

Family Zone Cyber Safety Limited (FZO) | A\$5.2m equity raise

Rating: **BUY**
 Target Price¹: **\$0.73**
 Projected Return: **62%**

¹ 12 month target

FZO raises A\$5.2m to sure up balance sheet as licence numbers grow

Company Statistics

Share Price (A\$)	0.45
Market Cap (A\$m)	42.5
Enterprise Value (A\$m)	34.4
Issued Shares (mil)	94.4
Options (mil)	26.7
Cash (A\$m)	8.1
Debt (A\$m)	0.0

Earnings Summary

FY End (June)	2016	2017e	2018e	2019e
Revenue (A\$m)	0.4	1.0	4.7	14.5
EBITDA (A\$m)	-1.5	-5.6	-2.8	5.3
NPAT adj (A\$m)	-1.5	-5.6	-2.6	5.1
EV/EBITDA	N/A	N/A	N/A	6.0x

Share Price (A¢ps)



Company Description

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

Analyst

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¹ Italics text quoted from placement document
 *see research dated 20/07/2017

Investment Summary

Family Zone has announced that it has completed a A\$5.2m placement to institutional investors at A\$0.40 per share (BW was sole manager of the raise). The company will use the funds "to support investment in service delivery and acceleration of business development"¹.

Investment Highlights

- A\$5.2m equity raise at A\$0.40 to institutional investors.
- FZO now has c.A\$8.1m in cash (no debt), with the June quarter operating cash burn being A\$548k (after A\$688k in govt grants)
- We see this as a positive given it should take the company through to cash break-even – which we expect to be during the March 2018 quarter
- Balance sheet risk is therefore minimised
- Funds will be used to "support investment in Family Zone's service delivery capability, business development activities, particularly in education and global partnerships, and further strengthen the Company's balance sheet"¹
- Australian school mandates continue to grow – FZO reported 20 at the quarterly result (our model assumes it will have 120 schools signed up by the start of the 2018 school year). FZO also reported having signed 11,000 consumer direct subscriptions
- Asian wholesale agreements in the Philippines and Indonesia through Telkomsel and PDLT are progressing with commercial launch of agreement with Telkomsel executed last month
- We have updated our model for the equity raise, which adjusts our earnings in FY18E/19E by +0.3¢/-0.7¢

Investment Recommendation

Maintain Buy Rating and lower our 12 month Target Price to \$0.73 (was A\$0.74*) due to the share dilution. Our price target methodology remains unchanged and is based on an FY19E P/Sales multiple of 4.17x. Our target price reflects a 62% premium to the last traded price.

We recently remodelled the company and have included revenues from the NZ as well as making a small increase in our FY19E Australian school mandates due to positive school sign-ups. Today we have updated our model only for the placement, which results in earnings changes in 18E/19E of +0.3¢/-0.7¢ to -A3.0¢/+A5.4¢.

We model Family Zone on the assumption that it achieves 12,000 consumer direct subscriptions and 120 school sign-ups in ANZ by the start of the 2018 school year. We also assume the company generates c.A\$3.0m in wholesale revenue within Asia by FY19E and A\$2.7m revenue within the US by FY19E. This results in FY19E revenue of A\$14.5m at an EBITDA margin of 36%.

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

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Summary Financials

P&L (A\$m)	FY16	FY17E	FY18E	FY19E	Balance sheet (A\$m)	FY16	FY17E	FY18E	FY19E
Total Revenue	0.4	1.0	4.7	14.5	Cash & equivalents	0.7	2.9	5.4	10.7
COGS	0.0	3.5	5.5	7.2	Receivables	0.0	0.2	1.1	3.4
Corporate	0.5	2.6	2.0	2.0	Inventory	0.2	0.5	2.7	8.3
Other	1.4	0.5	0.0	0.0	Other	0.0	0.5	0.5	0.5
EBITDA	-1.5	-5.6	-2.8	5.3	Total current assets	1.0	4.0	9.7	22.9
D&A	0.0	0.0	0.0	0.3	Net PP&E	0.0	0.1	0.1	-0.1
EBIT	-1.5	-5.6	-2.8	5.0	Other	0.5	9.9	7.1	19.8
Net interest	0.0	0.0	0.1	0.2	Total non-current assets	0.5	9.9	7.3	19.7
Pretax profit	-1.5	-5.6	-2.6	5.1	Total assets	1.4	14.0	16.9	42.6
Tax	0.0	0.0	0.0	0.0	Payables	0.2	9.6	10.0	30.5
Minorities	0.0	0.0	0.0	0.0	Short term debt	0.0	0.0	0.0	0.0
NPAT (adj)	-1.5	-5.6	-2.6	5.1	Other	1.4	0.0	0.0	0.0
Abnormal items	-0.5	0.0	0.0	0.0	Total current liabilities	1.7	9.6	10.0	30.5
NPAT (rep)	-2.0	-5.6	-2.6	5.1	Long term debt	0.0	0.0	0.0	0.0
Ave shares (diluted)	31.0	71.7	87.9	94.4	Other	0.0	0.0	0.0	0.0
EPS adj (A¢)	-4.8	-7.8	-3.0	5.4	Total long term liabilities	0.0	0.0	0.0	0.0
DPS (A¢)	0.0	0.0	0.0	0.0	Total liabilities	1.7	9.6	10.0	30.5
					Total common equity	-0.2	4.4	6.9	12.1
Cash Flow (A\$m)	FY16	FY17E	FY18E	FY19E	Ratios & Valuations	FY16	FY17E	FY18E	FY19E
Cash receipts	0.4	0.9	4.7	14.5	ROE (%)	na	na	na	43%
Cash payments	-1.0	-6.2	-7.5	-9.2	ROA (%)	na	na	na	12%
Net interest	0.0	0.0	0.1	0.2	Net debt/equity (%)	na	na	na	na
Tax paid	0.0	0.0	0.0	0.0	Interest cover - EBIT (x)	na	na	na	na
Other	0.0	0.0	0.0	0.0	P/E (x)	na	na	na	8.3
Cash flow from operations	-0.6	-5.2	-2.6	5.4	P/B (x)	na	na	5.7	3.5
Total capital	-1.3	-0.1	-0.1	-0.1	EV/EBITDA (x)	na	na	na	6.0
Acquisitions	0.0	-1.1	0.0	0.0	Dividend yield (%)	na	na	0.0%	0.0%
Divestitures	0.0	0.0	0.0	0.0	Free cash flow yield (%)	na	na	na	13%
Other	0.0	0.0	0.0	0.0	Sales growth (%)	na	na	na	205%
Cash flow from investments	-1.3	-1.2	-0.1	-0.1	EBITDA growth (%)	na	na	na	na
Dividends paid	0.0	0.0	0.0	0.0	EPS growth (%)	na	na	na	na
Capital raised	2.5	8.6	5.2	0.0	Gross margin (%)	na	na	-16%	50%
Repaid debt/borrowed funds	0.0	0.0	0.0	0.0	EBITDA margin (%)	na	na	-58%	36%
Other	0.0	0.0	0.0	0.0	EBIT margin (%)	na	na	-58%	34%
Cash flow from financing	2.5	8.6	5.2	0.0					
Total cash flow	0.6	2.2	2.5	5.4	June year end				
					Ratios calculated using FZO.AX share price of	\$	0.45		
					Source: Company data, BW Equities Research estimates				

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