



ASX Announcement

PERTH - 31 October 2018

QUARTERLY ACTIVITIES UPDATE AND APPENDIX 4C COMMENTARY

Family Zone Cyber Safety Ltd (ASX: FZO, Family Zone or the Company) is pleased to provide an update of its activities and achievements in the September 2018 quarter.

HIGHLIGHTS FOR THE QUARTER

- **RECORD ACCOUNTS ADDED:** 60% QoQ growth in paying accounts passing through 82K
- **RECORD TELCO SALES:** promising results from our wholesale telco channel, adding 23K accounts and generating \$53K of service revenue for the quarter
- **RECORD CONTRACTS ADDED:** \$810K of contracts added, plus 17 new schools & 27 partner schools including a record \$52K from USA schools for the quarter
- **RECORD CONSUMER SALES:** 22% increase in consumer revenue to approximately \$150K for the quarter
- **RECORD PARENT TAKE-UP:** +24% penetration into parent communities in our partner schools
- **LAUNCHED** the FZ ONE mobile phone and immediately received orders valued at more than \$300K
- **RAISED** \$5m from strategic investors at \$0.50 per share and claimed \$1.82M for R&D tax incentives

	Sept 2018 Quarter	QoQ
Revenue	\$951k	+6%
Paying Accounts	82k	+31K
Contracted revenue	\$5.6m	+633K
Live Schools	580	+17
Partner schools	191	+27
Live Partner schools	68	+10%
Cash balance	\$3.0m	

FINANCIAL COMMENTARY

Although the September quarter is typically a seasonally slower sales period in Australia and New Zealand's education technology market, Family Zone achieved a record result adding in excess of \$810K of contracts in the quarter.

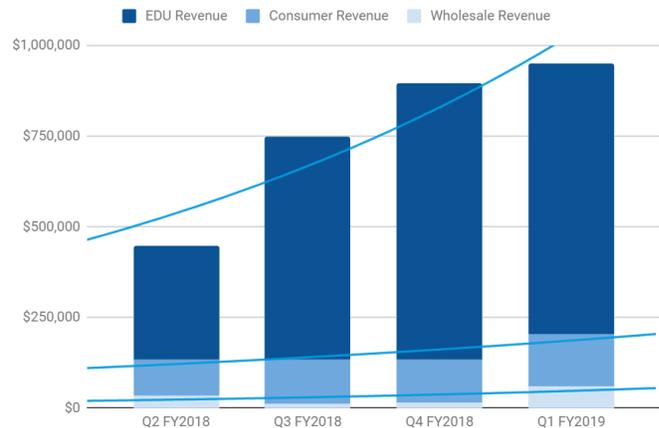
The Company achieved very strong growth in its wholesale (telco) and consumer direct channels with both delivering record subscriptions and revenues.



The following table highlights growth in Family Zone's channels and effective average annual revenue per account by channel based on September quarter revenue.

Sales Channel	Paying Accounts	QoQ Growth	Effective ARPU
Consumer	5,923	31%	~\$117
Education	46,482	20%	~\$65
Wholesale	31,104	270%	~\$8

QoQ = Quarter on Quarter percentage change
 ARPU = Average annual revenue per account



With the Company entering the key end-of-year education sales period, with all channels showing growth, with the imminent launch of the FZ ONE mobile phone and partnership with Woolworths, and with new product launches scheduled for early next year, the Company has confidence in continuing its strong revenue momentum. The Company expects to report circa \$2.5M revenue for the half ending 31 Dec 2018, in excess of \$4M inclusive of tax incentives and significant growth in H2.

During the quarter, the Company completed a \$5M capital raising at 50c per share which was facilitated by Tellus Matrix. Family Zone's Managing Director Tim Levy agreed to invest \$175,000 in this placement, which is subject to Shareholder approval at the Company's upcoming Annual General Meeting in November 2018.

Although the Company's cash burn exceeded expectations for the quarter, this was predominantly driven by circa a \$350K investment in inventory in the lead up to Xmas and \$100K in business development in India. The Company expects these investments to deliver contracts and sales revenue in the coming months.

In addition, the Company incurred one-off corporate costs relating to the recent capital raising, IP related costs in relation to the Company's PCT patent applications and the final payment to eSchoolPad under its licensing agreement with 180C Limited. Management remains tightly focused on bringing in planned cost reductions whilst balancing the needs of the Company's sales teams and its rapidly growing customer base.

At the end of the quarter, the Company had \$3M in cash on hand and expects R&D tax incentives of \$1.82M to be received in the next quarter. It is important to highlight that Family Zone is now entering the key education sales period in Australia and New Zealand, where typically +50% of contracts are done. The Family Zone team is focussed on delivering new growth records in contracts and resulting invoicing in the Jan-Mar quarter.

With imminent R&D receipts, an expected record invoicing in January 2019 and strong growth across Family Zone's consumer and wholesale channels, the Company is confident in its existing funding arrangements.



OPERATIONAL COMMENTARY

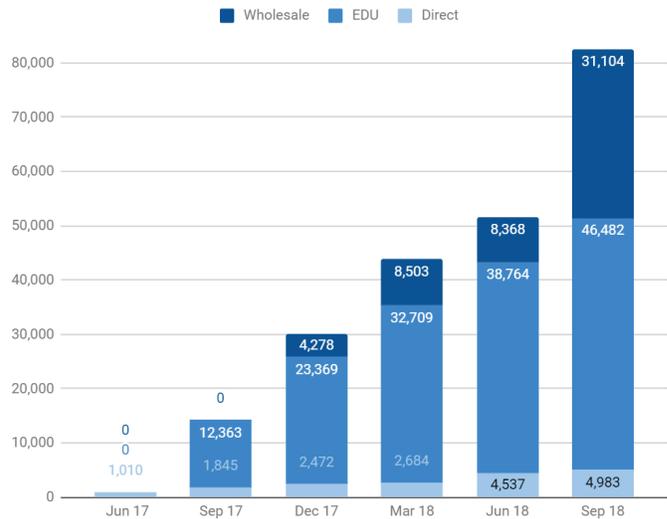
Accelerating subscriber growth

Family Zone is progressing well to exceed its target of 100,000 paying accounts by 31 December 2018.

During the quarter, Family Zone’s wholesale paying accounts passed the 31,000 accounts mark, having run subscriber acquisition trials with telcos, including Telkomsel in Indonesia, Maxis in Malaysia and PLDT in Philippines.

Family Zone also continued progress in its direct-to-customer and education businesses, with paying accounts across all channels growing about 400% year-on-year to pass 82,000 accounts.

Significantly, Family Zone’s retail paying accounts (i.e. Family Packs) grew year on year by approximately 260%, passing through 50,000 during September.

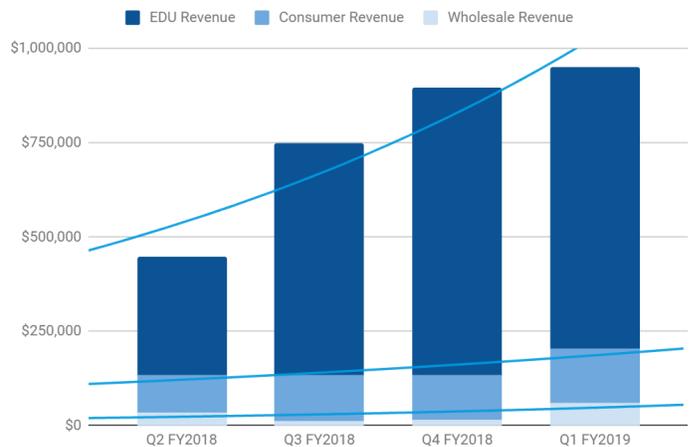


Continued revenue growth, coming into a key sales period

Family Zone is pleased to report record customer revenue and in particular exciting progress from our wholesale channels.

Our revenue is almost entirely recurring resulting in building revenue as customer accounts and contracts are added.

It is highlighted that customer revenue is determined according to accounting principles whereby contract revenue is amortised over the life of the contracts.



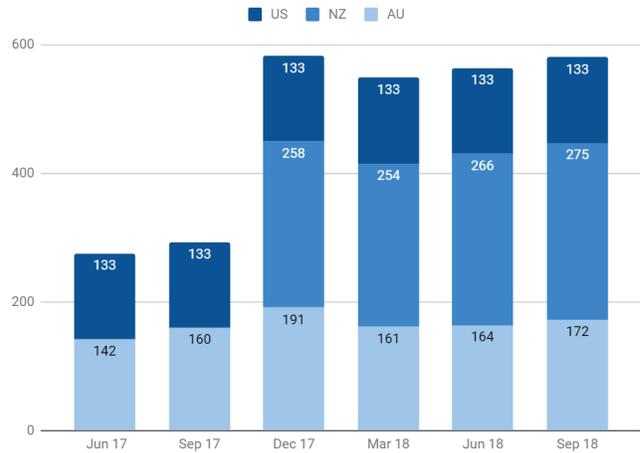


Record \$810K of contracts signed in the quarter

Following a significant restructure in the sales team mid year, the Company is pleased to report strong sales momentum in the typically slow September sales period in education technology.

New schools were added in both Australia and New Zealand and many existing schools renewed, resulting in a gross \$810K of contracts being signed and a net increase in contracted revenue of c. \$633K.

Importantly the Company's qualified sales pipeline continues to grow, now above \$2M, suggesting strong sales periods ahead.

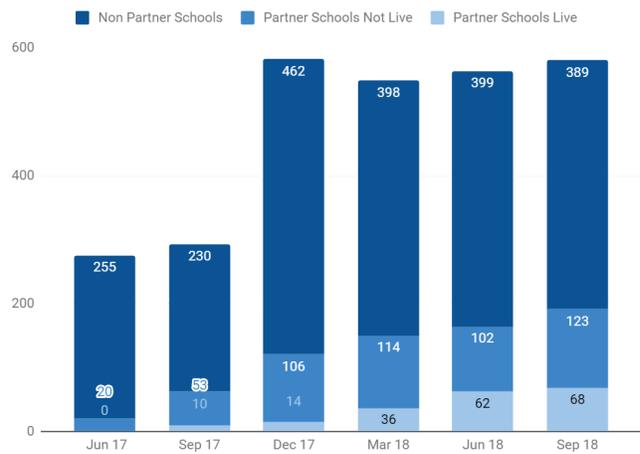


Growth in deployments, school partnerships and penetration

The Company continues to rollout new schools, and in particular deploy the upgraded Linewize platform (now known as School Manager) into new and existing schools.

Cost savings, performance improvements and customer satisfaction are building with this rollout.

The Company's school partnerships continue to build, now passing 190 partners and school partner cyber safety programs are live in 68 schools. Most pleasingly, parent penetration in 'live' partner schools has reached 24% despite a constant stream of new schools coming online.



Long form reseller agreement signed with Vodafone

Family Zone signed a long-form agreement with Vodafone India for services and content provision during the quarter, following up on the Term Sheet the companies had signed in May 2018. The long-form agreement extends Family Zone's capability to offer services across both Vodafone India and Idea Cellular. Vodafone India and Idea Cellular recently announced a merger to create India's largest telco with more than 400 million subscribers and a 42% market share.





Family Zone has continued to move ahead with deployment and go-to-market planning with Vodafone. Family Zone believes its initiative with Vodafone India is being viewed closely by the Vodafone Group globally, which may offer opportunities to extend the relationship to other Vodafone entities.

Launch of a world-first cyber safe mobile phone

On 24 September, Family Zone announced the imminent launch of the FZ ONE Cyber Safe Mobile Phone, a world-first initiative that will embed Family Zone's cyber safety controls in a high-spec Android device.

The phone is designed to attract both parents and young phone users in the "first mobile phone" market segment in Australia and New Zealand, estimated to represent more than 1 million device sales per year. In Australia, there are more than 4 million children with a mobile phone and the average age for the first phone is 10 years.

Family Zone is aiming to help parents with the challenge of keeping their children safe online including protecting them from bullying, addiction or other negative impacts. It believes FZ ONE is a breakthrough to suit the needs of parents, children and schools.

The Company will launch the FZ ONE ahead of Christmas 2018, available online and through partner schools. Family Zone has signed Woolworths in Australia as a key distribution partner. Strong interest is being shown from other big box and general retailers.



Partnership with Woolworths

The Company has secured a key distribution agreement with Woolworths Mobile which will see the FZ ONE sold through 752 Woolworths supermarket locations and online. Under the agreed arrangements Woolworths buys Family Zone products on a wholesale basis for re-sale through their channels. Woolworths' is responsible for marketing and promotion.



Mobile



Woolworths Mobile plan to launch the FZ **ONE** for Xmas through it's retail and online channels. To support the launch Woolworths are bundling a free \$20 starter mobile plan credit and Family Zone is bundling a 12-month Family Zone plan. From January the Family Zone inclusion transitions to Family Zone's soon to be released freemium monitoring service.

Harvey Norman's The School Locker

In July, Family Zone signed Australia's biggest education product retailer to parents, The School Locker (subsidiary of Harvey Norman) as its newest reseller. The School Locker operates through a large retail network as well as on-campus shops. The partnership aims to make it easier for schools to promote, mandate and deploy Family Zone across their school and for parents to adopt and pay for the service.

The parties plan to launch the offering through all of The School Locker's channels in Term 4, 2018, in readiness for the 2019 intake year.

Positioning and upcoming activity

The September quarter was a momentous one for the Company where much of the strategic and product work from the beginning of the year was market tested. Management believe the Company is well placed for continued and accelerating growth.

- **IMMINENT EDU SALES CYCLE:** Australia and New Zealand are coming into important sales periods for the Company's education solutions.
- **EXCITING PROGRESS IN THE USA:** The Company's US operation is showing positive signs with a rapidly growing sales pipeline, driven through competitive advantages in feature sets and pricing.
- **TELCO TRACTION:** The recent successes within Family Zone's telco business in Asia, the signing of Vodafone and ongoing discussions with other telcos gives the Company high confidence in its wholesale strategy.
- **FREEMIUM MONITORING LAUNCHING SOON:** The recently announced freemium "monitoring" product will start rolling out across select channels in the new year. All the Company's existing telco partners plus a number of others have expressed strong interest in launching this service to their customers.
- **FZONE LAUNCH CREATES NEW RETAIL OPPORTUNITIES:** The FZONE cyber safe mobile phone launch and partnership with Woolworths creates an exciting revenue opportunity and new (retail) sales channels.
- **eSCHOOLPAD LAUNCHING SOON:** The collaboration with 180C Limited out of Hong Kong is in the final stages of release. Soundings and demonstrations with a number of schools in Australia has validated the product and we expect trial launches in this quarter.
- **SCHOOLTV LAUNCH:** The recently announced partnership with Michael Carr Gregg's SCHOOLTV is now live and our sales teams have commenced adding this product into our solutions.



CORPORATE UPDATE

Director Appointment

On 8 October, Family Zone announced the appointment of Sir Peter Westmacott GCMG LVO as a 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.

Sir Peter has relevant and extensive global networks and the Company looks forward to taking his counsel and leveraging his experience and relationships.

About 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.

Contacts

for more information, please contact

Tim Levy
Managing Director
timl@familyzone.com
+61 413 563 333

Tim Allerton
City Public Relations
media@familyzone.com
+61 412 715 707

Tim Dohrmann
Investor Relations
tim@nwrcommunications.com.au
+61 468 420 846

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Family Zone Cyber Safety Limited

ABN

33 167 509 177

Quarter ended ("current quarter")

30 September 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	421	421
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(771)	(771)
(c) advertising and marketing	(331)	(331)
(d) leased assets	-	-
(e) staff costs	(2,178)	(2,178)
(f) administration and corporate costs	(782)	(782)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	2
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(3,639)	(3,639)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(214)	(214)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(d) intellectual property	(69)	(69)
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(283)	(283)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	4,576	4,576
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	(84)	(84)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	4,492	4,492

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	2,461	2,461
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(3,639)	(3,639)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(283)	(283)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	4,492	4,492

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(39)	(39)
4.6	Cash and cash equivalents at end of quarter	2,992	2,992

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,992	2,461
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,992	2,461

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 3.6
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
(151)
-

Director wages and salaries

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
(35)
-

Company secretarial and financial management services

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

9. Estimated cash outflows for next quarter*	\$A'000
9.1 Research and development	-
9.2 Product manufacturing and operating costs	559
9.3 Advertising and marketing	253
9.4 Leased assets	-
9.5 Staff costs	2,310
9.6 Administration and corporate costs	391
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows*	3,513

* These figures do not include any expected cash inflows for the next quarter.

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

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