

# Indoor Skydive Australia Group

## IDZ flies in 1<sup>st</sup> Full Year's operation

In its first full operating year, IDZ reported an Operating EBITDA from its Penrith tunnel of \$3.1m from Revenue of \$6.4m, driven by increased utilisation and an optimization of its cost structure.

After \$2.6m in Corporate costs to support the development of a further 3 wind tunnels in Australia, Group EBITDA (before One-Offs) was positive at \$0.5m.

Positives from the result were:

- Tunnel Occupancy increased from 64% in 1H FY15 to 68% in 2H, with overall occupancy of 66% for FY15.
- Tunnel EBITDA margins increased from 43% in 1H FY15 to an overall margin of 50% for FY15.
- Cash Flow continues to grow, with Cash Receipts of over \$7m and an Operational Cash Flow of \$0.7m.
- First timers contributed 48% of revenue, supported by a strong Professional participation (33% of revenue) and Merchandise (9%), both above our forecasts.
- A solid Balance Sheet, with Net Cash of \$5.6m (4.7cpts) and the ability to fund the 3 tunnels to be opened over the next 2 years.

## Positive Outlook for Penrith

Stronger Revenue and EBITDA is forecast for Penrith in FY16 and FY17, with:

- Further room to grow Revenue with the opportunity to:
  - Increased First Timers, with increased awareness, and convert First Timers to Repeat Flyers above the current level of 8%.
  - Increase in Education/Group bookings and Café revenue.
- An improved yield with a change in mix and a lower level of introductory offers.
- Optimisation of its cost structure, with EBITDA margins to move towards 55%.

## New Tunnel Development gains Momentum

**Gold Coast** - To be completed in 2Q FY16 at a capital cost of \$11m to \$12m.

**Perth** – Completion expected in 4Q FY16, at a capital cost of \$11m to \$12m.

**Adelaide** – To operate under a leased model as part of a shopping/entertainment centre, with construction expected to commence in FY16 for completion in FY17.

**Other** -IDZ is considering opportunities elsewhere in Australia and Asia.

## Forecasts

Our forecasts have been reduced to reflect a more conservative stance, from a clearer understanding of the operating model, a later start-up for both Gold Coast and Perth and the investment by Sky Venture into the Gold Coast tunnel.

We now expect EBITDA of \$3.2m and \$8.5m for FY16 and FY17 on Revenue growth of 76.1% and 80.2% to \$11.3m and \$20.4m, boosted by new tunnel openings.

## Recommendation

We retain our BUY recommendation and Target Price of \$0.60 ps, based on:

- The success of Penrith and recent experiences of other new tunnels provides proof of concept for the new Gold Coast and Perth tunnels and any proposed expansion in Australia and Asia.
- A quantum increase in profitability with the inclusion of Gold Coast and Perth, each capable of generating investment returns similar to Penrith.
- The significant discount of the current share price to our Valuation of \$0.60ps and other key participants in the leisure market..

IDZ.ASX

BUY

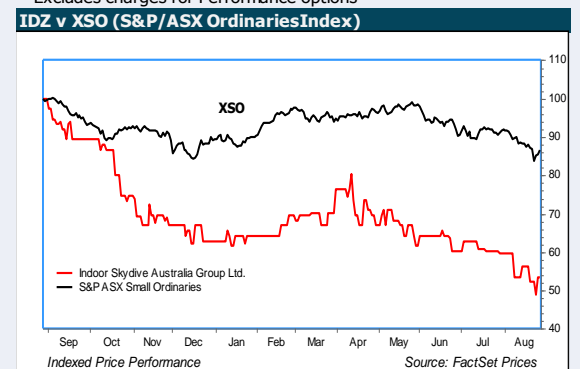
1 September 2015

**Price** **\$0.40**  
**Price Target** **\$0.60**

Valuation method EVR  
 GICS sector Consumer Services  
 12 Mth Price Range \$0.36 - 0.75  
 Avg monthly share turnover 0.5m  
 Market Capitalisation \$48m  
 Shares on Issue 119.0m  
 Enterprise Value \$48m  
 Previous Rating **BUY**

Year Ended June 30	14A	15A	16E	17E	18E
<b>Operating Revenue \$m</b>	<b>1.1</b>	<b>6.4</b>	<b>11.3</b>	<b>20.4</b>	<b>22.4</b>
<b>EBITDA*</b>	<b>\$m -2.1</b>	<b>0.5</b>	<b>3.3</b>	<b>8.5</b>	<b>9.5</b>
<i>Increase</i>	% na	na	547	159	11.9
<i>EBITDA margin</i>	% na	7.9	28.9	41.5	42.3
<b>EBIT*</b>	<b>\$m -2.6</b>	<b>-0.4</b>	<b>1.8</b>	<b>6.6</b>	<b>7.8</b>
<i>EBIT margin</i>	% -227	-6.8	15.6	32.3	34.9
<b>NPAT (adjusted)</b>	<b>\$m -1.8</b>	<b>-0.3</b>	<b>1.9</b>	<b>7.0</b>	<b>5.9</b>
<i>NPAT growth</i>	% na	na	-670	275.8	-16.3
NPAT (Reported)	\$m -2.7	-1.7	1.9	6.5	5.9
<b>EPS*</b>	<b>cps -2.2</b>	<b>-0.3</b>	<b>1.6</b>	<b>5.9</b>	<b>4.9</b>
<i>EPS growth</i>	%		-613	275.8	-16.3
DPS	cps 0.0	0.0	0.0	0.0	0.0
Franking	% 0.0	0.0	0.0	0.0	0.0
<b>PER*</b>	<b>x 0.0</b>	<b>-131.1</b>	<b>25.6</b>	<b>6.8</b>	<b>8.1</b>
Dividend yield	% 0.0	0.0	0.0	0.0	0.0
<b>NTA/share</b>	<b>cps 16.7</b>	<b>24.0</b>	<b>25.8</b>	<b>31.4</b>	<b>36.4</b>
<b>EV/Revenue</b>	x	6.5	4.2	2.0	1.3
<b>EV/EBITDA</b>	x	83.0	14.7	4.7	3.1
Gearing (D:E)	% 0.5	0.0	0.8	0.0	0.0
P/OCF	x	62.7	9.3	4.9	4.2
ROA	%	0.1	5.7	16.6	16.1
ROE	%	0.7	7.0	20.7	14.6
Interest cover (EBIT)	x	-1.8	na	na	na

\* Excludes charges for Performance options



## Activities

The operation of Indoor Skydiving Centres in Australia, Asia and New Zealand

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Indoor Skydive Aust Group (IDZ)

Current Price: \$0.40 ps

Target Price: \$0.60 ps

PROFIT & LOSS						
Year ended 30-Jun	2014A	2015A	2016E	2017E	2018E	
<b>Sales Revenue</b>	\$m	1.1	6.4	11.3	20.4	22.4
Expenses	\$m	-3.2	-5.9	-8.1	-11.9	-12.9
<b>EBITDA*</b>	\$m	-2.1	0.5	3.3	8.5	9.5
Depreciation	\$m	-0.2	-0.5	-1.3	-1.7	-1.6
Amortisation	\$m	-0.3	-0.5	-0.2	-0.1	-0.1
<b>EBIT*</b>	\$m	-2.6	-0.4	1.8	6.6	7.8
Interest (Net)	\$m	-0.1	-0.1	0.1	0.4	0.6
<b>Pre Tax Profit*</b>	\$m	-2.7	-0.5	1.9	7.0	8.4
Tax	\$m	1.0	0.2	0.0	0.0	-2.5
Minority Interests	\$m	0.0	0.0	0.0	0.0	0.0
<b>Normalised Profit*</b>	\$m	-1.8	-0.3	1.9	7.0	5.9
Significant Items (Net)	\$m	-1.0	-1.4	0.0	-0.5	0.0
<b>Reported Profit</b>	\$m	-2.7	-1.7	1.9	6.5	5.9

Growth					
	2014A	2015A	2016E	2017E	2018E
Revenue	%	530.0	76.1	80.2	9.7
Expenses	%	85.5	35.9	48.3	8.2
EBITDA	%		547.0	158.8	11.9
EBIT	%		-503.8	274.4	18.5
Normalised Profit	%			275.8	-16.3
EPS	%			275.8	-16.3

P&L Ratios						
	2014A	2015A	2016E	2017E	2018E	
EBITDA / Sales	%		7.9	28.9	41.5	42.3
EBIT / Sales	%		-6.8	15.6	32.3	34.9
Effective Tax Rate	%		39.8	0.0	0.0	30.0
Interest Cover	x		-1.8	na	na	na

Per Share						
	2014A	2015A	2016E	2017E	2018E	
Issued Shares	m	87.3	119.0	119.0	119.0	119.0
Issued Shares (Wt Avg)	m	78.7	107.1	119.0	119.0	119.0
EPS*	¢ps	-2.2	-0.3	1.6	5.9	4.9
Operating Cash Flow ps	¢ps	-0.7	0.6	4.3	8.1	9.5
Free Cash Flow	¢ps	-16.6	-7.6	-4.9	6.5	9.0
DPS	¢ps	0.0	0.0	0.0	0.0	0.0

Parameters					
	2014A	2015A	2016E	2017E	2018E
PE Ratio	x	-131.1	25.6	6.8	8.1
Enterprise Value / Sales		6.5	4.2	2.0	1.3
Enterprise Value / EBITDA	x	83.0	14.7	4.7	3.1
Enterprise Value / Profit	x	-128.3	25.8	5.7	5.0
Cash Flow ratio	x	62.7	9.3	4.9	4.2
Dividend Yield	%		0.0	0.0	0.0

Parameters						
	2014A	2015A	2016E	2017E	2018E	
<b>Revenue</b>						
Penrith	\$m	1.2	6.4	7.1	7.4	7.9
Gold Coast	\$m			3.9	6.8	7.8
Perth	\$m			0.4	6.2	6.7
<b>EBITDA</b>						
Penrith	\$m	-0.3	3.1	3.7	4.0	4.3
Gold Coast	\$m			2.1	4.1	4.6
Perth	\$m			0.1	3.4	3.7
Corporate	\$m	-1.5	-2.6	-2.7	-3.0	-3.2
<b>Margin</b>						
Penrith	%		48.5	52.0	53.4	54.4
Gold Coast	%			54.3	59.9	59.5
Perth	%			36.4	54.5	55.7

VALUATION			
Valuation Method	\$	Premium(+)/Discount(-)	%
EVR	0.60	Current Price	-32.9
DCF	0.90	Current Price	-55.5
Market Capitalisation	\$60m	Enterprise Value	\$60.3m

CASH FLOW						
Year ended 30-Jun	2014A	2015A	2016E	2017E	2018E	
<b>Operating EBITDA</b>	\$m	-2.1	0.5	3.3	8.5	9.5
Net Interest Paid	\$m	-0.1	-0.1	0.1	0.4	0.6
Tax Paid	\$m	0.0	0.0	0.2	0.0	0.0
Chg WorkCap	\$m	0.6	0.4	0.8	-0.2	0.2
Other	\$m	1.0	-0.1	0.7	1.0	1.0
<b>Operating Cash Flow</b>	\$m	-0.7	0.7	5.1	9.7	11.3
Capex	\$m	-12.5	-8.9	-11.0	-2.0	-0.5
Capitalised D'ment Costs	\$m	0.0	0.0	0.0	0.0	0.0
<b>Free Cash Flow</b>	\$m	-13.1	-8.1	-5.9	7.7	10.8
Acquisitions/Asset Sales	\$m	0.0	0.0	0.0	0.0	0.0
Dividends Paid	\$m	0.0	0.0	0.0	0.0	0.0
Equity Raised	\$m	9.8	13.8	0.0	0.0	0.0
Debt (change)	\$m	-0.5	-1.5	0.0	0.0	0.0
<b>Change in Net Cash</b>	\$m	-3.8	4.2	-5.9	7.7	10.8

BALANCE SHEET at 30/6						
	2014A	2015A	2016E	2017E	2018E	
Cash	\$m	1.4	5.6	-0.2	7.5	18.2
Receivables	\$m	0.3	0.8	1.5	2.6	2.9
Inventory	\$m	0.0	0.0	0.5	0.5	0.5
Other Current Assets	\$m	0.0	0.0	0.2	0.2	0.3
<b>Current Assets</b>	\$m	1.7	6.5	1.9	10.8	21.9
Property, Plant & Equipm	\$m	17.2	23.9	34.2	32.9	31.6
Intangibles	\$m	1.2	0.7	0.4	0.3	0.2
Other NC Assets	\$m	1.4	1.6	0.4	0.0	0.0
<b>Non Current Assets</b>	\$m	19.8	26.2	35.1	33.2	31.8
<b>Total Assets</b>	\$m	21.5	32.7	37.0	44.0	53.7
Payables	\$m	1.1	2.0	4.0	5.0	5.5
Current Debt	\$m	1.5	0.0	0.0	0.0	0.0
Pre-Sales	\$m	0.9	1.3	1.6	2.0	2.5
Other Current Liabilities	\$m	0.1	0.1	0.2	0.2	0.3
<b>Current Liabilities</b>	\$m	3.6	3.4	5.8	7.2	8.3
Non Current Debt	\$m	0.0	0.0	0.0	0.0	0.0
Prov for Site restoration	\$m	2.2	0.0	0.1	-0.9	1.9
<b>Non Current Liabilities</b>	\$m	2.2	0.0	0.1	-0.9	1.9
<b>Total Liabilities</b>	\$m	5.8	3.4	5.9	6.3	10.2
<b>Shareholder Funds</b>	\$m	15.7	29.2	31.1	37.6	43.5

BALANCE SHEET Ratios						
	2014A	2015A	2016E	2017E	2018E	
Net Debt	\$m	0.1	0.0	0.2	0.0	0.0
Gearing (D:E)	%	0.5	0.0	0.8	0.0	0.0
Current Ratio (CA / CL)	x	0.5	1.9	0.3	1.5	2.6
Net Assets	¢ps	18.0	24.6	26.1	31.6	36.6
Net Tangible Assets	¢ps	16.7	24.0	25.8	31.4	36.4
Cash	¢ps	0.0	4.7	0.0	6.3	15.3
Return On Assets	%	-14.3	0.1	5.7	16.6	16.1
Return on Equity	%	-13.4	0.7	7.0	20.7	14.6

MAJOR SHAREHOLDERS**					
Excalib-Air et al	m	17.7	15%	Wayne Jones (CEO) & Daniel Hogan (COO)	
Birkdale Holdings	m	17.0	14%	Steve Baxter (NE Director)	
Greencape	m	13.9	12%	Institution	
Acorn	m	10.0	8%	Institution	
Paradice Investment M'mer	m	7.5	6%	Institution	
LHC	m	7.4	6%	Institution	
Top 20 (7/8/14)	m	101.6	85%		

DIRECTORS	
Kenneth Gillespie	Non-Exec Chairman
Wayne Jones	Managing Director
Daniel Hogan	Exec Director
Steve Baxter	Non-Exec Director
David Murray	Non-Exec Director

Source: IDZ (Actual) & Veritas (Estimate)

FY15 Profit result

The result was in line with our expectations, representing the first full 12 months' trading at Penrith.

Result in line with expectations

Profit & Loss				Cash Flow		
12 Mths to Jun (\$m)	2014	2015	% ch	12 Mths to Jun (\$m)	2014	2015
<b>Tunnel Revenue</b>	<b>1.1</b>	<b>6.4</b>	<b>530.0</b>	<b>Operating Cash Flow</b>	<b>-0.6</b>	<b>0.7</b>
Direct Costs	-1.7	-3.3	96.6	Capex	-12.5	-8.9
<b>Tunnel EBITDA*</b>	<b>-0.6</b>	<b>3.1</b>		Investment/Acquisitions	0.0	0.0
Head Office Costs	-1.5	-2.6	73.0	Equity	9.8	13.8
<b>Group EBITDA</b>	<b>-2.1</b>	<b>0.5</b>		Debt	-0.5	-1.5
Depreciation	-0.2	-0.5		Dividends	0.0	0.0
Amortisation	-0.3	-0.5		<b>Net Cash Flow</b>	<b>-3.8</b>	<b>4.2</b>
<b>EBIT</b>	<b>-2.6</b>	<b>-0.4</b>		<b>Balance Sheet</b>	<b>2014</b>	<b>2015</b>
Interest (Net)	-0.1	-0.1		Current Assets	1.7	6.5
Pre-Tax Profit	-2.7	-0.5		Non Current Assets	19.8	26.2
Tax	1.0	0.2		<b>Total Assets</b>	<b>21.5</b>	<b>32.7</b>
<b>Normalised Profit</b>	<b>-1.8</b>	<b>-0.3</b>	<b>-81.4</b>	Current Liabilities	3.6	3.4
One-off Items (Net)	-1.0	-1.4		Non Current Liabilities	2.2	0.0
<b>Reported Profit</b>	<b>-2.7</b>	<b>-1.7</b>	<b>-35.5</b>	<b>Total Liabilities</b>	<b>5.8</b>	<b>3.4</b>
Tunnel Margin (%)		50.0		<b>Shareholder Funds</b>	<b>15.7</b>	<b>29.2</b>
EBITDA Margin (%)	-179.4	7.9		Cash (¢ ps)	0.0	4.7
Effective Tax Rate (%)	na	na		Net Debt	0.1	0.0
<b>EPS (¢ ps)*</b>	<b>-2.2</b>	<b>-0.3</b>	<b>-86.3</b>	Gearing D:E (%)	0.5	0.0
Cash Flow (¢ ps)	-0.7	0.6	-186.2	NTAV (¢ ps)	16.7	24.0
DPS (¢ ps)	0.0	0.0		Net Assets (¢ ps)	18.0	24.6
Ent Value / EBITDA	-29.4	83.0		Current Ratio (x)	0.5	1.9

Source: IDZ

\* excludes One-off items (iShare based payments)

Key Elements:

**Tunnel utilisation** – In line with expectations at 66% overall (1H 64%, 2H 68%), with weekend rates of 81% and a midweek rate of 61%. Peak weekly utilisation during school holidays exceeded 76%.

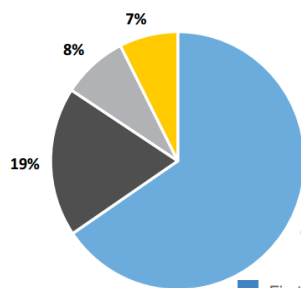
The major age bracket was in the 10 to 19 year olds, at around 30% of the 37,400 unique flyers. Return flyers represent 8% of total flyers, helped by a 20% increase in frequent flyer club membership to 470.

**Revenue** – Total Tunnel Revenue of \$6.4m (1H FY15 \$3.0m), with first timers (53% of average weekly revenue) and professional/military (33%) the main contributors. Groups contributed a further 6% of revenue, with Merchandise at 9% of revenue, above expectations.

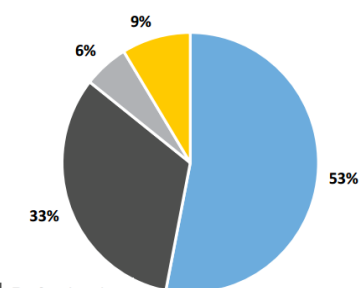
Achieves average tunnel utilisation of 66%

Revenue of \$6.4m, with strong first timer and professional use

Average Weekend Revenue Mix



Average Weekly Revenue Mix



Source: IDZ

The slight shortfall in Revenue is mostly attributable to lower than forecast café and group/education sales. IDZ have since changed the café staff, format and menu, with some initial positive signs and changed the marketing direction for groups/education. Deferred revenue (prepaid sales) increased by 41.4% to \$1.3m

EBITDA of \$3.1m from tunnel operations

**Tunnel EBITDA** – Underlying Penrith Operational EBITDA of \$3.1m (1H \$1.3m), with margins at 50% (1H 43%). This operating margin was slightly below expectations with an element of extra start-up costs in 1H FY15, since removed.

## EQUITY RESEARCH

### Group EBITDA of \$0.5m after one-offs

**Head Office Costs** – Increased by 73.3% to \$2.6m with an expansion of the development and support teams to develop the Gold Coast, Perth, Adelaide tunnels and other potential tunnels.

**Group EBITDA** – A turnaround of \$2.6m to \$0.5m (before share based payments) with the improvement in Penrith EBITDA.

**Depreciation/Amortisation** – The increase reflects increased depreciation on Penrith and the amortisation of the Exclusive Joint Territory Agreement. However, it was below our forecasts, with IDZ no longer providing for the rehabilitation of the Penrith site.

**One-off items** – Covers the issue of 2.8m performance based shares to Executive Directors, based on the performance of Penrith. There remains 1.9m performance shares on issue, mainly related to the operation of the Gold Coast tunnel.

**Cash Flow** – Cash Receipts increased to \$7.0m with a build-up of Deferred Revenue to \$1.3m (excluding Adrenalin sales). Net Operating Cash Flow improved by \$1.3m to \$0.7m, while Net Cash Flow increased by \$8m to \$4.2m, with \$13.8m from the Equity Issue, partly offset by repayment of Convertible Notes (\$1.5m) and capex (\$8.9m) on the Gold Coast and Perth tunnels.

**Balance Sheet** – Remains solid, sufficient to fund the remaining 3 tunnels to be opened over the next 2 years. Net Cash Increased to \$5.6m (4.7¢ps), with Net Assets increasing by 30% to 23.4¢ ps.

Trade Payables increased by \$0.9m to \$2.0m, with a \$1m investment by SkyVenture into the Gold Coast Tunnel, to be offset against equipment purchases. On completion of the Gold Coast, SkyVenture will hold a minority interest in the Gold Coast Operating subsidiary in proportion to its investment level.

PPE (mostly Wind Tunnels) on the Balance Sheet increased by \$5.7m to \$23.8m, a combination of \$9.5m of WIP, depreciation (-\$0.7m) and removal of the Provision for Site Restoration of \$2.0m for Penrith. After a renegotiation of the lease with the Penrith Rugby League Club, the provision was deemed unnecessary.

### Underlying Result excludes \$2.8m in non-cash One-off Items

### SkyVenture invests \$1.0m in Gold Coast Tunnel

#### Gold Coast tunnel under construction



Source: IDZ

#### Proposed Perth tunnel



Source: IDZ

## Tunnels Under Development

### Gold Coast

The development of the Gold Coast facility is nearing completion with bookings expected to open in September 2015 and flights to begin in November, at a cost now of \$11m to \$12m. IDZ is also well advanced at leasing the 6 retail areas adjacent to the tunnel. SkyVenture will hold a minority stake in proportion to its investment and will be entitled to a share of Net Profit after Tax for the Gold Coast subsidiary.

### Perth

IDZ is developing a 3<sup>rd</sup> tunnel in Perth, on a 3,931 m<sup>2</sup> site on the Great Eastern Highway between the Burswood Casino and the Perth Airport. IDZ will construct a 14ft tunnel using the latest technology at a cost between \$11m and \$12m. The tunnel is expected to be completed and opened towards the end of 2H FY16.

### Adelaide

IDZ has an agreement in Adelaide with Commercial & General Funds Management, to fund the construction of a 12 ft tunnel as part of the Kings Point Shopping and Entertainment Complex. Commercial terms are expected to be agreed in 1H FY16, with construction to commence in March 16 for completion in March 2017.

IDZ has elected for a developer funded model for Adelaide as it offers the best risk profile and utilisation of capital for IDZ, with a lease based on turnover of the facility.

**Other** - Further wind tunnels are under consideration in Australia and Asia.

### Exclusive Territory Development Agreement (ETDA)

Under the ETDA with SkyVenture, SkyVenture has commenced construction of a tunnel in Melbourne, scheduled to be completed in mid-2016, to be marketed under the iFLY brand. The tunnel will be located at Essendon Fields, with high visibility to the Tullamarine Freeway, where over 60,000 cars pass daily in both directions.

IDZ has the right to invest \$1m in the tunnel, with an option (subject to agreement by SkyVenture) to increase the investment to 50% of total build cost, in return for a similar percentage of Net Profit after Tax.

## Outlook

### Penrith

A stronger FY16 revenue result is expected with increased tunnel occupancy to exceed the 66% in FY15, from:

- Continued growth in First Timers, with only 37,000 to date from a large catchment area, covering a population of over 1.8m within a 25 km radius. This is based on continued awareness through:
  - Social Media, including Facebook (around 27,000 followers) and Instagram.
  - Recent media coverage, including: the initial Australian Indoor Skydiving Championships with 47 teams and over 200 participants; and recent coverage through Channel 9's Morning Program and The Bachelor.
- Continued growth in repeat flyers, with changes to processes and conversion of First Timers.
- A high level of Unearned Revenue at over \$1.3m which will convert to revenue when holders utilise their gift vouchers (excluding sales through Adrenalin),
- An expected improvement in café revenue from recently introduced changes and a new focus on school and corporate groups.

A continued improvement in EBITDA margins above the 52% achieved in 2H FY15 towards 55%.

### Gold Coast

The tunnel is now expected to open in late October 2015 or early November. While the tunnel is expected to generate Revenue and EBITDA in Year 1 of \$6.8m and \$4.1m on an annualised basis, it's expected to contribute Revenue of \$3.9m and EBITDA of \$2.1m for the remaining 7 months of FY16.

However, a strong opening is expected, boosted by:

- A high level of tourist traffic, both domestic and international, boosted by a lower A\$ and direct flights. The building has high visibility, with the Gold Coast Light Rail running past.
- Christmas school holidays and peak usage with specialty events, such as the Gold Coast V8 Supercars and schoolies.
- Further out, FY18 will be boosted by the Commonwealth games staged on the Gold Coast.

With a higher proportion of First Timers, a higher yield is expected, along with higher merchandise. IDZ will also receive revenue from the 6 tenancies in the existing building, expected to partly offset overall lease costs. With lower power costs associated with a 12 foot tunnel and other efficiencies, initial EBITDA margins are expected to be higher at 60% for FY 17, the first full year of operation.

We have built into our forecasts an assumed minority interest for SkyVenture of 9%, following its \$1.0m investment under the ETDA.

### Perth

Forecasts include Perth for only 1 full month of FY16, assuming completion in May FY16. For the 1 month, EBITDA of \$0.1m on Revenue of \$0.4m is expected. While Perth is expected to generate Revenue of \$6.7m and EBITDA of \$3.7m on a Full Year's operations, we have scaled this back to Revenue of \$6.2m and EBITDA \$3.4m to reflect the time taken to optimise operations and the uncertain impact of the resources slowdown in WA.

Perth may also generate sub-lease rental, although a full site development plans are yet to be finalised. No decision has been announced on SkyVenture's intention with respect to its investment option under the ETDA.

### Adelaide

Due to the reliance on the timetable of the developer, Adelaide will not be included in the forecasts until construction commences.

**A stronger FY16 is expected from Penrith**

**Gold Coast operating model has strong emphasis on retail**

**SkyVenture contributing \$1m in funding**

**Perth to open in Q4 FY16**

**Revenue to reach \$20.5m and EBITDA to \$8.5m in FY17 with full operation of the 3 tunnels**

### Combined Tunnel Forecasts

The combined forecasts for FY2016 below include 8 months' contribution from the Gold Coast and 2 months' from Perth, with no contribution from Adelaide. These forecasts have been reduced to reflect a more conservative stance from a clearer understanding of the operating model, a later start-up for both Gold Coast and Perth and the investment by Sky Venture into the Gold Coast tunnel.

Combined Results		FY14	FY15	FY16	FY17	FY18
<b>Combined Revenue</b>	\$m	1.1	6.4	11.3	20.4	22.4
<i>Increase</i>	%		481.8	77.0	80.2	9.7
<b>Combined Facility EBITDA</b>	\$m	-0.3	3.1	5.8	11.4	12.7
<i>Increase</i>	%		na	87.7	96.1	11.0
<i>Margin</i>	%		48.4	51.4	55.9	56.6
<b>Group Corporate Costs</b>	\$m	-1.5	-2.6	-2.7	-3.0	-3.2
<b>Group EBITDA</b>	\$m	-2.1	0.5	3.2	8.5	9.5
<i>Increase</i>	%		-124.6	527.2	167.0	11.9
<i>Group Margin</i>	%		7.9	28.0	41.5	42.3
Total Depreciation & Amortisation	\$m		-1.0	-1.5	-1.9	-1.6
<b>EBIT</b>	<b>\$m</b>	<b>-2.6</b>	<b>-0.4</b>	<b>1.7</b>	<b>6.6</b>	<b>7.8</b>

Source: Veritas

Note: The above Net Profit (before One-offs) forecasts exclude the costs associated with the issue and exercise of performance rights, which are treated as One-off items.

### Valuation

**Valuation of \$0.60 ps**

We have a valuation for IDZ of \$0.60 ps on a fully diluted basis, based on an EVR model, including:

- Enterprise Value to EBITDA ratio of 7.5x for FY17, the first year of full operation of all 3 tunnels. This is below the weighted average ratio for the key participants in the leisure sector.
- Expected cash of \$7.4m at the end of FY16.

VALUATION				
EVR	2017		Breakup Valuation	
	EBITDA	Multiple	\$m	¢ ps
<b>Operations</b>	<b>8.5</b>	<b>7.5</b>	<b>63.5</b>	53
Net Cash/ Debt Adjustment FY16			7.4	6
Valuation	<b>\$m</b>		<b>70.8</b>	<b>60</b>
<b>Current Price</b>		cps	<b>40</b>	
Discount			33%	

Source: Veritas



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RATING

BUY – anticipated stock return is greater than 10%  
 SELL – anticipated stock return is less than -10%  
 HOLD – anticipated stock return is between -10% and +10%  
 SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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