

Indoor Skydive Australia Group

Buy

Solid Penrith Performance Setting IDZ up For Leveraged Expansion

Consumer Services

26 August 2015

Estimate Changes

Ticker	IDZ
Stock Price	\$0.370
Target Price	\$0.56
Forecast Capital Return	51.4%
Forecast Dividend Yield	0.0%
Forecast Total Return	53.4%

Company market data

Market Cap.	\$43.4m
Enterprise Value	\$37.8m
52 week range	\$0.36 - \$0.75
Shares out.	119.0m

Estimates changes	2015a	2016e	2017e	2018e
Core NPAT - <i>new</i>	(1.7)	1.0	5.0	6.7
Core EPS dil. (cents) - <i>new</i>	(1.7)	0.8	4.2	5.6
DPS (cents) - <i>new</i>	0.0	0.0	0.0	0.0

Share price performance

IDZ vs. ASX Small Industries (XSI) (rebased index)



Analysts

Kyle Twomey
+61(2) 8288 5423
kyle.twomey@moelis.com

All figures are in AUD unless otherwise specified.

Event

IDZ reported a solid FY15 result, with revenues of \$6.4m and an EBITDA loss of \$0.8m. The EBITDA loss includes a \$1.4m non-cash share based payment, which when backed out would be a maiden EBITDA positive result of \$0.6m, in line with our expectations.

Penrith facility EBITDA was \$3.1m, a strong result with full year margins of 50%.

Utilisation increased at least 2% on 1H15 across all measures, reaching 64% overall to 66% for FY15. Strong utilisation is a key driver to increased top line growth and margin improvement

Impact

FY15 has provided a proof of concept for IDZ's business model. The strong EBITDA performance of the Penrith Centre covers corporate costs and delivers strong operating cash flows to support the build out of future centres.

With the Gold Coast centre expected to launch before December 2015, in our view, IDZ is entering its growth phase. Key takeouts from the FY15 result include:

- Margin uplift quicker than anticipated, with more to come
- Customer mix evolution supports longer term earnings profile
- Global development creating a culture of demand
- Cash flow positive after a single centre

Investment View

We upgrade our rating to a **BUY** and retain our target price of \$0.56 as FY15 inspires proof of concept and unlocks operating leverage potential.

With the Gold Coast centre going live before December 2015, IDZ is on the verge of expansionary growth as new centres generate earnings growth and fund future development.

Our earnings estimates have been upgraded to include the gradual roll out of Penrith (operating), Gold Coast and Perth. This represents an undemanding ~5x FY17 EBITDA multiple on current price.

Y/E June 30	2015a	2016e	2017e	2018e
EBITDA	(0.8)	3.0	7.1	8.3
EV/EBITDA	(45.4)x	12.7x	5.3x	4.6x
Core NPAT	(1.7)	1.0	5.0	6.7
Core EPS (Diluted) cents	(1.7)	0.8	4.2	5.6
P/E	(21.5)x	44.5x	8.8x	6.5x
EPS growth	(54.3)%	(148.4)%	407.8%	34.4%
DPS (cents)	0.0	0.0	0.0	0.0
Yield	0.0%	0.0%	0.0%	0.0%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%
Net Tangible Assets (\$/share)	0.24	0.25	0.29	0.35

All figures are in AUD.

Margin Uplift Quicker than Anticipated, with More to Come

Penrith centre achieved 2H run-rate EBITDA margins of 57%, with FY15 averaging 50%

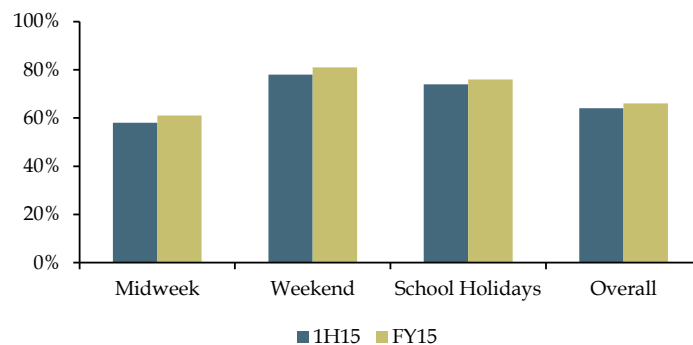
EBITDA margins for Penrith Centre increased from 43% in the 1H to 50% for the full year, representing a 57% run-rate in 2H. This is a significant uplift over a short period of time.

We understand that the core drivers for the uplift related to:

- The release of an over provision of rent half-on-half
- Enhanced facility management including staffing and electricity efficiencies
- Improved utilisation margins

Overall utilisation increased 2% to 66% for the full year, with weekends continuing to be the highest utilised period at 81% for the full year.

Figure 1: Penrith Centre Utilisation



Overall utilisation increased to 66% for FY15

Source: Company report

Going forward we anticipate margins to improve, with a number of efficiency measures being implemented in FY16.

IDZ offers significant operational leverage with its fixed cost base structure

Remember that operationally IDZ offers significant leverage given its relatively fixed cost base structure. As more centres are launched, we would anticipate the leverage to be more evident.

On current EBITDA run-rate, we anticipate a 4-5 year payoff for Penrith centre

Based on FY15 EBITDA for Penrith, we anticipate a 4-5 year payoff per centre.

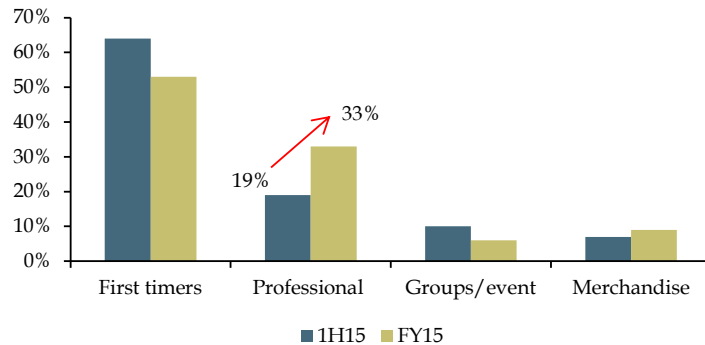
Customer Mix Evolution Supports a Longer Term Earnings Profile

Customer mix is an important factor in driving recurring earnings and maintaining a strong margin mix.

Professional customer mix increased to 33% for FY15

The percentage of professional customer mix increased significantly between 1H15 and FY15, increasing from 19% to 33%. Professionals offer more sustainable revenues, an important consideration to maintaining a longer term earnings profile.

Figure 2: Customer Mix



Source: Company report

Frequent flyer members increased 20%, supporting a more sustainable earnings profile in the long term

The % of return flyers at FY15 was 8%, with the number of frequent flyer club members increasing 20% to 470. Both measures are strong lead indicators of recurring revenues.

Global Development Creating a Culture of Demand

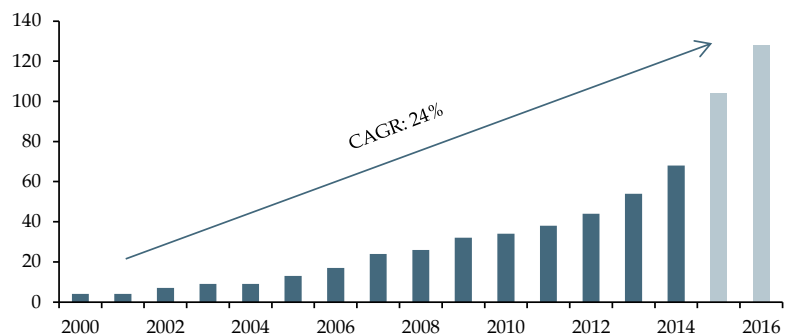
Whilst IDZ is pioneering indoor skydiving in Australia, the global trend has been increasing in years and with it creating an industry and sport following.

Creating a culture and sporting environment for indoor skydiving will help to drive recurring business, which is an important requirement to driving long term sustainability.

In Aug-15 IDZ held the Australian Indoor Skydiving Championship

As IDZ open more centres across the country awareness should grow. In August 2015 IDZ held the Australian Championships at its Penrith centre. Approximately 47 teams took part in the tournament, up from ~12 teams the year prior.

Figure 3: Global Wind Tunnel Market - Installed Capacity



Source: Company report

Growth in global wind tunnels should help create a sporting culture

Cash Flow Positive after a Single Centre

Maiden operating cash flow positive year, with \$700k inflow

FY15 is IDZ's maiden operating cash flow positive year, recording a \$700k inflow from operations. The cash flow positive result was driven by the \$3.1m EBITDA performance for the Penrith Facility on a standalone basis.

When backing out non-cash share based payment we estimate corporate costs of \$2.5m, which is more than covered by the Penrith facility EBITDA.

Figure 4: Underlying FY15 EBITDA (\$'m)

	FY15 EBITDA
Penrith Facility	3.1
Corporate Costs	2.5
	0.6

Source: Company report, Moelis analysis

IDZ appears to be self-funding, particularly as Gold Coast is expected to launch by Dec 15

This is significant for IDZ and is the first step towards being self-funding. With the anticipated launch of the Gold Coast centre by December 2015, IDZ is in a strong financial position to self-fund future projects and expansion without necessarily needing to raise additional equity.

With no debt and operating cash flows now positive, we would expect IDZ to negotiate favourable credit terms.

With a single centre covering all overhead costs, this provides significant operating leverage opportunities with the expansion of new centres.

Indoor Skydive (IDZ)

Market Cap: \$043m

Last Price: \$0.37

Target Price: \$0.56

BUY

Key Stock Data

Year Ending Jun	2014a	2015a	2016e	2017e	2018e
EPS (Underlying) (€)	(3.7)	(1.7)	0.8	4.2	5.6
<i>Growth</i>	48%	-54%	-148%	408%	34%
DPS (€)	-	-	-	-	-
<i>Growth</i>	0%	0%	0%	0%	0%
Yield (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0%	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%	0%
P/E (x)	-9.8 x	-21.5 x	44.5 x	8.8 x	6.5 x
P/E Small Ind. (ex Fin's)	16.5 x	16.0 x	14.9 x	13.6 x	12.6 x
Premium (Discount)	-160%	-234%	199%	-35%	-48%
EV/EBITDA (x)	-11.1 x	-45.4 x	12.7 x	5.3 x	4.6 x
EV/EBITDA Small Ind.	11.9 x	12.0 x	9.4 x	8.7 x	8.2 x
Premium (Discount)	-193%	-479%	35%	-39%	-44%
FCF/Share (\$)	- 0.18	- 0.08	- 0.06	0.06	0.06
Price/FCPS (x)	-2.0 x	-4.7 x	-6.3 x	6.5 x	6.3 x
Free Cash Flow Yield (%)	-49%	-21%	-16%	15%	16%

Profit and Loss (\$m)

Year Ending Jun	2014a	2015a	2016e	2017e	2018e
Revenue	1.2	6.4	11.1	19.2	20.0
<i>Growth</i>	100%	430%	72%	73%	4%
EBITDA	(3.4)	(0.8)	3.0	7.1	8.3
<i>Growth</i>	10%	-76%	-457%	139%	16%
Dep'n & Amort	(0.5)	(1.0)	(2.2)	(2.1)	(2.1)
EBIT	(4.0)	(1.9)	0.8	5.0	6.2
<i>Growth</i>	407%	-53%	-144%	506%	24%
Net Interest Expense	(0.1)	(0.1)	0.2	(0.0)	0.5
Profit Before Tax	(4.1)	(2.0)	1.0	5.0	6.7
Tax	1.4	0.2	0.0	0.0	0.0
Tax Rate (%)	34%	11%	0%	0%	0%
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (Underlying)	(2.7)	(1.7)	1.0	5.0	6.7
<i>Growth</i>	197%	-36%	-156%	408%	34%
One-Off Items	0.0	0.0	0.0	0.0	0.0
NPAT (Reported)	(2.7)	(1.7)	1.0	5.0	6.7
EPS (Underlying) (€)	(3.7)	(1.7)	0.8	4.2	5.6
<i>Growth</i>	48%	-54%	-148%	408%	34%
EPS (Reported) (€)	(3.7)	(1.7)	0.8	4.2	5.6

Balance Sheet (\$m)

Year Ending Jun	2014a	2015a	2016e	2017e	2018e
Cash	1.4	5.6	5.6	5.6	5.6
Inventory	0.0	0.0	0.0	0.0	0.0
Current Receivables	0.3	0.8	1.4	2.5	2.6
PPE	17.2	23.9	32.9	32.9	33.0
Intangibles	1.2	0.7	0.5	0.4	0.3
Other	1.4	1.6	1.6	1.6	1.6
Total Assets	21.5	32.7	42.1	43.0	43.1
Current Payables	1.1	2.0	3.5	6.1	6.3
ST Debt	1.5	0.0	0.0	0.0	0.0
LT Debt	0.0	0.0	6.9	0.2	(6.7)
Provisions	2.3	0.1	0.2	0.3	0.3
Other	0.9	1.3	8.2	1.5	(5.4)
Total Liabilities	5.8	3.4	11.9	7.9	1.2
Net Assets	15.7	29.2	30.2	35.2	41.8
Equity & Reserves	19.6	34.8	34.8	34.8	34.8
Retained Profits	(3.8)	(5.6)	(4.6)	0.3	7.0
Shareholders Equity	15.7	29.2	30.2	35.2	41.8
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	15.7	29.2	30.2	35.2	41.8
Metrics					
Working Capital	- 1.8	- 2.6	- 3.6	- 5.2	- 5.4
Working Capital/Sales (%)	-148%	-41%	-32%	-27%	-27%
NTA	14.5	28.5	29.7	34.8	41.5
NTA/Share (\$)	0.2	0.2	0.2	0.3	0.3

Cashflow (\$m)

Year Ending Jun	2014a	2015a	2016e	2017e	2018e
EBIT	(4.0)	(1.9)	0.8	5.0	6.2
Dep'n & Amort	0.5	1.0	2.2	2.1	2.1
Net Interest	(0.1)	(0.1)	0.2	(0.0)	0.5
Tax	0.0	0.0	0.0	0.0	0.0
Change in WC	0.6	0.4	0.9	1.5	0.2
Other	2.3	1.3	0.1	0.1	0.0
Operating Cash Flow	(0.6)	0.7	4.1	8.7	8.9
<i>Growth</i>	-15%	-217%	498%	114%	2%
Capex	(12.5)	(8.8)	(11.0)	(2.0)	(2.0)
Acquisitions	0.0	0.0	0.0	0.0	0.0
Divestments	0.0	0.0	0.0	0.0	0.0
Other	(0.4)	(1.1)	0.0	0.0	0.0
Investing Cash Flow	(12.9)	(9.9)	(11.0)	(2.0)	(2.0)
Equity Raised	9.8	13.8	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Net Borrowings	(0.5)	(1.5)	6.9	(6.7)	(6.9)
Other	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	9.3	12.3	6.9	(6.7)	(6.9)
FX / Non Cash Items	0.0	0.1	0.0	0.0	0.0
Change in Cash	(4.1)	3.1	0.0	0.0	0.0
Metrics					
FCF	(13.0)	(8.1)	(6.9)	6.7	6.9
Gross Cash Conversion	15%	-100%	132%	123%	102%
Capex/Sales (%)	-1028%	-136%	-99%	-10%	-10%
Capex/Depreciation (x)	23.0 x	9.9 x	5.1 x	0.9 x	1.0 x

1H/2H Results (\$m)

Item	2H13	1H14	2H14	1H15	2H15
Revenue	0.0	0.0	1.2	3.1	3.3
EBITDA	(0.4)	(1.1)	(2.3)	(1.6)	0.8
EBIT	(0.4)	(1.1)	(2.9)	(2.2)	0.3
NPAT (Underlying)	(0.5)	(1.2)	(1.5)	(2.0)	0.3
EPS (€)	(2.2)	(2.0)	(2.1)	(1.9)	0.3
DPS (€)	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	(0.1)	0.0	(0.6)	0.2	0.4
Capex	(2.4)	(5.3)	(7.1)	(2.8)	(6.0)
FCF	(2.6)	(5.3)	(7.7)	(2.6)	(5.5)
Skew (% Full Year)					
% Sales	na	0%	100%	48%	52%
% EBITDA	49%	32%	68%	192%	-92%
% NPAT	57%	43%	57%	112%	-19%

Margins, Leverage & Returns

Year Ending Jun	2014a	2015a	2016e	2017e	2018e
Margins (%)					
EBITDA	-282%	-13%	27%	37%	41%
EBIT	-326%	-29%	7%	26%	31%
NPAT	-224%	-27%	9%	26%	33%
Leverage					
Net Debt (Cash) (\$m)	0.1	(5.6)	1.3	(5.5)	(12.4)
Net Debt/EBITDA (x)	0.0 x	6.8 x	0.4 x	-0.8 x	-1.5 x
ND/(ND + Equity) (%)	1%	-24%	4%	-18%	-42%
Interest Cover (x)	-11.0x	-4.9x	2.9x	10.4x	-288.1x
Returns (%)					
ROA	-17%	-6%	3%	12%	15%
ROE	-20%	-6%	2%	10%	12%
ROIC	-28%	0%	3%	16%	21%

RESEARCH & SALES RESPONSIBILITIES

Equities

John Garrett	Head of Distribution	+612 8288 5409
Simon Scott	Head of Research	+612 8288 5418
Elliot Leahey	Operations Manager	+612 8288 5402
Sarah Sagvand	Desk Assistant	+612 8288 5401

US Distribution Partner - Weeden & Co.

Matthew McCloghry	+1 203 861 7670
<i>mccloghry@weedenco.com</i>	

Equities Sales & Trading

Angus Murnaghan	+612 8288 5411
Ian McKenzie	+612 8288 5404
Andrew Harvey	+612 8288 5428
Mitchell Hewson	+612 8288 5417
Bryan Johnson	+612 8288 5412

Real Estate Specialist

Aaron Payne	+612 8288 5405
-------------	----------------

Hedge Fund & Real Estate Advisory

John Garrett	+612 8288 5409
David Yeomans	+612 8288 5427

Equities Research

Real Estate

Simon Scott	+612 8288 5418
Hamish Perks	+612 8288 5419
Edward Day	+612 8288 5424

Industrials

Garry Sherriff	+612 8288 5423
Kyle Twomey	+612 8288 5422
Benjamin Atkinson	

email: firstname.lastname@moelis.com

DISCLOSURE APPENDIX

ANALYST CERTIFICATION

The analyst, Kyle Twomey, responsible for the content of this research report, in whole or in part, certifies that with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report accurately reflect his or her personal views on the subject companies and securities, and (2) no part of his or her compensation was, is, or will be directly or indirectly linked to the specific recommendations or views expressed in this research report.

RATING DEFINITIONS

All companies under coverage are assigned a rating of Buy, Hold or Sell based on the expected 12 month total return estimated by the analyst(s). The total return is a combination of the estimated capital gain or loss, in addition to the estimated 12 month forward dividends or distributions. In relation to all companies that Moelis Australia Securities conducts research coverage on the relevant total return bands that derive the ratings are:

Buy: > 15% **Hold:** 5% to 15% **Sell:** < 5%.

RATINGS DISTRIBUTION TABLE

Distribution of Ratings as at 26 August 2015

SELL	HOLD	BUY
10.00%	35.00%	55.00%

Rating and Price Target History: Indoor Skydive Australia Group (IDZ) as of 25/08/2015



GENERAL TERMS OF USE FOR MOELIS RESEARCH REPORTS

Research reports have been prepared by Moelis Australia Securities Pty Ltd (“Moelis Australia”), ACN 122 781 560, AFS Licence 308 241, a Participant of the ASX Group and Chi-X and the intellectual property relating to the content vests with Moelis Australia unless otherwise noted.

GENERAL DISCLAIMER AND DISCLOSURES**Disclaimer**

The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore, its accuracy is not guaranteed, and except to the extent that liability cannot be excluded, Moelis Australia does not accept any liability for any direct or consequential loss arising from relying upon the content in this document. This document is not an offer or solicitation of an offer to buy or sell any security or to make any investment. Any opinion or estimate constitutes the analyst's best judgement as of the date of preparation and is subject to change without notice. Due to changing market conditions, actual results may vary from forecast provided. Past performance is not an indication of future return, and loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income from, certain investments.

This document is intended to provide general advice to wholesale investors only. No investment objectives, financial circumstances or needs of any individual have been taken into consideration in the preparation of this report. It does not purport to make any recommendation that any buying or selling is appropriate for any person's investment objectives or financial needs, and prior to making any investment decision a person should contact their professional advisors on whether or not any information in this document is appropriate to their individual circumstances.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject Moelis Australia to any registration or licensing requirement within such jurisdiction. International Investors should contact their local regulatory authorities to determine whether any restrictions apply to their ability to purchase this investment. If you have received this document in error, please destroy it and any copies of it immediately.

Disclosure

Moelis Australia, its officers, directors, employees, agents and authorised representatives may hold securities in any of the companies to which this document refers and may trade in the securities mentioned either as principal or as agent. Our sales and trading representatives may provide oral or written opinions that are contrary to the opinions expressed in this document. Our related body corporate Moelis Advisory Australia Pty Ltd (“Moelis Advisory”), ACN 142 008 446, AFS Licence 345499, may make statements or provide advisory services to the company to which this document refers and such statements may be contrary to the views or recommendations expressed in this document. The analyst responsible for this document has taken reasonable care to achieve and maintain independence and objectivity and certifies that no part of their compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The compensation of the analyst is based on overall revenues of Moelis Australia and its related entities, the “Moelis Australia Group”. The analyst may also interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting market information. In producing research reports, the analyst may attend site visits and other meetings hosted by the issuers the subject of its research report. In some instances the costs of such site visits or meeting may be met in part or in whole by the issuers concerned if Moelis Australia considers it is appropriate and reasonable in the specific circumstance relating to the site visit or meeting and will not compromise the integrity of the research report.

Moelis Australia is a trading participant of the ASX Group and Chi-X and earns fees and commissions from dealing in the relevant financial product.

IMPORTANT

Please click [here](#) for Company Specific and Other Regulatory Disclosure
