



ASX Announcement

PERTH JANUARY 10, 2019

OPERATIONAL UPDATE AND CASHFLOW BREAKEVEN ACCELERATION PLAN

Family Zone Cyber Safety Ltd (ASX: FZO, 'Family Zone' or 'the Company') is pleased to provide an update on operations across its business units and its implementation of an operational restructure focusing on accelerating its path to positive cashflow.

HIGHLIGHTS

- Record December quarter sales driven by the Company's strategically important education sector, with key contracted revenue metrics growing by more than 200% year-on-year
- Strengthened financial position following completion of capital raising and receipt of tax incentives
- Development of Family Zone Insights to drive customer acquisition and scale
- Program well-underway to reduce operational cash requirements: approximately \$1.1 million in effective annual savings already implemented, with a total of approximately \$4 million in annual cost savings expected before the end of FY19
- Cashflow enhancement program strongly supported by a commitment from the Board and senior executives agreeing to convert salaries into securities-based remuneration for CY19
- The Company has positioned itself to move steadily to cashflow breakeven on the basis of strong revenue growth and a managed strategy of cash cost reductions. With FY19 revenue (including tax incentives) expected to approach or exceed \$9 million, the Company is on target to reach cashflow breakeven within 12 months



DECEMBER QUARTER 2018 PRELIMINARY UPDATE

Family Zone delivered the strongest sales in the Company's history in the December quarter of 2018, led by rapid development in the education sector. The quarter's highlights include:

- A record number of school contracts signed during the quarter, with:
 - Annual recurring value of approximately \$800K, representing year-on-year growth of 175% (when compared to Dec quarter 2017)
 - Total contract value of \$1.3 million, representing year-on-year growth of 82%
- Record billings of approximately \$1.34 million, representing year-on-year growth of 125%.
- Accelerating sales momentum in the USA with AU\$140K of recurring contracts signed during the quarter, a 100% win rate with USA proof of concept deployments, and a qualified sales pipeline growing beyond AU\$2 million.
- Contracts with New Zealand schools have grown through NZ\$1 million, up from NZ\$600K one year earlier (representing year-on-year growth of 70%).
- Launched the FZ ONE cyber-safe mobile phone direct and through a national bricks-and-mortar and online partnership with leading Australian supermarket chain Woolworths.
- Delivered quarter-on-quarter growth through 91K (from 82K) paying customers, 217 (from 191) Partner Schools and 613 (from 580) active school clients. Partner Schools mandate, require or promote Family Zone's cyber safety products to their school community.

Family Zone's achievements in the December quarter indicate that its corporate strategy is continuing to deliver consistently increasing sales and recurring revenue.

STRENGTHENED FINANCIAL POSITION

As announced on 21 December 2018, the Company has received commitments for \$2.5 million through a private placement at \$0.225 per share. Family Zone also earned \$1.82 million in tax incentives during the quarter.

The Company's cash balance as at 31 December 2018 was \$3.6 million with an additional \$350,000 due imminently and \$675,000 now received in finalisation of the aforementioned private placement and tax incentives respectively.

Combined with its strongest ever contracts and sales results in the December quarter, the Company enters CY19 well positioned to continue growing the business.



NEW CUSTOMER ACQUISITION VEHICLE LAUNCHING SOON

As announced through its market briefings in the second half of 2018, Family Zone is further evolving its commercialisation model to accelerate the scale of its customer base.

The Company has now proven the uniqueness and value of its holistic approach to cyber safety whereby schools, telcos and device manufacturers can participate in a universal approach to drive better outcomes for families and corporate stakeholders.

Family Zone's next phase and focus for 2019 is on scalability. The Company will deliver this through a significantly streamlined approach to sales, deployment and support.

Key to this strategy is the introduction of Family Zone Insights, which will ultimately be a free monitoring tool:

1. Available for parents to download on their children's devices;
2. Included free when schools install Family Zone technology on student devices;
3. Included free for telcos and device manufacturers to re-brand and bundle with their offerings; and
4. Included free for parents purchasing Family Zone hardware (ie the FZ ONE and Family Zone Box).

Under this go-to-market model, schools, telcos and device manufacturers become Family Zone's distribution partners, driving cyber safety messages and introducing the Company's premium paid services to their constituents. This strategy allows the company to more cost effectively identify, connect and inform those parents who are the best candidates for the upsell of the Family Zone premium services.

All of the Company's partners are embracing and are excited about introducing this "Insights-led" model. In addition, a number of telcos are working with the Company to bundle the Family Zone Insights service (ie free to the customer) into their premium service model.

Given the imminent launch of Insights across Family Zone's telco partners, the Company and Telkomsel decided in December to decrease promotion of Telkomsel's paid "Protect" service. For this reason, Family Zone's wholesale customer numbers fell slightly during the December quarter from 30,500 to 27,200.

Family Zone will relaunch Telkomsel Insights as the primary driver of Telkomsel Protect in the current quarter.

STREAMLINING OPERATIONS AND DRIVING TO CASHFLOW BREAK-EVEN

The Company's commercialisation strategy is now well developed and on the pathway to delivering material revenues and positive operating cashflow.

The significant investments the Company made in product and sales in 2018 are creating synergies, opportunities for improvements in productivity and overhead reductions.



Family Zone has implemented a program to significantly simplify its operations which will reduce the Company's cost base and improve margins and cashflow. Since October 2018, the Company has already achieved circa \$1.1 million of annual savings from measures implemented.

The Company's cost reduction program is continuing with an additional \$2.5 million of identified annualised cash cost savings that will be implemented by the end of March 2019. These savings come primarily from reductions in non-sales focused headcount and the consolidation of operating systems and services.

In addition, the Board, senior executives and a number of consultants to the Company have agreed to support cashflow and demonstrate their confidence and commitment to Family Zone by converting their cash salaries for CY19 into security-based remuneration. Details are set out below.

Through the aforementioned measures, overall the Company is implementing at least \$4 million of cash-cost savings in FY19. These measures will bring forward the Company's cashflow breakeven point while importantly ensuring that Family Zone's customers and commercialisation strategy remain unaffected.

The Company expects effective annual overheads to reduce to between \$10 million and \$11 million per annum within the next 3-6 months. With top line revenue for FY19 (including tax incentives) expected to approach or exceed \$9 million, the Company believes it is well positioned to deliver growth in shareholder value.

Share Based Remuneration measures

As described above, the Board, senior executives and a number of consultants to the Company have agreed to support the Company's cashflow by converting cash-based to security-based remuneration for CY19. Conversion has been set at \$0.225 per share, being the price of the most recent placement.

- The Non-Executive Directors have agreed to receive fully paid ordinary shares ('Shares') in lieu of their entire salaries. Total Shares proposed to be issued are 577,778.
- Managing Director, Tim Levy, has agreed to receive Performance Rights in lieu of his entire salary. A total of 977,778 Performance Rights are proposed to be issued.
- Senior executives of the Company, including director Crispin Swan, have agreed to convert 20% of their salaries to Performance Rights. A total of 816,348 Performance Rights are propose to be issued.
- The Company has agreed to issue 402,667 Shares to consultants in lieu of cash consultancy fees.

All Shares to be issued will be voluntarily escrowed until 1 January 2020. The Performance Rights will be issued under the Company's Performance Rights Plan and will be subject to a vesting condition of continued employment with the Company until 1 January 2020.



All securities proposed to be issued to Directors will be subject to Shareholder approval. A Notice of Meeting will be sent to Shareholders shortly outlining further details of the proposed issue of securities to Directors.

Family Zone

Family Zone is an ASX-listed technology company focused on cyber safety. Meeting a growing demand to keep kids safe online and manage digital lifestyles, Family Zone has developed a unique and innovative cloud-based solution which combines Australian innovation with leading global technology.

To learn more about the Family Zone platform and the Company please visit www.familyzone.com.

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