

# Indoor Skydive Australia Group

## Placement and new funding arrangements

IDZ has completed a \$5.0m placement, comprising 13.2m shares at \$0.38 ps, to be followed by a \$1m Share Purchase Plan, comprising 2.6m shares at \$0.38 ps.

The \$6m raised will be used to meet short term working capital requirements for Australian and SE Asian projects and preliminary funding for a Malaysian project.

This follows a recently proposed \$15.3m funding facility from Westpac, which could be used to develop a second Sydney tunnel, a projected Malaysian facility and other potential projects in Malaysia, Singapore and Hong Kong.

## New Central Sydney site to boost profitability

IDZ has secured a Central Sydney site within the Entertainment Quarter in Moore Park, for development of a 14 foot Vertical Wind Tunnel. The approval process will commence in Q3 FY17 for tunnel completion in Q4 FY18 at a cost of around \$15.0m.

- The tunnel will be developed in partnership with SkyVenture in line with the Exclusive Territory Development Agreement. Under the ETDA, SkyVenture can invest \$1m at SkyVenture's discretion, with provision to invest up to 50% of the project at IDZ's discretion.
- The popular Entertainment Quarter (EQ) site is close to key attractions, with good public transport (including the new light rail) and access to a 2,000 space carpark. It will access a substantial catchment covering Central Sydney, Northern, Eastern and Southern suburbs, along with considerable professional and Group markets.
- IDZ has funding flexibility, with the ability to utilise: a recently proposed \$15.3m Westpac facility; increasing Operating Cash Flow; and SkyVenture Funding.
- Sydney EQ tunnel will substantially boost profitability in FY19 without significantly increasing Corporate Costs, with our preliminary forecasts of a \$3.6m and \$4.0m EBITDA contribution in FY19 and FY20, based on full funding by IDZ. There are considerable synergies in staffing, training, advertising, call centre and equipment.

## Potential Malaysian Tunnel

IDZ is in final negotiations for a further tunnel within the largest shopping mall in Malaysia, in partnership with a successful local developer. IDZ will invest A\$2.0m to \$2.5m, funded by the proposed Westpac facility, with a ROI of 3 to 5 years.

## Forecasts upgraded for Sydney EQ

Our forecasts have been upgraded for inclusion of Sydney EQ for FY18 (3 months), FY19 and FY20, adding incremental Revenue of \$1.6m, \$6.4m and \$7.2m and Tunnel EBITDA of \$0.8m, \$3.6m and \$4.0m, without a substantial increase in corporate costs.

For IDZ, we expect Revenue to increase from \$15.0m in FY17 to \$27.7m in FY20, the second full year of Sydney EQ operations and mature operations at the 3 existing tunnels. This will increase Group EBITDA from \$4.4m to \$12.1m.

## Recommendation

We retain a BUY recommendation with an increased Valuation to \$0.70 ps, based on:

- The success of Penrith provides proof of concept for the proposed Sydney EQ tunnel and any further proposed expansion in Australia and Asia. The tunnels on the Gold Coast and Perth have the potential to generate similar returns to Penrith.
- The significant potential EBITDA contribution from the Sydney EQ tunnel of around \$3.6m in the first full year of operations. Further growth of 13% is expected in the second full year of operation, similar to the ramp up of Penrith.
- The discount of the current share price to our Valuation of \$0.70ps and other key participants in the leisure market.

IDZ.ASX

BUY

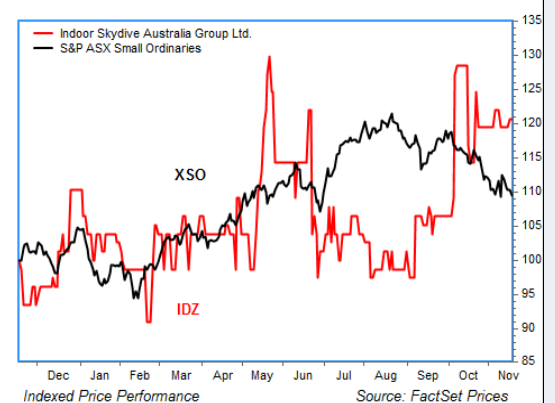
5 December 2016

<b>Price</b>	<b>\$0.38</b>
<b>Price Target</b>	<b>\$0.70</b>
Valuation method	EVR
GICS sector	Consumer Services
12 Mth Price Range	\$0.35 - 0.50
Avg monthly share turnover	0.9m
Market Capitalisation	\$52m
Shares on Issue	136.8m
Enterprise Value	\$60m
Previous Rating	<b>BUY</b>

Year Ended June 30		16A	17E	18E	19E	20E
<b>Tunnel Revenue</b>	<b>\$m</b>	<b>8.2</b>	<b>14.7</b>	<b>21.0</b>	<b>26.2</b>	<b>27.7</b>
Increase	%	26.8	80.4	42.4	25.1	5.7
<b>Tunnel EBITDA</b>	<b>\$m</b>	<b>4.1</b>	<b>6.4</b>	<b>11.2</b>	<b>14.3</b>	<b>15.3</b>
Increase	%	32.3	54.9	76.1	27.5	7.1
Tunnel margin	%	50.3	43.2	53.4	54.4	55.1
Head Office Costs	\$m	-4.0	-3.6	-3.2	-3.1	-3.1
<b>EBITDA*</b>	<b>\$m</b>	<b>0.2</b>	<b>2.8</b>	<b>7.9</b>	<b>11.2</b>	<b>12.1</b>
Increase	%	-10	1217	186.7	41.6	8.1
EBITDA margin	%	2.6	18.7	37.6	42.6	43.6
<b>EBIT*</b>	<b>\$m</b>	<b>-0.8</b>	<b>1.3</b>	<b>6.0</b>	<b>9.2</b>	<b>10.2</b>
<b>NPAT (adjusted)</b>	<b>\$m</b>	<b>-0.8</b>	<b>0.8</b>	<b>4.4</b>	<b>6.0</b>	<b>7.0</b>
NPAT growth	%	73	na	423.6	35.2	17.7
NPAT (Reported)	\$m	-1.3	0.4	4.4	6.0	7.0
<b>EPS*</b>	<b>¢ps</b>	<b>-0.7</b>	<b>0.6</b>	<b>3.2</b>	<b>4.4</b>	<b>5.1</b>
EPS growth	%	55	na	408.8	35.2	17.7
DPS	¢ps	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</b>	<b>-56.0</b>	<b>60.0</b>	<b>11.8</b>	<b>8.7</b>	<b>7.4</b>
Dividend yield	%	0.0	0.0	0.0	0.0	0.0
<b>NTA/share</b>	<b>¢ps</b>	<b>23.2</b>	<b>25.1</b>	<b>28.4</b>	<b>32.8</b>	<b>38.0</b>
<b>EV/Revenue</b>	<b>x</b>	<b>6.2</b>	<b>4.0</b>	<b>3.2</b>	<b>1.9</b>	<b>1.5</b>
EV/EBITDA	x	243.6	21.6	8.5	4.6	3.5
Gearing (D:E)	%	23.3	28.9	36.9	9.9	0.0
P/OCF	x	170.9	19.6	6.4	4.7	5.2
ROA	%	-1.4	3.1	10.5	14.1	14.9
ROE	%	-1.9	2.4	12.5	14.2	14.4
Interest cover (EBIT)	x	na	2.7	7.5	13.2	51.1

\* Excludes charges for Performance options

**IDZ v XSO (S&P/ASX Ordinaries Index)**



## Activities

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

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**Indoor Skydive Aust Group (IDZ)**

**Current Price: \$0.38 ps Target Price: \$0.70 ps**

PROFIT & LOSS								
Year ended 30-Jun	2014A	2015A	2016A	2017E	2018E	2019E	2020E	
<b>Tunnel Revenue</b>	\$m	1.1	6.4	8.2	14.7	21.0	26.2	27.7
Direct Tunnel Expenses	\$m	-1.7	-3.3	-4.1	-8.4	-9.9	-11.9	-12.5
<b>Tunnel EBITDA*</b>	\$m	-0.6	3.1	4.1	6.4	11.1	14.3	15.2
Head Office Costs	\$m	-1.5	-2.9	-3.9	-3.6	-3.2	-3.1	-3.1
<b>Group EBITDA</b>	\$m	-2.1	0.2	0.2	2.8	7.9	11.2	12.1
Depreciation	\$m	-0.2	-0.4	-0.8	-1.2	-1.7	-1.9	-1.9
Amortisation	\$m	-0.3	-0.5	-0.3	-0.2	-0.2	0.0	0.0
<b>EBIT*</b>	\$m	-2.6	-0.7	-0.8	1.3	6.0	9.2	10.2
Interest (Net)	\$m	-0.1	-0.1	-0.1	-0.5	-0.8	-0.7	-0.2
<b>Pre Tax Profit*</b>	\$m	-2.7	-0.8	-1.0	0.8	5.2	8.5	10.0
Tax	\$m	1.0	0.3	0.2	0.0	-0.8	-2.6	-3.0
Minority Interests	\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Normalised Profit*</b>	\$m	-1.8	-0.5	-0.8	0.8	4.4	6.0	7.0
Reported Profit (Net)	\$m	-1.0	-1.4	-0.5	-0.5	0.0	0.0	0.0
<b>Reported Profit</b>	\$m	-2.7	-1.9	-1.3	0.4	4.4	6.0	7.0

Growth							
	2014A	2015A	2016A	2017E	2018E	2019E	2020E
Revenue	%	530.0	26.8	80.4	42.4	25.1	5.7
Expenses	%	96.0	21.7	106.2	18.0	21.0	5.0
Tunnel EBITDA	%	-657.0	32.3	54.9	76.1	27.5	7.1
Group EBITDA	%		-9.9	1216.6	186.7	41.6	8.1
Normalised Profit	%				423.6	35.2	17.7
EPS	%				408.8	35.2	17.7

P&L Ratios							
	2014A	2015A	2016A	2017E	2018E	2019E	2020E
EBITDA / Sales	%	3.6	2.6	18.7	37.6	42.6	43.6
EBIT / Sales	%	-10.2	-10.2	9.1	28.5	35.1	36.8
Effective Tax Rate	%	37.0	17.0	0.0	15.0	30.0	30.0
Interest Cover	x	-2.7	-6.7	2.7	7.5	13.2	51.1

Per Share								
	2014A	2015A	2016A	2017E	2018E	2019E	2020E	
<b>Year End Price</b>	¢ps	69.0	45.0	39.0	38.0	38.0	38.0	
Issued Shares	m	87.3	119.0	120.2	136.8	136.8	136.8	
Issued Shares (Wt Avg)	m	78.7	107.1	119.7	132.9	136.8	136.8	
<b>EPS*</b>	¢ps	-2.2	-0.4	-0.7	0.6	3.2	4.4	5.1
Operating Cash Flow ps	¢ps	-0.7	0.6	0.2	1.9	5.9	8.0	7.3
Free Cash Flow	¢ps	-16.6	-7.6	-10.3	-7.1	-3.2	7.3	6.5
DPS	¢ps	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Parameters							
	2014A	2015A	2016A	2017E	2018E	2019E	2020E
PE Ratio	x	-100.2	-56.0	60.0	11.8	8.7	7.4
Enterprise Value / Sales	x	7.4	6.2	4.0	3.2	1.9	1.5
Enterprise Value / EBITDA	x	206.4	243.6	21.6	8.5	4.6	3.5
Cash Flow ratio	x	70.5	170.9	19.6	6.4	4.7	5.2
Dividend Yield	%	0.0	0.0	0.0	0.0	0.0	0.0

Parameters							
	2014A	2015A	2016A	2017E	2018E	2019E	2020E
<b>Revenue</b>							
Penrith	\$m	1.2	6.5	6.7	6.7	7.0	7.3
Gold Coast	\$m			1.3	5.0	6.2	5.9
Perth	\$m			3.0	6.1	6.6	7.0
Sydney	\$m				1.6	6.4	7.2
<b>EBITDA</b>							
Penrith	\$m	-0.3	3.2	3.6	3.6	4.0	4.1
Gold Coast	\$m		0.5	2.2	3.3	3.1	3.2
Perth	\$m			0.5	3.2	3.5	3.8
Sydney	\$m				0.8	3.6	4.0
Corporate	\$m	-1.5	-2.9	-3.9	-3.6	-3.3	-3.2
<b>Margin</b>							
Penrith	%		49.3	53.8	54.0	56.9	56.4
Gold Coast	%			39.9	43.6	52.9	52.2
Perth	%				17.9	51.7	53.4
Sydney	%					46.5	55.3

VALUATION			
Valuation Method	\$	Premium(+)/Discount(-) to %	
EVR	0.70	Current Price	-45.4
DCF	0.72	Current Price	-47.2
Market Capitalisation	\$47m	Enterprise Value	\$59.5m

CASH FLOW										
Year ended 30-Jun	2014A	2015A	2016A	2017E	2018E	2019E	2020E			
<b>Operating EBITDA</b>	\$m	-2.1	0.2	0.2	2.8	7.9	11.2	12.1		
Net Interest Paid	\$m	-0.1	-0.1	-0.1	-0.5	-0.8	-0.7	-0.2		
Tax Paid	\$m	0.0	0.0	0.3	0.2	0.0	-0.8	-2.6		
Chg WorkCap	\$m	0.6	0.6	1.0	0.2	1.0	1.3	0.6		
Other	\$m	1.0	0.0	-1.2	0.0	0.0	0.0	0.0		
<b>Operating Cash Flow</b>	\$m	-0.7	0.7	0.2	2.6	8.1	11.0	10.0		
Capex	\$m	-12.5	-8.9	-12.7	-12.0	-12.5	-1.0	-1.0		
Capitalised D'ment Costs	\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Free Cash Flow</b>	\$m	-13.1	-8.1	-12.4	-9.4	-4.4	10.0	9.0		
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	9.8	13.8	0.0	6.0	0.0	0.0	0.0		
Debt (change)	\$m	-0.5	-1.5	9.1	3.4	1.5	-4.0	-5.0		
<b>Change in Net Cash</b>	\$m	-3.8	4.2	-3.3	-0.1	-2.9	6.0	4.0		

BALANCE SHEET at 30/6										
	2014A	2015A	2016A	2017E	2018E	2019E	2020E			
Cash	\$m	1.4	5.6	2.6	2.5	-0.4	5.6	9.5		
Receivables	\$m	0.3	0.6	0.7	0.7	0.8	0.9	1.0		
Inventory	\$m	0.0	0.0	0.0	0.2	0.3	0.0	0.5		
Other Current Assets	\$m	0.0	0.0	0.0	0.2	0.6	0.7	0.4		
<b>Current Assets</b>	\$m	1.7	6.3	3.3	3.6	1.3	7.2	11.4		
Property, Plant & Equipm	\$m	17.7	23.9	38.1	48.8	59.6	58.7	57.8		
Intangibles	\$m	1.2	0.7	0.4	0.3	0.2	0.1	0.1		
Other NC Assets	\$m	1.4	1.7	1.8	2.0	2.3	1.5	0.0		
<b>Non Current Assets</b>	\$m	20.3	26.3	40.3	51.1	62.1	60.3	57.9		
<b>Total Assets</b>	\$m	22.0	32.5	43.6	54.7	63.4	67.5	69.2		
Payables	\$m	1.1	2.0	3.4	3.5	4.2	4.5	5.0		
Current Debt	\$m	1.5	0.0	0.7	1.0	0.0	0.0	0.0		
Pre-Sales	\$m	0.9	1.3	1.0	1.3	1.8	2.6	3.3		
Other Current Liabilities	\$m	0.1	0.1	0.2	0.3	0.6	0.8	1.0		
<b>Current Liabilities</b>	\$m	3.6	3.4	5.4	6.1	6.6	7.9	9.3		
Non Current Debt	\$m	0.0	0.0	8.4	11.5	14.0	10.0	5.0		
Prov for Site restoration	\$m	2.2	0.0	1.6	2.5	3.7	4.6	3.0		
<b>Non Current Liabilities</b>	\$m	2.2	0.0	10.0	14.0	17.7	14.6	8.0		
<b>Total Liabilities</b>	\$m	5.8	3.4	15.4	20.0	24.3	22.5	17.2		
<b>Shareholder Funds</b>	\$m	15.7	29.1	28.3	34.6	39.0	45.0	52.0		

BALANCE SHEET Ratios								
	2014A	2015A	2016A	2017E	2018E	2019E	2020E	
Working Capital	\$m	-0.8	-1.4	-2.7	-2.6	-3.1	-3.6	-3.5
Net Debt	\$m	0.1	0.0	6.6	10.0	14.4	4.4	0.0
Gearing (D:E)	%	0.5	0.0	23.3	28.9	36.9	9.9	0.0
Current Ratio (CA / CL)	x	0.5	1.8	0.6	0.6	0.2	0.9	1.2
Net Assets	¢ps	18.0	24.4	23.5	25.3	28.6	32.9	38.0
Net Tangible Assets	¢ps	16.7	23.9	23.2	25.1	28.4	32.8	38.0
Net Cash	¢ps	0.0	4.7	0.0	0.0	0.0	0.0	3.3
Return On Assets	%	-14.1	-0.7	-1.4	3.1	10.5	14.1	14.9
Return on Equity	%	-13.4	0.0	-1.9	2.4	12.5	14.2	14.4

MAJOR SHAREHOLDERS**			
Excalib-Air et al	m	20.0	17% Wayne Jones (CEO) & Daniel Hogan (COO)
Birkdale Holdings	m	17.0	14% Steve Baxter (NE Director)
Greencape	m	15.2	13% Institution
Acorn	m	10.0	8% Institution
Paradise Investment M'mer	m	7.5	6% Institution
Contango	m	6.0	5% Institution
Top 20 (8/8/16)	m	103.4	76%

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

Source: IDZ (Actual) & Veritas (Estimate)

### Placement to boost Working Capital

**\$5m Placement and \$1m SPP**

IDZ has completed a \$5.0m placement comprising 13.2m shares at \$0.38 ps, to be followed by a \$1m Share Purchase Plan comprising 2.6m shares at \$0.38 ps. This will increase Issued Capital by 13.1% to 136.8m shares.

The \$6m raised will be used to meet short term working capital requirements for Australian and SE Asian projects, including preliminary funding for a Malaysian project of around \$0.7m, and foreign exchange risk mitigation. This includes the cost of architects, preparation of DAs and other expenses related to the development planning for the 2 new tunnels.

**\$15.3m proposed funding**

This follows a recently proposed \$15.3m funding facility from Westpac, which could be used to develop a second Sydney tunnel, a projected Malaysian facility and other potential projects in Malaysia Singapore and Hong Kong.

### Sydney EQ Indoor Skydiving Centre

**New indoor skydiving centre at the Entertainment Quarter, Sydney**

IDZ has announced the securing of a site for a second Sydney indoor skydiving centre to be located at the popular Entertainment Quarter at Moore Park. The centre will be built in partnership with SkyVenture (the equipment supplier and iFly licensor), as part of the Exclusive Territory Development Agreement (ETA).

Key Features:

**Lease** - The initial lease period will be 20 years, subject to DA Approval, with potential to extend to IDZ’s normal term of 40 years.

**Construction** - A 14 foot wind tunnel at a cost of around \$15.0m. We expect a DA to be lodged in Q3 FY17, with the opening of the tunnel in Q4 FY18. IDZ will use the Perth project manager, based on the success of the Perth project and avoiding the delays and cost overruns experienced at the Gold Coast.

**To construct a 14 ft tunnel at a cost of \$15m**

**Funding** - Flexibility in funding, with options around:

- Use of a combination of Debt and Cash Flow. IDZ has received a proposal from Westpac for a \$15.3m which could be used to part fund Sydney EQ and opportunities in Asia. This will be supported by expected Operating Cash Flow of \$5.3m and \$9.1m in FY2017 and FY2018.
- Part funding by SkyVenture. Under the ETDA, SkyVenture can invest \$1m at SkyVenture’s discretion, with provision to invest up to 50% of the project at IDZ’s discretion. Alternatively, SkyVenture could provide funding on other terms, such as repayment from a higher royalty on Revenue.
- IDZ may also access part/all of \$0.7m paid to SkyVenture as a deposit for 2 further tunnels in Australia.

**To develop in partnership with SkyVenture**

The Projected Sydney EQ development is positive for IDZ as:

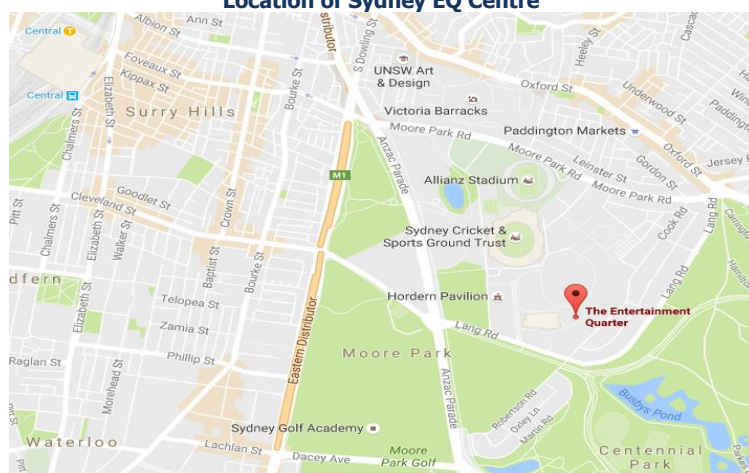
**Attractive location**

**Location** - The location is attractive for IDZ, within the popular entertainment precinct and adjacent to the SCG and Allianz Stadium, Moore Park Showground, Hoyts cinemas, the Hordern Pavilion and Fox Studios. The site is less than 5 km from the city, with good transport links (close to the new light rail) and available parking for 2,000 cars, with 24/7 availability and potential for a food and liquor licence.

**Accesses a large catchment**

It gives access to new markets across Central Sydney, Eastern, Northern, Southern and near Western suburban flyers (including professionals), as well a larger number of groups (including corporate, children’s parties and school groups) and the tourist/backpacker market. There is already a good level of awareness in the Greater Sydney region.

**Location of Sydney EQ Centre**



## EQUITY RESEARCH

**No significant impact on Penrith**

We expect little cannibalisation of Penrith Revenue, other than a small number of professionals, as little revenue is derived east of Parramatta. We believe Penrith can easily recover any revenue lost, through ongoing growth strategies.

**Revenue Model** - The operating model will be similar to Penrith, with a consistent use across the year from a wider flyer source and a high level of bookings, allowing quicker optimisation of operations. There are considerable synergies and savings in staffing, training, advertising, call centre and equipment.

**Expected utilisation rate of 75% in first full operational year**

Sydney EQ will contribute a substantial individual Tunnel EBITDA, without significantly increasing Corporate Costs. We expect utilisation levels of around 75% in FY19, increasing to 80% in FY20, based on a 12 hour day, although below the current 82.5% at Penrith.

Sydney EQ is expected to be substantial Revenue and EBITDA accretive as follows:

**Sydney EQ to contribute tunnel EBITDA of \$3.6m in FY19, increasing to \$4.0 in FY20**

Sydney EQ		*FY18	FY19	FY20	Assumptions
Retail (1st Flyer) Revenue	\$m	\$1.2	\$4.7	\$5.2	Staff Costs of 26.9% to fall 20.0%
Professional Revenue	\$m	\$0.2	\$1.0	\$1.1	Capital Costs \$15.0m
Merchandise of Revenue	\$m	\$0.1	\$0.5	\$0.6	Power costs around 7% of Revenue.
Groups Revenue	\$m	\$0.1	\$0.2	\$0.3	Lease Costs 5% of Revenue
Food & Drinks (Net)	\$m	\$0.1	\$0.2	\$0.3	SkyVenture Licence Fee 7% of Revenue
<b>Total Revenue</b>	<b>\$m</b>	<b>\$1.6</b>	<b>\$6.4</b>	<b>\$7.2</b>	Merchandise 9% of Revenue
Increase	%		299%	12%	Groups 5% of Retail Revenue
Utilisation Rate	%	70%	75%	80%	Food & Drink 4.0% of Revenue
Direct Operating Costs	\$m	-\$0.9	-\$2.9	-\$3.2	Depreciation over 30 years
<b>Facility EBITDA</b>	<b>\$m</b>	<b>\$0.8</b>	<b>\$3.6</b>	<b>\$4.0</b>	
Increase			374%	13%	
EBITDA Margin	%	46.5%	55.3%	56.2%	
Depreciation	%	-\$0.1	-\$0.5	-\$0.5	
<b>EBIT</b>	<b>\$m</b>	<b>\$0.7</b>	<b>\$3.1</b>	<b>\$3.5</b>	
Direct Operating Costs	%		359%	16%	

Source: Veritas Securities

\* 3 months only

## Malaysia

**To develop a Malaysian tunnel**

IDZ is in final negotiations for a further tunnel within the largest shopping mall in Kuala Lumpur, Malaysia, in partnership with a successful local developer.

IDZ is expected to invest A\$2.0m to \$2.5m under the partnership, which could be funded by the proposed Westpac facility, and includes preliminary expenses of around \$0.7m. We expect IDZ will source the tunnel from a manufacturer other than SkyVenture and will manage the tunnel, including staffing and general operations, which will include the use of its developed international booking and operational systems to manage the tunnel.

While we expect completion in the 2H FY18, this will depend on the developer's timetable. However, we expect a significant contribution in FY19, with a 3-5 year ROI expected, based on Profits and the Management Agreement, with additional incentives available, based on performance of the tunnel.

## Net Profit Contribution

**Sydney EQ to increase NPAT by \$1.8m in FY19 and \$2.8m in FY20**

While the above forecasts assume full funding of Sydney EQ by IDZ, the ultimate increase at the Pre-Tax and Net Profit line will depend on the funding mechanism used, for example:

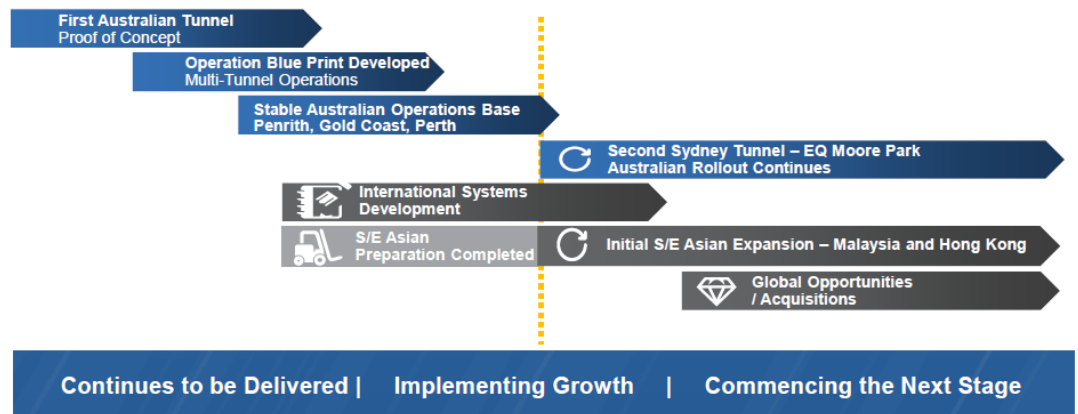
- All Debt and Cash Flow – Will increase interest charges, reducing the Pre-Tax Profit, with the extent depending on debt used. Our Preliminary Forecasts based on total IDZ financing and including Sydney EQ for 3 months of FY18 suggest an increase in NPAT for FY18, FY19 and FY20 of \$0.2m, \$1.8m and \$2.8m, after adjusting for Tax, expected to be initially charged in FY18.
- Investment by SkyVenture – Will have a significantly lower interest impact, with SkyVenture's minority interest to reduce Net Profit After Tax.

While we will not include Malaysia in our forecasts until the development and details are confirmed and timing is more certain, we have included \$1.0m of Capex for FY17 (including \$0.7m of initial development costs) and \$1.5m of Capex in FY18.

Note: Some pre-opening costs for Perth and Sydney costs are included in Corporate Costs.

### Development Strategy

The Sydney EQ and Malaysian tunnels are part of IDZ’s development strategy across; further Australian tunnels; opportunities in Malaysia, Singapore and Hong Kong; and other global acquisitions or development opportunities, based on success of the Sydney tunnel and expectations of strong Cash Flow from 3 operating tunnels from 2H FY17 onwards.



### Other Tunnels

**Penrith continues to grow**

**Penrith** – Continues to perform strongly, with growth in first timers, repeat user groups. This will be supported by growth strategies, including a new frequent flyers program and an expanded educational program. Visibility was increased significantly with increased participants and success of the 2<sup>nd</sup> Australian Championships.

**Gold Coast operations improving**

**Gold Coast** – Continues to improve into the seasonal peak from October to February. It was a recent category winner in the Best New Tourism Business Queensland Tourism awards and has been launched on Flight Centre and Viator inward bound tourist programs. The tunnel has been coordinated with training for parachute drop zone operators, especially with a outdoor skydive operator as a tenant.

We expect margins to improve with increased operational history. The user profile for the Gold Coast is different to Penrith, with a high level of walk-ins, currently over 40% (Penrith 15%), and high seasonal variations. However, operations are expected to benefit from the Commonwealth Games in April 2018, the seasonally quietest period.

**Perth to open on 9 December**

**Perth** - Commissioning underway with the official opening on 9/12/16 and online bookings currently available for flights from 17/12/16. In an early-bird session IDZ sold around 400 hours (about \$0.4m), with 220 hours sold within 3 minutes of opening. IDZ is also coordinating with 2 drop zone operators, reselling tunnel time.

The Perth flyer base is expected to be a combination of First Timers, groups and professionals, (including a significant military component). Professionals have a history of significant use of a tunnel in Singapore.

Valuation

Valuation of \$0.70 ps

We have a valuation for IDZ of \$0.70 ps on a fully diluted basis, based on an EVR model, including Sydney EQ, but excluding Malaysia. This covers:

- Enterprise Value to EBITDA ratio of 9.5x for FY19, the first year of full operation of all 4 Australian tunnels. This is below the weighted average ratio of 9.7x for the key participants in the leisure sector.
- Cash at the end of FY18, reflecting completion of Perth and Sydney and IDZ investment in Malaysia. With the operation of all 4 tunnels in FY19, Net Debt is expected to fall to \$4.4m (3.2¢ ps), moving to a Net Cash position in FY20.

VALUATION				
EVR	2019 EBITDA	Breakup Valuation Multiple	\$m	¢ ps
Operations	11.2	9.5	106.1	78.6
Net Cash/ Debt Adjustment FY18			-12.3	-9.0
<b>Valuation</b>	<b>\$m</b>		<b>93.8</b>	<b>69.6</b>
<b>Current Price</b>	<b>cps</b>		<b>38</b>	
Discount			45%	

Source: Veritas

Sydney increases valuation by 18¢ ps.

However, the ultimate valuation will depend on the funding model, with the Valuation and Forecasts above assuming total funding by IDZ, although an investment by SkyVenture would not have a substantial impact on our Valuation. For Example, a SkyVenture investment of 25% of tunnel cost would result in a slight reduction to the valuation to \$0.68 ps.

Company	Code	Price	Mkt Cap		Ent Val	EV/Revenue (x)				EV/EBITDA (x)				EBITDA Margins (%)				PER (x)				Yield (%)			
			A\$	A\$m		A\$m	17E	18E	19E	20E	17E	18E	19E	20E	17E	18E	19E	20E	17E	18E	19E	20E	17E	18E	19E
<b>Indoor Skydive</b>	<b>IDZ-AU</b>	<b>0.39</b>	<b>52</b>	<b>60</b>	<b>4.0</b>	<b>2.8</b>	<b>2.3</b>	<b>2.1</b>	<b>21.6</b>	<b>8.5</b>	<b>4.6</b>	<b>3.5</b>	<b>18.7</b>	<b>37.6</b>	<b>42.6</b>	<b>43.6</b>	<b>26.2</b>	<b>11.8</b>	<b>8.7</b>	<b>7.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	
Skydive the Beach	SKB-AU	0.60	269	266	3.2	2.7	2.5	2.4	12.1	10.0	8.8	8.1	26.2	27.3	28.8	29.1	22.2	17.0	13.8	13.1	1.7	1.7	4.2	5.9	
Ardent Leisure	AAD-AU	2.20	1032	1336	2.2	1.9	1.6	1.5	11.2	9.0	7.1	6.8	19.6	21.2	22.2	22.7	34.8	23.5	17.0	16.2	5.1	5.6	6.2	NA	
Corporate Travel	CTD-AU	17.67	1759	1729	5.2	4.6	4.2	4.0	19.4	16.7	14.6	12.8	26.8	27.8	28.6	31.1	31.2	26.4	22.8	19.9	1.7	2.1	2.4	2.7	
Event Hospitality & Ent	EVT-AU	13.85	2198	2232	1.7	1.6	1.6	1.5	8.6	8.0	7.6	7.0	19.6	20.1	20.4	21.6	15.9	14.9	13.6	12.5	4.1	4.4	4.8	5.4	
Village Roadshow	VRL-AU	4.50	727	1276	1.2	1.1	1.1	1.0	9.4	8.3	7.7	6.9	12.5	13.7	14.2	15.2	14.1	11.8	10.4	8.7	6.1	6.6	7.2	7.9	
Merlin Entertainment*	MERL-LON	7.02	7128	8839	3.4	3.1	2.9	2.7	11.2	9.9	9.4	9.2	30.6	31.3	30.7	29.6	19.2	16.3	15.8	15.6	1.2	1.3	1.4	1.5	
Mantra	MTR-AU	3.17	942	950	1.4	1.3	1.2	1.2	9.1	8.3	7.7	7.4	15.0	15.4	15.7	16.1	17.5	16.4	15.0	14.5	3.8	4.3	4.8	4.9	
Sealink Travel	SLK-AU	4.05	410	473	2.3	2.2	2.1	2.0	9.5	9.1	8.4	8.1	23.8	24.0	24.4	24.2	16.2	15.1	13.4	13.1	3.3	3.5	3.8	4.1	
Crown Resorts	CWN-AU	11.83	8617	10518	3.0	2.8	2.7	2.5	12.1	11.6	10.6	10.1	24.6	24.5	25.2	25.0	19.9	18.6	17.7	13.3	4.5	4.8	5.0	6.3	
SKYCITY Entertainment	SKC-AU	3.82	2511	2847	3.0	2.9	2.8	2.7	9.9	9.6	9.0	8.7	30.6	30.2	31.0	31.1	16.7	15.8	15.4	17.1	5.1	5.1	5.1	4.5	
<b>Weighted Average</b>			<b>25,323</b>	<b>30,201</b>	<b>3.0</b>	<b>2.8</b>	<b>2.6</b>	<b>2.5</b>	<b>11.5</b>	<b>10.5</b>	<b>9.7</b>	<b>9.2</b>	<b>25.6</b>	<b>26.0</b>	<b>26.3</b>	<b>26.2</b>	<b>20.1</b>	<b>17.8</b>	<b>16.5</b>	<b>14.7</b>	<b>3.4</b>	<b>3.7</b>	<b>3.9</b>	<b>4.2</b>	

Source: Veritas, FactSet

\* UK listed - Price, Mkt Cap & EV in A\$ at current exchange rates. Merlin's Australian & NZ operations include

aquariums (4), ski resorts (2), treetop walks (2), wildlife sanctuary/parks (2), Sydney Tower & Madame Tussauds

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 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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