

Indoor Skydive Australia Group

Raises \$17m to fund a Perth Tunnel and ongoing growth

IDZ has announced a \$17.0m equity raising comprising:

- A \$5.9m Rights Issue on a 2:15 basis, comprising 11.8m share at \$0.50 ps.
- A \$11.1m placement, comprising 22.2m shares at \$0.50 ps on an Ex-Rights basis.

The funds raised will be used to accelerate the tunnel roll-out, funding the construction of its third tunnel in Perth, and repay the Convertible Note.

Tunnelling into Perth

IDZ has announced the securing of a high profile site in Perth to construct the latest technology 14 foot Vertical Wind Tunnel at a cost of around \$10m. Construction is expected to commence in 2H FY2015 for completion during 2H FY2016.

Perth is an attractive location, given the site, the potential local and visitor traffic and the substantial professional and military presence. The potential returns on investment should be similar to IDZ's other tunnels.

Update shows continued strong support

IDZ has provided an update around Q1 FY2015 trading at Penrith. Key features were:

- Tunnel Revenue for Q1 of \$1.6m, compared to \$1.1m for 2 months of Q4 FY14.
- Cash receipts of \$1.8m, resulting in Operating Cash Flow of \$0.14m. The underlying result was stronger after adjusting for some carry-over expenses.
- Average occupancy of 70%, comprising 85% at weekends and 63.8% midweek, boosted by a strong retail market, and military and professional use.
- Operational performance has exceeded expectations, with lower operating costs.

This performance is similar to recent experiences of other new tunnels, which then have had continued strong occupancy and ongoing operational improvement, resulting in EBITDA margins of over 55%. This is reflected in stronger Revenue and EBITDA forecasts for Penrith over the balance of FY15, continuing into FY16 and FY17, from:

- NSW school holidays and a Christmas rush.
- IDZ looking to build mid-week through special education programs, corporate packages and targeting groups, such as the backpacker market and tunnel camps.
- An improved yield with a change in mix and a lower level of introductory offers.

Gold Coast development shines

The development of the Gold Coast is gaining momentum, with:

- A formal lease agreement and Development Approval for a 12 foot wind tunnel.
- The commencement of construction and tunnel fabrication for completion in mid/late CY2015, at a capital cost of between \$9.5m and \$10.5m.

Forecasts upgraded for Perth

Forecasts for FY16 and FY17 now include 2 and 12 months' contribution from Perth, with existing Full Year forecasts for Penrith and the Gold Coast mostly maintained.

We now expect EBITDA growth of 216% and 83% in FY16 and FY17 on Revenue growth of 106% and 53%.

Recommendation

We retain our BUY recommendation and Target Price of \$0.79 ps, based on:

- Indications of a strong initial take-up at Penrith and strong consumer acceptance.
- A quantum increase in profitability with the inclusion of the Gold Coast and Perth, with the strong prospect for further developments, each capable of generating investment returns similar to Penrith.
- The significant discount of the current share price to our Valuation of \$0.79ps.

IDZ.ASX

BUY

3 November 2014

Price **\$0.50**
Price Target **\$0.79**
 Valuation method EVR

GICS sector Consumer Services
 12 Mth Price Range \$0.47 - 0.92
 Avg monthly share turnover 1.4m
 Market Capitalisation* \$61m
 Shares on Issue* 122.4m
 Enterprise Value* \$54m
 Previous Rating **BUY**

* includes 19.5m unlisted escrow shares

Year Ended June 30	13A	14A	15E	16E	17E	18E
Operating Revenue \$m	0.0	1.1	7.1	14.4	22.6	25.9
EBITDA	\$m	-0.8	-2.1	1.9	5.7	10.9
<i>Increase</i>	%	na	na	209	91.3	17.5
<i>EBITDA margin</i>	%	na	26.2	39.6	48.4	49.5
EBIT	\$m	-0.8	-2.6	0.6	4.1	9.0
<i>EBIT margin</i>	%		-227	8.8	28.3	39.8
NPAT	\$m	-0.6	-1.8	0.5	3.8	6.7
<i>NPAT growth</i>	%			708	74.9	20.9
EPS*	¢ps		-2.3	0.4	3.1	5.5
<i>EPS growth</i>	%			615	74.9	20.9
DPS	¢ps		0.0	0.0	0.0	0.0
Franking	%		0.0	0.0	0.0	0.0
PER*	x		0.0	114.7	16.0	9.2
Dividend yield	%		0.0	0.0	0.0	0.0
NTA/share	¢ps	9.9	16.7	26.0	29.4	35.0
EV/EBITDA	x		29.2	9.9	4.2	2.7
Gearing (D:E)	%		0.5	0.0	0.0	0.0
P/OCF	x		na	17.0	12.1	5.4
ROA	%		-14.3	3.9	11.0	18.9
ROE	%		-13.4	4.1	12.0	17.4
Interest cover (EBIT)	x		-10.2	2.4	na	na

* Assumes full take-up of Rights Issue

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



Activities

The operation of Indoor Skydiving Centres in Australia and New Zealand

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Indoor Skydive Aust Group (IDZ)

Current Price: \$0.50 ps

Target Price: \$0.79 ps

PROFIT & LOSS

Year ended 30-Jun	2013 A	2014 A	2015 E	2016 E	2017 E	2018 E	
Sales Revenue	\$m	0.0	1.1	7.1	14.4	22.6	25.9
Expenses	\$m	-0.8	-3.2	-5.2	-8.7	-10.9	-12.3
EBITDA	\$m	-0.8	-2.1	1.9	5.7	10.9	12.8
Depreciation	\$m	0.0	-0.2	-0.7	-1.3	-1.7	-1.7
Amortisation	\$m	0.0	-0.3	-0.5	-0.3	-0.2	-0.2
EBIT	\$m	-0.8	-2.6	0.6	4.1	9.0	11.0
Interest (Net)	\$m	-0.1	-0.1	-0.1	0.0	0.4	0.6
Pre Tax Profit	\$m	-0.9	-2.7	0.5	4.1	9.4	11.5
Tax	\$m	0.3	1.0	0.0	-0.3	-2.7	-3.5
Normalised Profit	\$m	-0.6	-1.8	0.5	3.8	6.7	8.1
Significant Items (Net)	\$m	0.0	-1.0	-0.6	0.0	0.0	0.0
Reported Profit	\$m	-0.6	-2.7	-0.1	3.8	6.7	8.1

Growth

	2013 A	2014 A	2015 E	2016 E	2017 E	2018 E	
Revenue	%			51.4	104.5	56.5	14.8
Expenses	%			62.9	67.4	25.4	12.9
EBITDA	%				208.5	91.3	17.5
EBIT	%				560.1	120.2	22.0
Normalised Profit	%				708.1	74.9	20.9
EPS	%				614.6	74.9	20.9

P&L Ratios

	2013 A	2014 A	2015 E	2016 E	2017 E	2018 E	
EBITDA / Sales	%		-179.4	26.2	39.6	48.4	49.5
EBIT / Sales	%		-226.7	8.8	28.3	39.8	42.3
Effective Tax Rate	%		35.8	0.0	6.6	29.0	30.0
Interest Cover	x		-10.2	2.4	na	na	na

Per Share

	2013 A	2014 A	2015 E	2016 E	2017 E	2018 E	
Issued Shares*	m	58.8	87.3	122.4	122.4	122.4	122.4
Issued Shares (Wt Avg)*	m		77.2	108.3	122.4	122.4	122.4
EPS*	eps		-2.3	0.4	3.1	5.5	6.6
Operating Cash Flow ps	eps		-0.8	2.9	4.1	9.3	9.4
Free Cash Flow	eps		-16.9	-9.1	-2.0	8.8	9.0
DPS	eps		0.0	0.0	0.0	0.0	0.0

Parameters

	2013 A	2014 A	2015 E	2016 E	2017 E	2018 E	
PE Ratio*	x			114.7	16.0	9.2	7.6
Enterprise Value / EBITDA	x			29.2	9.9	4.2	2.7
Enterprise Value / Profit	x			114.7	14.8	6.9	4.3
Cash Flow ratio	x			17.0	12.1	5.4	5.3
Dividend Yield	%			0.0	0.0	0.0	0.0

Parameters

	2013 A	2014 A	2015 E	2016 E	2017 E	2018 E
Revenue						
Penrith	\$m	12	7.1	8.6	9.4	10.0
Gold Coast	\$m			5.1	6.8	8.8
Perth	\$m			0.8	6.4	7.2
EBITDA						
Penrith	\$m	-0.3	4.1	5.1	5.8	6.2
Gold Coast	\$m			2.7	3.9	5.1
Perth	\$m			0.3	3.6	4.1
Corporate	\$m	-1.5	-2.2	-2.4	-2.4	-2.5
Margin						
Penrith	%		57.4	59.8	61.9	61.7
Gold Coast	%			53.2	57.0	57.9
Perth	%			36.3	57.0	57.1

VALUATION

Valuation Method	\$	Premium(+)/Discount	%
EVR	0.79	Current Price	-36.5
DCF	106	Current Price	-52.8
Market Capitalisation	\$60m	Enterprise Value	\$60.3m

* Assumes Full Take-up of Rights Issue

CASH FLOW

Year ended 30-Jun	2013 A	2014 A	2015 E	2016 E	2017 E	2018 E	
Operating EBITDA	\$m	-0.8	-2.1	1.9	5.7	10.9	12.8
Net Interest Paid	\$m	-0.1	-0.1	-0.1	0.0	0.4	0.6
Tax Paid	\$m	0.0	0.0	0.0	0.0	-0.3	-2.7
Chg WorkCap	\$m	0.0	0.6	1.0	-1.4	-0.7	-0.2
Other	\$m	0.2	1.0	0.5	0.7	1.0	1.0
Operating Cash Flow	\$m	-0.7	-0.7	3.2	5.0	11.3	11.5
Capex	\$m	-2.5	-12.5	0.0	-0.5	-0.5	-0.5
Capitalised D'ment Costs	\$m	0.0	0.0	-13.0	-7.0	0.0	0.0
Free Cash Flow	\$m	-3.2	-13.1	-9.8	-2.5	10.8	11.0
Acquisitions/Asset Sales	\$m	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
Equity Raised	\$m	6.4	9.8	17.0	0.0	0.0	0.0
Debt (change)	\$m	2.0	-0.5	-1.5	0.0	0.0	0.0
Change in Net Cash	\$m	5.2	-3.8	5.6	-2.5	10.8	11.0

BALANCE SHEET at 30/6

	2013 A	2014 A	2015 E	2016 E	2017 E	2018 E	
Cash	\$m	5.2	14	7.1	4.6	15.4	26.4
Receivables	\$m	0.1	0.3	1.5	3.1	4.8	5.5
Inventory	\$m	0.0	0.0	0.2	0.5	0.5	0.5
Other Current Assets	\$m	0.0	0.0	0.2	0.2	0.2	0.3
Current Assets	\$m	5.3	1.7	9.0	8.4	20.9	32.7
Property, Plant & Equipment	\$m	5.0	17.2	26.2	34.2	32.9	31.6
Intangibles	\$m	0.0	1.2	0.7	0.4	0.3	0.2
Other NC Assets	\$m	0.0	1.4	1.1	0.4	0.0	0.0
Non Current Assets	\$m	5.0	19.8	28.0	35.1	33.2	31.8
Total Assets	\$m	10.3	21.5	37.0	43.5	54.1	64.5
Payables	\$m	0.3	1.1	3.5	4.0	5.0	5.5
Current Debt	\$m	0.0	1.5	0.0	0.0	0.0	0.0
Pre-Sales	\$m	0.0	0.9	1.1	1.4	1.8	2.2
Other Current Liabilities	\$m	0.0	0.1	0.1	0.1	0.2	0.3
Current Liabilities	\$m	0.3	3.6	4.7	5.6	7.0	8.0
Non Current Debt	\$m	2.0	0.0	0.0	0.0	0.0	0.0
Prov for Site restoration	\$m	2.1	2.2	-0.4	1.5	4.1	5.3
Non Current Liabilities	\$m	4.1	2.2	-0.4	1.5	4.1	5.3
Total Liabilities	\$m	4.5	5.8	4.4	7.0	11.0	13.4
Shareholder Funds	\$m	5.9	15.7	32.6	36.4	43.1	51.2

BALANCE SHEET Ratios

	2013 A	2014 A	2015 E	2016 E	2017 E	2018 E	
Net Debt	\$m	0.0	0.1	0.0	0.0	0.0	0.0
Gearing (D/E)	%	0.0	0.5	0.0	0.0	0.0	0.0
Current Ratio (CA / CL)	x	15.4	0.5	1.9	1.5	3.0	4.1
Net Assets	eps	9.9	18.0	26.6	29.7	35.2	41.8
Net Tangible Assets	eps	9.9	16.7	26.0	29.4	35.0	41.7
Cash	eps	5.5	0.0	5.8	3.8	12.6	21.6
Return On Assets	%		-14.3	3.9	11.0	18.9	18.8
Return on Equity	%		-13.4	4.1	12.0	17.4	17.5

MAJOR SHAREHOLDERS**

Excalib-Air et al	m	17.2	14%	Wayne Jones (CEO) & Daniel Hogan (COO)
Birkdale Holdings	m	15.0	12%	Steve Baxter (NE Director)
Greencape	m	10.9	9%	Institution
Acorn	m	10.0	8%	Institution
LHC	m	7.2	6%	Institution
Top 20 (7/8/14)	m	0.0	59%	

DIRECTORS

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

** Subject to take-up under Rights Issue

Source: IDZ (Actual) & Veritas (Estimate)

EQUITY RESEARCH

\$16.9m in Equity Issues to fund Perth, redeem C/Ns and working capital

Placement and Rights issue

IDZ has announced a \$17.0m Equity Raising at \$0.50 ps, a 16.5% discount to the 30 day VWAP, comprising:

- A non-renounceable \$5.9m Rights Issue on a 2:15 basis (11.8m shares at \$0.50ps), XR on 6/11/14. Shareholders can apply for shares in excess of their entitlement. Applications close on 21/11/14;
- An \$11.1m placement (22.2m shares at \$0.50 ps). These shares do not rank for the Rights Issue.

The funds are to be used to:

- Redeem the Convertible Notes, currently drawn to \$4.1m, due to expire at 10 December 2014. This eliminates the potential dilution of the Issue Capital at a note conversion price of \$0.20 ps.
- Fund the construction of a new Vertical Wind Tunnel (VWT) in Perth, in line with the current strategy of multiple projects under development.

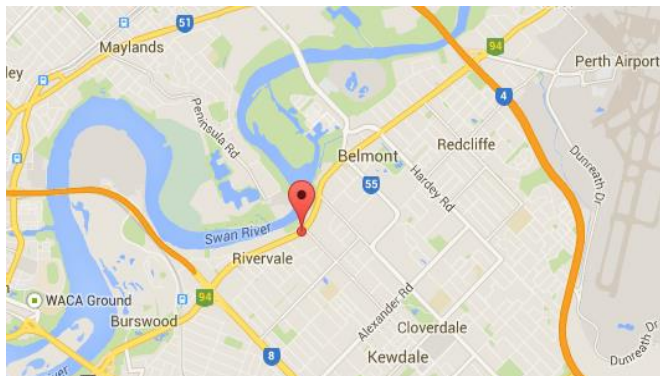
These issues increase the Issued Capital by 38.2% to 122.4m and at the issue price increases the Market Capitalisation to \$61.2m.

Perth Vertical Wind Tunnel

IDZ has announced a 20 year lease (plus 2 x 10 year options) for the development of its third VWT in Perth, to be located on a 3,931 m² site on the Great Eastern Highway between the Burswood Casino and the Perth Airport. IDZ will construct a 14 foot tunnel using the latest technology at a cost of between \$10m and \$12m, with construction expected to commence in 2H FY2015 for completion during 2H FY2016. The VWT will be funded by the above equity issues and will cater for both retail customers, the military and professional skydivers.

To construct a 14 ft wind tunnel in Perth at a cost of \$10m

Location of Perth tunnel



Strong demand is expected for Perth

The rationale for Perth is as follows:

- An excellent site on a high volume highway with high exposure.
- There is a large and active skydiving community in Perth, as evidenced by the:
 - Large take-up of early bird offers at an international skydiving event ahead of the Penrith launch.
 - Estimated 150 hours flying time by Perth based skydivers over the 6 months in the iFly Singapore tunnel.
- A military component including the Pearce, Learmouth, Curtin, Palmer and Stirling military bases.
- A population of 1.9m, supplemented by 13.2m¹ visitors to Perth in FY2013, staying 4 nights on average and spending in excess of \$5.5b.
- There is large high income demographic, including a large Fly In Fly Out workforce.

Perth will have a similar operating model to Penrith & the Gold Coast

Economics of the Tunnel

While the operating model for Perth will be similar to both Penrith and the Gold Coast, it will differ in some aspects. The key features will be:

- Expected 13 operating hours per day, although it's anticipated the tunnel will have a 24 hour operating licence, similar to Penrith and the Gold Coast.
- A higher retail utilisation level to Penrith, given its location, but slightly less than the Gold Coast.
- A higher professional and military use than the Gold Coast (although less than Penrith), due to tunnel size, a larger sky diving community and location of military bases.
- Similar levels of Merchandise and Food and Drink to Penrith.
- A similar cost structure, although the inclusion of updated tunnel technology may reduce operating costs.
- A significant potential level of corporate and educational opportunities.

Like the Gold Coast, we would expect the unit flier cost to be lower than Penrith, given technological advances of the newer tunnels and IDZ's operating experience. There is also the prospect of SkyVenture participating in the funding under the Joint Territory Development Agreement, in return for a share of profits.

Forecasts for Perth

Our forecasts for FY16 include 2 months' operation of Perth, expecting:

- Total Revenue of \$0.8m, assuming a utilisation rate of 27% and average utilised hourly yield of \$2,030, or \$960 per opening hour.
- An EBITDA contribution of \$0.3m, with a margin of around 40%.
- The capitalisation of a large element of the development costs until the tunnel commences operation, similar to Penrith and the Gold Coast.

For FY17, assuming a full year of operations, we expect:

- Total Revenue of \$5.8m, assuming a utilisation rate of 35% and an average yield of \$2,220 per hour flown, or \$1,230 per operating hour.
- An EBITDA contribution of \$3.3m, with a margin of 56%.

Perth		FY16	FY17	FY18	FY19	FY20
Retail						
Hours per Day (9am -10pm)	Hours	13	13	13	13	13
Hours pa (364 days)	Hours	780	4732	4732	4732	4732
Flyer Capacity (36/ hour)	000	28.1	170.4	170.4	170.4	170.4
Effective Utilisation		27%	35%	38%	40%	43%
Price per customer	\$	75	83	85	85	85
Retail Revenue	\$m	\$0.6	\$4.9	\$5.6	\$5.9	\$6.2
Professional						
Hours per day	Hours	1.94	2.25	2.30	2.30	2.35
Utilisation Hours	Hours	116	821	840	840	858
Price per Hour	\$	1100	1200	1220	1220	1220
Professional Revenue	\$m	\$0.1	\$1.0	\$1.0	\$1.0	\$1.0
Merchandise Revenue	\$m	0.05	0.38	0.43	0.45	0.47
Food & Drinks (Net)	\$m	0.01	0.10	0.12	0.12	0.13
Total Revenue	\$m	0.8	6.4	7.2	7.46	7.79
<i>Increase</i>			<i>20.6%</i>	<i>12.1%</i>	<i>4.2%</i>	<i>4.4%</i>
Direct Operating Costs	\$m	-0.5	-2.7	-3.1	-3.2	-3.3
Facility EBITDA	\$m	0.3	3.6	4.1	4.3	4.4
<i>Increase</i>			<i>28.3%</i>	<i>12.4%</i>	<i>4.0%</i>	<i>4.6%</i>
EBITDA Margin		36%	57%	57%	57%	57%

Source: Veritas Securities

Note: While FY16 assumes 2 months of operation, this will depend on timing of completion.

¹ Australian Government –Tourism Research Australia.

Development of Gold Coast tunnel progressing quickly

Gold Coast Progress

The development of the Gold Coast facility is gaining momentum, with:

- A formal lease agreement for 20 years with 2x10 year options.
- Development Approval for a 12 foot wind tunnel able to operate on a 24 hour 7 days per week basis and 300m² of retail space.
- Completion of geotechnical investigations.
- Fabrication of the specialist VWT components well underway with completion expected in late January 2015.
- Construction commenced in October 2014 for completion mid/late CY2015, at a capital cost of between \$9.5m and \$10.5m. This initially involves:
 - Initial refurbishment of shops on the south of the site, which will be leased during construction.
 - Removal of the building, tarmac and fill from the north part of the site, previously used for car hire.

Current Site



Gold Coast Position



Finished facility



The Gold Coast location should generate strong traffic

The Gold Coast Wind tunnel is ideally located, as:

- It has a 2 street frontage, with good access.
- The new Gold Coast Light Rail passes its front door, with easy access to the Cavill Avenue and the Surfers Paradise stops. The Light Rail handled over 1m passengers³ in the first 2 months of operation, with calls already to extend the service to join heavy rail services and the Gold Coast Airport.
- It is in the tourist heartland, opposite "The Legends", Holiday Inn and 7D Cinema, between Cavill Avenue and the SkyPoint Observation Deck. It is estimated there were over 11.8m² domestic and international visitors to the Gold Coast in the year to June 2013, staying on average 4 nights and spending around \$4.6b, as well as a population of around 0.55m. These numbers will be boosted in 2018 with the hosting of the Commonwealth Games.

² Australian Government –Tourism Research Australia

³http://article.wn.com/view/2014/09/18/Gold_Coast_light_rail_marks_1_million_trips/

Gold Coast Forecasts

While our model is similar to Penrith, there are differences related to:

Gold Coast operating model has strong emphasis on retail

- While the facility has a 24 hour licence, initial opening will be for 13 hours.
- Due to a pre-dominant 1st time flyer market, the initial flyer yield is expected to be higher than Penrith.
- Professional utilisation will be less, due to the smaller tunnel, the higher tourist component and shorter operating hours.
- A higher level of merchandise and food and drink sales due to Flyer mix.
- This is expected to generate revenue in FY2016 of \$5.1m, reflecting an average utilised hourly yield of \$2,514, or \$1,070 per opening hour. Revenue is expected to increase in FY17 to \$6.8m, with average utilised hourly yield of \$2,821, or \$1,440 per opening hour.
- With lower power costs associated with a 12 foot tunnel and other efficiencies, this is expected to result in EBITDA margins of 53% and 57%.

Gold Coast		FY16	FY17	FY18	FY19	FY20
Retail						
Hours per Day (9am -10pm)	Hours	13	13	13	13	13
Hours pa (364 days)	Hours	4732	4732	4732	4732	4732
Flyer Capacity (36/ hour)	000	170.4	170.4	170.4	170.4	170.4
Effective Utilisation		32%	42%	50%	48%	50%
Price per customer	\$	80	83	90	88	90
Retail Revenue	\$m	\$4.4	\$5.9	\$7.7	\$7.2	\$7.7
Professional						
Hours per day	Hours	1.00	1.10	1.20	1.20	1.20
Utilisation Hours	Hours	364	400	437	437	437
Price per Hour	\$	1000	1050	1100	1150	1150
Professional Revenue	\$m	\$0.4	\$0.4	\$0.5	\$0.50	\$0.50
Merchandise Revenue	\$m	0.28	0.38	0.50	0.47	0.50
Food & Drinks (Net)	\$m	0.07	0.09	0.11	0.11	0.11
Total Revenue	\$m	5.1	6.8	8.8	8.3	8.8
<i>Increase</i>			<i>33.9%</i>	<i>28.8%</i>	<i>-5.2%</i>	<i>5.7%</i>
Direct Operating Costs	\$m	-2.4	-2.9	-3.7	-3.6	-3.8
Facility EBITDA	\$m	2.7	3.9	5.1	4.7	5.0
<i>Increase</i>			<i>43.5%</i>	<i>31.0%</i>	<i>-6.9%</i>	<i>6.2%</i>
EBITDA Margin		53%	57%	58%	57%	57%

Source: Veritas Securities

Note: FY16 forecasts assume a full year's operation of the Gold Coast Tunnel.

SkyVenture expected to participate in funding

We would expect SkyVenture to participate in the funding under the Joint Territory Development Agreement, in return for a share of profits.

Other locations

Identification of new sites well underway

IDZ has indicated that it's progressing other potential sites, with:

Adelaide – A preferred site has been selected, with planning proceeding for the next stage.

Melbourne – Site identification and investigation underway.

Asia – Exploration of opportunities underway and discussions commenced.

Q1 FY2014 Results

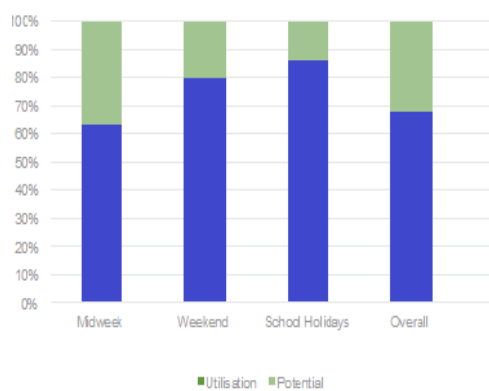
Strong Cash Flow and revenue in Q1 FY15

IDZ has released the Cash Flow Statement and provided a revenue and trading update for Q1 FY2015, with the performance to date exceeding expectations. While the quarter represented the first full period result for the Penrith tunnel, it's still in ramp-up mode. Key features of the result were:

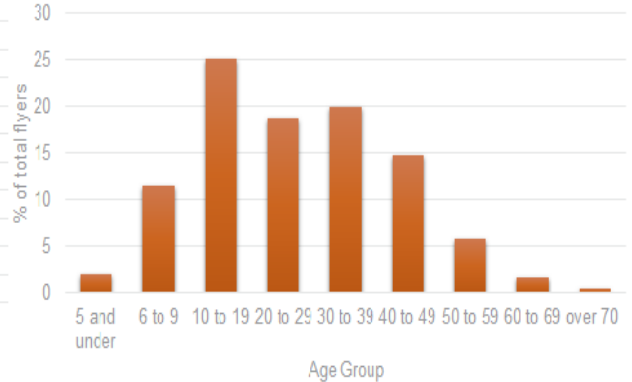
- Revenue for Q1 of \$1.6m from tunnel operation, compared to \$1.1m for 2 months of Q4 FY2014. This does not include pre-sales vouchers sold through Adrenalin.
- Cash Flow of \$1.8m, exceeding Revenue with advanced bookings directly through IDZ.
- Net Operating Cash Flow of \$0.14m, held back by the carry-over of some costs associated with Penrith and some expenses on the Gold Coast not fully capitalised.
- Average occupancy of 69.8%, comprising occupancy of 85% at weekends and 63.8% midweek, boosted by school holiday occupancy, which peaked at 97.6%. Utilisation is based on normal operating times (ie 15 hours).
- A strong retail market, with 11 to 15 year olds, the largest age group, supporting the establishment of a junior iflyer and frequent flyer programs.

Average occupancy of 70% during Q1

Typical Utilisation Rates



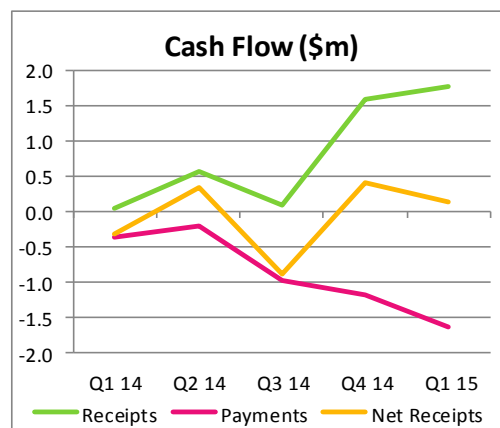
Age of Flyers



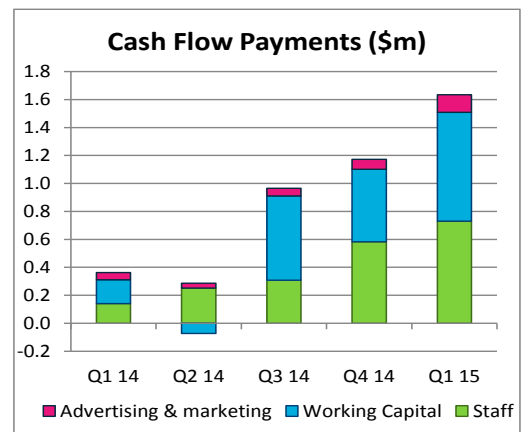
Source: IDZ

- Operational performance has exceeded expectations with operating costs, especially electricity consumption, lower than anticipated.
- Cash on the Balance Sheet of \$0.9m. Subsequently, a further \$1.1m was drawn down from the Convertible Note facility to support the Gold Coast project, increasing the total draw down from \$3.0m to \$4.1m.

This performance is similar to recent experiences of other new tunnels, mainly in the US.



Source: IDZ



Source: IDZ

EQUITY RESEARCH

Revenue and Cash Flow to Escalated over the balance of FY15

We would expect stronger Revenue and Cash Flow in over the balance of FY2015, with:

- NSW school holidays and a Christmas rush, not only in direct bookings, but also through its online site and other indirect channels.
- IDZ looking to build mid-week through special education programs, corporate packages and targeting groups, such as the backpacker market.
- Increasing benefits from its junior iflyer and frequent flyer programs.
- Tunnel Camp agreements with the New Zealand Parachute Federation and other professional organisations.
- An improved yield with a change in mix and a lower level of introductory offers and additional features, such as Fly High (to the top of the tunnel) and coaching sessions.
- An increasing take-up by the various military branches.

Penrith Forecasts

For FY2015 and FY2016, we have maintained our forecasts, although we have adjusted the components along the following lines:

- An increase in utilisation from 27.5% to 35% in FY15 and 33.5% to 40% in FY2016.
- An offsetting reduction in the flyer yield, with use of initial discounts, sales through its third party online promoter and other promotions. However, we expect a continued improvement in flyer yields towards previously forecast levels with the strategies outlined above.
- While indications suggest that power costs will be lower than originally anticipated, we have retained our original forecasts.
- We have changed the basis for amortisation of the \$2.5m Territory Development Agreement to a 40% accelerated basis, increasing amortisation in FY15 and FY16.

These forecasts are in line with other recently opened VWTs, which have had continued strong occupancy and ongoing operational improvement, resulting in EBITDA margins of over 55%.

Penrith		FY15	FY16	FY17	FY18	FY19	FY20
Retail							
Hours per Day (8am -11pm)	Hours	15	15	15	15	15	15
Hours pa (364 days)	Hours	5,460	5,460	5,460	5,460	5,460	5,460
Flyer Capacity (36/ hour)	000	196.6	196.6	196.6	196.6	196.6	196.6
Effective Utilisation		35%	40%	43%	44%	45%	45%
Price per customer	\$	75	83	85	88	90	90
Retail Revenue	\$m	\$5.2	\$6.5	\$7.1	\$7.6	\$7.9	\$8.0
Professional							
Hours per day	Hours	3.3	3.4	3.5	3.6	3.7	3.8
Utilisation Hours	Hours	1200	1250	1300	1350	1380	1400
Price per Hour	\$	1250	1290	1330	1360	1370	1380
Professional Revenue	\$m	\$1.5	\$1.6	\$1.7	\$1.8	\$1.9	\$1.9
Merchandise Revenue	\$m	0.26	0.32	0.38	0.42	0.45	0.48
Food & Drinks (Net)	\$m	0.07	0.10	0.13	0.15	0.17	0.18
Total Revenue	\$m	7.0	8.5	9.3	10.0	10.4	10.5
<i>Increase</i>			22.1%	9.6%	6.7%	4.1%	1.6%
Direct Operating Costs	\$m	-3.0	-3.4	-3.6	-3.8	-4.0	-4.1
Facility EBITDA	\$m	4.0	5.1	5.8	6.1	6.4	6.5
<i>Increase</i>			27.6%	13.5%	6.3%	4.0%	1.6%
EBITDA Margin		57%	60%	62%	62%	62%	62%

Source: Veritas Securities

Corporate Base expanded

IDZ has also increased its Corporate Base with the establishment of a Project Management Office and the appointment of Stephen Burns as Chief Financial Officer, adding considerable experience in establishing operations in multiple jurisdictions.

Combined Tunnel Forecasts

Revenue to reach \$22.5m with full operation of the 3 tunnels

The combined forecasts for FY2016 below include a full 12 months from the Gold Coast and 2 months' contribution from Perth. Delays in commencement at these 2 sites will impact on these forecasts.

Combined Results		FY15	FY16	FY17	FY18	FY19	FY20
Combined Revenue	\$m	7.0	14.4	22.5	25.9	26.1	27.1
<i>Increase</i>	%	534.9	105.5	57.0	14.9	1.0	3.7
Combined Facility EBITDA	\$m	4.0	8.1	13.3	15.3	15.4	16.0
<i>Increase</i>	%	-1258.7	102.1	64.9	15.2	0.4	3.8
<i>Margin</i>	%	57.1	56.2	59.0	59.1	58.8	58.8
Group Corporate Costs	\$m	-2.2	-2.4	-2.4	-2.5	-2.5	-2.5
Group EBITDA	\$m	1.8	5.7	10.9	12.8	12.9	13.5
<i>Increase</i>	%	-193.5	216.4	92.3	17.6	0.5	5.0
<i>Group Margin</i>	%	25.6	39.5	48.4	49.5	49.2	49.8
Total Depreciation & Amortisation	\$m	-1.2	-1.6	-1.9	-1.9	-1.8	-1.8
EBIT	\$m	0.6	4.0	9.0	10.9	11.0	11.7
Interest (Net)	\$m	-0.2	0.0	0.4	0.6	1.0	1.5
Pre-Tax Profit	\$m	0.4	4.0	9.4	11.5	12.0	13.2
Tax	\$m	0.0	-0.2	-2.8	-3.4	-3.6	-4.0
Net Profit	\$m	0.4	3.8	6.6	8.0	8.4	9.2
Group Margins - EBITDA	%	25.6	39.5	48.4	49.5	49.2	49.8
Group Margins - EBIT	%	8.0	28.1	39.8	42.3	42.2	43.1
Issued Capital	m	122.3	122.3	122.3	122.3	122.3	122.3
Average Weighted Capital	m	108.2	122.3	122.3	122.3	122.3	122.3
EPS	¢ ps	0.3	3.1	5.4	6.6	6.9	7.6

Source: Veritas

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

These forecasts assume full take-up of the Rights Issue.

Valuation

Valuation of \$0.79 ps

We have a valuation for IDZ of \$0.79 ps on a fully diluted basis based on an EVR model, including:

- Enterprise Value to EBITDA ratios for each tunnel based on FY2017 results, the first year of full operation of all 3 tunnels.
- A Value of \$2m on the Joint Territory Development Agreement, which prevents the use of SkyVenture tunnels by any other operator in Australia and New Zealand and provides joint funding opportunities.
- Expected cash at 30/6/15 of \$7.0m. This is expected to increase to \$15.2m in FY2017, providing the means to fund additional VWTs.

VALUATION			
Valuation Method	EVR	2017 EBITDA	Breakup Valuation Multiple \$m
Penrith		5.8	7.9 46
Gold Coast		3.9	7.5 29
Perth		3.6	7.0 25
Corporate		-2.4	5.5 -13
JTDA			2
Net Cash/ Debt Adjustment	FY15		7
Valuation		\$m	96
Valuation		cps	79
Current Price		cps	50
Discount			36%

Source: Veritas

EQUITY RESEARCH

Appendix 1 – Valuation Comparison

LEISURE

Company	Code	Activities	Sales (\$m)					EBITDA (\$m)					Net Profit(\$m)						
			2013A	2014E	2015E	2016E	2017E	2013A	2014E	2015E	2016E	2017E	2013A	2014E	2015E	2016E	2017E		
Indoor Skydive	IDZ-AU	Indoor skydiving		1.1	7.0	14.4	22.5		-0.8	-2.1	1.8	5.7	10.9		-0.6	-1.8	0.4	3.8	6.6
Ardent Leisure	AAD-AU	Entertainment & leisure	449	500	577	659	744	91.8	105.4	127.3	149.7	172.7	35.6	49.0	63.6	75.5	89.3		
Amalgamated Hold	AHD-AU	Cinemas, hotels, ski fields	802	1097	1150	1221	1279	159.6	174.4	203.1	220.0	238.8	85.8	78.6	96.7	107.1	120.8		
Village Roadshow	VRL-AU	Cinemas & theme parks	901	939	993	1029	1062	161.8	169.3	186.6	202.7	215.3	50.9	45.8	68.3	78.2	86.9		
Merlin Entertainment*	MERL-LON	Int'l theme parks & aquariums	1192	1240	1339	1447	1589	390.1	403.9	437.5	476.2	523.7	160.5	171.4	188.7	208.7	231.6		
Donaco International	DNA-AU	Asian casinos & gaming	16	28	59	78	89	10.7	10.2	33.1	45.1	52.8	7.0	6.8	24.1	33.9	40.4		
Crown Resorts	CWN-AU	Hotel/casinos in Aust, Asia & US	2878	3079	3068	3224	3397	752.6	797.5	842.3	898.6	916.3	395.8	655.8	647.7	750.4	879.8		
SKYCITY Entertainment	SKC-AU	Hotels & casinos in NZ	688	820	824	892	951	263.8	257.8	283.0	311.8	338.8	114.0	98.1	121.5	133.7	141.6		

Company	Code	Price A\$	Mkt Cap A\$m	Ent Val A\$m	EV/Sales (x)					EV/EBITDA (x)					PER (x)					
					2013A	2014E	2015E	2016E	2017E	2013A	2014E	2015E	2016E	2017E	2013A	2014E	2015E	2016E	2017E	
Indoor Skydive	IDZ-AU	0.50	61	54		249.2	3.8	2.4		30.3	9.6	5.0		148.9	16.1	9.2				
Ardent Leisure	AAD-AU	3.39	1487	1740	3.9	3.5	3.0	0.1	2.3	19.0	16.5	13.7	0.4	10.1	41.8	30.3	23.4	0.8	16.7	
Amalgamated Holdings	AHD-AU	9.70	1532	1552	1.9	1.4	1.3	1.3	1.2	9.7	8.9	7.6	7.1	6.5	17.9	19.5	15.8	14.3	12.7	
Village Roadshow	VRL-AU	6.98	1113	1478	1.6	1.6	1.5	1.4	1.4	9.1	8.7	7.9	7.3	6.9	21.9	24.3	16.3	14.2	12.8	
Merlin Entertainment*	MERL-LON	6.55	6642	8428	3.9	3.7	3.4	3.2	2.9	11.8	11.4	10.5	9.7	8.8	41.4	38.7	35.2	31.8	28.7	
Donaco International	DNA-AU	0.94	431	345	22.0	12.2	5.9	4.4	3.9	32.3	34.0	10.4	7.7	6.5	61.4	63.5	17.9	12.7	10.7	
Crown Resorts	CWN-AU	14.07	10249	11814	4.1	3.8	3.9	3.7	3.5	15.7	14.8	14.0	13.1	12.9	25.9	15.6	15.8	13.7	11.6	
SKYCITY Entertainment	SKC-AU	3.49	2030	2590	3.8	3.2	3.1	2.9	2.7	9.8	10.0	9.2	8.3	7.6	17.8	20.7	16.7	15.2	14.3	
Weighted Average			23484	27947		4.0	3.6	3.4	3.0	2.9	13.7	13.0	11.8	10.1	10.2	30.5	25.1	21.9	18.2	17.1

Source: Veritas, FactSet

* UK listed - P&L in £, with Price, Market Cap & Enterprise Value in A\$

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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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