

Family Zone Cyber Safety Limited (FZO) | Company Update

Rating: **BUY**
 Target Price¹: **\$0.39**
 Projected Return: **123%**

¹ 12 month target

Company Statistics

Share Price (A\$)	0.175
Market Cap (A\$m)	11.7
Enterprise Value (A\$m)	6.9
Issued Shares (mil)	67.1
Options (mil)	24.5
Cash (A\$m)	4.8
Debt (A\$m)	0.0

Earnings Summary

FY End (June)	2016	2017e	2018e	2019e
Revenue (A\$m)	0.4	2.0	6.7	7.6
EBITDA (A\$m)	-1.5	-1.3	1.4	2.0
NPAT adj (A\$m)	-1.5	-1.9	0.8	1.4
EV/EBITDA	N/A	N/A	8.0x	4.6x

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.

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Updating model for recent acquisition of Sonar/My Net

Investment Opportunity

Family Zone's share price has pulled back 50% since its high of A\$0.35 on 5th September. We believe the current share price provides a good entry point – given our DCF based 12 month target price of A\$0.39.

Investment Highlights

- Since we initiated on the stock in September, the company has completed several milestones including: the acquisition of Sonar/My Net, collaboration agreement with Ovo Mobile, as well as progressing with its launch into the Philippines.
- The Sonar/My Net 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”.
- Australian operation progressing as expected (as per company release in late November)
- Wholesale agreement in place in The Philippines, with potential in other Asian countries
- Key relationships - David Baxby (former Virgin Co-CEO) and Hastings Singh (former Apple executive) – to help Family Zone secure wholesale agreements within Asia

Investment Recommendation

We maintain our Buy Rating and have lowered our 12 month DCF based price target by A2¢ to \$0.39

We have updated our model for the recent acquisition of Sonar/My Net including the A\$1m placement to Robert Smyth. This results in a small decrease to EPS in FY17E/18E by A0.1¢/A0.2¢ to –A2.9¢/+A1.2¢.

Our target price reflects a 123% premium to the last traded price and is based on our DCF valuation using a WACC of 13.7%.

We model Family Zone on the assumption that it achieves 45,000 ANZ subscribers by FY18E. We also assume the company generates c.A\$2m in wholesale revenue within Asia by FY19E. This results in FY19E revenue of A\$7.6m at an EBITDA margin of 27%.

There is the potential for the company to expand into the US and UK markets, however we do not include any international revenue within our estimates, but we believe there is potential for the product to be rolled out globally.

The key risk to our view is competition within the parental control software market globally. Families can purchase products online from offshore companies, hence competition is not restricted to just Australian companies. Other risks include balance sheet flexibility, and cyber-crime.

Summary Financials

P&L (A\$m)					Balance sheet (A\$m)				
	FY16	FY17E	FY18E	FY19E		FY16	FY17E	FY18E	FY19E
Total Revenue	0.4	2.0	6.7	7.6	Cash & equivalents	0.7	1.8	2.6	4.0
COGS	0.0	2.5	4.5	4.7	Receivables	0.0	0.0	0.0	0.0
Corporate	0.5	0.8	0.9	0.9	Inventory	0.2	0.3	0.8	0.9
Other	1.4	0.0	0.0	0.0	Other	0.0	0.0	0.0	0.0
EBITDA	-1.5	-1.3	1.4	2.0	Total current assets	1.0	2.1	3.4	4.9
D&A	0.0	0.6	0.6	0.7	Net PP&E	0.0	0.0	0.1	0.1
EBIT	-1.5	-1.9	0.7	1.4	Other	0.5	4.4	5.0	5.2
Net interest	0.0	0.0	0.1	0.1	Total non-current assets	0.5	4.4	5.1	5.3
Pretax profit	-1.5	-1.9	0.8	1.4	Total assets	1.4	6.5	8.5	10.2
Tax	0.0	0.0	0.0	0.0	Payables	0.2	0.7	1.9	2.1
Minorities	0.0	0.0	0.0	0.0	Short term debt	0.0	0.0	0.0	0.0
NPAT (adj)	-1.5	-1.9	0.8	1.4	Other	1.4	1.4	1.4	1.4
Abnormal items	-0.5	0.0	0.0	0.0	Total current liabilities	1.7	2.1	3.3	3.5
NPAT (rep)	-2.0	-1.9	0.8	1.4	Long term debt	0.0	0.0	0.0	0.0
Ave shares (diluted)	31.0	64.5	67.1	67.1	Other	0.0	0.0	0.0	0.0
EPS adj (A¢)	-4.8	-2.9	1.2	2.2	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	2.1	3.3	3.5
					Total common equity	-0.2	4.4	5.2	6.6
Cash Flow (A\$m)					Ratios & Valuations				
	FY16	FY17E	FY18E	FY19E		FY16	FY17E	FY18E	FY19E
Cash receipts	0.4	2.0	6.7	7.6	ROE (%)	na	na	15%	22%
Cash payments	-1.0	-3.3	-5.4	-5.6	ROA (%)	na	na	9%	14%
Net interest	0.0	0.0	0.1	0.1	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	15.1	8.1
Cash flow from operations	-0.6	-1.3	1.4	2.1	P/B (x)	na	na	2.3	1.8
Total capital	-1.3	-0.6	-0.7	-0.7	EV/EBITDA (x)	na	na	6.7	3.8
Acquisitions	0.0	-3.5	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	6%	12%
Other	0.0	0.0	0.0	0.0	Sales growth (%)	na	na	na	13%
Cash flow from investments	-1.3	-4.1	-0.7	-0.7	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	6.5	0.0	0.0	Gross margin (%)	na	na	33%	38%
Repaid debt/borrowed funds	0.0	0.0	0.0	0.0	EBITDA margin (%)	na	na	20%	27%
Other	0.0	0.0	0.0	0.0	EBIT margin (%)	na	na	11%	18%
Cash flow from financing	2.5	6.5	0.0	0.0					
Total cash flow	0.6	1.1	0.7	1.4					

June year end

Ratios calculated using FZO.AX share price of \$ 0.175

Source: Company data, BW Equities Research estimates

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