

ASX ANNOUNCEMENT

Family Zone Cyber Safety Limited

ASX:FZO ("Family Zone" or the "Company")



Our mission is to protect & support
every child's digital journey.

SEP QTR 2021 - APPENDIX 4C COMMENTARY & OPERATIONAL UPDATE

Family Zone is pleased to provide its quarterly Appendix 4C cash flow report and commentary for the September quarter 2021.

ARR	Students	Schools
\$46 million	9.8 million	19.3 thousand

Highlights for the quarter

- Completed the acquisition of Smoothwall on 16 August 2021
- Integration ahead of schedule with realignment and cross sells underway
- Grew Annual Recurring Revenue by ~ \$2.5 million to AUD \$46 million
- Collected \$10.7 million from customers ¹
- Ended the quarter servicing 9.78 million students across the Group
- Ended the quarter servicing 19,278 schools across the Group
- Now service in excess of 9.5% of US school districts and 38% of the UK schools
- Signed a record of \$5.9 million annual value of contracts ²

¹ Only includes collections for Smoothwall from 17 August 2021

² For comparative purposes. Includes all contracts signed by Smoothwall in the September quarter.

Strong growth continues as we welcome Smoothwall

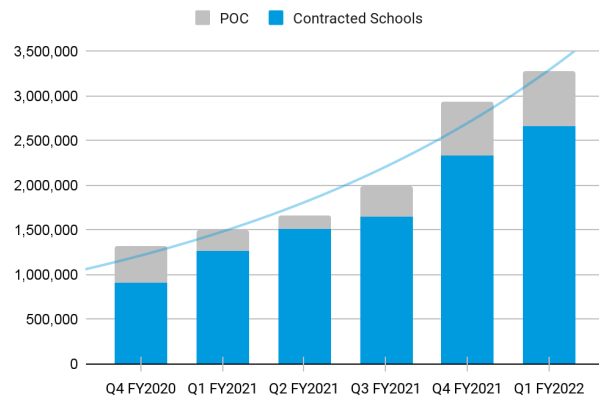
The Company's sales growth in North America continued to exceed internal forecasts with net additions of 340,000 students and 331,000 contracted students in the quarter.

The Company successfully completed the acquisition of Smoothwall in the quarter which similarly had a stronger than forecast period, particularly in the UK.

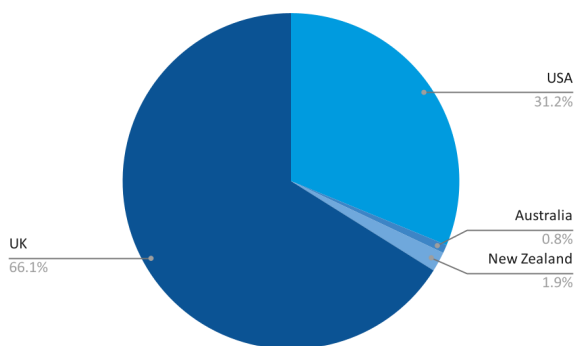
Smoothwall ended the quarter with 6.5 million students resulting in the Group supporting **9.78 million students** and **19,278 schools**.

The Company now supports more than **9.5%** of USA school districts and **38%** of UK schools.

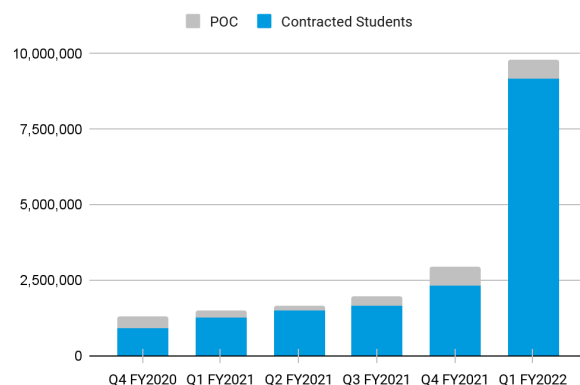
Student Numbers (Linewise)



Family Zone School Region Splits



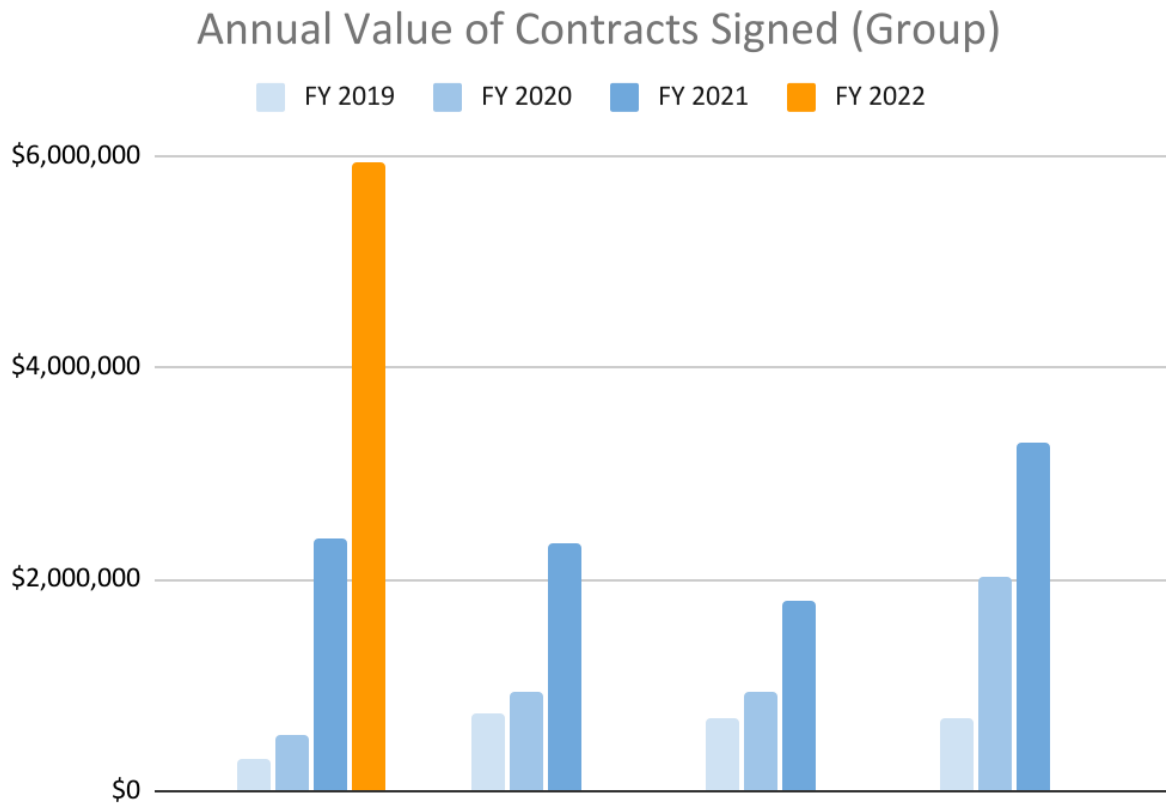
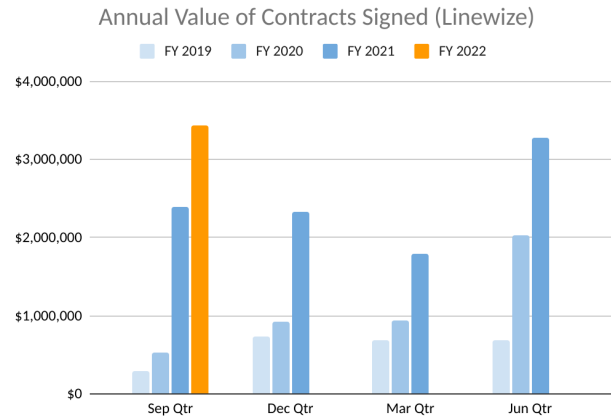
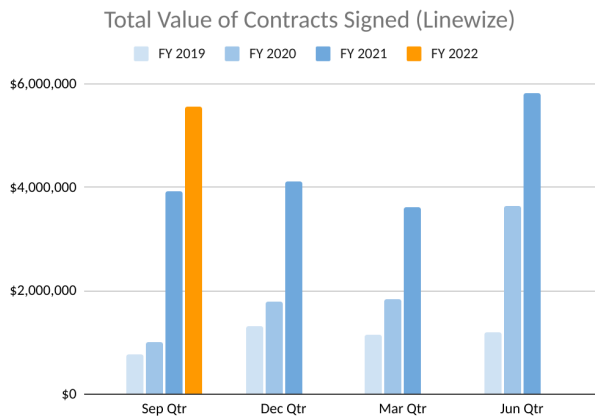
Student Numbers (Group)



Record growth in contracted revenue

The Company continues to achieve significant growth in both total and annual value of contracts³. On the Linewise side, contracts with a total value of **\$5.56 million** (42% YoY growth) and an annual value of **\$3.4 million** (44% YoY growth) were signed. Across Linewise and Smoothwall contracts with an annual value of **\$5.93 million** were signed in the quarter.

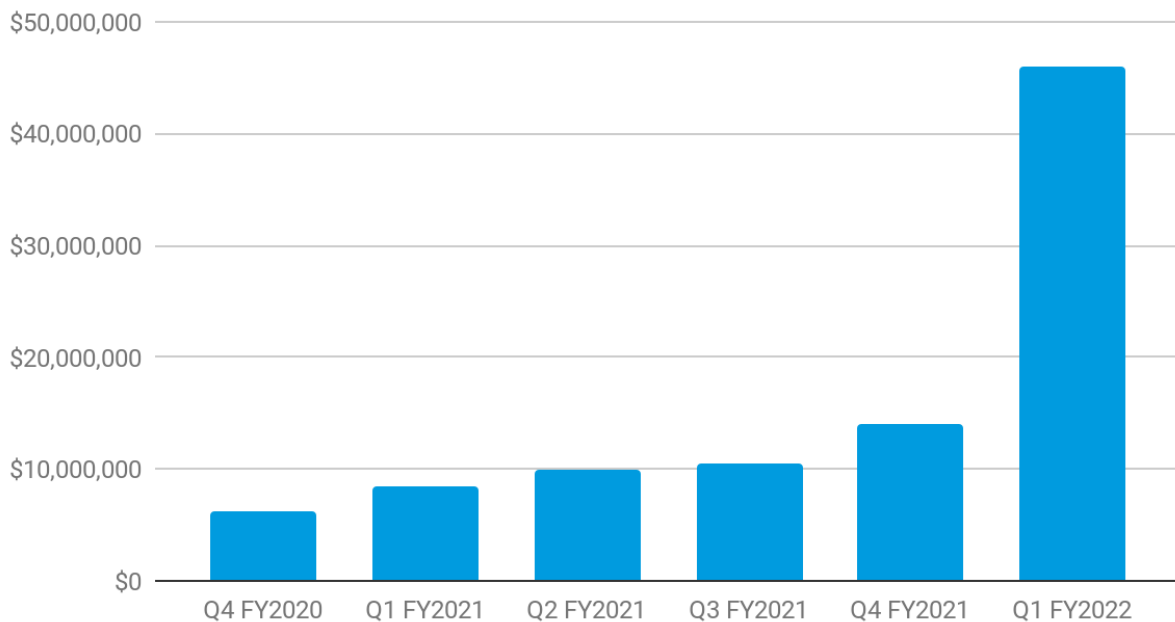
³ Reported signed contracts include new contracts and renewal of existing contracts.



ARR approaching the \$50 million milestone

With the acquisition of Smoothwall and strong September quarter sales, the Company's Annual Recurring Revenue continues to grow strongly adding net ~AU\$2.5 million in the quarter. This result was pleasing given the disruption of the Smoothwall transaction/merger and the limited time available for cross sells to impact the result.

Annual Recurring Revenue AUD



Reporting change: It is noted that reported Annual Recurring Revenue in this report is based on nominal exchange rates (ie exchange rates at the reporting date). This is a change in reporting, where previously a fixed (budgeted) exchange rate was used to support comparative analysis. Given the scale change of the Company and multi-currency denomination the decision has been made to change the basis of reporting. Accordingly investors should expect volatility in exchange rates to affect report results.

Integration of Smoothwall ahead of schedule

The acquisition of Smoothwall was concluded on August 16, 2021. The Company has a target of the end of the calendar year to have the following integration efforts completed:

- **OneCompany:** A series of initiatives to develop a singular mission, corporate strategy, product vision, brand and employment values.
- **Collaboration:** A series of initiatives focussed on ensuring the global organisation, of approximately 365 team members, are able to effectively collaborate and communicate.
- **Winning Teams:** A series of initiatives focussed on delivering real and immediate value to the Company. These have included the cross selling of Smoothwall products into Family Zone's US business plus process & back-end system changes and training programs.

Pleasingly, the integration work is ahead of schedule and is assisting both the Smoothwall and Linewize businesses to continue to exceed sales targets.



Noteworthy is the launch of Smoothwall Monitor into Family Zone's US (Linewize) business. As at September 30, this had already resulted in \$200,000 worth of contracts with a pipeline in excess of \$1 million established.

Work has commenced on cross-selling Family Zone's classroom and other products into the UK with technical and general data protection regulation (GDPR) reviews now well underway. This represents a significant future revenue opportunity cross-selling into Smoothwall's 10,500+ UK schools and positioning these offerings to all new prospects.

Financials

Acquisition of Smoothwall

During the quarter, the Company completed the acquisition of the UK's leading provider of K-12 digital safety solutions, Smoothwall, for cash consideration of £75.5 million (~A\$142.9 million) (**Acquisition**).

The Acquisition was funded through a \$146.4 million capital raising at \$0.55 per Share comprising a pro-rata non-renounceable entitlement offer of \$75.4 million and a placement to institutional and sophisticated investors of \$71.0 million (**Equity Raising**).

Shaw and Partners Limited and Euroz Hartleys Limited acted as joint lead managers and underwriters to the Equity Raising. Argonaut Limited acted as Co-Manager. Transaction costs paid in connection with the Equity Raising were approximately \$7.1 million.

Smoothwall is a profitable, successful and scaled business operating in the UK and US and had at the time of acquisition circa A\$30 million in annual recurring revenue and serviced in excess of 12,400 schools. These numbers have grown and ahead of Company expectations since completion on 16 August 2021.

The acquisition of Smoothwall creates the world's most compelling K-12 digital safety solution incorporating Family Zone's fast growing Linewize K-12 solutions, Family Zone's parental controls and Smoothwall's scale and world leading solutions.

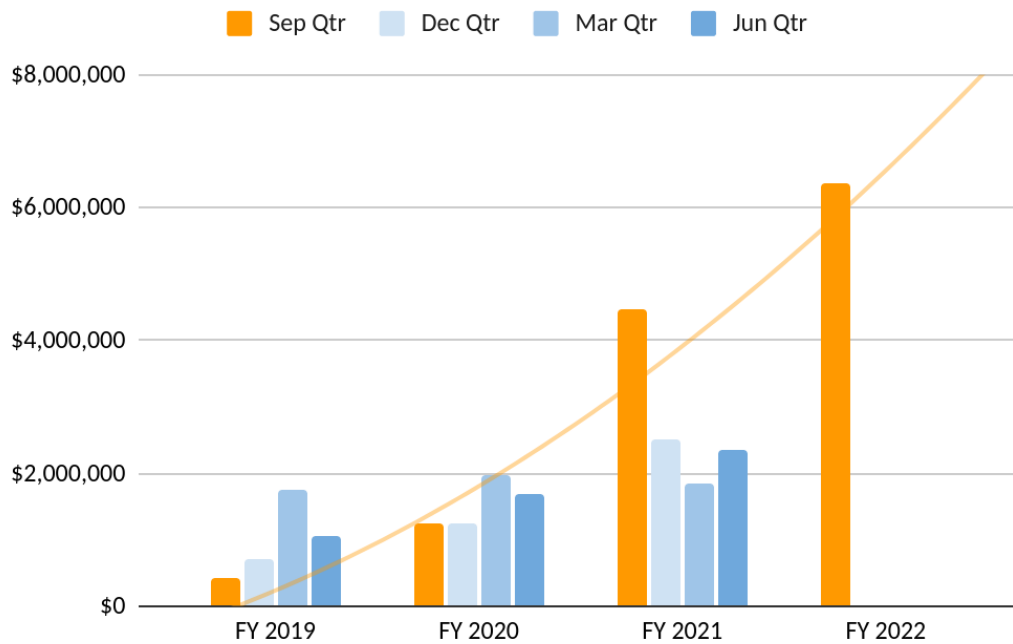
The Company is pleased with the ongoing sales progress of the business since completion and its integration into the Family Zone group.

Billings & Collections

In line with record sales in prior quarters Linewize customer collections achieved an all time record of \$6.4 million (43% YoY growth). Across the Group, \$10.7 million was collected, including Smoothwall collections from 17 August 2021.

It is noted that debtors at September 30 across the Group totaled \$7.9 million and a significant R&D refund is anticipated.

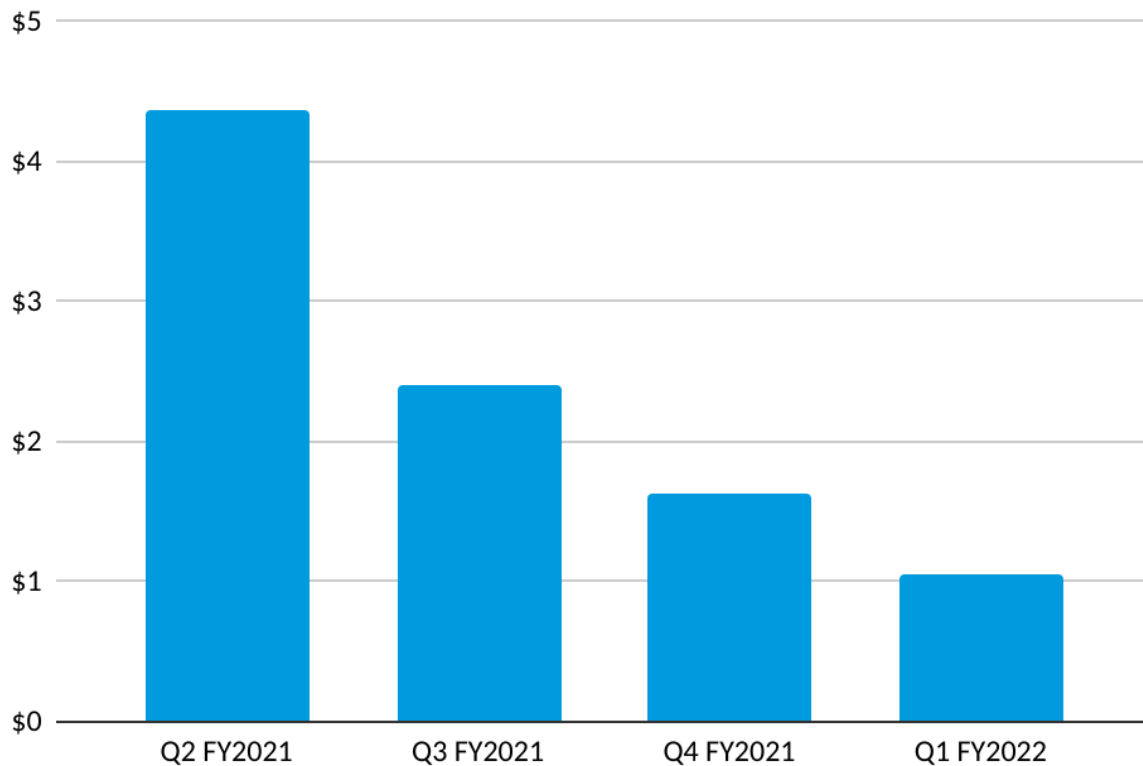
Quarterly Customer Collections (exc Smoothwall)



Improving operating leverage

The Company is pleased to report that through ongoing work on consolidating services and with the scale provided by the Smoothwall acquisition, data and hosting service costs have now dropped to circa **\$1.06** per student per year, well ahead of Company forecasts. This represents a **33%** reduction in the quarter. Further reductions are anticipated as back-end services are consolidated and with future scale.

Data & Hosting costs per student pa



Operating Expenditure

During the quarter operating expenditure expanded with the acquisition of the Smoothwall business from 17 August 2021.

Employee salaries and wages is the Company's largest expenditure. Payments relating to employment including one off restructuring costs totalled \$10.8 million for the quarter. The prior quarter equivalent costs were \$3.5 million.

The Group currently employs 325 FTEs and this is forecast to grow modestly in the December quarter and for the rest of the financial year.

Product manufacturing and operating expenditure (which includes data and hosting costs) for the quarter was \$1.4 million. Whilst this expenditure increased with the inclusion of Smoothwall the cost per student decreased benefiting from the increased business scale as outlined above.

Reporting change: Staff and operating costs associated with Research and Development are for convenience no longer separately disclosed in the 4C report. The Company continues to invest in innovation and whilst revenues now exceed tax office thresholds for refunds income tax credits are anticipated into the future. The R&D expenditure grant from last financial year is expected to be received in the December quarter.

Outlook

Sales pipeline

The Company's sales outlook is strong on a year on year basis, noting that the December quarter being a slower quarter in the annual sales cycles in the US and UK. Student's in proof of concept trials at 30 September 2021 was a record 605,177.

In addition to existing pipelines the Company is working hard on integrating products and cross selling Smoothwall and Linewize products into each customer base. Exciting progress is being made with the launch of Monitor in the US with a pipeline exceeding \$1 million. The launch of Linewize's Classwize offering into the UK is planned for the March quarter 2022.

The Company is also working towards launching our Community offerings into the UK next year.

USA Consumer launch

The Company is pleased with progress on its consumer launch into the US.

The Company has launched its B2B2C consumer product into US school districts. The response from districts has been very encouraging with more than 110 districts (up from 18 last quarter) in the launch pipeline. Pleasingly as at 30 September, 92 districts, or 16% of our US clients had launched a Family Zone cyber safety (parent) hub.

It is important to highlight that we are taking a deliberate staged approach to rolling out this important program considering the technical, privacy and relationship dynamics. Our intention is first and foremost to support school districts to run cyber safety and engagement programs for their communities.

Reporting note

Whilst reporting in this update is mostly in line with previous Company updates, the acquisition of Smoothwall has and will require in future some changes to be made in reporting.

As noted above, changes in this report include:

1. Moving to reporting Annual Recurring Revenue on a nominal basis; and
2. Ceasing to allocate staff and operating costs in the 4C cash flow report to Research & Development.

Related Party Payments

In accordance with ASX listing Rule 4.7C.3, payments to related parties and their associates outlined in the Company's Appendix 4C for the quarter of approximately \$423,000 relate to



Directors' salaries and superannuation payments and professional fees paid to Grange Consulting for company secretarial and financial management services.

This announcement was made on 28 October 2021 and was authorised by the Board of Family Zone Cyber Safety Limited.

About Family Zone

Family Zone, **supporting and protecting every child's digital journey**, is an ASX-listed technology company and an emerging leader in the fast growing global cyber safety industry. Family Zone's unique innovation is its patented cyber safety ecosystem, a platform enabling a world-first collaboration between schools, parents and cyber safety educators. Family Zone's unique approach is delivering rapid growth in the education sector, as well as through direct sales and scalable reseller arrangements with telco providers.

To learn more about the Family Zone platform and the Company please visit www.familyzone.com.

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Ends.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Family Zone Cyber Safety Limited

ABN

33 167 509 177

Quarter ended ("current quarter")

30 September 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	10,656	10,656
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,451)	(1,451)
(c) advertising and marketing	(397)	(397)
(d) leased assets	-	-
(e) staff costs	(10,758)	(10,758)
(f) administration and corporate costs	(1,973)	(1,973)
1.3 Dividends received (see note 3)		
1.4 Interest received	2	2
1.5 Interest and other costs of finance paid	(2)	(2)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(3,922)	(3,922)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	(147,068)	(147,068)
(c) property, plant and equipment	(569)	(569)
(d) investments	-	-
(e) intellectual property	(113)	(113)
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-

Quarterly cash flow report for entities subject to Listing Rule 4.7B

	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	(26)	(26)
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(147,776)	(147,776)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)*	146,578	146,578
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	36	36
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(7,089)	(7,089)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(198)	(198)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	139,328	139,328

* Net of capital raising costs

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	38,054	38,054
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,922)	(3,922)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(147,776)	(147,776)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	139,328	139,328
4.5	Effect of movement in exchange rates on cash held	(33)	(33)
4.6	Cash and cash equivalents at end of period	25,651	25,651

5.	Reconciliation of cash and cash equivalents	Current quarter	Previous quarter
	at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	\$A'000	\$A'000

Quarterly cash flow report for entities subject to Listing Rule 4.7B

5.1	Bank balances	25,651	38,054
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	25,651	38,054

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	423
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	94	94
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	94	94
7.5	Unused financing facilities available at quarter end		-
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
	Smoothwall Bounce Back Loan Facility with Barclays Bank Monthly repayments £833.33 plus 2.5% interest over 5 years.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(3,922)
8.2	Cash and cash equivalents at quarter end (item 4.6)	25,651
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	25,651
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	6.54
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>		
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer: N/A	

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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.

Date: 27 October 2021

Authorised by: The Board of Family Zone Cyber Safety Limited
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.