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IceTV HOLDINGS LIMITED

SPECULATIVE INVESTMENT: With a simple but compelling value proposition, IceTV is a growth story leveraged to the enormous changes underway in home entertainment in Australia.

DETAILS OF THE OFFER:

Price per new share	\$0.50	Plus one free option for every two shares
Minimum funds to be raised	\$2,500,000	
Over-subscriptions	\$1,500,000	
Maximum funds to be raised	<u>\$4,000,000</u>	
Maximum new shares	8,000,000	
Existing shares	<u>12,000,000</u>	
	<u>20,000,000</u>	
Market Cap at offer price	\$10,000,000	

INVESTMENT HIGHLIGHTS

- IceTV owns and operates Australia's only free-to-air, subscription-based electronic program guide (EPG). Its value proposition is very straightforward; the EPG enables the simple and effective use of the new wave of home entertainment digital recording devices, including DVRs and PC based Media Centres.
- With its EPG, IceTV is creating a gateway to a new home entertainment paradigm that will open up, in the future, a potentially vast source of television content through the internet, and independent of commercial television broadcasters.
- IceTV is highly leveraged to the next wave of home entertainment, digital-recording devices, which is being driven by the high levels of demand for large, widescreen plasma and LCD televisions.
- The demand wave will accelerate over the next few years as Australia's 17 million television receivers are converted from analogue to digital reaching a peak when the analogue signal is turned off in 2010.
- The company is expected to reach breakeven by mid-2007. The subscriber base is expected to grow rapidly as the functionality of the EPG increases, as alternative content sources emerge and as the penetration of DVRs and PC based Media Centres builds.

April 2006

Summary and Overview

The IceTV business is underpinned by a very simple value proposition; an electronic program guide (EPG) that enables simple and effective use of digital video recorders (DVRs) and PC based Media Centres. DVRs and Media Centres are the next generation home recording devices and over the next few years, as market penetration grows, are set to revolutionise television based home entertainment.

DVRs and Media Centres provide television viewers with previously unheard of control over their television and, in particular, they enable viewers to take control over programming through what has become known as "time shifting"; record now and replay at a convenient time later. Notwithstanding this flexibility, the effectiveness of the technology is severely constrained without an EPG.

IceTV has created Australia's only independent, interactive, subscription-based electronic television program guide. The software is compatible with most DVRs and Media Centres and is delivered and updated through a broadband internet connection. The implications of this are quite profound. In effect, IceTV is a gateway with true customer ownership.

Since television arrived in Australia in 1956, viewers have been hostage to the programming whims of the respective networks. Over the past 30 years, advances in technology have transferred some control to viewers. We have been able to record programs, or hire movies for a long time whilst more recently we have been able to download content. The end game or "holy grail" will be the ability to watch any desired content from whatever source at whatever time pleases and, of course, commercial free. This is likely to be achievable within the next 10 years, if not earlier, although it is by no means clear how this will emerge. Nonetheless, access will be through a gateway or portal and a programming or content guide will be central to the value proposition. IceTV's objective is to become the leading gateway to this vast array of content and the intention over the next few years will be to rapidly build its customer base and in due course its sources of content.

IceTV's business model is centred on a subscription service for its EPG. The EPG will be bundled with DVRs and Media Centres at point of sale with a free trial for a short period after which the consumer will upgrade to a subscription. Subscriptions will also be sold over the internet and through other distributors. The marketing strategy will be principally focussed on building brand recognition and ultimately ownership of the sector in much the same way as TiVo in the US has achieved generic association in personal recording and programming.

Over the next few years, new revenue opportunities are expected to emerge with increased functionality of the EPG, alternative content sources, and a new advertising paradigm.

The risks confronting IceTV are principally market related. Firstly, its strategies are underpinned by assumptions regarding the take-up of DVRs and Media Centres, over which it has no control. Evidence is pointing to a take-up rate at least comparable with DVDs. On this basis, growth will be exponential off a very small base over the next two years with significant rates of penetration about two years out as the dominant analogue television service is phased out. The second and more difficult risk to manage is the assumptions regarding the conversion ratio from free trials

through bundling and sales through the internet and third parties. This mix will directly impact revenue yield and acquisition cost per customer and ultimately profit margins.

A straight forward business model

IceTV was established in February 2005 to acquire and commercialise the assets and technology of an electronic program guide now marketed as IceGuide. The service was first actively marketed in July 2005.

Through the IceGuide gateway, the company will be able to provide sophisticated content access and management services to subscribers. Gateways such as IceGuide will be essential in providing order in what is likely to be chaos, with innumerable programs and major issues concerning quality and security.

IceGuide is the sole electronic program guide in Australia covering free to air television (it does not cover Foxtel). Due to copyright issues and resistance from the commercial broadcasters, the design and functionality of the guide and its content are manually compiled and original to IceTV. In addition to broadcast times, the EPG content includes episode or program descriptions and movie synopses. IceTV staff write the descriptions appearing in the IceGuide covering all commercial stations. Programming descriptions for SBS and ABC are provided to the company under agreement with those networks. Notwithstanding manual compilation, the system is underpinned by a variety of technologies for which IceTV has filed patent applications.

The company employs a subscription-based business model, whereby subscribers pay a monthly fee for access to the guide. The current fee is \$13 per month including GST. Distribution is through a variety of channels including bundling with a DVR or Media Centre, through the IceTV web site or through third party retailers.

Bundling is expected to be the principal distribution channel with conversion to subscription after a free trial being the main source of subscribers. This is the most effective strategy for sourcing subscribers as well as for locking out potential competitive threats. The key to this channel is through integration of the software with the product manufacturers at the point of manufacture.

There is no doubt that integration with an EPG will be a major driver of DVR and Media Centre sales. Moreover, Australia is a small market and unlikely in the immediate future be able to support more than one free-to-air EPG. Accordingly, the benefits of integration work for both parties.

IceTV has joint marketing arrangements with the distributor of the Korean-made, Topfield DVR, contributing to Topfield's market leadership. The company is also in the process of implementing similar bundling arrangements with companies such as HP, Toshiba, Acer, Altech Computers and Pioneer Computing.

The third party retail distribution model is now well established with the likes of phone cards and iTunes cards available from a wide variety of retail outlets including convenience stores, hardware retailers, department and variety stores. A marketing agreement for IceTV has been reached with Harvey Norman and similar agreements are expected to be reached with other retailing groups.

In the short to medium term, growth will be largely driven by increases in subscriber numbers. As the subscriber

base matures, the longer term growth focus will shift to revenue yields. To achieve this, IceTV will need to expand the value proposition to its subscribers as well as adding additional revenue streams.

The longer term challenge for the company will be to expand its revenue yield per customer. An immediate opportunity that provides some insight as to how the IceTV gateway may evolve is the agreement with Quickflix to incorporate DVD rentals into IceGuide. IceTV will receive a fee for this service.

Longer term revenue generation opportunities may emerge from changes in the advertising paradigm, from interactive services and from alternative non-broadcast content sources.

The company's cost structure is relatively fixed with marketing expected to be the largest variable expense. If successful, the bundling strategy will enable marketing costs to be contained and will result in relatively low direct customer acquisition costs although wholesale discounts will be large. Marketing costs will be expensed and not capitalised, whilst revenues will be brought to account on a net of discount basis.

The marketing focus will be on building brand recognition and ownership of the value proposition. This will be critical in warding off the threat of an alternative EPG service.

Given the nature of the service and the value proposition, it is assumed that the churn rate will be low and compare favourably with pay-tv or indeed magazine or newsletter publishing. A low churn rate will mean that cash flows can be directed to expanding the customer base rather than towards replacing the customer drop-off.

It is estimated that the subscriber breakeven point for the company is between 20,000 and 25,000 with a target achievement date around mid-2007.

Strong market drivers

The market for DVRs and Media Centres, generally, and more specifically EPGs is being driven by a number of very powerful forces.

Firstly, the high storage capacity and sophisticated recording and playback capabilities make these devices very compelling compared with DVD recorders and will finally doom the VCR as the principal home recording device.

Secondly, the Commonwealth Government has mandated that digital will become the new standard for Australia's 17 million television receivers with analogue services to be phased out in the capitals in 2010. As part of this process, the existing broadcasters are expected to be allocated additional channels which will considerably increase the free-to-air choices for viewers.

The emergence of high definition digital television (HDTV) and the allocation of additional digital channels to the broadcasting networks will drive demand for replacement television systems and greater demand for programming control.

Thirdly, high bandwidth internet connections are opening up new opportunities to access content including television series and movies, whilst also providing opportunities for interactivity with devices such as content recorders.

A very large market opportunity

Although pay-tv has been available in Australia for some years, market penetration remains relatively low at less than 25% and churn rates remain in double-digits. The penetration rate in Australia is significantly lower than in North America or Europe. Accordingly, the Australian television market remains overwhelmingly dependent on commercial free-to-air broadcasting.

There are an estimated 17 million television sets serving Australia's 7.9 million households. The market opportunity lies in the enormous upgrade potential of this installed base over the next five years as the mandated switch from analogue broadcasting to digital takes place, with the analogue signal expected to be shut down in 2010.

The simplest and cheapest upgrade path for consumers will be the purchase of a digital set top receiver/converter. The more expensive upgrade path will be the replacement of existing television receivers with new equipment. Prices have been falling sharply for some time for wide-screen plasma and LCD televisions making this path affordable to an increasingly broader spectrum of the population. This upgrade path will inevitably be a major demand driver for DVRs and Media Centres and ultimately for an EPG. According to highly regarded telecommunications analyst Paul Budde, the combined household penetration rate for DVRs and Media Centres by 2010 could be 70%, or nearly 6 million.

It is assumed that a reasonably high proportion of these will subscribe to an EPG.

Risks

Whilst the fundamentals that underlie the business proposition are excellent, the business model contains risks. In particular, the expected breakeven point of between 20,000 and 25,000 subscribers is based on certain assumptions regarding take-up rates, revenue yields, customer acquisition costs, churn rates and so on.

We see the key risks as being:

- Sales rates for DVR and Media Centres

Research indicates that sales of DVRs and Media Centres will be about 80,000 over the next year. Any significant variance in this rate will have a significant impact on the company's potential subscriber base. Moreover, the rate at which the purchase of these devices grows in the lead up to the closure of the analogue television signal will also have a major impact of the potential subscriber base.

- Conversion rates from free trials

It is assumed that the conversion rate from free trials will be high. Should the conversion rate be significantly lower than expected, the company will need to increase discounts and lengthen the free trial period in an effort to boost the rate. Further, increased direct marketing expenditure will be required to boost subscriber levels from other sources.

- Cost to value proposition

Ultimately the level of take-up will reflect consumer perceptions of value. At \$13 per month, the IceGuide service is competitive with TiVo at US\$8 per month and the Pilotime service in France at €20 per month.

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The challenge will be to add functionality and ultimately alternative content sources.

- Churn rates

A low churn rate is critical in ensuring that cash flows are available for marketing to prospective subscribers rather than in attempting to maintain the subscriber base.

- The opening of alternative gateways (competitive threat)

Whilst the company has first mover advantage in establishing an EPG in the Australian market, alternative gateways are likely to open up as the market expands and as new content sources become viable. We would expect the commercial broadcasters, Foxtel and Telstra, at the very least, will aggressively seek opportunities to establish a gateway to protect their revenue and profit bases. Against this background, we expect IceTV to be proactive in maximising its value proposition as new content opportunities become viable and in developing a range of defensive strategies to protect its long term position.

- Adequacy of cash resources

Depending on the level of subscriptions, the company's expected cash position is between \$2.0 million and \$3.5 million at listing. The minimum capital raising is expected to be adequate to enable the company to build subscriptions to the point where it is operating profitably and generating positive cash flows. The capital raised from over-subscriptions will be largely devoted to long term growth programs although it may enable marketing

spend to be increased and could accelerate subscriber growth rates.

However, any significant variation from the underlying assumptions, as discussed above in the other risks, may result in cash reserves being drained more rapidly than anticipated.

Financials

As the company was established in early 2005 and has only a small subscriber base, the income statement in the prospectus is not meaningful for analytical purposes and no forecasts have been provided. The only financial information of use is the pro-forma balance sheet, which is summarised below.

PRO-FORMA BALANCE SHEET *		
	Min issue	Max issue
	\$'000	\$'000
Cash	2,519	3,954
Other Current Assets	172	191
Non-Current Assets	527	527
Total Assets	3,218	4,672
Current Payables	221	221
Current Debt	3	3
Other Current Liabilities	50	50
Non-Current Liabilities	0	0
Shareholders Equity	2,944	4,398
Liabilities & Capital	3,218	4,672

* as at 31 December 2005

Following the capital raising, IceTV will be operating with a well capitalised balance sheet with virtually zero debt and a relatively small level of intangibles (\$485,000).

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