

Family Zone (FZO) | December Quarterly Update

Rating: **BUY**
 Target Price¹: **\$1.34**
 Projected Return: **116%**

¹ 12 month target

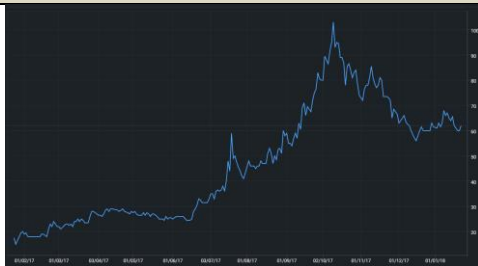
Company Statistics

Share Price (A\$)	0.62
Market Cap (A\$m)	73.5
Enterprise Value (A\$m)	65.7
Issued Shares (mil)	118.5
Options (mil)	25.6
Cash (A\$m)	7.8
Debt (A\$m)	0.0

Earnings Summary

FY End (June)	2017	2018e	2019e	2020e
Revenue (A\$m)	1.6	6.0	21.3	37.3
EBITDA (A\$m)	-7.7	-3.5	11.0	20.8
NPAT adj (A\$m)	-8.8	-4.4	10.3	14.2
EV/EBITDA	N/A	N/A	5.5x	2.2x

Share Price (A¢ps)



Company Description

Family Zone is a parental control software product aimed at protecting children against inappropriate online content as well as helping parents control the time their children spend on their devices.

Analyst

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120 school sign-ups

Investment Summary

Family Zone has released its December 2017 quarterly result which includes a cash balance of A\$7.8m following its A\$5m capital raise in late 2017 (BW Equities lead manager). The company continues to perform strongly signing up 20 new schools in the last three weeks prior to the Christmas break. Our model assumes FZO achieves 350 schools by the start of the 2019 school year (February 2019).

Investment Highlights

- 120 school sign ups in Australia and New Zealand (with significant growth prior to Christmas)
- The company has 30,000 paying accounts (up from 20k in its early November presentation)
- FZO expects cash outflows to be A\$3.7m in the March quarter
- We expect cash receipts to materially lift from March onwards following the re-start of the school year
- Cash balance at end December of A\$7.8m (no debt). In our view the cash balance should be sufficient to see the company into cash flow neutral territory, which we expect to occur by the end of this year.
- Asia update suggests implementation into Indonesia and the Philippines continuing as planned
- We are encouraged by the Australian school sign ups. 20 in three weeks is a very good outcome, and we are keen to see if this continues through February, March and April.
- We do highlight that the August to November period is when many schools plan for the following year – hence we expect school sign ups to be at its strongest during that 4 month period.
- We model FZO on the basis of achieving 350 school sign ups by the start of the 2019 school year.

Investment Recommendation

Maintain Buy Rating and no change to our 12 month Target Price of \$1.34.

Our price target methodology is based on an FY20E P/Sales multiple of 4.45x. Our target price reflects a 116% premium to the last traded price.

We have made no major changes to our model, aside from including the recent A\$5m equity raise.

We model Family Zone on the assumption that it achieves 350 school sign-ups in ANZ by the start of the 2019 school year. We also assume the company generates c.A\$3.9m in wholesale revenue within Asia by FY19E and A\$2.7m revenue within the US by FY19E. This results in FY19E revenue of A\$21.3m at an EBITDA margin of 52%.

The key risk to our view is competition within the parental control software market (leading to limited sign ups – particularly overseas), as well as cyber-crime.

Summary Financials

P&L (A\$m)					Balance sheet (A\$m)				
	FY17	FY18E	FY19E	FY20E		FY17	FY18E	FY19E	FY20E
Total Revenue	1.6	6.0	21.3	37.3	Cash & equivalents	1.4	8.2	19.0	33.7
COGS	1.0	6.5	8.3	11.5	Receivables	1.0	7.3	25.9	45.3
Corporate	6.8	3.0	2.0	5.0	Inventory	0.2	0.7	2.4	4.2
Other	1.5	0.0	0.0	0.0	Other	0.0	0.0	0.0	0.0
EBITDA	-7.7	-3.5	11.0	20.8	Total current assets	2.5	16.2	47.3	0.0
D&A	1.1	1.0	1.0	1.1	Net PP&E	0.2	-0.8	-1.3	-1.8
EBIT	-8.8	-4.5	10.0	19.7	Other	4.3	4.0	9.2	97.8
Net interest	0.0	0.1	0.2	0.6	Total non-current assets	4.5	3.3	7.9	96.0
Pretax profit	-8.8	-4.4	10.3	20.3	Total assets	7.1	19.4	55.2	96.0
Tax	0.0	0.0	0.0	6.1	Payables	3.5	10.0	35.4	62.0
Minorities	0.0	0.0	0.0	0.0	Short term debt	0.0	0.0	0.0	0.0
NPAT (adj)	-8.8	-4.4	10.3	14.2	Other	0.2	0.2	0.2	0.2
Abnormal items	0.0	0.0	0.0	0.0	Total current liabilities	3.7	10.2	35.6	62.2
NPAT (rep)	-8.8	-4.4	10.3	14.2	Long term debt	0.0	0.0	0.0	0.0
Ave shares (diluted)	60.1	104.5	127.7	128.7	Other	0.8	0.8	0.8	0.8
EPS adj (A¢)	-14.6	-4.2	8.1	11.0	Total long term liabilities	0.8	0.8	0.8	0.8
DPS (A¢)	0.0	0.0	0.0	0.0	Total liabilities	4.5	11.0	36.4	63.0
					Total common equity	2.6	8.4	18.7	32.9
Cash Flow (A\$m)					Ratios & Valuations				
	FY17	FY18E	FY19E	FY20E		FY17	FY18E	FY19E	FY20E
Cash receipts	1.3	6.0	21.3	37.3	ROE (%)	na	na	55%	43%
Cash payments	-7.4	-9.5	-10.3	-16.5	ROA (%)	na	na	19%	15%
Net interest	0.0	0.1	0.2	0.6	Net debt/equity (%)	na	na	na	na
Tax paid	0.0	0.0	0.0	-6.1	Interest cover - EBIT (x)	na	na	na	na
Other	0.7	0.0	0.0	0.0	P/E (x)	na	na	7.7	5.6
Cash flow from operations	-5.3	-3.4	11.3	15.3	P/B (x)	na	7.7	4.2	2.4
Total capital	0.0	0.0	-0.5	-0.5	EV/EBITDA (x)	na	na	5.5	2.2
Acquisitions	-3.0	0.0	0.0	0.0	Dividend yield (%)	na	0.0%	0.0%	0.0%
Divestitures	0.0	0.0	0.0	0.0	Free cash flow yield (%)	na	na	14%	18%
Other	0.0	0.0	0.0	0.0	Sales growth (%)	na	na	254%	75%
Cash flow from investments	-3.1	0.0	-0.5	-0.5	EBITDA growth (%)	na	na	na	na
Dividends paid	0.0	0.0	0.0	0.0	EPS growth (%)	na	na	na	na
Capital raised	9.1	10.2	0.0	0.0	Gross margin (%)	na	-9%	61%	69%
Repaid debt/borrowed funds	0.0	0.0	0.0	0.0	EBITDA margin (%)	na	-59%	52%	56%
Other	0.0	0.0	0.0	0.0	EBIT margin (%)	na	-75%	47%	53%
Cash flow from financing	9.0	10.2	0.0	0.0					
Total cash flow	0.6	6.8	10.8	14.7					

June year end

Ratios calculated using FZO.AX share price of \$ 0.62

Source: Company data, BW Equities Research estimates

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