

INDOOR SKYDIVE AUSTRALIA GROUP LIMITED (IDZ)

Third centre to be located in Perth and Capital Raising

DIRECTORS

Ken Gillespie, Non-Executive Chairman
 Wayne Jones, Executive Director & CEO
 Daniel Hogan, Executive Director & COO
 Stephen Baxter, Non-Executive Director
 David Murray, Non-Executive Director
 Malcolm Thompson, Alternate Director

MARKET DATA

ASX Code:	IDZ
Current Price	\$0.50
52 week Share Price Range:	\$0.48 - \$0.92
Market Capitalisation (listed):	\$51.5 million
Enterprise Value (incl escrow):	\$48.0 million

CAPITAL STRUCTURE

Shares on Issue (listed):	102.9 million
Shares on Issue (escrowed):	19.5 million

FINANCIAL SUMMARY

\$mill y/e June	2014(A)	2015(E)	2016 (E)
Revenue	1.2	7.0	14.0
EBITDA *	(2.2)	1.4	5.5
Net Profit	(2.7)	(1.0)	3.5
*Before share based payments			
EPS (c)	n.a	(1.7)	2.9
PER (X)	n.a	NA	17.2
EV/EBITDA(X)	n.a	34.3	8.7

SHAREHOLDERS

Top 20	81%
Directors & Management	38%

SENIOR ANALYST

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 November 2014

KEY POINTS

- \$17 million capital raising through a placement to institutions and a rights issue to shareholders.
- A location in Perth, WA, has been selected for the company's third indoor skydive centre.
- Funds to be used to retire the convertible note and for the development of the Perth project in parallel with the Gold Coast, which is now under construction.

INVESTMENT PROPOSITION

With the successful opening of Penrith, ISA Group has proven its ability to execute its development plan and confirmed market acceptance of the innovative indoor skydiving concept. Accordingly, a marked reduction in business risk profile has drawn strong investor support, whilst considerable asset and goodwill value is being built as the company rapidly develops new centres around Australia, ahead of an expected maiden profit in FY 2016.

With an identified potential of further consumer-oriented indoor skydiving facilities in Australia and New Zealand as well as ambitions in Asia, the company has a very strong growth profile that will drive revenue and profit growth over the next five years.

Event

Indoor Skydive Australia Group has announced an equity capital raising of up to \$17 million to support the acceleration of the Australian roll out plan through the development of a Perth facility in parallel with the Gold Coast facility and to refinance the current convertible note which partially funds the development of the Gold Coast.

Key Points:

- ISA Group to raise up to \$17 million in equity capital through an institutional placement and rights issue.
- The Institutional Placement has been successfully completed and raised \$11.1 million through the issue of 22,124,845 fully paid ordinary shares at \$0.50 per Share.
- The Rights Issue is a non-underwritten, non-renounceable 2 for 15 pro rata to raise up to \$5.9 million at \$0.50 per new Share and is due to close on 21 November 2014.

PERTH

ISA Group has signed an Offer to Lease for its Perth Project. Subject to approvals and final analysis, construction is set to commence in 2015 and is expected to be fully operational by mid-2016.

The Offer to Lease provides for the development and construction of an indoor skydiving facility with associated activities and facilities including retail, food and beverage services. The lease term is for 20 years with an additional two 10 year options. The Offer to Lease is conditional, including subject to receipt of development approval to build and operate the facility.

ISA Group is planning to construct a 14ft diameter glass chamber vertical wind tunnel on the site, catering to the retail/tourist and military/professional markets. Preliminary estimates of the capital requirements for the Perth Project are between \$10m and \$12m.

The site is 3,931 sqm and situated 5kms from Perth CBD on one of Great Eastern Highway's most prominent corners offering extensive street frontage and high visibility to local and visitor traffic travelling to and from the domestic and international airports.

Analysis and Comment

The announcement of the company's third project for Perth and the subsequent capital raising represents a rapid advancement of the ISA Group's roll-out of its Indoor Skydiving Centres and an increasing maturity of its business profile. With further opportunities being pursued in Adelaide and Melbourne, a national spread of operations with substantial scale is emerging. By the end of calendar 2016, the company will have three operational centres generating annualised revenue in excess of \$20 million. Aside from building scale, the pace of this roll-out secures the company's first mover advantage and will reduce the threat of new entrants into the Australian market.

The capital raising is also an important step in the development and maturing of the company's financing strategy. In particular, it will enable the company to close down its convertible note program and move towards lower cost bank or other funding sources. Each of the three centres has been funded primarily with new equity with the convertible note largely acting as a bridging facility. With an ungeared balance sheet and gross assets post Perth likely to exceed \$40 million, coupled with rising cash flows, the company will have considerable

capacity to finance further growth with bank or other sources of finance. This will be important as the Australian roll-out continues and as projects in New Zealand and possibly Asia move onto the agenda. The need for additional equity capital has been greatly reduced and will be further mitigated by the likelihood that some centres may be funded by property developers.

On 10 December 2012, ISA Group entered into a 2 year convertible note with Birkdale, an entity associated with director, Steve Baxter. The Convertible Note provides funding of up to \$5.9 million of which \$4.1 million is currently drawn down. The parties' intention at the time of entering into the Convertible Note was to utilise it to provide finance during the initial development of the company and while a trading history was established to facilitate the implementation of appropriate bank debt. In May 2014, the conversion date and the term of the Convertible Note was each extended by 6 months such that Birkdale's right to exercise the option to convert any outstanding amounts under the facility begins on or after 10 December 2014. As conversion is at 20 cents per share, the payout of the convertible note will remove a significant potential dilutionary impact on other shareholders.

Penrith opened to the public in late April 2014 and utilisation rates have quickly grown to strong levels. The company has reported that trading has been in line with expectations. Revenue from the tunnel operations for its first full quarter of operations was \$1.6m with an average occupancy over the period of 69.8%. Weekend occupancy was high throughout the period with an average of 85%. Midweek occupancy averaged 63.8% which was in line with expectations. A feature of the period was the school holiday occupancy rates which exceeded the company's expectations, peaking at 97.6%.

Penrith was chosen for the company's maiden site due to its location close to military and professional skydiving facilities. Accordingly, the facility is heavily used for training and this is reflected in the user profile. Weekday utilisation is underpinned by heavy training by professionals, whilst the leisure market dominates weekend and holiday activity. Corporate events and programs focused on tourists, schools and other groups will build weekday utilisation. The Gold Coast, on the other hand, will overwhelmingly be a leisure market whilst the user profile in Perth is expected to lie between the other two, due to a military and heavy professional skydiver presence in the region.

A major achievement of the company during FY 2014 was the building of comprehensive corporate infrastructure to support both operational management and future project development. Administration, finance, marketing, planning and project management teams have been put in place. Internal capabilities have been further expanded with the recent appointment of a highly experienced CFO. Given the experience at Penrith, this provides a high degree of confidence that the company can efficiently manage a rapid roll-out program.

Business Overview

ISA Group has acquired technology and licenced the iFly Downunder brand from US based, SkyVenture LLC, the world leader in Vertical Wind Tunnels and the simulated indoor skydiving experience.

A skydive simulator is essentially a vertical wind tunnel which comprises a vertical glass cylinder and several high powered fans capable of generating wind speeds of typically up to 195kph but capable of up to 250+kph. The experience simulates the freefall stage of a parachute drop. The participant floats on a high speed cushion of air against which he/she can perform a wide range of manoeuvres.

The recently opened Penrith facility is immediately adjacent to the front entrance of the Panthers Leagues Club. Penrith is utilised as a training facility for military, professional and enthusiast skydivers as well as a consumer experience for adventure seekers, corporate team building, children and families. Most other centres will have a greater focus on the leisure and entertainment experience.

The core experience is the simulated free-fall. That is, the first 50 second drop of a skydive before the parachute opens. The Penrith VWT provides an easily accessible, secure training facility for professional, military and experienced enthusiast skydivers, enabling them to build their proficiency at lower cost compared with having to travel to facilities overseas. From a recreational point of view, Penrith (and future company facilities) provides a new adrenalin experience in a safe, easily accessible environment for retail customers of any age.

Since opening Penrith's has achieved an average utilisation rate of 69.8% with an average of 85% at weekends. Midweek occupancy averaged 63.8% which was in line with expectations. A feature of the period was the school holiday occupancy rates which peaked at 97.6%.

The key to financial success of the model is to maintain a high utilization rate to maximise capacity utilisation and ultimately the return on capital employed. Penrith is currently operating at 15 hours per day, with training conducted mostly in the evenings and at night, and has the potential, with council approval now in place, to operate 24/7. The Penrith facility is now cash flow positive and operating profitability. Strong growth over its first three years of operations will be primarily driven by increased utilisation, especially as weekday activity builds.

BUSINESS DRIVERS AND GROWTH PROFILE

Now that the Penrith indoor skydiving facility has been successfully opened and utilisation is ramping up, the company has progressed to phase two of its growth strategy, which is to roll-out further facilities throughout Australia, and secure its first mover advantage over potential competitors. Penrith is likely to be the only facility with a major training capability with other facilities having a greater focus on the consumer and leisure experience market.

Although Penrith is as much for training as for entertainment / leisure (other facilities to be developed with be largely for entertainment / leisure), its performance nonetheless provides useful insight into expectations regarding future projects. Strong pre-opening marketing and brand development will drive high utilisation rates through weekends and holiday periods, whilst events and programs targeted at tourists, schools, children and businesses are highly effective at driving activity during otherwise relatively quiet weekdays. The profile of each centre will vary, of course, with the Gold Coast having a very heavy bias towards the tourist market whereas Perth will have a similar consumer profile to Penrith, with potential for considerable repeat business

The market opportunity is currently assessed to be about 7 facilities (including Penrith) in Australia and 1 or 2 in New Zealand. The company's second indoor skydive facility, the Gold Coast, is under construction and a third has been announced for Perth. Further centres are expected to be developed in Adelaide and Melbourne. There are also considerable opportunities in Asia and ISA Group is in the early stage of seeking to identify developers with networks in the region who could potentially partner the company.

In 2013, ISA Group's relationship with its technology supplier SkyVenture deepened initially with a Heads Of Agreement (HOA) which in effect secured ISA as the exclusive buyer of SkyVenture equipment in Australia and New Zealand. The HOA subsequently evolved into an Exclusive Territory Development Agreement (ETDA).

ISA Group has executed Agreements for four (4) new tunnels and the ETDA is now binding on all parties. The key elements to the ETDA include:

- ISA Group appointed iFly and its related bodies (iFly Group), as its exclusive supplier of VWT in Australia and New Zealand;
- iFly Group agreed not to provide VWT technology to any third party for use in Australia or New Zealand (although they retain the right to build their own VWT in the region); and
- Each party has a right to invest up to \$1 million in any VWT project initiated by the other party.

ISA Group has entered into the four Purchase and Licence Agreements (“PLA”) and paid the initial deposits in respect of each PLA. The PLA provides for the purchase of the VWT technology necessary to operate an indoor skydiving facility plus a 20 year licence agreement for the facilities to operate with the internationally recognised iFly brand.

Consistent with this growth strategy, ISA Group is likely to commence construction of a new indoor skydive facility at least annually, depending upon the receipt of the necessary approvals. The company’s Gold Coast project is expected to be completed and operating before the end of CY 2015 and Perth by mid 2016.

An important achievement during FY 2014 was the establishment of corporate infrastructure capable of supporting and implementing the company’s development plan. Management infrastructure was quite limited when construction at Penrith began in early 2013 but finance, development and project management, marketing and operational teams have been since been put in place which will underpin the company’s immediate and longer term success.

As a start-up business without operational cash flows, the company’s capital structure has been relatively simple comprising equity capital and a convertible note facility. A capital raising in October, 2013 provided ISA Group the balance sheet strength to accelerate its development program and together with the convertible note facility finalise the funding of the Penrith project (total cost \$13.1 million) and to pay the deposits under the four Purchase and Licence Agreements. A \$17 million capital raising was undertaken in November 2014 to support the acceleration of the Australian roll out plan through the development of a Perth facility in parallel with the Gold Coast, which is currently under construction, and to refinance the current convertible note.

With an ungeared balance sheet and now that Penrith is operational and generating cash flows, ISA Group will have greater flexibility in funding its growth. Especially once the Gold Coast and Perth facilities are operational, we expect new projects to be funded primarily from internally generated cash resources and debt, with far less reliance on new capital. Projects may also be developer funded and incorporated into larger developments whilst SkyVenture has the right to invest in projects developed by ISA Group, further mitigating the company’s need for more equity.

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