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INDEPENDENT INVESTMENT RESEARCH

**Family Zone Cyber Safety
Limited (ASX: FZO)**

September 2018

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Investment Profile

ASX Listing Date:	August 2016
Share price (\$) as at 14 Sep 2018	A\$0.28
Issued capital:	
Ordinary shares (M)	144.70
Options 'in-the-money' (M)	16.97
Perf. Shrs Earned	0.08
Fully Diluted (M)	161.76
Market capitalisation (\$M)	45.29
12-month Low/High (\$)	0.27-1.06

Board and Management

Mr Tim Levy - Managing Director
 Mr John Sims - Non-executive Independent Chairman
 Mr Crispin Swan - Executive Director - Sales
 Mr Phil Warren - Non-executive Independent Director
 Ben Trigger, Vice President, Technology Applications
 Paul Robinson, Vice President, Technology Services
 David Dunstan, Vice President, Marketing
 Sam Price, Executive Manager, Development & Engineering

Major Shareholders

	%
Timothy Nominees Pty Ltd	7.54%
Gasmere Pty Ltd	5.05%
Merrill Lynch (Australia) Nominees	3.84%
Carlo Chiodo Trading	3.48%
Freshie Pty Ltd	3.11%

Share Price



Family Zone Cyber Safety Limited ("the Company") is an ASX-listed internet parental control and cyber security product and service provider. The Company has developed a unique and innovative cloud-based ecosystem that enables a parent and/or school-set access policy to roam with a child and be enforced across any device and any network. A key strength is it permits a seamless hand-over from home to school, allowing the school's internet restriction policies to apply from a designated time period. The technology successfully allows schools to address duty of care responsibilities on devices at school and at home as well as provide a simple solution for parents that works with school programmes. The nexus between schools and parental uptake is particularly important, as schools can represent a highly effective 'marketing' channel in this regard. The Family Zone platform comprises a network appliance, applications, and a web portal. The service was first launched in 2016. Since that time, the Company founders have set about to get providers of connectivity, be it a school, telecommunications company, or a device manufacturer, to take up its technology. In essence, this has been the Company's key endeavour since formation - finding the most effective way to drive parental uptake. Based on a competitively strong product solution and a strategically adept marketing approach, the Company is posting strong and growing user and school partner numbers. With the imminent commercial launch of its products through several telecommunication companies and original equipment manufacturers combined with a ramp up of marketing efforts in the public school system in Australia and the US school market, it is IIR's expectation that user metrics and revenue will continue its upwards trajectory over the foreseeable future.

KEY POINTS

- ◆ **Strong and competitive product offering** - The Family Zone platform successfully enables parents, or schools, to establish user specific internet access restrictions for any user, any device, and from anywhere. Through time sharing, it also enables a seamless handover between home and school internet access restrictions. The Company is pitching the offering at an extremely competitive price point, with its ability to do so largely a function of a very cost efficient delivery and operating model.
- ◆ **Proven business model** - Family Zone is well positioned for further growth. Family Zone is a mature and developing product, used by customers and receiving positive feedback. The 2017 acquisition of New Zealand-based edu-tech business Linewize has enabled a step change in the Company's cost to deliver and service customers. In turn, this will enable the Company to efficiently and cost effectively roll-out its product offering to certain parts of the school market, including the highly prospective US market.
- ◆ **Strong user growth** - User and school partner growth numbers have been encouraging and on an upward trajectory. In June 2018, the Company had 50,000 parental end-users and over 600 schools, representing 22% quarter-on-quarter growth. A continuation of an accelerating growth trend will bolster a strong confidence that Family Zone is on a clear path to profitability and beyond.
- ◆ **Adept marketing strategy** - We believe Family Zone has been adept in establishing distribution channels to drive parental use. It has been effective in leveraging the trusted relationship schools have with parents and which has seen an average 24% of all parents in partner schools adopting the technology. Additionally, it has flexibility and potentially significant growth potential through its growing number of telecommunications and device manufacturer relationships. An anticipated progression to utilising 3rd-party resellers should materially accelerate growth numbers.
- ◆ **Substantial market opportunity** - The parental control market is highly fragmented and highly under-exploited, with only a fraction of parents using such technologies. We believe there are opportunities for the taking for well positioned players in the market who, through superior product, service and commercial offerings and adept marketing strategies should be able to gain rapid market presence. Over the foreseeable future, we would expect the market to be characterised more by a land grab and perhaps the entrenchment of the more superior product technologies and value propositions. In this

regard, while not under-estimating the scale of the challenge, we believe Family Zone is well placed.

- ◆ **US market upside** - While we expect near term earnings growth to be driven by Australian and New Zealand subscription numbers as well as the company's ability to secure wholesale agreements within Asia, we believe there is significant upside potential within the United States. There are ten times as many children with mobile phones in the US compared to Australia, and we estimate that the parental control market differential between the two countries is of a similar magnitude.
- ◆ **Telco and ODM opportunities** - Family Zone has been selected in competitive evaluations against globally recognised internet security names by large global telecommunications companies throughout Asia including Vodafone and Singtel Optus' Telkomsel. These companies, with in excess of 1 billion subscribers and 90 million child mobile phone users have chosen Family Zone as their cyber safety partner. This is a significant credibility boost and substantial commercial opportunity. The company has been conducting research and consumer trials during 2018 and has 10,000 registered users from them. The subscriber acquisition strategy will soon launch in India and then across the its partners.

COMPANY OVERVIEW

Family Zone was incorporated in January 2014 for the purpose of developing a universal parental control platform. The Family Zone concept was founded by Tim Levy, Crispin Swan, Ben Trigger and Paul Robinson in 2014. The Founders are four experienced telecom and technology executives whom, like many parents, became interested in parental control technologies. Following a two-year effort including formal beta trials the Company launched the Family Zone Platform direct to consumers in March 2016.

The Family Zone platform is a cloud-based parental control platform. The platform incorporates networking and application technologies which allow parental controls to be embedded within home, enterprise, school, public and telecommunications carrier networks and installed on mobile devices.

The platform was developed with the following broad objectives in mind: to enable parents to manage all, or the majority of the parental control functions they need in one single cloud based application; to enable parents to access the advice and support of cyber experts to set more appropriate restrictions; and to enable providers of parental control services, internet access and educators to participate in a universal approach to cyber safety.

The Family Zone platform has been specifically designed to allow a wide variety of channel and distribution opportunities, specifically direct to consumer, schools, re-sale through telecommunications carriers, and access partner partnerships with original equipment manufacturers (OEMs). The largest and most performing channel for the Company to date is selling solutions for schools which generates income and subscriber acquisition opportunities to their parent communities.

The Family Zone products and services consist of:

- 1) Device Solutions - Mobile Zone Apps and Applications for management of end-user devices. The technology now covers: iOS, Android, PCs, Apple Macs, and Chrombooks. Essentially any devices children use at home or school can be supported. Once on the device, this technology supports the choices of the parent and/or school. For example, if a school wants to filter during school time, it can. If parents want to filter after school, they can. If either want to disable or just monitor traffic, they can.
- 2) Consumer Solutions - this consists a) the Family Zone Box for safe home networking, b) the Family Zone Portal, which is the web portal for parents to manage their family and home, and c) the Zone Manager App, with is the smartphone App that parents can use instead of the portal.
- 3) Education Solutions - this consists of a) the Family Zone Appliance for safe and secure enterprise / school networks, b) School Manager, the web application that allows a school to manage their network, users and cyber safety, c) the School Community platform a web application that allows schools to invite parents to engage with the schools cyber safety programs, d) the Family Zone Classroom, a best practice tool permitting teachers to have full transparency and control of device activity in the classroom, and e) the Family Zone Device Manager, a tools to permit schools to manage school owned devices.

4) Telco and Original Device Manufacturer (ODM) Solutions - this consists of a) the Family Zone APN, a solution to embed Family Zone filtering in a mobile network, and b) Embedded Family Zone, the ability for 3rd party ODMs to pre-load Family Zone on their routers or smart devices.

What is unique about Family Zone is that all of these solutions inter-operate across a single platform. This means parents and schools can work together as well as that telecommunications and ODMs can participate in a world-best-practice approach to drive new revenue streams.

This unique interoperability is substantially what sets Family Zone apart from its competitors in all of the segments within which it operates. Family Zone call this the "ecosystem" and it allows them to:

1. Sell a comprehensive parental control solution direct to parents which works seamlessly with school programs.
2. Sell best practice cyber safety solutions to schools which support broad school community based cyber programs. This model permits the Family Zone to both sell services to the school and obtain access to an engaged parent audience.
3. Offer opportunities for telecommunications providers and device manufacturers to add Family Zone cyber safety services and features into their offerings. When doing so, such features are significantly more attractive to their customers because they are integrated with features that work at school and on their networks and devices. Again, like the schools model, this offer Family Zone access to parents.

Since launching the platform in 2016, the Company's user base has grown to over 50,000 users, including 600 schools as at 30 June 2018. Family Zone currently has users in Australia, New Zealand and the United States. Further, the Company has secured wholesale and distribution deals with some of the world's largest telecommunications companies and smart device manufacturers, including Vodafone and Singtel Optus' Telkomsel.

In August 2016, the Company listed on the Australian Stock Exchange, raising \$4.5M through the issuance of 22.5M ordinary shares at \$0.20 per share. The working capital provided by the capital raising was and is an integral part of the Company's long-term growth strategy. Since the capital raise, the key strategic initiatives have been to establish the product in its key Australian and New Zealand markets, continue to innovate and refine the platform to increase user engagement, begin to establish a product/brand sales team in the US, and continue to grow brand partnerships with telecommunication companies and access partners. In IIR's view, Family Zone is now well placed to pursue its revenue and customer growth targets.

FINANCIAL POSITION

- ◆ As at 30 June 2018, the Company had a cash balance of \$2.5M versus \$5.2M at the previous half. With continued growth in sales and cost structure improvements the Family Zone has started to achieve traction in reducing cash burn, with net cash outflow for the June 2018 quarter reducing by 15% QoQ to just under \$2.5m. This was achieved through a combination of solid collections and improvements in overheads and cost structure.
- ◆ Following the end of the June 2018 quarter the Company entered into an agreement with Tellus Matrix to underwrite a \$5m share placement. The share placement was undertaken at \$0.50 per share, a 6% premium to the Company's closing price on 26 July 2018 when it was announced.
- ◆ Our expectation is that quarterly cash burn will continue to decline. However, it is likely that to continue to fund its strategic initiatives and achieve the required user growth trajectory the Company may need to raise additional equity capital over the medium term. Investor appetite at the time will clearly prove important in terms of both the potential size of the raise and the pricing as well (dilutionary risk).
- ◆ Based on various revenue growth expectations, it is estimated the cash flow breakeven point roughly equates to circa 150,000 users.

PRODUCT OVERVIEW

Product Design & User Interface

Family Zone was founded on the premise that cyber safety requires user-friendly technology that works wherever children access the internet. The challenge the Company founders set about to address was to create an interoperable parental control technology and then get providers of connectivity, be it a school, telecommunications company, or a device manufacturer, to take up that technology. In essence, this has been the Company's key endeavour since formation - finding the most effective way to drive parental uptake.

From a product and service perspective, the Family Zone platform consists of a range of cloud services and embedded or installed software that interoperate to enable an ecosystem approach to cyber safety. Specifically, it comprises the Device Solutions, Consumer Solutions, Education Solutions, and Telecommunications and ODM solutions detailed above.

The Family Zone Box is a home network access point (a router) which plugs into existing networks and connects to the internet. It was first launched in March 2016. Once set up, a customer can then link his/her children's devices such as smart phones, televisions, and tablets to the Family Zone network. Each device is registered to a particular child with specific restrictions set-up by the parent. Restrictions can be time specific, for example, to ensure homework time is not disrupted. The Family Zone Box will also enforce filtering for unknown and guest devices connecting in that location. The product allows parents to have as much control over their children's online activity as they so choose.

The Mobile Zone App works on iOS devices, Android devices, PCs, Apple Macs, and Chromebooks. The primary function of the Family Zone App is enforcing filtering when the device is on unsafe networks (eg, when not connected to the Family Zone Box). It also offers advanced parental controls including watching for installation of apps, restricting use of device features (e.g. the camera) and disabling in-app purchases.

The Family Zone Web Portal and Zone Manager App (for iOS and Android) are the user interfaces used by parents to access their Family Zone account and manage their family. Uniquely Family Zone customers can manage all of their children's access settings from anywhere in the world via the Portal and Zone manager.

Family Zone School Manager is a best practice tool for schools permitting them to manage students, filter internet usage and manage digital citizenship programs. Family Zone classroom is a best practice tool providing teachers with full visibility and total control of all activity in the class. Family Zone appliance is according to the Company likely to be the lowest cost and most affective network filtering and firewall device in the world. The appliance is installed in school networks to monitor traffic and enforce the policies set in School Manager and Classroom.

Additionally, a unique feature of the Family Zone service is the Cyber Expert Partner (CEP) programme. CEPs are experts in cyber safety who build packages of parental controls using the functions of the Family Zone Platform. These controls include internet category access, social network access and recommended access routines. The packages are updated periodically by the CEPs and parents automatically inherit these changes. CEPs allow parents to out source the complexity of parental control and to access ongoing advice and support from an expert. This is a value adding feature of the Family Zone services and which makes users less likely to consider alternative parental control systems.

The Family Zone platform has been built by a team with extensive telecommunications experience. Whilst the technology can be employed 'over-the top', it has also been designed as a vehicle to enable partnerships with carriers, network equipment and access providers. For such market participants, the Family Zone technology acts to provide filtering as a "value-added service", creating new revenue streams for little or no cost and potentially improving customer retention rates in the target parental market segment.

The Family Zone technology is now in approximately 600 schools, primarily in Australia and New Zealand. The technology allows a seamless hand off between the school and home environment. For example, upon the commencement of school (say 8:30am) the school's restriction policies can come into effect and remain so for the duration of the school day. This will occur even if the device is not connected to the school's network. So, for example, the policies will continue to apply if the child is on a school excursion or in the playground. In doing so, it ensures schools fulfil their duty of care throughout the course of the school day and irrespective of where a child may be.

The ability to share timed policy settings is a unique feature and one that addresses the issue of mobility and internet access control, and which can be a significant problem for schools. The time based management has been a major driver of both school and parent adoption, allowing both parties to determine access controls at relevant times of the day / night.

It is a unique feature that no other market competitor has delivered on, with most parental control devices working at the local device level only with all the policy settings that control access being installed on the particular device. In contrast, the Family Zone platform is built cloud first and which allows access policies to be syndicated.

MARKET OVERVIEW

Cyber Safety & Parental Control Technologies

Cyber safety and parental control technologies describes a wide variety of software and hardware solutions that parents and caregivers can use to restrict the content their children can access and the people they can communicate with.

The world's leading and most well-known parental control products are installed application software. These products are installed onto devices such as computers, mobile devices and lap tops. Whilst these are sophisticated and feature rich products they have many weaknesses: a large number of ways to avoid, remove or bypass these 'installed software' parental controls ("hack"); with the proliferation of new connected devices parental control software isn't readily available for all devices; and application software can't practically be installed by parents on unfiltered guest devices that visit the home.

Some cyber safety services are embedded in networking equipment such as routers, access points and network appliances. These are pieces of networking equipment which sit on a local network and enforce filtering. Other approaches can be configured within networking equipment such as routers. These approaches route certain internet traffic for filtering by cloud-based filters.

Being in-line or in the network, such approaches do not suffer from many of the weakness of installed application software approaches. However, configuring routers and installing network approaches is often beyond the technical expertise of many parents. Furthermore, these approaches do not deal with the increasingly "mobile" internet experience of the digital generation.

Market Opportunity

Globally the cyber safety and parental control software market is estimated at US\$2.5Bn. This is a tiny figure given the size of the addressable market - parents. US based Parks Research estimate that the addressable market is less than 5% served by today's tools, This suggests an opportunity of greater than US\$50Bn per annum.

As an example of the latent opportunity, in Australian there are currently over 5 million residences with a child and 4 million children using mobile devices. At typical cyber safety and parental control prices of \$9.95 per month per family or \$4.95 per device this represents an addressable opportunity of between \$20m and \$50m per annum. This is a significant market, not dominated by any provider and not targeted by any Australian telco operator.

There are a number of drivers of growth in the cyber safety and parental controls software market with the demand for cyber safety solutions coming from many sources including international organisations, national bodies, educational institutions, parents, Internet service providers, media broadcasters, and telecommunications operators.

The Company's view of the potential of the cyber safety market is that it is one in which customers are willing to pay but are under serviced and which could grow exponentially if workable solutions are found. The global parental control market is also described as highly fragmented, ad-hoc and competitive.

The Company views schools in particular as a crucial and considerable opportunity, identifying three key reasons. Firstly, schools require an integrated solution to address the challenges presented by student internet use - both on and off the school network. Secondly, schools wield enormous influence over parents and their technology choices. And thirdly, any parental control solution must get schools on-board or they will fail to achieve mass-penetration.

Cyber safety services into education is dominated by the major enterprise cyber security players and then a smaller group of education specialists. Historically these products have been selected and sold as “compliance” services, whereby schools can comply with their duty of care obligations. These systems are typically tightly managed by a state provider or the IT team at the school.

These approaches don't work for today's schools where: 1) school children are bypassing the school filter by switching on their mobile devices; 2) the proliferation of devices in classrooms plus modern 'project-based' pedagogy requires teachers to be able to open up or shut down the internet during class.

Revenue estimates are difficult to obtain however Family Zone estimate in the USA education sector network filtering generates less than \$200M in revenue p.a. The opportunity Family Zone has identified is using its unique platform to solve the greatest challenges of schools being mobility and parental engagement, whilst also providing best practice and integrated solutions for the school network. This model means the Company can sell 'solutions' up the food chain in education and it provides Family Zone with direct access to parents for promoting its parental control options. The Company's experience to date shows this approach is effective.

COMPETITIVE ENVIRONMENT

The parental control market can generally be described as fragmented, with a large number of niche parental control products in the market, and substantially under exploited, with only a small fraction of parents currently using such services.

We believe there are opportunities for the taking for well positioned players in the market that, through superior product, service and commercial offerings and adept marketing strategies should be able to gain rapid market presence. Over the foreseeable future, we would expect the market to be characterised more by a land grab and perhaps the entrenchment of the more superior product technologies. In this regard, combined with sensible marketing strategies, we believe Family Zone is well placed.

Family Zone notes that historically school networks were protected by the major enterprise firewall providers like Palo Alto, Fortinet, CheckPoint & Cisco. Enterprise firewalls however have proven to be unaffordable and are not well suited to education. Education environments are hostile, but from internal users, require classroom level, fine-grained control, behavioural insights and on-device controls unavailable via network filters. Accordingly a number of firewall providers have focussed on education and built specialist functions (eg, Lightspeed) and many 'device management' providers have popped up in recent years.

The largest three players in the parental control market are thought to be Disney Circle, Qustodio and Ourpact. Family Zone has a comparable product offering to all three, but all three benefit from substantially greater financial resources. However, the Company understood from the outset that it would never have had the funding to market against these larger market players. Hence, the Company's strategy has been to target schools in particular and to get school partners to effectively undertake the marketing to parents on Family Zone's behalf.

The infographic below identifies the key and best positioned competing players that also specifically target the education sector and compares the key features of the Family Zone technology with these education sector parental control competitors.

Securely and Go Guardian are considered by Family Zone as potentially the best placed competitors. However, the Company notes that Family Zone shapes up stronger than all of them and our commercial model positions us well for rapid expansion in any market we enter. However, our EDU competitors offer Family Zone M&A or partnering market-entry opportunities. Family Zone has achieved this twice already with the acquisition of Sonar (AU) and Linewize (NZ) in 2017.

Family Zone shapes up stronger on a “completeness” of offering perspective. Its key competitive strengths includes the product's ability to continue to control the device outside of the home, the Family Zone cyber experts option, and a commercial model that offers competitive advantages, both in relation to the Company's operating costs as well as in particular for school users given the relatively low cost of product and service.

Competitor	Platforms*	Support BYOD	Network Solution	Duty of Care	Classroom Tools	Parent Solution	Anti-Bullying Alerts	Filtering	Firewall Routing	SSL Inspection
Securely	All	Y	Y	Y	N	Y	Y	Y	Y	Y
Qustodio	All	Y	N	Y	N	Y	N	Y	N	Y
Lightspeed	All	Y	Y	Y	Y	N	Y	Y	Y	N
Go Guardian	Limited	Y	N	Y	Y	N	Y	Y	N	N
Family Zone	All	Y	Y	Y	Y	Y	Y	Y	Y	Y

* Apple, Windows, Android, Google Chrome

Based on the above, we believe Family Zone is in a strong competitive position. However, at this point we do not perceive competition to be a key impediment to Family Zone as the target market is so under-served and the market opportunity so under-exploited at this point in time. While the Company does of course need to be mindful of, and operate in recognition of the particular competitive dynamics, we believe the Company's success, or lack thereof, over the foreseeable future is really largely of its own making. At this point in time, the critical factor is really to cement a market presence

GO-TO-MARKET STRATEGY

The Company's go-to-market strategy to build a user base of parents and schools consists of four primary distribution channels: direct to consumer sales; education solutions sold to schools, providing indirect sales opportunities to parents; telco wholesale deals, and; ODM agreements where these device manufacturers pre-load the Family Zone service.

The strategy to facilitate uptake has been based on several focused strategic initiatives. Firstly, build the platform and enable parents to DIY in the easiest and simplest way possibly. Secondly, solve schools' duty of care challenge with mobility. Thirdly, by providing an effective and cost competitive solution to schools, then leverage schools to drive parent adoption. Fourthly, leverage telcos for distribution, both to their customer but also as a strong referral source to device manufacturers. Fifth, leverage device manufacturers to pre-install the Family Zone technology to enable quick and simple installation by parents. Finally, acquire complementary edu-tech business for scale and efficiency gains, as per the acquisition of Linewize in 2017.

Direct to Consumer

The Company's parental control solution offers universal control for the home network and for devices that leave the home. This can be purchased online. The pricing strategy to consumers is a mix of offering Family Zone services through periodic subscription plans, bundled services into a range of value plans and the sale of hardware at a price point to achieve break-even after expected distribution costs. Current pricing is \$89 for the Family Zone Box (Access Point) with a range of monthly or annual subscription plans starting at \$4.95/month or \$59/year.

Education

Schools are an important end market for the Company, being a significant potential end-user in their own right but crucially representing a highly effective marketing channel for parents whose children attend the particular school. The Family Zone technology is effective in addressing Schools' major challenges, allowing them to manage duty of care on devices at school and at home and provide a simple solution for parents that works with school programmes. The Company's commercial model provides schools the option of absorbing, passing on or defraying part of the costs of cyber safety across their parent community.

To facilitate parental uptake through schools, the Company provides a school community platform, which is a tool that allows the school to invite parents to participate in the use of the Family Zone product. It is an effective model of engagement. Approximately 80 schools are currently live on this partner program and within those schools an impressive average of 24% of all parents have taken up the Family Zone service.

To date, the Company has primarily targeted the private school sector as they typically have a higher budget, greater discretion and are quicker to move. Religious schools in particular have tended to be quite proactive in their internet policies and have represented a prospective sub-segment. A number of schools have mandated 100% Family Zone adoption among the pupil base.

Telecommunications Carrier Distribution

Telecommunications carriers are an important and significant distribution opportunity for the Company. Carriers are in competitive markets and seek differentiators and value-adds to their offerings. Family Zone offers the prospect of providing parental control technology as a value-add service and one that has the potential to improve customer loyalty / retention. The Family Zone technology can operate 'over the top' of a telecommunications network or easily embedded in the network. The Company has found telecommunication companies to be receptive of the offering.

To date, the Company has established agreements with a number of Asian telecommunication companies that are currently either in test phase or imminently about to launch the reselling of the Family Zone technology (both the Family Zone Box and associated Apps) under their own brand. The pricing is typically somewhere between 50 cents and a dollar US per month per server and generally split 50/50 between the Company and telecommunications reseller. These agreements and status are detailed below.

The Company's strategic ambition with carriers is as much about driving subscription and revenue as it is about driving relationships with the ODMs that the telecommunication companies have existing relationships with. In this regard, the telecommunications company acts as an advising or referring partner, recommending the pre-installation of the Family Zone technology to modems/routers and smart devices to a particular brand of such devices that the telecommunications company manages.

Family Zone has achieved significant wins in competitive evaluations against the world's leading internet security providers. The Company has won contracts with some of the leading telco groups including Vodafone and Singtel Optus. In total, Family Zone's wholesale telcos partners today service over 1 billion customers and over 90 million children. This is an enormous addressable market opportunity, estimated at some \$90 million per annum. Given the scale of the opportunity and importance of cyber safety, Family Zone and its partners have been working through substantial trials and research programs in 2018. This effort has culminated in cleverly defined subscriber acquisition and monetisation strategy expected to launching at the back end of 2018. Though it's trials the Company has generated over 10,000 customers and \$700K in revenue to date.

Telco Distribution and ODM Agreements		
Client	Opportunity	Status
Telkomsel Indonesia	Telkomsel has in excess of 160m subscribers. Estimated to have over 10m child users.	In pilot. Small penetration <10,000 customers
PLDT Philippines	Philippines main long distance provider. Primarily a provider of business services	Live. Small penetration <1,000 customers. Primary launch expected Q3 CY2108
Smart Philippines	Philippines incumbent mobile carrier with over 60m subscribers, 8m of which are estimated to be child users.	Family Zone development complete. Launch pending client work. Expected Q3 CY2108
Maxis Malaysia	Malaysia's incumbent telco provider with over 12m subscribers. Estimated to have circa 2m child users.	Family Zone development complete. Launch pending client work. Expected Q3 CY2108
Vodafone India	Largest telco in India with over 430m subscribers.	Scoping phase. Launch expected Q4 CY2108
Alcatel Mobile	Third most sold smart device in Australia.	Alpha released. Launch expected Q4 CY2108
Micromax India	One of the largest manufacturers Android devices in India	Scoping phase. Launch expected Q4 CY2108

ODM Partner Model

"ODM Partners" is a partnering model designed by the Company to work with device manufacturers to pre-load Family Zone on their platforms. These device platforms include smart devices, access points, routers, tablets and PCs. Device manufacturers typically operate in competitive low margin markets, and seek feature differentiation for advantage.

Many device manufacturers already offer parental control features however take-up is very low. Such features are always limited to the individual device and are often incomplete.

Family Zone's filtering technology has been built to enable it to be ported into almost any other platform. The Company makes its technology freely available to the manufacturers so they can offer their customers access to Family Zone's innovative and world-first ecosystem.

To date the Company has signed distribution deals with three device manufacturers. Of most significance is their arrangements with TCL Mobile (the owner of the Alcatel brand) and Micromax in India. Together these manufacturers sell 70M smart devices per year and they have started pre-loading Family Zone on some of their range. In coming months more of their platforms will have Family Zone pre-loaded and ultimately Family Zone will be an option in the setup wizard for the devices. With these two agreements signed relatively recently with major global players, this strategic initiative is starting to gain momentum.

Acquiring Complimentary Edu-tech Businesses

In November 2017, Family Zone acquired New Zealand-based edu-tech company Linewize. Linewize had developed a cloud-based firewall and a suite of tools and services to support school cyber safety and security. Linewize's technology was seen as synergistic and offered significant feature and cost structure improvements for the Company.

Since completion of the acquisition in November 2017, the Company has invested in upgrading Linewize and integrating into the Company's broader platform. This was completed in the 2QCY18 period. This platform, now called "School Manager", is being rapidly rolled out across the Company's Australian schools and upgraded through New Zealand.

Linewize delivered an existing user base in New Zealand of 250 schools and a total 100,000 users. However, the real strategic rationale of the acquisition was that it would deliver the Company with a step-change in features, lower operating costs and scalability. It is an integral component of the Company's growth strategy moving forward.

Consistent with the rationale for the Linewize acquisition, deployment times are considerably shorter (several days versus several weeks), customer feedback overwhelmingly positive and product and installation costs substantially lower than previously the case for the Company (lower hardware costs and substantially lower than competitors).

The acquisition positions the Company strongly in terms of getting into a school cheaply and quickly (a key strategic component to the upcoming US market expansion) as well as delivers material operating cost advantages.

US Market Strategy

The Company's existing US market presence and its growth strategy moving forward warrant separate discussion given the prospective nature of that market and the Company's imminent commercial push.

While we expect near term earnings growth to be driven by Australian and New Zealand subscription numbers as well as the company's ability to secure wholesale agreements within Asia, we believe there is significant upside potential within the United States. There are ten times as many children with mobile phones in the US compared to Australia, and we estimate that the parental control market differential between the two countries is of a similar magnitude.

Over the last two quarters, Family Zone has been preparing its go-to-market plans for the important US market. There are currently 130 schools in the US that utilise the Family Zone solution, by and large in West Virginia. The customers are a legacy of an acquisition the Company undertook several years ago. To date, these schools have been largely managed on a maintenance basis, with a small degree of upgrades. However, with the now complete full integration of the Linewize technology a bigger US sales and marketing push is imminent.

As part of this push, the Company has signed an experienced senior sales executive to join the Family Zone USA team, specifically Ross Young. Mr Young joined on 1 July 2018 from iBoss, one of USA's leading providers of cyber services in education. Given Mr Young's stature, this in itself is validation of the product market fit of the Family Zone offering for the US market. Family Zone has recently signed four Partner School campuses and with an expectation more will follow shortly.

Over the shorter term, the strategy for the next six months in the US is that of market positioning - establishing the brand, ensuring the US based business is operating effectively, and establishing several 'proof of concept' school customers as well as signing up any necessary solution providers. The intention is that by early in the new year, when the school year resumes, the Company will be in a position to ramp up its commercial efforts in the US.

We note that it is the Company's intention that its US expansion strategy, and as with all international market expansions, that the commercial push will be funded by momentum. Should the US gain sales traction and generating cash, then it is the Company's intention that this will be reinvested into more resources. The exception will be if the Company finds a source of equity funding that is specifically excited about, and interested in funding, business expansion in the US and in which case it would be funded at a quicker pace. In either case, the Company's approach will limit any additional 'burden' on the Company's cash reserves.

COMMERCIALISATION PROGRESS

Contracts with schools and paying subscriber numbers are the key growth drivers for the Company. School contracts are rapidly being rebased into "Family Packs". In June 2018, the Company grew its subscriber base to over 50,000 paying subscribers (across education, direct, and telcos), demonstrating consistent growth of real customers and revenues. Family Zone's rapid growth in subscriber numbers provides a strong endorsement and support for the Company's marketing and commercialisation strategy, as well as the commitment of staff to achieving commercial targets.

The majority of contracted revenues are driven by Family Zone's education business with the Company having a network of 600 schools in Australia, New Zealand, and the US and 150 Partner Schools. The latter are actively promoting and mandating Family Zone's home and mobile offering to their school communities.

Schools and Partner Schools - The Company continues to win new Partner Schools with 30 joining in Australia and New Zealand in the June 2018 quarter. The Company has recently passed 160 Partner Schools and of these in excess of 60 are live, working with Family Zone to promote cyber safety programs within their community. The Company continues to achieve exceptional adoption by parents in its Partner Schools, now in excess of 24%.

With the acquisition of Linewize in November 2017, the Company acquired the existing business, staff and some 250 education clients. The acquisition was completed at the end of the main sales period in New Zealand education. Notwithstanding, the Company has made solid progress subsequently.

In terms of commercially structuring the service to schools, the Company will typically offer a school the complete Family Zone service for anything from an annual \$4,000 to \$10,000, subject to pupil numbers and typically based on a three-year contract. This compares to common competitor pricing in the vicinity of \$20,000 per annum. Additionally, as part of the service, the Company will provide a bundle of the Family Pack service for school parents for free (typically up to 200 Family Packs) for free for the term of the contract so the school can start rolling the service to parents. After this period, this service to such parents would move onto standard pricing terms (typically \$59 per year). Once those parents get to use this then the expectation is the parents will pay.

The cost for each school is subject to the number of pupils but typically averages (in Australia) in the \$6,000 per year range. However, the Company has been successfully up-selling Family Packs to paying school parents, the result of which has generated an average invoice of around \$14,000 per year (in Australia). This average figure continues to grow which in itself is positive confirmation of the value proposition of the product and emphasises the broader market potential.

There are approximately 2,500 schools in Australia that are private, religious or independent and have complete discretion on expenditures. With Family Zone currently engaged in only 200 such schools, the private school sector opportunity in Australia alone remains material. We note there are 10,000 schools in Australia, 2500 which are independent, 2,500 schools in New Zealand, and all of which are independent, and 100,000 schools in the USA.

While the focus to date has primarily been the private school sector, the Company is ramping up its marketing initiatives with the Australian public school sector as well and this is likely to become more focused by years end (2018). We note that Family Zone has received specific

approval from the West Australian and South Australian governments to sell its technologies into all state schools. So far the marketing initiatives have been on a school by school basis. Ideally over the longer term the Company may be able to progress to potential state wide deals.

If there is a barrier to the deployment of the Family Zone solution in public schools then it is likely to be a budgetary one (although all schools have a degree of discretion on annual expenditures). The Company will seek to address this issue by introducing a new pricing and service structure and starting with state primary schools. Specifically, Family Zone will offer a school their service offering for a relatively nominal charge in the less than \$1,000 p.a. vicinity. For that, the school can invite all parents to participate and adopt the technology on relevant devices by way of Family Zone's School Community Platform. The policy being that any device that comes to school has to have Family Zone's mobile technology on it so that the school can enforce its acceptable use policy and, in doing so, comply with its duty of care obligations (a major problem as most schools have a device programme starting in year four).

For a nominal annual fee to the school, the Family Zone will service as a free monitoring service for the parents. The PR message will effectively be "Family Zone is offering, for every primary school, parent in Australia, a free service that is part of some cyber safety programmes in all the schools." It has the potential to be a strong PR story and, overtime, may get the Family Zone offering into different conversations within the public school system and, ultimately, increased adoption. There is an expectation that over time many parents will convert from the 'freemium' model to an affordable Family Zone Protect offering.

To date, the Company has undertaken all marketing initiatives to customers and potential customers through internal in-house resources. Part of the reason to do so is the Company is selling a differentiated product proposition to many competing offerings and the view has been that is done most effectively initially by leveraging the internal expertise. Now that the product proposition is stabilising and the market starting to understand it, the Company has commenced discussions with potential 3rd-party distribution channels to accelerate growth potential.

The Company has an ambitious strategy to leverage telcos for the promotion cyber safety and to drive subscription uptake. The Company has been successful at signing on major telcos, against globally renowned competitors. This provides validation of the Company's model and the commitment of telecommunication companies to finding a solution to the cyber challenges of their customers. The Company, along with their telco partners have conducted research and successful trials of the product. They have also run trials of marketing and distribution methods. This has culminated in the development of a 'freemium' subscriber acquisition strategy whereby the telcos (and ODMs) promote a free cyber safety monitoring solution, from which Family Zone notifies parents of child's internet usage, apps being downloaded and provides immediate notifications of inappropriate activity. Parents will thus have opportunities to upgrade to enforce parental controls and moderate risks/behaviour.

In relation to commercial progress on the Access Partner / OEM strategy, the agreement with Alcatel (TCL Corporation) is the most developed. Under the agreement, all Alcatel devices, including mobile phones, entering Australia will have the Family Zone technology pre-loaded. As such, the Family Zone technology will be included in the setup wizard for such devices. The Company is expecting the first such devices to be available for sale over the next few months, and in time for the Christmas retail season. By having the Family Zone technology 'hard wired' into the device not only is setup simpler but the technology becomes harder to 'hack' and is unable to be removed by a child user.

EARNINGS FORECASTS

In reporting revenues, the Company reports both "contracted revenue" and "accounting revenue".

Contracted revenue represents the total invoice value of a contract over its full term. The Company's contract terms vary in length, with Australian contracts being typically for three years and New Zealand contracts generally 12-months. The Company expects to increase average contract length over the course of 2018.

Accounting revenue is the apportionment of contracted revenue over the term of the service contract. As the Company's contracted revenue grows, so too is accounting revenue expected to increase. Accounting revenue also includes Australian Government grant

revenue received from the Company's ongoing investment in R&D. The Company makes the sub-distinction of "accounting revenue growth" so as to provide transparency on this key earnings metric.

The Company's contracted and accounting revenue have built strongly over CY2018, which has partly been driven by its ongoing investment in building its sales capability in Australia and New Zealand.

Revenue per school, noted below, has also increased quickly. This increase is based on the Company's rapid transitioning of school contracts from license fees to "Family Packs". Family Packs are Family Zone's standard consumer family plans encompassing parental controls for up to three family members and six devices. Family Packs are priced at \$5.95 per month when purchased direct (online) or \$59 per year when purchased through a school referral or by a school.

When sold to schools, that school is referred to as a "Partner". The Company's Partner schools have a minimum subscription of 50 Family Packs, however normally subscribe for 200 or more. As schools cover the costs of more families and/or penetration increases within the school community, revenue from each school is expected to continue to increase over time.

The Company's move to re-base school contracts as Family Packs is expected to drive accelerating revenue growth and significantly better returns per school over time. As at the March 2018 quarter, 33% of school clients are invoiced on the basis of Family Packs. This is expected to move to 100% by mid 2019. Accordingly, Family Packs will become the Company's standard methodology for reporting change in customer value.

For the FY18 period, the Company recorded an approximately 150% increase in top line and customer revenue through growth in school clients and paying subscriptions. The Company's channels are also delivering strong average revenues per account and low costs of acquisition, demonstrating the Company's strategies for product and go-to-market are delivering.

Quarterly Revenue Growth & Drivers			
Key Revenue Metrics	Dec 2017	Mar 2018	Jun 2018
Accounting Customer Revenue	\$449K	\$786K	\$1.62M
Average Invoice Value - Australian Schools	\$10,490	\$14,230	\$15,938
Average Invoice Value - New Zealand Schools	\$2,968	\$4,985	\$6,119

Our key earnings assumptions, rationale and forecasts are presented below.

- ◆ Penetration rates. Penetration rates relate to the adoption of Family Zone by the forecast number of parents in each geographic market, the latter of which is based on government forecasts. It is critical revenue assumption and arguably the greater element of uncertainty. Investors should keep the latter in mind, as IIR has done so in adopting what we believe are conservative penetration rates for each geographic market;
- ◆ Average Revenue per User. While not separately detailed below, the ARPU base is set according to current actual ARPU numbers or, alternatively, conservatively forecast in new geographic markets and based on the Company's market analysis. IIR's modelling assumes price competition over the longer term, and which runs contrary to the Company's ability to date to increase ARPU levels over time to date (and quite materially so). Again, this is intentionally a conservative assumption.
- ◆ Operating costs. Fixed costs are a function of current levels and subject expected Company growth. Those that are a function of revenues, such as advertising, are forecast as such based on current trends and rates.

Key Profit & Loss Forecast Assumptions								
Geography	Category	FY18A	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F
Totals	Full Service schools	530	747	1,253	2,300	3,564	5,512	8,279
	School Community schools	-	443	1,176	2,236	3,512	5,473	8,253
	Direct subscribers	4,000	16,764	47,814	88,491	139,737	198,086	270,747
	Wholesale subscribers	8,000	43,143	155,000	305,000	600,000	1,181,000	1,622,050
	Paying subscribers (all channels)	47,881	163,208	369,451	650,993	1,090,409	1,846,305	2,464,818
Australia	Penetration into homes with children	0.1%	0.3%	0.6%	0.9%	1.3%	1.6%	1.8%
	Penetration into schools	1.5%	5.0%	8.0%	12.0%	16.0%	20.0%	20.0%
New Zealand	Penetration into homes with children	0.0%	0.4%	0.9%	1.2%	1.5%	1.9%	2.2%
	Penetration into schools	10.0%	16.0%	23.0%	27.5%	32.0%	36.5%	41.0%
USA	Penetration into homes with children	0.0%	0.0%	0.0%	0.1%	0.1%	0.2%	0.3%
	Penetration into schools	0.1%	0.3%	0.8%	2.0%	3.5%	6.0%	10.0%
UK	Penetration into homes with children	0.0%	0.0%	0.0%	0.1%	0.1%	0.2%	0.2%
	Penetration into schools	0.0%	0.1%	0.8%	2.0%	3.5%	6.0%	10.0%
Telkomsel	Penetration into estimated minors	0.1%	0.3%	0.5%	1.0%	2.0%	4.0%	5.0%
Maxis	Penetration into estimated minors	0.0%	0.0%	0.3%	0.5%	1.0%	2.0%	3.0%
Smart / PLDT	Penetration into estimated minors	0.0%	0.0%	0.3%	0.5%	1.0%	2.0%	3.0%
Voda India	Penetration into estimated minors	0.0%	0.0%	0.3%	0.5%	1.0%	2.0%	3.0%
Cost Items								
	Advertising cost to acquire	\$19.87	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50
	Hardware costs per school	\$686.64	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00
	Filtering services per subscriber	\$15.15	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
	Data & hosting per school	\$1,458.89	\$1,167.11	\$933.69	\$746.95	\$597.56	\$478.05	\$382.44
	Commissions per new school	\$216.76	\$216.76	\$216.76	\$216.76	\$216.76	\$216.76	\$216.76

Profit & Loss Forecast (\$A)							
Geography	FY18A	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F
REVENUE							
Direct AU	\$352,727	\$1,191,836	\$2,214,956	\$3,242,823	\$4,200,793	\$5,083,900	\$5,746,123
Direct NZ	\$-	\$235,423	\$493,801	\$687,032	\$854,131	\$1,006,908	\$1,145,803
Direct US	\$-	\$125,163	\$1,862,061	\$4,622,409	\$8,729,536	\$13,053,587	\$18,594,959
Direct UK	\$-	\$28,345	\$502,779	\$1,317,240	\$2,557,234	\$3,842,880	\$5,365,080
EDU AU	\$1,650,000	\$3,746,500	\$6,062,250	\$8,787,475	\$11,303,089	\$13,633,261	\$13,159,998
EDU NZ	\$409,091	\$1,295,636	\$1,594,818	\$1,779,845	\$1,954,213	\$2,114,880	\$2,262,302
EDU US	\$17,333	\$555,500	\$1,224,120	\$2,953,527	\$4,989,677	\$8,259,888	\$13,297,396
EDU UK	\$-	\$121,468	\$981,479	\$2,361,150	\$3,976,802	\$6,562,132	\$10,529,223
Grants and incentives	\$2,583,700	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Telco	\$32,000	\$257,792	\$752,727	\$1,399,091	\$2,585,455	\$4,766,727	\$6,389,064
Total Revenue	\$5,044,852	\$9,057,664	\$17,188,992	\$28,650,591	\$42,650,929	\$59,824,162	\$77,989,947
Costs of Sales							
Hardware APs	\$48,012	\$169,467	\$915,027	\$1,340,519	\$2,074,388	\$2,263,121	\$3,129,716
Hardware Appliances	\$363,917	\$108,313	\$253,214	\$523,414	\$632,225	\$973,990	\$1,383,120
Filtering services	\$725,197	\$163,208	\$369,451	\$650,993	\$1,096,486	\$1,855,512	\$2,480,316
Data & hosting	\$773,212	\$871,395	\$1,169,962	\$1,717,900	\$2,129,907	\$2,635,156	\$3,166,044
Commissions	\$114,881	\$46,955	\$109,771	\$226,907	\$274,078	\$422,238	\$599,601
Total Costs	\$2,025,219	\$1,359,338	\$2,817,425	\$4,459,733	\$6,207,083	\$8,150,016	\$10,758,797
Gross Margin	\$3,019,633	\$7,698,326	\$14,371,567	\$24,190,859	\$36,443,846	\$51,674,146	\$67,231,150
Advertising & marketing	\$951,348	\$1,224,061	\$2,770,882	\$4,882,450	\$8,223,643	\$13,916,337	\$18,602,373
Salaries and wages	\$8,459,827	\$8,459,827	\$8,882,818	\$9,326,959	\$9,793,307	\$10,282,973	\$10,797,121
Office & admin	\$2,257,918	\$2,257,918	\$2,370,814	\$2,489,355	\$2,613,822	\$2,744,513	\$2,881,739
Corporate	\$812,175	\$812,175	\$852,784	\$895,423	\$940,194	\$987,204	\$1,036,564
Total Overheads	\$12,481,268	\$12,753,981	\$14,877,298	\$17,594,187	\$21,570,967	\$27,931,027	\$33,317,797
EBITDA	\$(9,461,635)	\$(5,055,655)	\$(505,730)	\$6,596,671	\$14,872,879	\$23,743,119	\$33,913,352
Depreciation & Amortisation	1,540,026	1,232,021	985,617	788,493	630,795	504,636	403,709
Share Based Payment Expense	4,366,883						
EBIT	\$(15,368,544)	\$(6,287,676)	\$(1,491,347)	\$5,808,178	\$14,242,084	\$23,238,484	\$33,509,644

CAPITAL STRUCTURE

The table below details the capital structure of Family Zone, both on an 'in-the-money' and on a fully diluted basis assuming all performance shares milestones are achieved and all outstanding options become in-the-money and therefore exercised. We have undertaken a DCF valuation on the basis of both. However, to maintain consistency with our earnings for earnings forecast, which would entail all Performance Shares vesting (and most likely all options being exercised), we have chosen to utilise the fully diluted number of shares of 204.69 million.

Security Class	# Shares	Diluted Capital
Shares	144,701,641	144,701,641
Performance based - Earned	83,333	83,333
Performance based - Unearned	34,466,664	
Options - In the money	16,973,438	16,973,438
Options - Out of the money	8,466,099	
	204,691,175	161,758,412
Market Cap	Shares	\$45,292,355
0.33	Diluted	\$57,313,529

SWOT ANALYSIS

Strengths

- ◆ From a product, service and market strategy perspective, we believe Family Zone is in a strong competitive position. The bulk of competing parental control software products suffer from significant design and feature flaws, with the parental controls requiring effort, are complex and do not work effectively with school programs.
- ◆ The Family Zone technology is well placed to drive further adoption by schools. The technology successfully allows schools to address duty of care responsibilities on devices at school and at home as well as provide a simple solution for parents that works with school programmes. The commercial model also enables schools, that also represent a highly effective marketing channel to parents, to pass on the costs of parental control solutions onto their parent community.
- ◆ In IIR's view, the Family Zone business model is proven. It has shown that it can not only grow users and generate material revenues but do so at growing rates and based partly on a strong product and effective go-to-market strategies. This addresses one of the two critical factors to the long-term success of the Company, with the second being the ability to build a critical mass of users and sustain strong long-term growth.
- ◆ The acquisition of NZ-based edu-tech business Linewize in late 2017 and subsequent integration of the acquired technology in the Family Zone platform has provided significant service and cost advantages to the Company and positions it strongly in terms of rolling out its service to schools in a highly efficient and cost effective manner.
- ◆ The Company is progressing well on all key revenue related aspects. Contracted schools are accelerating, it has now established seven agreements with telecommunication companies, some of which product launch is imminent, and similarly with device manufacturers. Based on preexisting growth momentum, the ongoing developments in its three go-to-market distribution channels, and the imminent launch of other strategic initiatives (US expansion, public school initiatives), we are expecting a solid increase in key revenue drivers and revenues over the next 12-months.
- ◆ Telecommunications companies in Asia with in excess of 1 billion subscribers have chosen Family Zone as their cyber safety partner. This is a significant credibility boost in addition to potentially a substantial commercial opportunity.

Weaknesses

- ◆ Dilutionary risk to ordinary shareholders has and remains significant. This has partly by way of Performance Shares and Rights issued to the key members of the management team. We note there are 36 million Performance Shares and Rights outstanding and, assuming the associated milestones are met, will convert into ordinary shares at nil consideration. To be fair, we do note that these are mostly split in two tranches with

hurdles being \$10m and \$20m in annual revenue by 2019 and 2020, respectively. Accordingly, accretive value is expected to outweigh the dilutionary impact.

- ◆ Not surprising given the user growth ramp-up stage, Family Zone is drawing down on cash reserves (albeit at declining rates now) and may need to raise further additional capital during the CY2019 period, notwithstanding the \$5M capital raise announced in July 2018. There is a risk that any possible equity raise may prove dilutive to existing shareholders.
- ◆ While Family Zone is progressing well based on product and marketing strategy strengths, investors must recognise that there is significant uncertainty regarding the longer term outlook for the Company in terms of growth rates and, therefore, valuation. Investors should accept an equity investment in Family Zone to be a high risk, high reward investment proposition and size their investment appropriately.

Opportunities

- ◆ The parental control market is highly fragmented and highly under-exploited, with only a fraction of parents using such technologies. We believe there are opportunities for the taking for well positioned players in the market who, through superior product, service and commercial offerings and adept marketing strategies should be able to gain rapid market presence. Over the foreseeable future, we would expect the market to be characterised more by a land grab and perhaps the entrenchment of the more superior product technologies and value propositions. In this regard, while not under-estimating the scale of the challenge, we believe Family Zone is well placed.
- ◆ Family Zone's Asian telecommunication partnerships represent a substantial opportunity. The Company has been working with its various partners for up to 12-months (trailing, testing and researching) and have now developed an innovative subscriber acquisition strategy. The strategy revolves around a soon to be launched Free Family Zone Monitoring service, delivered to customers via the telecommunication partners as a Family Zone subscription. The Company has no costs in delivering, with the telecommunication partners doing all marketing and promotion, yet controls the 'conversation' with the parental subscribers.
- ◆ Device manufacturers are similarly a substantial opportunity. Family Zone currently has agreements with Micromax and Alcatel and in discussions with others. Each of these devices will have the free Family Zone monitoring service for life. Parents opt-in, get notified of issues/risks and can act by upgrading to a paid Family Zone subscription.
- ◆ In IIR's view, the next 12-24 month period will provide greater transparency of the magnitude of attainable longer term revenues and earnings. While the investment risks are currently far from insignificant, investors today will likely be appropriately rewarded for the risk should the absolute growth numbers continue to materially increase.
- ◆ To date, the Company has primarily focused on the private school sector given the sector's greater budgetary discretion and ability to act quicker. However, the Company will begin to focus increasing resources on the state school sector in Australia. In this regard, we note Family Zone has received specific approval from the West Australian and South Australian governments to sell its technologies into state schools. While there is no impediment to selling to public schools, this is an important endorsement from these government bodies. Ideally, at some point in the future, the Company may be able to progress from a school by school marketing strategy (which lacks economies of scale) to state wide approvals.
- ◆ The Company will begin ramping up a push into the US schools market over the next 12-months. While the challenges will be significant, we believe the Company is well placed in terms of product / service offering, customer convenience, and price point. We note that the Company has stated that a US push will be largely self-funding (by revenues generated there), thereby limiting any potential cash drain on the Company.

Threats

- ◆ Competition within this market arises from a number of sources including companies with greater capital resources. Family Zone's competitors include telecommunication companies, internet companies and computer, software and hardware manufacturers. The risk to Family Zone is that a competitor develops a superior product and takes a significant market share. However, we do note the parental control software market is extremely fragmented and many of the offerings subject to substantial product flaws (many of which have been addressed in the Family Zone product which we view as

generally superior). Nevertheless, the market remains relatively embryonic and with this come uncertainties. Should the market opportunity become increasingly realised competitive pressures and dynamics are also likely to evolve and potentially be driven by companies with significantly largely financial resources than Family Zone and with superior distribution channels.

- ◆ Public school bodies have a penchant for uniformity and certainty. We believe there is a material risk that governing bodies may ultimately mandate one common cyber security system for all schools. We note that in New Zealand the government provides state schools such a service for free. While the service has flaws, it nevertheless impacts Family Zone's commercial success in that country. There is a risk state or Federal governments may do in other jurisdictions and effectively lock Family Zone out of the school market in those areas.
- ◆ While it is the Company's intention to do so, we believe it will likely be imperative for the Company to ramp up its use of 3rd-party resellers of the its product if it is to gain substantial commercial traction. Having said that, most of the Company's sales in New Zealand are through or with resellers and the Company is actively introducing resellers in USA. In Australian, the Company has appointed a reseller in South Australia and considering expansion. Success on this strategic front is an opportunity, a lack there of represents a threat.

RISKS

- ◆ Growth and profitability dependent on growing users -The Company has not achieved operational profitability. In order to achieve profitability, the Company must continue to attract new users and retain existing users. There is a risk that the Company may not be able to grow its user base or retain existing users and, as a result, may fail to become profitable.
- ◆ Competition risk - The parental control market in which Family Zone participates in is competitive and characterised by technological change. The Company's competitors could introduce new products that compete with the Family Zone platform that have greater capabilities, better pricing or benefit from superior distribution and / or marketing. Such developments could have a material adverse effect on the Company's business. The Company competes with larger companies with greater resources on the basis of performance, cost, overall value, delivery and reputation.
- ◆ Third party relationship risk-The Company is dependent in part upon its relationships in the telecommunications and device manufacturing markets. Some of Family Zone's partners do or may in the future assist the Company in the development of its products through testing, distribution or reselling arrangements. If any of the Company's existing relationships with partners were impaired or terminated, or if the Company was unable to implement additional partnering arrangements it may require from time to time, the Company could experience significant reductions in expected future revenues.
- ◆ History of operating losses - Although the Company has experienced significant revenue growth since inception in 2016, it has incurred net losses every year and has yet to turn an operating profit. There is a risk that the Company may not achieve profitability in the future. The Company's operating expenses have risen based on hiring additional employees, increases its marketing efforts, expanding its operations and investing in the development of its technology platform. These costs may prove more costly than the Company budgets and the Company's revenue may not increase sufficiently to turn an operating profit and become cash flow positive.
- ◆ Loss of key management personnel - Over the Company's short history, it has been heavily reliant on the skills and expertise of its core management team. As such each member of its management team remains critical to the Company's success and their retention is crucial. A failure to attract and retain executive, business development, technical and other key personnel could reduce the Company's revenues and operational effectiveness. There is a continuing demand for relevant qualified personnel, and the Company believes that its future growth and success will depend upon its ability to attract, train and retain such personnel.

BOARD & MANAGEMENT

The Board of the Company comprises: (a) John Sims, Non-Executive Chairman; (b) Tim Levy, Managing Director; (c) Crispin Swan, Executive Director - Sales; (d) Phil Warren, Non-Executive Director. We also note that Sir Peter Westmacott will be appointed as a Non Executive Director shortly. Mr Westmacott was former British Ambassador to the USA, amongst other positions.

- ◆ **John Sims, Non-Executive Chairman.** Mr. Sims is a successful technology and telecommunications executive with over 35 years' experience. Based in San Francisco his former roles include: President, Global Sales, BlackBerry Limited; Global Head of Telecom & President, SAP Mobile Services, SAP AG; Board Member, Mobixell Networks; CEO, 724 Solutions Inc; Founder and CEO, TANTAU Software Inc; and Vice President, Telecommunications, Tandem Computers.
- ◆ **Tim Levy, Managing Director.** Mr. Levy is a successful telecommunications and technology entrepreneur. He is the founder of Vodafone's largest Australian retail partner Mo's Mobiles and was the former CEO/COO of listed Optus reseller B Digital Limited. Prior to working in commerce Mr. Levy was a management consultant at Andersen's working in technology and change projects across Australia, South Africa, Zambia, Jordan and Saudi Arabia. Mr. Levy is a graduate of the University of Western Australia and was a practising Chartered Accountant prior to his move into commerce.
- ◆ **Crispin Swan, Executive Director - Sales.** Mr. Swan is an experienced sales executive and general manager working across a range of global enterprises. His expertise is in international business development, executive and IT & T sales. Mr. Swan's former roles have included: Vice President Sales Asia Pacific, Mavenir Systems; Regional Sales Director and General Manager, Airwide Solutions; Network Infrastructure Solutions IS Manager for Australia & Papua New Guinea, Schlumberger; Sales Manager, Sema; Account Manager, Cisco Systems; Account Manager, Alcatel-Lucent.
- ◆ **Phil Warren, Non-Executive Director.** Mr. Warren is a Chartered Accountant and executive director of West Perth based corporate advisory firm Grange Consulting. Mr. Warren has over 18 years of experience in finance and corporate roles in Australia and Europe. He has specialised in company valuations, mergers and acquisitions, capital raisings, debt financing, financial management, corporate governance and company secretarial services for a number of public and private companies.
- ◆ **Sir Peter Westmacott, Non-Executive Director.** Sir Peter is a distinguished senior British diplomat, who has been British Ambassador to Turkey, France and the United States of America. Sir Peter has been honored with numerous awards and appointments in the UK and France. He was appointed Companion of the Order of St Michael and St George in 2000, promoted to Knight Commander (KCMG) in 2003 and Knight Grand Cross (GCMG) in 2016. He was also made a Lieutenant of the Victorian Order by HM The Queen in 1993.

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