



## ASX Announcement

PERTH 22 January 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 December 2017 quarter.

#### Summary

The December quarter represented a significant turning point for Family Zone, with results clearly showing from the Company's efforts in building out its educational products and sales functions. Significantly also in the quarter, Family Zone completed its acquisition of New Zealand based edutech provider Linewize. Although this acquisition made immaterial impact to Family Zone's December financials, the Company has gained a strategic benefit with a significant boost in exposure to the education market.

#### HIGHLIGHTS FOR THE QUARTER ENDING 31 DECEMBER 2017

Revenue	\$2.1m	62% increase QoQ (includes \$1.6m in grants)
Customer billings	\$590k	93% increase QoQ in customer billings
Customer collections	\$324k	105% increase QoQ in customer collections
Paying subscriptions	30k	100% increase QoQ
International subscriptions	5k	+400% increase QoQ
Partner schools	120	90% increase QoQ
Contracted schools	582	98% increase QoQ
School Zone networks	574	91% increase QoQ
Cash balance	\$7.8m	At 31 December 2017



## OPERATIONAL HIGHLIGHTS

### **Growth in contracted and recurring revenue**

The Company significantly boosted contracted and recurring revenue in the quarter with continued successes in signing on school clients and with the acquisition of Linewize.

In its education business, Family Zone's contracted revenue is currently ~ \$3.5 million with contracted recurring revenue ~ \$2 million.

It is important to appreciate that more than half of Family Zone's school clients have less than one year remaining on their contracts. Accordingly, schools represent a significant opportunity for the Company to further build its contracted revenue.

With a proven commercial model and sales capability in education, significant new and re-sign pipelines and with the continued growth in Family Zone's direct-to-consumer and now in its international carrier sales, the Company expects to report significant growth in contracted and recurring revenue ongoing.

### **30,000 User Milestone**

The Company achieved a significant performance milestone with more than 30,000 registered paying subscriber accounts in December.

Family Zone reached this key milestone at a fast pace, with more than half of these users becoming Family Zone customers in the past five months.

In reaching 30,000 users, Family Zone achieved 5,000 registered international accounts, highlighting its success in global expansion. Most of these international accounts were signed during December as a direct result of the Company's Asian telco partners' marketing efforts.

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.

### **Growth in Partner Schools**

At the end of 2017, Family Zone had signed more than 120 partner schools, including 10 in New Zealand.

Partner Schools partner with Family Zone in mandating, requiring or promoting Family Zone's cyber safety products to the school community.

Family Zone's Partner Schools program represents significant innovation in educational technology and cyber safety. Under this commercial model, schools gain subsidised access to speciality cyber safety and security services, as well as the ability to offer a common cyber safety platform to the entire school community.



Family Zone has achieved rapid growth through its Partner School model in Australia since launch in April 2017. Building on this success, the Company has achieved immediate traction since expanding the model to New Zealand with launch in December 2017.

### **School Zone launched in West Virginia**

As previously announced, Family Zone had achieved some market penetration in West Virginia, USA with more than 130 schools using its school filtering platform Sonar. During the quarter, Family Zone upgraded one USA school district to its innovative School Zone platform, a cyber security and student welfare platform which features:

- Filters to keep safe when on the school network;
- The ability for schools to run digital citizenship programs;
- Wellbeing and pastoral care services;
- Tools for teacher empowerment;
- Firewall technology for safe networking.

School Zone is integrated into the Family Zone ecosystem providing schools the ability to:

- Extend their duty of care to personal student devices brought to school;
- Obtain visibility into risks within the broader school community;
- Leverage recommendations, advice and support of cyber experts and educators; and
- Engage with students and parents within the school community to set usage expectations and measure and alert them.

Results from this first deployment have been pleasing and the Company expects to drive forward in education in this coming half.

### **Completion of Linewize Acquisition**

Family Zone completed the acquisition of 100% of the shares of Linewize Limited and Linewize Services Limited (**Linewize Companies**) in November 2017.

Linewize provides an innovative cloud-managed firewall service, specifically developed for the needs of the education sector and is the leading provider of online content filtering systems to New Zealand's schools.

The Linewize platform and service covers user authentication, content filtering, network appliances, telecoms services, BYOD support, network access management and an award winning suite of classroom tools.

Family Zone and Linewize platforms will interface to allow Linewize schools and parents, which total 130,000 users, to take advantage of Family Zone's School Community features.

Since the acquisition, the Company's emphasis and investment has been on introducing Family Zone's products and partnering models into the New Zealand market and back-end technical integration.

The Company will update the market accordingly as this technical work yields financial benefits.



From a sales perspective Linewize's progress, while seasonally slow over the school holiday period, has been strong and the Company has high confidence of material sales being generated from New Zealand in Q1 2018.

## CORPORATE HIGHLIGHTS

### Share Placement Completed

In December, Family Zone raised \$5.02 million (before costs) in an oversubscribed placement of 8,366,668 shares to sophisticated and institutional investors at \$0.60 per share.

The Company received overwhelming demand from international and domestic institutional investors, as well as strong support from a large number of existing shareholders.

Family Zone is using net proceeds of the capital raising to support aggressive expansion in the attractive New Zealand market and accelerate integration of the Linewize and Family Zone platforms.

BW Equities and Morgans Financial acted as Joint Lead Managers to the share placement.

### Employee Options vested

Current employees (excluding Directors) have been allocated 6.4m Employee Options (\$0.33, Sept 2019) under the Company's Employee Share Option Plan. These Employee Options are subject to three vesting conditions:

- Registration of 20,000 or more paying subscriber accounts by 31 December 2017
- Registration of 30,000 or more paying subscriber accounts by 31 December 2017
- Achievement of annualised revenue in excess of \$10m per year by June 2019.

The Company is very pleased to have achieved the second vesting condition, with a further 1.6m Employee Options now vested across almost every employee of the Company. Family Zone announced its achievement of the 20,000-user milestone in November 2017. Employees have until September 2019 to exercise these options.

### Performance Shares issued

Pursuant to the Share Sale Agreement with Linewize, the Company issued the Linewize Vendors:

- 9,513,708 fully paid ordinary shares subject to the following voluntary escrow restrictions;
  - Scott Noakes & Michael Lawson: 24 months;
  - The Wize Guys Trust: 50% for 12 months, remainder without escrow; and
  - Punakaiki Fund Limited: No escrow
- 9,500,000 Performance Shares, comprising 1,000,000 Class D Performance Shares, 1,000,000 Class E Performance Shares, 2,000,000 Class F Performance Shares, 2,500,000 Class G Performance Shares and 3,000,000 Class H Performance Shares, which convert into Shares on a one for one basis on the achievement of various performance milestones.



## R&D Tax Incentive Funding

R&D tax grants claimed during this and the previous quarter and received during this quarter was a pleasing \$2.58 million.

As a technology innovator, Family Zone has an active programme to develop intellectual property and expects to be able to be eligible for R&D claims in future years.

## Strong Cash Position

The Company's cash balance at 31 December 2017 was \$7.8 million.

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## 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](http://www.familyzone.com).

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## 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")**

31 December 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	324	482
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(288)	(594)
(c) advertising and marketing	(236)	(431)
(d) leased assets	-	-
(e) staff costs	(2,008)	(3,932)
(f) administration and corporate costs	(1,248)	(1,984)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	8
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	2,584	2,584
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(868)</b>	<b>(3,867)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment		(56)
(b) businesses (see item 10)	(180)	(180)
(c) investments	-	-

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Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(d) intellectual property	(220)	(465)
(e) other non-current assets	-	-
<b>2.2 Proceeds from disposal of:</b>		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
<b>2.3 Cash flows from loans to other entities</b>	-	-
<b>2.4 Dividends received (see note 3)</b>	-	-
<b>2.5 Other (provide details if material)</b>	14	14
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(386)</b>	<b>(687)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	5,251	10,918
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	-	-
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)	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	<b>5,251</b>	<b>10,918</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of quarter/year to date	3,810	1,480
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(868)	(3,867)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(386)	(687)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	5,251	10,918

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<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	(20)	(57)
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>7,787</b>	<b>7,787</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	7,787	3,810
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>7,787</b>	<b>3,810</b>

**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**

(190)

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**

(26)

-

Company secretarial and financial management services

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8. <b>Financing facilities available</b> <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. <b>Estimated cash outflows for next quarter</b>	\$A'000
9.1 Research and development	-
9.2 Product manufacturing and operating costs	250
9.3 Advertising and marketing	190
9.4 Leased assets	-
9.5 Staff costs	2,100
9.6 Administration and corporate costs	1,200
9.7 Other (provide details if material)	-
<b>9.8 Total estimated cash outflows</b>	<b>3,740</b>

10. <b>Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	Acquisitions	Disposals
10.1 Name of entity	Linewize Limited and Linewize Services Limited	-
10.2 Place of incorporation or registration	New Zealand	-
10.3 Consideration for acquisition or disposal	NZ\$200k cash deposit, 9.5m Shares and 9.5m Performance Shares*	-
10.4 Total net assets	NZ\$22k**	-
10.5 Nature of business	Education technology providers	-

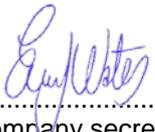
\* refer to ASX announcements dated 23 Oct 2017 and 29 Nov 2017 for full details of consideration for acquisition of Linewize Companies

\*\*unaudited book value of the net tangible assets of the consolidated Linewize Companies at acquisition date.

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**Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:  ..... Date: 22/01/2018.....  
(Company secretary)

Print name: Emma Wates.....

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

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