors of those acquired companies. This has clearly been a major drag on the stock price in recent years.

Now that CLP has no need to issue shares for acquisitions, having acquired control of its target companies, and the distress sellers have sold out, removing the associated overhang, the share price should better reflect the strength and sound prospects of the restructured CLP.

In addition the company is set to be dual-listed, and join the Italian AIM market imminently. The familiarity of CLP's Italian assets is expected to attract Italian institutional and retail investors.

As CLP continues its evolution from holding minority stakes in a number of diversified companies to being a medium sized player in the Italian leisure industry, we expect to see the shares more accurately reflect growth in assets and revenues.

## Board Management

**Luke Johnson, Non Executive Chairman**, is the Chairman of Risk Capital Partners, a private equity firm he founded in 2001. For six years until 2010 he served as Chairman of Channel 4 Television. He is Chairman/part owner of the restaurant business Giraffe, Chairman/owner of Patisserie Valerie and Chairman/part owner of Gail's. He was Chairman of PizzaExpress PLC in the 1990s, and built up the Strada restaurant chain. He co-founded the largest UK chain of dental surgeries, Integrated Dental Holdings. He serves as a non-executive director at Metro Bank plc.

**Alfredo Villa, Chief Executive Officer**, holds a degree in Economics from the University of Geneva. In 1991, he co-founded 'Givigest Fiduciaria SA' in Lugano, Switzerland, an investment banking enterprise, and in 1994 he co-founded 'SCF SA', a financial consulting firm offering asset management services. These two companies were sold in 2001. Mr Villa is a 'Chartered Technical Analyst' (CTA) certified by the US Market Technicians Association in New York, as well as a 'Stock, Option and Futures Broker' certified by the National Association of Securities Dealers (NASD) and an authorized 'Financial & Commercial Fiduciary' in the Swiss Canton of Ticino. He is a board member and partner of Gabbrielli & Associati in Milan, a financial consulting company. Mr Villa is also an independent consultant and private investor in several venture capital companies. He is also a Director of Moggle, a Nasdaq listed Company. Mr Villa is also the chairman of "Fondazione Settembre Onlus" and VP of "Homes for Hope" Charities.

**Nilesh Jagatia, Group Chief Finance Officer**, was Group Finance Director of Media Corporation plc for a period of 5 years until July 2012. During his time at Media Corporation he was responsible for the Group's accounting, and worked on a number of corporate transactions. Nilesh has over 20 years' experience including senior financial roles in divisions of both Universal Music Group and Sanctuary Group Plc. He served as a Finance Director for an independent record label that expanded in to the US. Nilesh is a qualified accountant and has a degree in finance.

**Cesare Suglia, Chief Operating Officer**, is also the CFO of ORH S.p.A. He is also a director of Class Finance, an M&A and financial advisory firm based in Milan. He has 20 years' experience in M&A, financial advisory and management. In the past 10 years he has launched several start-up businesses operating in IT services, E Commerce, consulting and distribution, all of which were subsequently sold to investment funds or larger companies, some of which were quoted. In addition, he has collaborated with and advised various real estate funds, including Pirelli RE and Amundi, in the launch of hotel funds. He has also worked with the management department of University Ca' Foscari Venezia to help develop its Financial Management degree programme

**Francesco Emiliani, Non-executive Director**, has held a number of senior positions at some of Italy's leading companies, including ENEL SpA, where he was CEO of ENEL IT and then CTO of the Group. He was Chairman of Schlumberger Italy between 1996 and 2001, having started his career at Olivetti in 1968, where he became CEO of its IT division. He has served on the Board of Mediapolis SpA since February 2006 and acted as Chairman between 2007 and 2009.

## Senior Operating Management

**Ennio Coda, President of Sipiem SpA:** Ennio was appointed as Commander of the Republic (Italy) in 1995 and graduated at the Institute for Surveyors in 1968. He is the Founder and President of SIPIEM S.p.A, a company operating mainly in residential real estate and construction. Other current and former appointments include CEO of SOTUM Spa, a real estate and tourism company; President of BENI STABILI SpA, a real estate company once listed on the Milan Stock exchange which later merged with Credit Fonciere in France; President of VALTUR SpA, another company operating in tourism; Chairman and CEO of Tempo Libero Turismo SpA, the company constructing and managing one of Italy's largest Water Theme Parks – namely Ondaland.

**Gaetano Lattanzi, General Counsel:** Gaetano is a Lawyer and was admitted to the Italian Bar in 2003. He holds a degree in Law at University of Trento (1999) and an MBA from SDA Bocconi (2012). Mr Lattanzi's career started at Banca di Trento e Bolzano SpA (Intesa – San Paolo) as an in-house lawyer, and then after three years, he joined Capitalia SpA as the senior in-house lawyer. In 2006 Gaetano, as General Counsel to the General Manager, moved to Non-Performing Loans SpA, a joint venture between private Italian capital and the American investment bank Lehman Brothers. After 10 years of extensive experience in legal consulting within the financial institutions sector, with a particular focus on loan origination, securitization, and non-performing loans, he was appointed as General Counsel at Clear Leisure PLC in 2012.

**Carlo Bozzini, CFO of Italian Subsidiaries:** Carlo graduated with a degree in Economics from the Università degli Studi di Parma in 1994. He became a Certified Accountant in 1995. He has more than 10 years' diverse experience in corporate finance and, following a year working in the United States, he joined CLP in January, 2013.

**Leonardo Tantone, M&A:** Leonardo also has a strong corporate finance background and has been an Associate Director & Investment Manager at Palladio Finanziaria Group SpA since April 2009. He is also currently a Board member and CFO for several companies. Leonardo holds a degree and a post graduate degree in Finance and Risk Management from the University of Parma.

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