

# Indoor Skydiving Australia Group

## Completes Capital Raisings

IDZ has completed a \$10.4m capital raising, comprising:

- > An \$9.4m Accelerated Renounceable Entitlement Issue on a 2:5 basis at \$0.40 ps, with a \$4.0m retail offer and an oversubscribed \$5.4m Institutional Bookbuild.
- > A \$1.0m placement to a strategic holder at \$0.45 ps.

The response was exceptionally strong with 92% of retail entitlements allocated to existing holders. The funds will be used to:

**Accelerate the development of additional centres** – IDZ is looking to rapidly proceed with the development of additional centres, possibly to commence a second facility on completion of Penrith in early 2014.

**Repay Convertible Loan Facility** - IDZ has repaid the facility, which was drawn to \$2.0m at 30/6/13 (with a further \$3.9m available), prior to any possible conversion.

**Shareholding spread** - Improve the shareholder spread and balance, expanding the number of institutional and retail shareholders, and increasing liquidity.

**Working Capital** - Provide additional funding ahead of the opening of Penrith.

## Recent Initiatives Boost Outlook

IDZ has recently announced three initiatives which improve the outlook for Penrith and future developments, around:

**Early Bird Sale** – An initial limited early offer to Founder Shareholders and experienced skydivers/tunnel flyers was quickly oversubscribed, generating over \$0.5m in Revenue. This demonstrated the strong inherent demand, resulting in an upgrade of our initial forecasts and allowed a testing of sales systems and processes.

**Expansion of Management Team** – IDZ has strengthened its management team ahead of completion of Penrith and marketing launch, covering finance, legal, marketing and project development.

**SkyVenture Joint Territory Development Agreement (JTDA)** - IDZ has signed a Heads of Agreement for a JTDA with SkyVenture for: exclusivity for the VWT technology and iFLY licence; increased opportunities for VWTs in Australia; and wider funding options. This adds certainty and marketing, training and operational benefits.

## Forecast Changes

We have amended our forecasts for increased Professional use in FY2014, with success of the Early Bird offer, more than offset by a substantial increase in the cost base, including recent staff costs. This cost structure is appropriate for the development of additional centres funded by the raising. We now expect revenue of \$1.8m and a loss of \$1.4m in FY2014, with an initial profit in FY2015 of \$1.5m.

## Penrith construction on track

Construction of the facility at Penrith is running on-time and on budget. With the ground floor under construction and the majority of the Wind Tunnel equipment on site, management anticipates the facility to be operational in Q1 CY2014.

## Further centres on the drawing board

With the raising, IDZ is evaluating and prioritising over 10 identified opportunities to begin development of a second site after completion of Penrith, with a target of at least 5 centres to be constructed over the next 5 years. As these locations are targeted to the tourist market, they will be smaller and involve a substantially lower capital cost, resulting in a similar net contribution as the larger facility.

## Recommendation

We retain our BUY recommendation with a revised Target Price of \$0.70 ps (from \$0.75 ps), after adjusting for the issues and forecast changes. We will review this with the opening of Penrith and/or announcement on new developments.

IDZ.ASX

BUY

6 November 2013

**Price** **0.56**  
**Price Target** **0.70**  
 Valuation method PE Relative

GICS sector Consumer Services  
 12 Mth Price Range \$0.17 - 0.81  
 Avg monthly share turnover 1.1m  
 Market Capitalisation\* \$47m  
 Shares on Issue\* 84.6m  
 Enterprise Value\* \$43m  
 Previous Rating **BUY**

\* includes 19.6m unlisted escrow shares

Year Ended June 30		13A	14E	15E	16E	17E	18E
Operating Revenue	\$m	0.0	1.8	7.1	8.7	11.1	12.5
EBITDA	\$m	-0.8	-1.0	2.2	3.3	4.5	5.0
<i>EBITDA margin</i>	%			31.3	37.4	40.9	39.8
EBIT	\$m	-0.8	-1.2	1.7	2.7	4.0	4.4
<i>EBIT margin</i>	%		-63	23.5	31.1	35.9	35.4
<b>NPAT</b>	<b>\$m</b>	<b>-0.6</b>	<b>-1.3</b>	<b>1.5</b>	<b>2.0</b>	<b>3.0</b>	<b>3.4</b>
<i>NPAT growth</i>	%			38.3	47.1	12.7	
EPS	¢ps		-1.7	1.7	2.4	3.5	4.0
<i>EPS growth</i>	%			38.3	47.1	12.7	
DPS	¢ps	0.0	0.0	0.0	0.0	0.0	0.0
Franking	%		0.0	0.0	0.0	0.0	0.0
PER	x		0.0	32.1	23.2	15.8	14.0
Dividend yield	%	0.0	0.0	0.0	0.0	0.0	0.0
NTA/share	¢ps	9.9	16.5	18.2	20.6	24.2	28.2

EV/EBITDA	x		17.8	11.2	7.2	5.8	
Gearing (D:E)	%		0	0.0	0.0	0.0	
P/OCF	x		-51	15.1	13.8	11.3	10.7
ROA	%		-8.0	8.6	11.9	16.1	15.7
ROE	%		-12.2	9.8	12.0	15.3	14.9
Interest cover (EBIT)	x		-6.6	na	na	na	na

### IDZ v XSI (S&P/ASX Small Industrial Index)



Source: IRESS

### Activities

The operation of Indoor Skydivings Centres in Australia and New Zealand

[www.indoorskydiveaustralia.com.au](http://www.indoorskydiveaustralia.com.au)

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# EQUITY RESEARCH



Current Price: \$0.56 ps

Target Price:\$0.70 ps

## PROFIT & LOSS

Year ended 30-Jun		2013A	2014E	2015E	2016E	2017E	2018E	2019E
<b>Sales Revenue</b>	\$m	0.0	1.8	7.1	8.7	11.1	12.5	12.8
Expenses	\$m	-0.8	-2.8	-4.9	-5.5	-6.6	-7.5	-7.4
<b>EBITDA</b>	\$m	-0.8	-1.0	2.2	3.3	4.5	5.0	5.4
Depreciation & Amort	\$m	0.0	-0.2	-0.5	-0.5	-0.5	-0.5	-0.5
<b>EBIT</b>	\$m	-0.8	-1.2	1.7	2.7	4.0	4.4	4.8
Interest (Net)	\$m	-0.1	-0.2	-0.1	0.2	0.3	0.4	0.4
<b>Pre Tax Profit</b>	\$m	-0.9	-1.3	1.6	2.9	4.3	4.8	5.2
Tax	\$m	0.3	0.0	-0.1	-0.9	-1.3	-1.4	-1.6
<b>Normalised Profit</b>	\$m	-0.6	-1.3	1.5	2.0	3.0	3.4	3.6
Significant Items & Costs (Net)	\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Reported Profit</b>	\$m	-0.6	-1.3	1.5	2.0	3.0	3.4	3.6

## Growth

		2013A	2014E	2015E	2016E	2017E	2018E	2019E
Revenue	%			290.8	22.6	27.1	12.8	2.0
Expenses	%			73.4	11.6	20.0	14.8	-1.7
EBITDA	%			46.7	38.9	9.8	7.7	
EBIT	%			62.1	46.9	11.1	8.6	
Normalised Profit	%			38.3	47.1	12.7	7.9	
EPS	%			38.3	47.1	12.7	7.9	

## P&L Ratios

		2013A	2014E	2015E	2016E	2017E	2018E	2019E
EBITDA / Sales	%		-54.9	313	37.4	40.9	39.8	42.0
EBIT / Sales	%		-63.1	23.5	31.1	35.9	35.4	37.6
Net Profit Before Tax / Sales	%		-72.7	22.1	33.3	38.6	38.6	40.8
Effective Tax Rate	%		0.0	6.3	30.0	30.0	30.0	30.0
Interest Cover	x		-6.6	na	na	na	na	na

## Per Share

		2013A	2014E	2015E	2016E	2017E	2018E	2019E
Issued Shares	m	58.8	84.6	84.6	84.6	84.6	84.6	84.6
Issued Shares (Wt Avg)	m		77.2	84.6	84.6	84.6	84.6	84.6
EPS	¢ps		-1.7	1.7	2.4	3.5	4.0	4.3
EPS (dil C/Notes & Opts)*	¢ps		-0.8	1.7	2.4	3.5	4.0	4.3
Operating Cash Flow ps	¢ps		-1.1	3.7	4.0	5.0	5.2	5.2
Free Cash Flow	¢ps		-1.5	3.4	3.7	4.5	4.8	4.7
DPS	¢ps		0.0	0.0	0.0	0.0	0.0	0.0
Franking	%		0.0	0.0	0.0	0.0	0.0	0.0
Dividend Payout Ratio	%		0.0	0.0	0.0	0.0	0.0	0.0

## Parameters

		2013A	2014E	2015E	2016E	2017E	2018E	2019E
PE Ratio	x		0.0	32.1	23.2	15.8	14.0	13.0
Enterprise Value / EBITDA	x			17.8	11.2	7.2	5.8	4.6
Enterprise Value / Profit	x			26.9	17.9	10.9	8.5	6.8
Cash Flow ratio	x			15.1	13.8	11.3	10.7	10.8
Dividend Yield	%			0.0	0.0	0.0	0.0	0.0

## VALUATION

Valuation Method	\$	Premium(+)/Discount(-) to	%
PE Relative	0.32	Current Price	73.1
DCF	0.43	Current Price	29.0
Market Capitalisation	\$47.4m	Enterprise Value	\$42.6m

## DIRECTORS

Kenneth Gillepsie	Non-Exec Chairman	Steve Baxter	Non-Exec Director
Wayne Jones	Managing Director	John Diddams	Non-Exec Director
Daniel Hogan	Exec Director	Malcolm Thompson	Alternate Director

## CASH FLOW

Year ended 30-Jun		2013A	2014E	2015E	2016E	2017E	2018E	2019E
<b>Operating EBITDA</b>	\$m	-0.8	-1.0	2.2	3.3	4.5	5.0	5.4
Net Interest Paid	\$m	-0.1	-0.2	-0.1	0.2	0.3	0.4	0.4
Tax Paid	\$m	0.0	0.3	0.0	-0.1	-0.9	-1.3	-1.4
Chg WorkCap &	\$m	0.0	0.1	0.9	0.3	0.5	0.3	0.1
Other	\$m	0.2	0.0	0.0	0.0	0.0	0.0	0.0
<b>Operating Cash Flow</b>	\$m	-0.7	-0.8	3.0	3.6	4.5	4.4	4.4
Capex	\$m	-2.5	-8.0	-0.3	-0.3	-0.4	-0.4	-0.4
<b>Free Cash Flow</b>	\$m	-3.2	-8.8	2.7	3.3	4.1	4.0	4.0
Acquisitions/Asset Sales	\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends Paid	\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity Raised	\$m	6.4	10.4	0.0	0.0	0.0	0.0	0.0
Debt (change)	\$m	2.0	-2.0	3.0	-3.0	0.0	0.0	0.0
Other	\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Change in Net Cash</b>	\$m	5.2	-0.4	5.7	0.3	4.1	4.0	4.0

## BALANCE SHEET at 30-Jun

		2013A	2014E	2015E	2016E	2017E	2018E	2019E
Cash	\$m	5.2	4.8	10.6	10.8	14.6	18.6	22.6
Receivables	\$m	0.1	0.1	0.4	0.5	0.6	0.7	0.7
Inventory	\$m	0.0	0.1	0.4	0.5	0.5	0.5	0.5
Other Current Assets	\$m	0.0	0.0	0.1	0.2	0.2	0.3	0.3
<b>Current Assets</b>	\$m	5.3	5.0	11.5	11.9	15.9	20.1	24.1
Property, Plant & Equipment	\$m	5.0	11.0	10.5	10.0	9.5	9.0	8.9
Intangibles	\$m	0.0	1.0	1.0	1.0	1.0	1.0	1.0
Other NC Assets	\$m	0.0	0.1	0.2	0.4	0.4	0.5	0.5
<b>Non Current Assets</b>	\$m	5.0	12.1	11.7	11.4	10.9	10.5	10.4
<b>Total Assets</b>	\$m	10.3	17.1	23.2	23.3	26.8	30.6	34.5
Payables	\$m	0.3	0.5	2.0	2.5	3.1	3.5	3.6
Current Debt	\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Current Liabilities	\$m	0.0	0.1	0.2	0.3	0.4	0.5	0.5
<b>Current Liabilities</b>	\$m	0.3	0.6	2.2	2.8	3.5	4.0	4.1
Non Current Debt	\$m	2.0	0.0	3.0	0.0	0.0	0.0	0.0
Other NC Liabilities	\$m	0.0	1.6	1.6	2.1	1.8	1.7	1.9
<b>Non Current Liabilities</b>	\$m	4.1	1.6	4.6	2.1	1.8	1.7	1.9
<b>Total Liabilities</b>	\$m	4.5	2.2	6.8	4.9	5.3	5.7	6.0
<b>Shareholder Funds</b>	\$m	5.9	14.9	16.4	18.5	21.5	24.8	28.5

## BALANCE SHEET Ratios

		2013A	2014E	2015E	2016E	2017E	2018E	2019E
Receivables turn	x	0.0	18.6	29.1	20.1	20.4	19.3	18.4
Net Debt	\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gearing (D:D+E)	%	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Ratio (CA / CL)	x	15.4	8.3	5.2	4.3	4.5	5.0	5.9
Net Assets	¢ps	9.9	17.7	19.4	21.8	25.4	29.4	33.7
Net Tangible Assets	¢ps	9.9	16.5	18.2	20.6	24.2	28.2	32.5
Cash	¢ps	5.5	5.7	9.0	12.7	17.2	22.0	26.7
Price to Book Value	x	5.6	3.2	2.9	2.6	2.2	1.9	1.7
Return On Assets	%		-8.0	8.6	11.9	16.1	15.7	15.0
Return on Equity	%		-12.2	9.8	12.0	15.3	14.9	13.9

## MAJOR SHAREHOLDERS

Excalib-Air	m	16.0	19%	Wayne Jones (CEO) & Daniel Hogan (COO)
Birkdale Holdings	m	15.0	18%	Steve Baxter (NE Director)
Greencape	m	9.1	11%	Institution
Trackcorp	m	8.0	9%	Adrenalin (David Jellins)
Top 20 (25/10/13)	m	68.9	81%	

Source: IDZ (a), Veritas (e)

**Successful Early Bird Offer sells 500 hours of flight time raising over \$0.5m**

### Early Bird Offer

On 23/10/13, IDZ released a limited "Early Bird Offer" of 500 hours of tunnel use at prescribed times to:

- Founder Shareholders at a special discounted rate.
- An offer to experienced skydivers and tunnel flyers, initially launched at the West Coast Sundowner International skydiving event in Perth, and then on line. These were sold at discounted rates up to \$1,199 per hour. This is separate to its arrangement with the Australian Parachute Federation.

While these will be taken as revenue when bookings are confirmed, we expect these to be mostly taken up in FY2014. However, the full amount will be included in cash receipts in the Cash Flow Statement.

The offer was a resounding success and a validation of IDZ's business plan, with:

- Over \$0.4m of sales transacted in the first 4 hours, despite a limitation of 5 hours per person.
- Total sales of 500 hours sold in 4 days, with excess demand.
- A successful testing of IDZ's sales systems and processes.

However, IDZ won't release further offers or pricing until the opening of advanced ticket sales late December or early CY2014.

### Forecasts

We have amended our Forecasts for FY2014 to reflect the impact of the "Early Bird Sale", which we estimate already locks in over \$0.5m in professional sales, and changes to the cost base. These amendments cover:

- An increase in expected professional revenue from \$0.5m to \$0.8m, and Total Revenue from \$1.4m to \$1.8m, through:
  - An increase in professional sales from 400 hours to 700 hours, based on our estimate of completed sales to date of 500 hours and further expected sales, given the success of the offer. We now expect sales of a further 200 hours once the next package of hours is released in late CY2013.
  - An Alliance Agreement agreement with the Australian Parachute Federation (APF) for use of Penrith, in return for promotional exposure and marketing opportunities to its members. APF has made an advance payment for VWT flight time for the first year at agreed rates.
- A compensatory increase in costs related to the extra hours and a substantial increase in staff and other costs in preparation for the development of additional centres. This increases our expected loss for FY2014 to \$1.3m and reduced our forecast profit for FY2015 to \$1.5m.
- We have adjusted our Price Target from \$0.75 ps to \$0.70 ps ex-placement, ex-entitlement, to reflect the equity raising and change in forecasts.

Despite this increase, we have retained our conservative forecasts of retail utilisation of 35% in FY2014, generating Revenue of \$0.9m. We believe this is conservative, as we expect a flurry of initial sales with the launch and associated publicity. We have also retained our forecast for FY2015 of professional usage of 1,200 hours and retail capacity usage of 45%, despite the success of the offer and strong initial interest.

While these revenue forecasts for IDZ include revenue for Penrith only, the cost base includes the substantial increase in the costs base in anticipation of development of the new centres. These forecasts will be updated with completion and/or announcement on new centres. Our forecasts are now:

Profit & Loss		FY14	FY15	FY16	FY17	FY18	FY19	FY20
Retail Revenue	\$m	0.9	5.1	6.6	8.7	9.9	10.1	10.3
Professional Revenue	\$m	0.8	1.5	1.6	1.8	1.9	1.9	1.9
Merchandise Revenue	\$m	0.1	0.3	0.4	0.5	0.6	0.6	0.6
Other Revenue	\$m	0.0	0.2	0.2	0.2	0.2	0.2	0.2
<b>Total Revenue</b>	<b>\$m</b>	<b>1.8</b>	<b>7.1</b>	<b>8.7</b>	<b>11.1</b>	<b>12.5</b>	<b>12.8</b>	<b>13.0</b>
% Ch	%		290.8	22.6	27.1	12.8	2.0	2.0
<b>Operating Costs</b>	<b>\$m</b>	<b>-2.8</b>	<b>-4.9</b>	<b>-5.5</b>	<b>-6.6</b>	<b>-7.5</b>	<b>-7.4</b>	<b>-7.5</b>
% Ch	%		73.4	116	20.0	14.8	-1.7	1.7
<b>EBITDA</b>	<b>\$m</b>	<b>-1.0</b>	<b>2.2</b>	<b>3.3</b>	<b>4.5</b>	<b>5.0</b>	<b>5.4</b>	<b>5.5</b>
% Ch	%			46.7	38.9	9.8	7.7	2.5
Margin	%	-54.9	31.3	37.4	40.9	39.8	42.0	42.2
Depreciation	\$m	-0.2	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
<b>EBIT</b>	<b>\$m</b>	<b>-1.2</b>	<b>1.7</b>	<b>2.7</b>	<b>4.0</b>	<b>4.4</b>	<b>4.8</b>	<b>4.9</b>
Interest	\$m	-0.2	-0.1	0.2	0.3	0.4	0.4	0.5
<b>Pre-Tax Profit</b>	<b>\$m</b>	<b>-1.3</b>	<b>1.6</b>	<b>2.9</b>	<b>4.3</b>	<b>4.8</b>	<b>5.2</b>	<b>5.4</b>
Tax	\$m	0.0	-0.1	-0.9	-1.3	-1.4	-1.6	-1.6
<b>Net Profit</b>	<b>\$m</b>	<b>-1.3</b>	<b>1.5</b>	<b>2.0</b>	<b>3.0</b>	<b>3.4</b>	<b>3.6</b>	<b>3.8</b>
% Ch	%			38.3	47.1	12.7	7.9	4.5
<b>EPS</b>		-17	17	2.4	3.5	4.0	4.3	4.5

Note: For Full model see Appendix 1

Source Veritas Forecasts

## Completes Capital Raising

IDZ has completed a capital raising of \$10.4m, comprising:

### IDZ completes \$10.4m capital raising

**Entitlement Issue** – An Accelerated Renounceable Pro-rata 2:5 Entitlement Issue of 23.5m shares at \$0.40 ps to existing shareholders to raise \$9.4m. The Entitlement Issue was split:

- \$5.4m from an Institutional bookbuild (13.5m shares at \$0.40), through the renunciation of entitlements by Directors and major shareholders of IDZ. This bookbuild was heavily oversubscribed, completed at a \$0.45 ps, a premium of \$0.05 per entitlement, paid to the renouncing shareholders.
- \$3.7m from existing retail shareholders under the entitlement offer (9.2m shares at \$0.40 ps), comprising \$3.4m (8.4m shares) from the take-up of entitlements (84% take up) and \$0.3m (0.8m shares) from oversubscriptions.
- \$0.3m (1.6m) shortfall on the entitlement issue, placed with institutions.

The offer was a success, with IDZ receiving applications for 97% of total new shares and 92% of the Retail Entitlement, helped by Entitlement Rights trading covering 4.5m shares at the equivalent paid up prices ranging from \$0.415 to \$0.55 ps.

**Placement** - A \$1.0m Placement under section 708(8) of the Corporations Act 2001 (Cth) to a key strategic investor, comprising 2.2m shares at \$0.45 ps.

## Shareholder Base

Following the above issues, the Issue Capital of IDZ now comprises:

Issued Capital	m	Substantial Shareholders		
		Holder	Holding	(%) Type
Listed	39.2	Excalib-Air	16.0m	18.9% Wayne Jones (CEO) & Daniel Hogan (COO)
Unlisted (Escrowed)	19.6	Birkdale Holdings	15.0m	17.7% Steve Baxter (NE Director)
<b>As at 30/06/2013 Total</b>	<b>58.8</b>	Greencape	9.1m	10.7% Institution
Entitlement Issue	23.5	Trackcorp	8.0m	9.5% Adrenalin (David Jellins)
Placement	2.2	Top 20 (25/10/13)	68.9m	81.4%
<b>As at 30/10/13</b>	<b>84.6</b>	Other	15.7m	18.6%
		<b>Total</b>	<b>84.6m</b>	<b>100.0%</b>

Under the Joint Development Agreement, IDZ will issue a further 2.5m shares to the SkyVenture/IFly Group and will appoint Mr Alan Metni (the MD of SkyVentures) to the IDZ Board.

## Use of Proceeds

The funds raised will be used for:

**Additional Centres** – to rapidly pursue opportunities to develop additional indoor skydiving centres. IDZ is looking to commence a second facility once construction has been completed at Penrith, with a further facility in FY2015. IDZ has been encouraged by:

- Strong positive response from its request for Expressions of Interest document circulated in June 2013. IDZ now has at least 2 prospective sites in each major location.
- The rapid expansion of centres in the US and their success, in terms of consumer response and profitability. SkyVenture has over 6 centres under construction or nearing completion in the US, including a project on 2 Royal Caribbean International cruise liners.
- Strong interest from the public and professional skydiving sectors.

**Repay Convertible Loan Facility** - IDZ has repaid the facility, which was drawn to \$2.0m at 30/6/13 (with a further \$3.9m available), prior to any possible conversion.

**Shareholding spread** - Improve the shareholder spread and balance, adding institutional shareholders and new retail shareholders through entitlement trading, increasing liquidity.

**Working Capital** - Provide additional working capital ahead of the opening of Penrith.

### Funds raised will finance new centres, repay the convertible note, boost working capital and increase shareholder spread

**IDZ to sign a Joint Territory Development Agreement, locking in SkyVenture**

**A Joint Territory Development Agreement (JTDA) with SkyVenture**

IDZ has signed a Heads of Agreement for an exclusive JTDA with IFLY Australia (part of SkyVenture) for 1 year, with an 18 month automatic extension based on new equipment purchases. This provides a framework for the construction and development of further facilities in Australia and New Zealand, covering:

- Exclusivity for both SkyVenture and IDZ for the SkyVenture VWT technology and the iFLY licence. SkyVenture is the largest and most successful supplier and licensor of Indoor Skydive Centres globally, with over 30 centres in operation or under construction.
- Increased opportunities for VWTs in Australia and increased funding options. IDZ and IFLY each have the right to invest up to A\$1m in each other’s projects, and on negotiation a further investment for up to 50% of the Project. The structure will protect the rights of shareholders in both entities.
- The MD of SkyVenture to join the IDZ Board and SkyVenture to take an initial 2.5m shareholding.

This is positive as it removes uncertainty with respect to imminent project development and has marketing, training/hiring and developmental benefits, including additional funding options.

**Expansion of Management team**

**Management team expanded ahead of Penrith launch**

Ahead of completion and opening of Penrith and commencement of marketing and sales, IDZ has strengthened its management team, resulting in an increase in our forecasts staff costs for FY2014 by around \$0.7m and FY2015 by \$0.2m. These were:

**Legal** – The appointment of Fiona Yiend as Company Secretary and General Counsel.

**Finance** – The appointment of Joshua Keys as Financial Controller.

**Sales** – The appointment of Daniel Littlepage in sales and marketing.

**Project Development** – Expansion of the project development team with 3 new appointments to assess the current prospective sites and manage the development of new centres.

**Construction of Penrith**

**Construction of Penrith on time and on budget**

Construction is running on-time and on-budget, with management maintaining guidance that the facility will be operational in the Q3 FY2014. To date, the foundations, basement walls have been completed and waterproof membrane applied, which includes 50 tonnes of reinforced steel and concrete. The ground floor slab is nearing completion and above ground structure is under construction.

The fabricated VWT has been shipped to Australia, mostly cleared by customs and currently onsite, with the last container to arrive within 2 weeks. A SkyVenture team experienced in pre-assembly and installation of VWTs is onsite, joining with the local construction team for installation and commissioning.

The major work to be undertaken and risks to completion, commissioning and operation now relate to:

- Assembling and installing the tunnel components and delivering the large electrical and mechanical equipment necessary for operation of the centre.
- Integrating the centre with essential services and utilities to local government requirements. To mitigate some of the risk related to electricity supply connection and reliability, IDZ is working with the utility on finalizing design and supply and providing for a fully redundant power supply.
- Finalising the leasing of concessions and the fit out of consumer and related areas.

IDZ still anticipates practical completion towards the end of Q1 CY2014, taking advantage of the Easter and school holidays.

**Basement in Early September**



Source: IDZ

**Structural components at site**



**Basement completed ready for 1<sup>st</sup> Floor slab**



## Development of new centres

### Hollywood iFly centre



Source: IDZ

Following the identification of sites by IDZ and request for Expressions of Interest, IDZ has around 20 prospective sites, with a short list of 10, which are currently being prioritised by recently appointed project managers for approval by the Senior Management/Board.

For the most promising opportunities, advanced planning and site identification has been undertaken, as these can be designed for specific locations (size and application), with a view to commencing the next centre during 2014, shortly after the opening of Penrith, for completion in FY2015.

These will focus on the provision of an adrenalin experience to the retail market, rather than a training facility for professional military or experienced skydiving enthusiasts. While facilities at these locations are likely to be smaller and less intricate (10 feet to 12 feet), with a small footprint (about 300m<sup>2</sup>) and a lower capital cost at around \$5m to \$7m, such as the Hollywood USA centre (pictured left).

The economics of these facilities is attractive with margins and returns expected to be comparable with Penrith:

- The capex costs are around 50% to 60% of the larger VWTs.
- While these are smaller, the handling capacity is similar, in terms of flights per hour.
- As these are typically established in high traffic locations, they can achieve very high utilisation rates in peak periods.

**We expect 3 centres operating by FY2016**

We believe IDZ can have at least 3 developed facilities by FY2016, with at least 1 additional centre opened in both FY2015 and FY2016. With potentially 3 centres operating, revenue could exceed \$20m within 3 years, with an EBITDA margin exceeding 40%.

The process of developing new facilities could be accelerated with simultaneous development of multiple facilities in each state. To allow this, IDZ has appointed the current Penrith Project Manager as Group Project Manager, with the project team to move to a second site on completion of Penrith.

**We expect IDZ to generate double revenue digit growth over the next 5 years**

Sustained double digit revenue growth is a reasonable expectation on the basis that a facility is opened every 18 months or so over the next five years. Moreover, the potential impact on overall group profitability will be even more impressive as corporate overheads will require little expansion, as well as joint marketing, staff training and other benefits.

Appendix 1 – Forecasts

<b>Penrith</b>		<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>
<b>Retail</b>								
Hours per Day (8am -11pm)	Hours	15	15	15	15	15	15	15
Hours pa	Hours	1,365	5,475	5,460	5,460	5,460	5,460	5,460
Utilisation Hours	%	35%	45%	50%	55%	55%	55%	55%
Utilisation hours	Hours	478	2,464	2,730	3,003	3,003	3,003	3,003
%change	%			10.8%	10.0%	0.0%	0.0%	0.0%
Customers per hour	No	20	22	24	28	30	30	30
Price per customer	\$	90	95	100	105	110	112	114
<b>Retail Revenue</b>	<b>\$ m</b>	<b>\$ 0.9</b>	<b>\$ 5.1</b>	<b>\$ 6.6</b>	<b>\$ 8.7</b>	<b>\$ 9.9</b>	<b>\$ 10.1</b>	<b>\$ 10.3</b>
<b>Professional</b>								
Hours per day	Hours	4	4	4	4	4	4	4
Utilisation Hours	Hours	700	1200	1250	1300	1350	1350	1350
Price per Hour	\$	1200	1250	1300	1350	1377	1405	1433
<b>Professional Revenue</b>	<b>\$ m</b>	<b>\$ 0.8</b>	<b>\$ 1.5</b>	<b>\$ 1.6</b>	<b>\$ 1.8</b>	<b>\$ 1.9</b>	<b>\$ 1.9</b>	<b>\$ 1.9</b>
<b>Merchandise</b>								
%of Revenue	%	5%	6%	6%	6%	6%	6%	6%
<b>Merchandise Revenue</b>	<b>\$ m</b>	<b>0.08</b>	<b>0.33</b>	<b>0.41</b>	<b>0.52</b>	<b>0.59</b>	<b>0.60</b>	<b>0.61</b>
<b>Concession Rental (2)</b>	<b>\$ m</b>	<b>0.04</b>	<b>0.15</b>	<b>0.16</b>	<b>0.17</b>	<b>0.17</b>	<b>0.18</b>	<b>0.19</b>
<b>Total Revenue</b>	<b>\$ m</b>	<b>1.8</b>	<b>7.1</b>	<b>8.7</b>	<b>11.1</b>	<b>12.5</b>	<b>12.8</b>	<b>13.0</b>
<b>Operating Costs</b>								
Licence Fees	\$ m	-0.13	-0.50	-0.61	-0.78	-0.88	-0.90	-0.91
Staff	\$ m	-1.60	-2.14	-2.45	-2.89	-3.51	-3.32	-3.39
Lease Expenses	\$ m	-0.04	-0.29	-0.35	-0.44	-0.50	-0.51	-0.52
Marketing, promotions	\$ m	-0.50	-0.39	-0.44	-0.50	-0.50	-0.51	-0.52
Electricity	\$ m	-0.06	-0.48	-0.52	-0.76	-0.85	-0.87	-0.89
Other	\$ m	-0.50	-1.10	-1.10	-1.20	-1.30	-1.30	-1.30
<b>Total Operating Costs</b>	<b>\$ m</b>	<b>-2.8</b>	<b>-4.9</b>	<b>-5.5</b>	<b>-6.6</b>	<b>-7.5</b>	<b>-7.4</b>	<b>-7.5</b>
<b>EBITDA</b>	<b>\$ m</b>	<b>-1.0</b>	<b>2.2</b>	<b>3.3</b>	<b>4.5</b>	<b>5.0</b>	<b>5.4</b>	<b>5.5</b>
Depreciation (20 years)	\$ m	-0.15	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Amortisation - site rehabilitation	\$ m	-0.05	-0.05	-0.06	-0.06	-0.06	-0.06	-0.06
EBIT	\$ m	-1.2	1.7	2.7	4.0	4.4	4.8	4.9
Interest (Net)	\$ m	-0.2	-0.1	0.2	0.3	0.4	0.4	0.5
<b>Pre-Tax Profit</b>	<b>\$ m</b>	<b>-1.3</b>	<b>1.6</b>	<b>2.9</b>	<b>4.3</b>	<b>4.8</b>	<b>5.2</b>	<b>5.4</b>
Tax	\$ m	0.0	-0.1	-0.9	-1.3	-1.4	-1.6	-1.6
<b>Net Profit</b>	<b>\$ m</b>	<b>-1.3</b>	<b>1.5</b>	<b>2.0</b>	<b>3.0</b>	<b>3.4</b>	<b>3.6</b>	<b>3.8</b>
Margins - EBITDA	%	-54.9	31.3	37.4	40.9	39.8	42.0	42.2
Margins - EBIT	%	-63.1	23.5	31.1	35.9	35.4	37.6	37.9
Issued Capital	m	84.6	84.6	84.6	84.6	84.6	84.6	84.6
EPS	¢ ps	-1.57	1.74	2.41	3.55	4.00	4.31	4.51
Yield per Op hour								
Retail	\$	1978	2124	2400	2888	3300	3366	3433
Net yield	\$	630	941	1200	1588	1815	1851	1888
Professional	\$	1200	1250	1300	1350	1377	1405	1433
<b>Assumptions</b>								
Staff Costs of 30%to fall 26%								Licence Fee to SkyVenture 7%
Lease \$0.05m +2% of Revenue \$4m to \$6m, then 4%								Merchandise 6% Penrith, 7% subsequent
Power costs around 7%								Concession Base - Base +10% of Revenue
Marketing cost around 5.5%								Full Tax in FY16

Source: Veritas (e)

**Note:** These forecasts for IDZ include the initial Penrith facility only, although the cost base reflects additional costs associated with the expected development of additional centres. Our revenue forecasts and overall cost base will be upgraded on the announcement of further developments.

## Appendix 2 Global Indoor Skydiving Centres

The following is a comparison of indoor skydiving centres globally, comprising facilities from all major manufacturers, showing operating hours, prices for 60 minutes in both local and A\$ at current exchange rates, type of site, size and date opened. The price for Australia is based on expected Net Yield for FY2015.

Key Comparisons are:

**Opening Times** – Retail range from 11 hours to 17 hours, usually dependent on location and mix.

**Price** – Penrith is: substantially below Singapore, with Singapore offering shorter flights and a higher retail component; and below Paris, which has significant retail, military and professional revenue, which includes extensive competitions, as well as championships; and the equivalent of Roosendaal.

**Size** - There are only 4 other 16 feet (5 metres) VWT, which is the ideal size for international competitions and military training.

Facility	Open times Hours	Hourly Yield		Type of Site	Size (ft)	Opened
		Local	A\$			
<b>Penrith (Australia)</b>	<b>15 daily</b>	<b>A\$1,375</b>	<b>1375</b>	<b>Entertainment Precinct</b>	<b>16</b>	<b>2014</b>
Bedford (UK)	11 daily	£690	1144	Entertainment Centre,	16	2006
Basingstoke (UK)	11w, 17we	£725	1202	Entertainment Centre, indoor ski slopes, brushboarding, sim car racing	14	2013
Bottrop (Germany)	13w, 14we	€ 900	1283	Entertainment Complex	14	2008
Paris, (France)	13 daily	€ 1,098	1565	Entertainment Complex	14	2007
Alcantarilla (Spain)	13w, 16we	€ 750	1069	Aeroclub, Armed forces	14	2006
Pyhtaa (Finland)	15 daily	€ 800	1140	Entertainment Complex	14	2009
Roosendaal (Netherlands)	13 daily	€ 950	1354	Entertainment Complex	14	2008
Prague (Czech Republic)	17 daily	CZK 18,500	1016	Entertainment Complex	14	2010
Moscow, Russia – 2 tunnels	13 daily	Rub 62,767	1095	Military, emergency services, space	12,16	2009
Singapore	14 daily	S\$2330	1992	Sentosa - entertainment sector	16.4	2011
Dubai - 2 tunnels	13w, 14we	AED 3200	940	Shopping Centre (inc Indoor ski centre)	2x10	2010
Montreal (Canada)	10w, 14we	Can\$800	1042	Shopping, restaurant & entertainment centre	14	2009
Austin, TX (USA)	13w, 15we	US\$900	971	Shopping centre adjacent to world's largest skydive centre	14	2013
Paraclete, NC (USA)	13w, 15we	US\$1,150	1241	Next to Fort Bragg (Military)	16	2008
Seattle, WA (USA)	13w, 15we	US\$975	1052	Retail & Entertainment Centre	14	2011
Phoenix, AZ (USA)	15 daily	US\$750	809	Adjacent to Skydive Arizona, also military	14	2005
San Francisco, CA (USA)	16 daily	US\$975	1052	Shopping & Entertainment Centre	14	2011
Ogden, UT (USA)	12w daily exc Su,	US\$700	755	Salomon Entertainment Centre	12	2007
Hollywood, CA (USA)	11w, 13we	US\$900	971	Adjacent to Universal Studios	10	2007

Source: www.jumpticketprices.com, www.skyventure.com, individual websites, industry websites.



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