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SNAPSHOT

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SPEC BUY

Current Price \$0.63
Target Price \$0.78

Ticker: FZO.ASX
Sector: Technology

Capital Structure

Shares on Issue (m)*:	439.6
Options (m):	11.6
Perf. Rights/Shares (m):	31.8
Undil. Market Cap (\$m)*:	277.0
Net Cash (\$m)*:	40.4
Enterprise Value (\$m)*:	236.5
* Adj. for cap raise & acq	

52 wk High/Low:	0.64	0.25
12m Av Daily Vol (m):		1.55

Key P&L

	2H20	1H21	2H21F
Revenue (\$m)	2.72	4.39	6.48
Other (\$m)	2.32	2.46	2.55
Expenses (\$m)	-11.93	-14.50	-15.75
EBITDA (\$m)	-6.89	-7.65	-6.73
NPAT (\$m)	-8.90	-9.33	

Key B/S

	1H20	2H20	1H21
Cash (\$m)	4.52	5.81	25.88
Receivables (\$m)	2.16	4.78	3.36
Other Assets (\$m)	4.96	3.60	3.24
Total Assets (\$m)	11.65	14.19	32.49
Payables (\$m)	4.13	3.32	3.46
Other Liab. (\$m)	1.98	6.46	6.78
Total Liab. (\$m)	6.11	9.78	10.24
Net Assets (\$m)	5.54	4.41	22.24

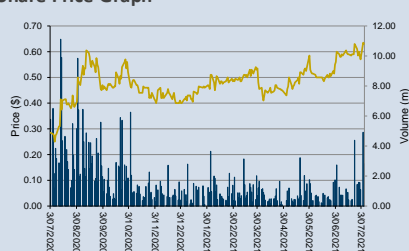
Cash Flow (latest Qtrs)

	1Q21	2Q21	3Q21
Operating (\$m)	-0.34	-2.28	-5.24
Investing (\$m)	-0.63	-0.52	-0.37
Financing (\$m)	3.98	19.95	0.00
Closing Cash (\$m)	8.66	25.98	20.34

Directors

Peter Pawlowitsch	Non-Exec Chairman
Tim Levy	Managing Director
Crispin Swan	Exec. Director
Phil Warren	Non-Exec. Director
Matthew Stepka	Non-Exec. Director

Share Price Graph



Please refer to important disclosures at end of the report (from page 4)

Wednesday, 7 July 2021

Family Zone (FZO)

Backfilling projections

Analyst | Ian Christie

Quick Read

After impressive organic growth and a strategic acquisition FZO starts the financial year with 3M students on its cyber security platform, or >5% of the US student market. It provides product validation and bolsters confidence in US student growth projections. Penetration into other markets and first sales of the premium product to parents are compelling opportunities for a Company well funded post the recent \$23M cap raise.

Student penetration ahead of expectations

Market update: FZO's update this week shows strong momentum across all metrics (refer charts page 3). The June quarter, which included the acquisition of NetRef, ended with:

- 2.4M students contracted, up ~760k on the March quarter (inclusive of ~237k student licenses acquired through NetRef)
- 3.0M students on the platform inclusive of those trialling, up an impressive 1M on the March quarter (including ~450k acquired via NetRef)
- 4,129 contracted schools, after adding ~1,000 schools (including 395 acquired through NetRef)

School product validation: Inclusive of students on trials FZO now services more than 5% of the US school market. This is a significant achievement, and the rapid market penetration strongly validates the Company's cyber safety platform. With 1,473 schools and 600k students in proof-of-concept trials, we anticipate further strong conversion and growth in contracted student numbers this quarter to ~2.9M students. Further out, our current estimates assume FZO reaches 4.0M contracted students by this time next year. If achieved, this will be close to 7% of the US student market.

Family premium product: Our forecasts also assume success in penetrating the parent paid premium market, although we delay the assumed ramp up compared to our prior numbers. Given significantly higher revenue per user than school products, it contributes significantly to our longer term forecasts. Parent market penetration success in the coming year will therefore be an important de-risking event. Given the size of overseas markets we reduce emphasis on Australian and New Zealand student and parent markets.

Recommendation

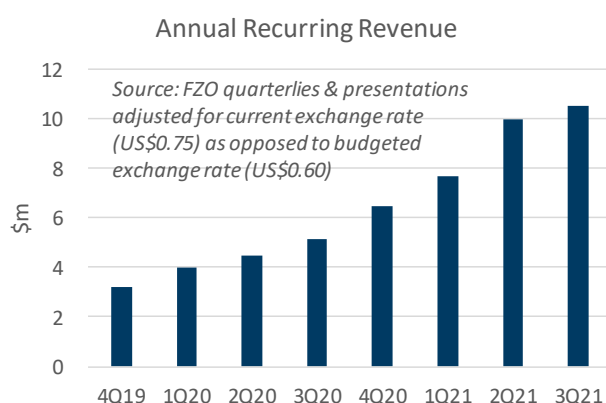
The achievements through FY21 bolsters confidence in the US student market opportunity and is reflected in a lower DCF discount rate range in our valuation calculations. Forecasting risk remains high, particularly around premium product penetration and overhead cost growth, although there is also upside potential in the US and in other potential markets not captured in our numbers. We now use our FY22F closing student ARR (previously a historic number) for a multiple valuation and derive a blended target price of \$0.78 (up on \$0.61 prior). It reflects increasing confidence in FZO's potential.

FAMILY ZONE FORECASTS	FY19A	FY20A	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F
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US and Australia:									
Students:									
Penetration (contracted, average for year)	%			2.4%	4.6%	6.9%	9.1%	11.2%	11.5%
Penetration (contracted, at end period)	%			3.8%	6.2%	8.3%	10.5%	11.5%	11.5%
Students (average for year)	# (m)			1.5	2.9	4.4	5.8	7.1	7.3
Students (at end period)	# (m)	0.4	0.9	2.4	4.0	5.3	6.7	7.3	7.3
Student Revenue	A\$'000's			8,469	18,905	28,964	37,888	46,381	47,739
Revenue/Student	A\$			5.49	6.43	6.57	6.52	6.49	6.53
Families									
Penetration (of Students for year)	%			1.7%	1.5%	2.7%	4.7%	8.1%	10.5%
Penetration (of Students, at end period))	%			1.4%	2.0%	3.8%	6.6%	10.5%	10.6%
Families (average for year)	# (m)			0.0	0.0	0.1	0.3	0.6	0.8
Families (at end period)	# (m)	0.0	0.0	0.0	0.1	0.2	0.4	0.8	0.8
Families Revenue	A\$'000's			1,120	2,181	7,450	18,954	44,569	63,468
Revenue/Family	A\$			43.67	50.29	62.17	69.96	76.95	82.30
Combined GP Margin	%			37%	62%	65%	68%	71%	73%

Other Income & Expenses							
Other Revenue	A\$'000's	1,181	1,800	2,000	2,000	2,000	2,000
Other Costs	A\$'000's	-630	-1,440	-1,500	-1,400	-1,400	-1,400
Other Income (incl. grants)	A\$'000's	5,000	4,000	3,000	2,000	0	0
Corporate / Fixed Costs	A\$'000's	-23,529	-27,894	-30,621	-32,782	-34,422	-36,143

Group P&L Summary									
Revenue	A\$'000's	4,185	5,090	10,770	22,886	38,414	58,842	92,949	113,206
Gross Profit	A\$'000's	2,152	2,842	4,110	13,509	24,208	39,184	65,549	82,188
GP Margin	%	51%	56%	38%	59%	63%	67%	71%	73%
Other Income / Expenses	A\$'000's	3,847	3,376	5,000	4,000	3,000	2,000	0	0
Corporate / Fixed Costs	A\$'000's	-15,800	-19,045	-23,529	-27,894	-30,621	-32,782	-34,422	-36,143
EBITDA	A\$'000's	-9,801	-12,827	-14,418	-10,385	-3,413	8,402	31,127	46,046
EBITDA Margin	%	n/a	n/a	n/a	n/a	n/a	14%	33%	41%



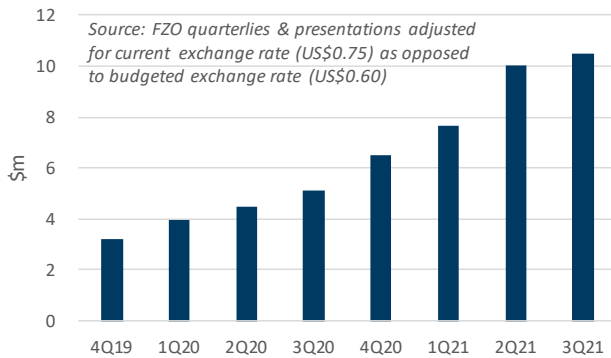
VALUATION TABLES

Summary	Low	High
EV/June 22F ARR (12-16x)	0.81	1.04
DCF (13-11% WACC)	0.55	0.71
Average	0.68	0.88

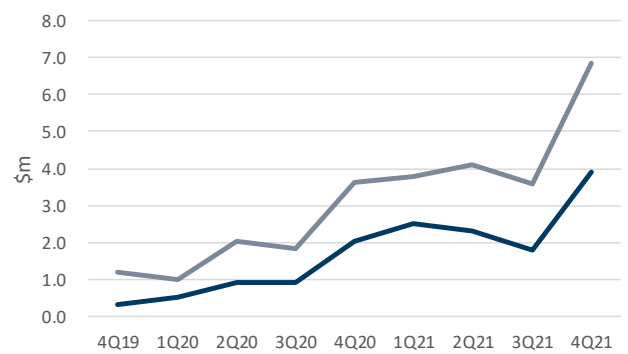
Target Price	Low	High	Blend
Valuation Range	0.68	0.88	
Weighting	50%	50%	
Target Price			0.78

Key charts (inclusive of NetRef acquisition in 4Q21)

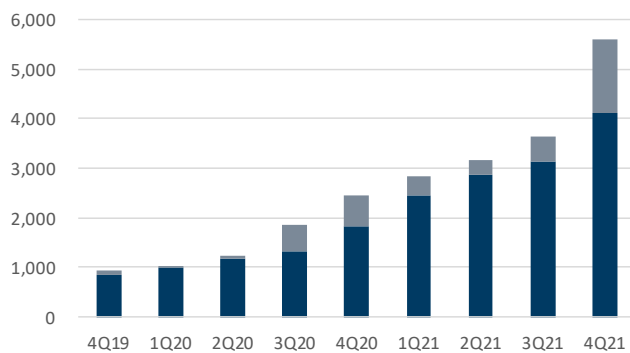
Annual Recurring Revenue



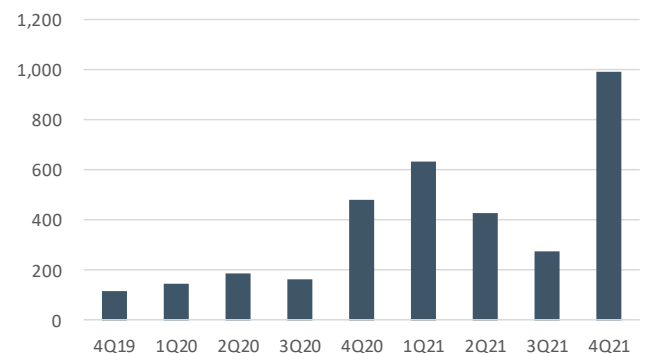
Signed Contracts ACV Signed Contracts TCV



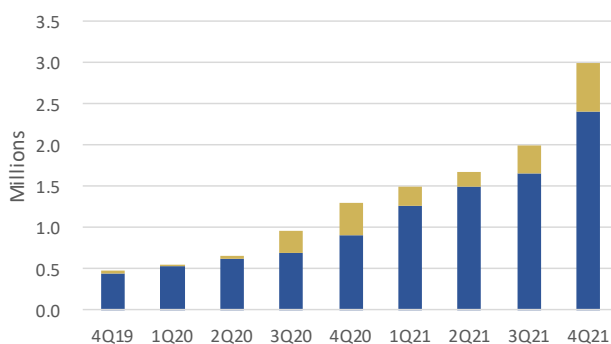
Schools Contracted Schools Trialling



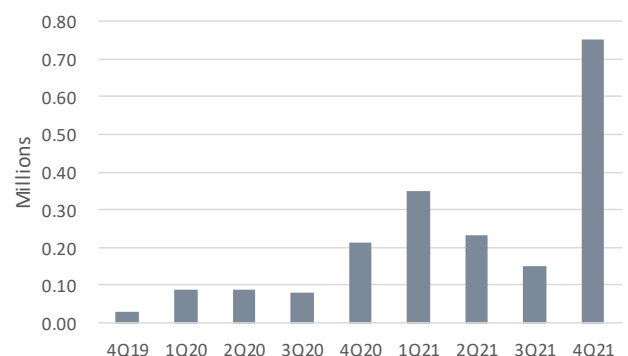
Schools Signed Up



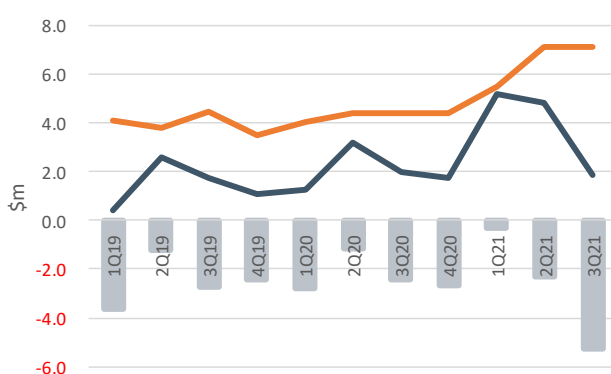
Student Licenses Students Trialling



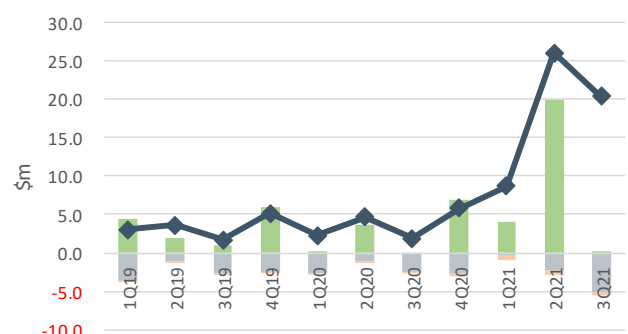
Students Signed Up



Net Operating Cash Flow Inflows Outflows



Operating Cash Flow Investing Cash Flow Financing Cash Flow Closing Cash



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Important Disclosures

Argonaut was engaged as Joint Lead Manager to the \$23M capital raising announced on 23 June 2021 and will receive fees commensurate with this service. Argonaut acted as Joint Lead Manager to the Placement that raised \$20M in October 2020 and received fees commensurate with this service.

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