

## Family Zone (FZO.AX)

Current share price A\$0.215 (Market Cap A\$13.3m)

### Sonar/MyNet acquisition

November 21<sup>st</sup> 2016

Rating: **BUY**  
Target Price: **A\$0.41**

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Family Zone (FZO.AX) has announced that it has signed an agreement subject to shareholder approval to acquire Sonar/MyNet cyber safety IP from Tesseract (TNT.AX) for A\$3.8m in cash and shares. This acquisition will potentially give FZO access to the 180 Australian and 47 United States schools which use Sonar/MyNet – with c.200,000 students currently using the Sonar/MyNet platform.

Within its release FZO commented that the transaction “*Generates immediate license fee revenue of \$840,000 a year and is expected to be operating cash flow accretive in the first 12 months*”.

The A\$3.8m purchase price consists of A\$3.5m in cash, and A\$0.3m in shares (at A\$0.30 per share), while at the same time raising A\$1m via a A\$0.30 per share placement to Sonar/MyNet executive Robert Smyth.

It is our understanding that Sonar/MyNet specialises in the education sector where it helps schools monitor student’s online activities as well as block/filter student’s access to particular material. The Sonar portion is a firewall, whereas the MyNet portion is the reporting and compliance tool. The combined Sonar/MyNet therefore provides a similar offering within schools as Family Zone offers to parents at home. The benefit of the transaction to FZO is that it now has the potential to access 180 schools within Australia and 47 schools in the United States, which in total accounts for approximately 200,000 students. As part of the transaction, Tesseract will act as a reseller and distributor of Family Zone’s product.

We have not made any adjustments to our model for this transaction (given the shareholder vote is still to be undertaken). Our current modelling assumes FZO secure c.45,000 subscriptions within ANZ by FY18E – which represents less than 1% of ANZ families. We also expect the company to secure c.A\$2m in wholesale revenues by FY18E and for this to grow to c.A\$5.2m by FY22E before moving to a long term growth rate of 3-5%.

Given Sonar/MyNet does not provide its services on student’s personal devices/mobile phones etc (which Family Zone does), the partnership is potentially beneficial to schools as it may enable it to ensure its students have a filtering and reporting system both on the student’s personal devices at home/in public, but also at school on school owned devices.

In addition to the school access, this transaction also provides FZO the services of IT and education executives, Robert Smyth and Nick Connolly, from Sonar/MyNet. As part of the transaction FZO will issue a A\$1m placement to Robert Smyth at A\$0.30 per share.

The company reported A\$4.8m cash on hand (no debt) at its September Quarterly Result which does not take into account the Sonar/MyNet transaction, nor the A\$1m placement to Robert Smyth. The company spent A\$1.3m in operating costs during the September quarter.

**BW Equities maintains its BUY rating on FZO, and its DCF based 12mo TP of A\$0.41**

**Current share price A\$0.215 (Market Cap A\$13.3m)** share price quoted at market close 18<sup>th</sup> November 2016

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