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Family Zone: Transaction to have major long & short term benefits

Ticker: FZO

Price: \$0.84

Target: \$1.33

Family Zone Cyber Safety ('Family Zone') (ASX:FZO) has signed a share sale agreement to acquire 100% of Linewize Services Limited and Linewize Limited ('Linewize'), which together comprise a leading New Zealand-based provider of cyber security and safety services. Highlights of the transaction include the following.

- Linewize has a current network of 260 schools (130,000 students) across New Zealand.
- Linewize has created an innovative and world-class cloud technology that will achieve an order of magnitude reduction in service costs for Family Zone.
- Consideration consists of a deposit of NZ\$200,000 in cash, the issue of 9.5 million ordinary shares in Family Zone and 9.5 million performance shares.

To access our interview with Family Zone managing director Tim Levy regarding the transaction, click on the 'Management Update' image below.



Management Update



Full Report

	Disc' rate	Valuation (A\$m)	Valuation / Ord. shares (A\$)**	Valuation / Total shares (A\$)***
Discounted CF - 10yr *	13.3%	\$95.4	\$0.86	\$0.63
Terminal Valuation *	13.3%	\$103.7	\$0.94	\$0.68
Cash		\$2.2	\$0.02	\$0.01
Total NAV		\$201.4	\$1.82	\$1.33
Shares on issue		110.6M	110.6M	151.6M

*Inclusive of tax, corporate costs & unpaid capital **Listed shares + escrowed shares ***Listed shares + escrowed shares + class A, B & C performance shares

Valuation & Analysis

Analyst comment: the short-term benefits of the transaction are obvious, given that Family Zone will have immediate access to 260 schools and 130,000 students throughout New Zealand, which we believe will increase revenue for the current year (TSI estimate – total FZO revenue \$7 million 2018 FY). That said, the longer-term benefit of implementing Linewize's state-of-the-art platform into Family Zone is expected to result in significant ongoing cost savings, whilst the platform will also likely simplify the company's continued expansion into the US market.

Further, Family Zone continues to progress its telecommunication strategy, as Telkomsel – one of the world's largest mobile carriers, with 178 million users in Indonesia – recently launched its white-label service 'Family Protect'. Given Telkomsel's client base, this has the potential, even with a small uptake, to significantly and positively impact Family Zone's bottom line. We anticipate additional carrier agreements and further commercialisation launches during 2018.

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Valuation: we have increased our valuation for Family Zone to **\$1.33 /share (previously \$0.84/share)**. The major drivers for this were reducing our discount rate to 13.3% (previously 18.5%) and increasing our revenue assumption (1% LT uptake – 2022) for the Asian telecommunication carriers only (the previous assumption being nil revenue for telecommunication carriers). We will reassess this again as the Telkomsel partnership matures.

For full details on our report

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