



To protect & support every child's digital journey

Q1
MAR QTR 2022

4C COMMENTARY & OPERATIONAL UPDATE

ASX: FZO

About

Our mission is to save and better children's lives; to empower parents; to deliver for tomorrow's educators and be a key influencer in cyber safety globally. We seek to deliver for our staff their best ever employment experience and deliver exceptional returns for our investors.



Peter Pawlowitsch
Chairman



Tim Levy
Managing Director



Crispin Swan
COO

Jordan Foster

Chief Wellbeing Officer
2020 Telstra Business Women
2018 WA Young Achiever
World leading Cyber Expert
Clinical Psychologist



Matthew Stepka

Non Executive Director
Machina Ventures
Lecturer, Berkeley
VP, Operations & Strategy, Google
GM, Drugstore.com
CEO/Founder, Big World Travel



Georg Ell

Non Executive Director
Venture Partner, Craft Partners
CEO Smoothwall
Director, Western Europe, Tesla
GM EMEA, Yammer
EU Sales Executive, Microsoft



Highlights

“A record March quarter was driven by an outstanding UK result where we beat ARR sales targets by 21% and global targets by 10%. With a sales pipeline above \$12 million, 951,000 student licenses in proof of concept trials and accelerating cross selling the Company is confident of a record breaking June quarter.”

Tim Levy, Managing Director

✓ **\$7 million nominal ARR added ***
\$4 million nett organic growth
\$3 million from the acquisition of Cipafilter

✓ **Outstanding success of Monitor in US**
Grew monitored users to 200,000 since the US soft launch in November 2021

✓ **Continued growth from the base**
Achieved > 110% net revenue retention
Achieved > 102% gross retention rate

✓ **Growing penetration into the US**
Passed through 23,800 schools serviced
Passed through 15% of US school districts served

✓ **Moving to sustainable cash flow**
Achieved gross margins of 82%
Achieved a record \$13.2 million of gross invoicing #

* \$4m of nett ARR growth plus \$3m acquired from Cipafilter. Note, forex movements and accounting adjustments resulted in a nett growth of \$3 million in the quarter. # Customer receipts are nett of reseller commissions which average 15-20% of revenue.



AT A GLANCE

Leeds

Charlotte

San Diego

Orlando

Family Zone; a global leader in online safety

Family Zone is the dominant online safety provider in the UK and an emerging leader in the US. We're achieving above industry growth rates in both markets.

✓ 11 million students

✓ 23,800 schools

✓ 38% of UK schools

✓ 15% of US districts

✓ \$55 million ARR *

Perth

Sydney

Melbourne

Auckland



Sales and renewals

The Company achieved record sales performance in the quarter driven mostly through our UK operations exceeding sales target by 21%. UK performance metrics for the quarter included a remarkable 98% renewal and 111% net revenue retention rate in the UK's biggest seasonal sales and renewals period.

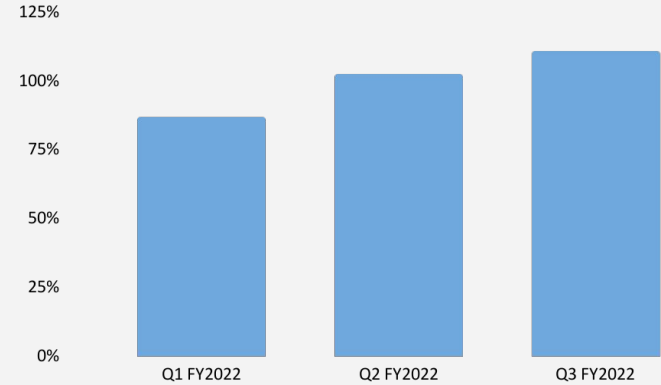
The March quarter is not typically a busy period in US K-12 however the Monitor product, launched late 2021, drove significant improvements in 'existing customer' business where a remarkable 113% net revenue retention rate was achieved in the Quarter.

Average sales price and average license fees continued their upward trends with Average License Fee per student on new deals exceeding \$10 pa for the third quarter in a row.

During the quarter the Company passed through 10 million contracted students and 11 million on the platform including proof of concept trials in US districts. Overall the Company now services in excess of 23,800 schools across the world accounting for 38% of UK state funded schools and 15% of US school districts.

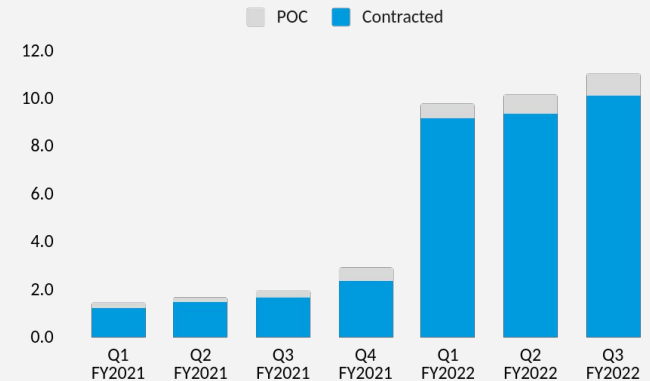
Net Revenue Retention

Group | % or Renewal Deals in Qtr



Student Licences

Group | Count | Millions





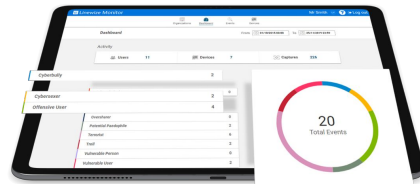
The launch of Monitor in the US

Family Zone's digital safeguarding product sold as Linewize Monitor in the US was soft launched in November 2021. The Company has achieved instant success.

Since it's US launch, Monitor has detected in excess of 106,000 incidents of toxicity and has intervened in 293 situations where children were exposed or at risk of harm.

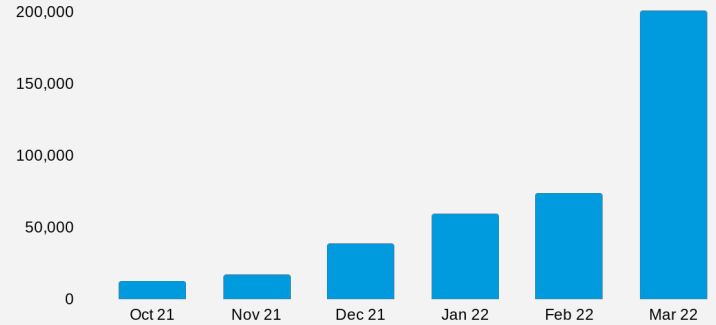
As our monitoring capability has been demonstrated, take-up has accelerated as is shown in the chart right. As of March 31, 2022 our pipeline for Monitor exceeds 650,000 students.

"We are seeing massive growth potential in digital monitoring now being reflected in funding where US states such as North Carolina and Minnesota are now providing specific funding allocations. We expect funding to expand quickly throughout the USA".

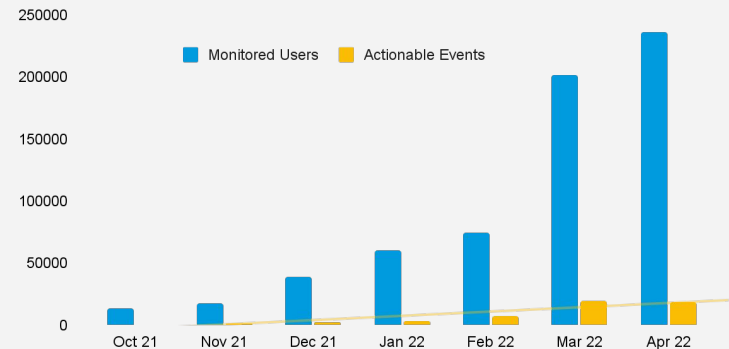


Crispin Swan, Chief Operating Officer

Users of Linewize Monitor US Only | Count



Actionable Events detected by Monitor US Only | Count



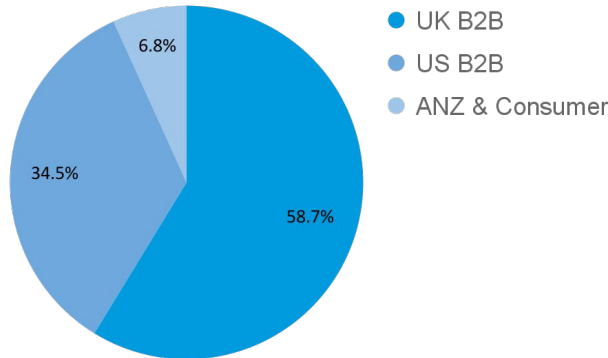


Annual Recurring Revenue

The Company added gross ARR of ~\$7 million in the quarter being ~\$4 million from nett sales and ~\$3 million through the acquisition or Cipafilter.

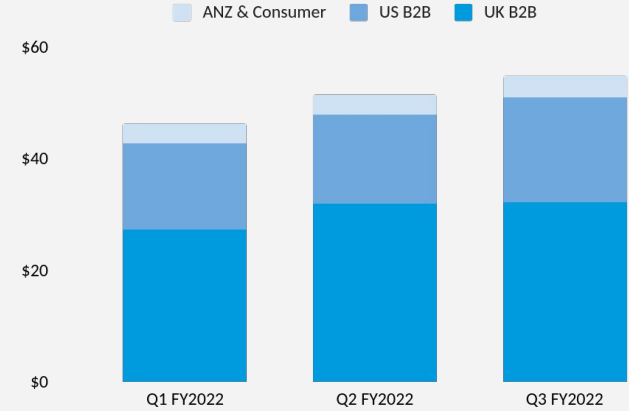
AUD strengthening between 31 Dec 2021 and 31 March 22 impacted topline ARR by ~\$3 million. An accounting adjustment performed in the quarter reclassified ~\$1 million of Cipafilter ARR into upfront hardware revenues.

The Company ended the quarter with more than \$55 million of ARR split 59% UK and 34% US.



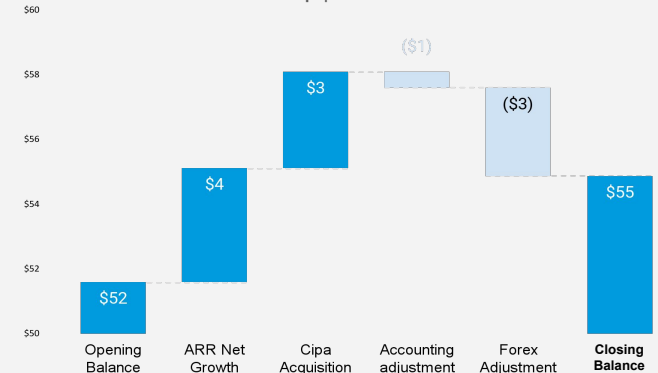
ARR by Region

Group | AUD Millions



ARR Waterfall

Group | AUD Millions





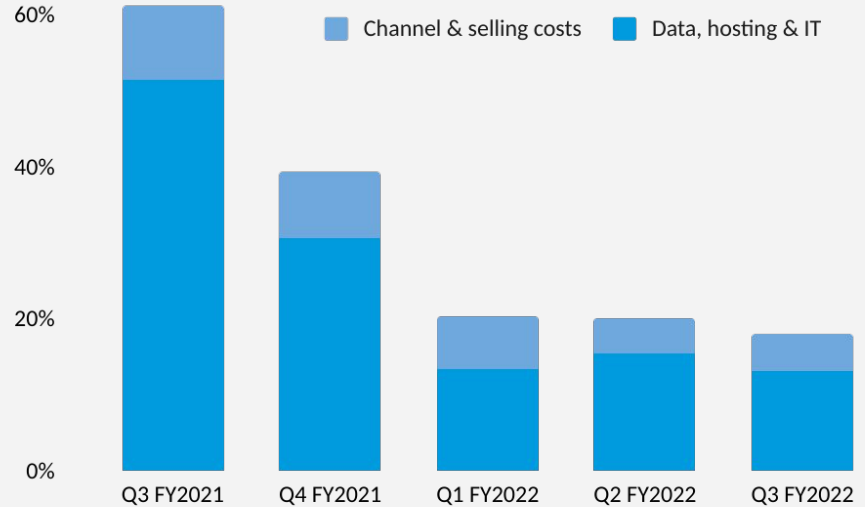
Operating leverage

The Company's continued focus on operating leverage has seen data & hosting costs drop below A\$65c per student per annum.

Overall direct costs as a percentage of revenue continue to trend downwards inline with the Company's objective to balance investments in cost structure and feature advancement.

The Company's current service margins exceed +82% and we are confident of ongoing improvements this year through both top and bottom line initiatives.

Direct Costs by Category
Group | % of ARR



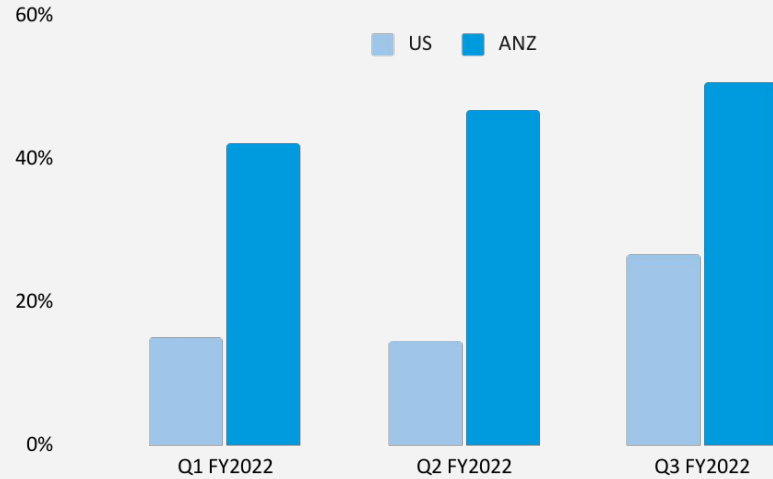


Community

The Company's continues to roll out its community strategy with the first step having School Districts joining onto the Community Hub, providing valuable insights on cyber safety for the students, parents and teachers in a school community. In the US, 27% of our School District clients have signed up which is all the more an impressive given constant growth in US presence.

The roll out of Family Zone parental controls within US districts continues through the pilot phase with feedback from customers driving product enhancements required for the US market.

Community Penetration by Region
Group | % of Clients with a Community Hub



"This past year has seen remarkable change in demand for online safety educational services to schools. States in the US and Australia are now mandating student and parent education and providing specific funding. This market is real and growing swiftly."

Jordan Foster, Chief of Education & Wellbeing

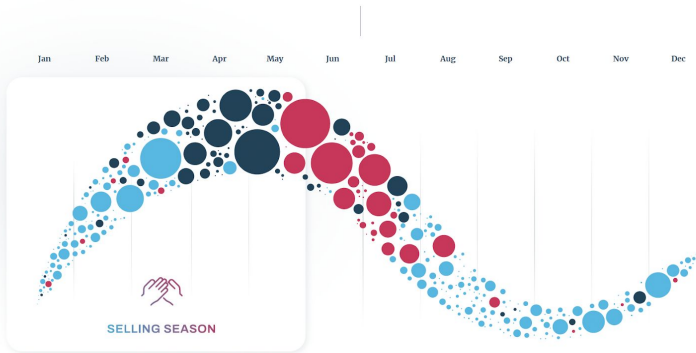


Sales outlook

The Company's UK and US sales teams have been developing strong sales pipelines with the the US in particular entering the peak K-12 selling season of May-July. The Company ended the quarter confident of a record Jun quarter with 951,000 students in POC trials and a record unweighted sales pipeline of \$13.4 million of annual contract value.

US K-12 DISTRICT SALES CYCLE

A GUIDE FOR PRODUCT AND MARKET DEVELOPERS



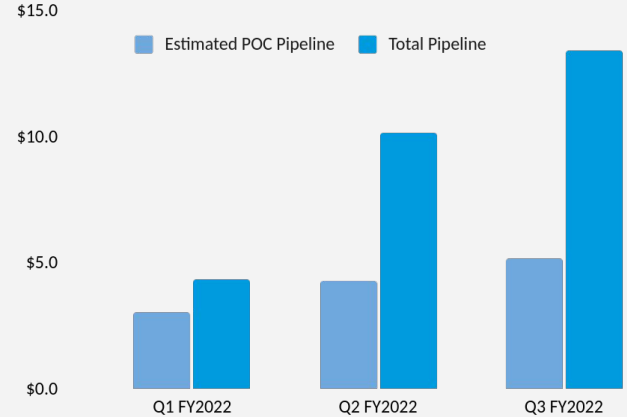
Gathering Info For District Purchases
Educators, especially those who serve on participating product selection committees, gather data on vendor products / services.

Quote Requests
Districts request proposals all year; however, April and May are peak season.

District Purchase Orders
The majority of school district purchases occur in June at the end of the school fiscal year.

MCH Strategic Data

B2B Sales Pipeline Group | AU\$ Millions



“Our sales pipeline is 300% of where it was a year ago and with our conversion rates of 40-50% of pipeline deals and 80-90% of POCs we have high confidence of a record June quarter.”

Tim Levy, Managing Director



Moving to sustainability

The Company is progressing as planned to sustainable cash flow.

- Recurring revenue continues to grow strongly with rapid conversion to invoicing which was \$13 million for the quarter;
- Cash receipts for the quarter was up 427% YoY at \$10 million (nett of commissions); and
- Gross margins continue to strengthen past 82%.

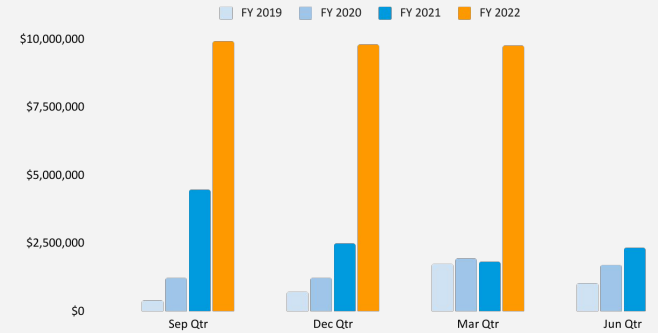
The Company continues to focus hard on driving operational efficiencies which have been achieved through scale and considered integrations across the group. Our target of identifying \$4 million per year of operational efficiencies has been achieved and these are being implemented over the course of this calendar year.

Smoothwall positive cash flow

Pleasingly the Company's UK operation, Smoothwall had a strong sales quarter and has started generating positive cash flow. This follows previously announced cash flow impact of Smoothwall's move to annualised billing arrangements from its pre-acquisition multi-year upfront contracting & invoicing model.

* Excludes corporate, abnormal, forex movements and share based payments.

Customer Receipts | Group | Nett of Commissions



Operational Run Rate





General comments on quarterly cash flow

Receipts from customers for the quarter were \$10m (net of channel commissions), being slightly above expectations as a result of strong UK sales. Key cash outflows for the quarter included staff payments of \$11.8m (up from \$11.3m) and admin/corporate costs of \$4.0m (down from \$4.2m) which were in line with expectations.

This quarter also saw finalisation of a number of one-off operating expenditures including legal fees, tax and audit costs relating to our corporate activity of ~ \$950k and payments relating to acquisition of NetRef of \$1.04m.

Funding

The Company finished the quarter with circa \$17 million of available funding including cash and equivalents on hand and funding facilities.

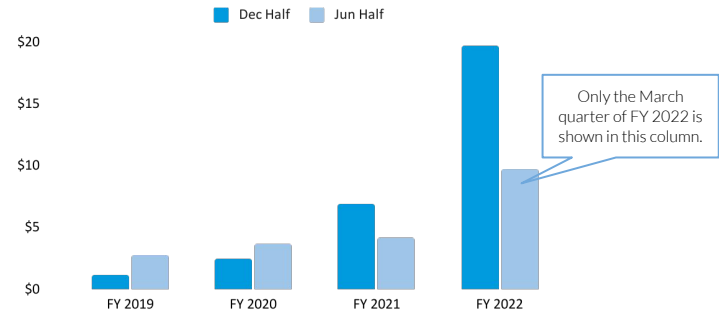
As shown right, the December half (H1) is typically the biggest contributor to cash flows. Note, this chart only includes one quarter (Mar) of the Jun half (H2) and receipts are nett of channel commissions.

Related Party Transactions

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 \$287k related to Directors salaries and superannuation payments and professional fees paid to Grange Consulting for company secretarial services.

Collections by Half (nett of comms)

Group | AU\$ Millions





Team



Peter Pawlowitsch
Chairman



Tim Levy
Managing Director



Phil Warren
Non-Exec Director



Ben Trigger
CTO



Todd Morcombe
CFO



Jordan Foster
Chief of E&W



Crispin Swan
COO



Matthew Stepka
Non-Exec Director



Georg Ell
Non-Exec Director



Ross Young
EVP North America



Gavin Logan
EVP UK



Nadine Mills
Chief of People



Emma Wates
Company Secretary



Capital

AVAILABLE FUNDING	\$17M ⁵
ORDINARY SHARES	730,800,887
MARKET CAP (@46c)	\$336M
TOP 20 SHAREHOLDERS	61%
FOUNDERS & EXECUTIVES	5%

Notes	Perf Shares/Rights	46,194,565	Options	25,369,246
At 27 April 2022	\$9.25m Rev' from NZ ¹	3,000,000	21c (expiring 2022)	4,537,500
1 Remaining Linewize acq securities have target of NZ\$9.25M ARR from NZ and Linewize technology.	Exec salaries ²	3,754,233	18c-24c (expiring 2023)	2,700,000
2 Exec salaries received PRs in lieu of cash	Employee ³	13,042,832	50-68c (expiring 2025)	13,131,746
3 Employee incentives time based milestones	Employee & Exec ⁴	26,397,500	ZEPs (expiring 2024)	2,000,000
4 Various performance based targets			60c (expiring 2026)	3,000,000
5 Includes \$7M cash as at 31 Mar 2022 & \$10M undrawn WC facility described on the next page				

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")

31 March 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities²		
1.1 Receipts from customers	9,742	30,371
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(2,547)	(6,730)
(c) advertising and marketing	(731)	(1,452)
(d) leased assets	-	-
(e) staff costs	(11,462)	(33,923)
(f) administration and corporate costs	(3,844)	(13,765)
1.3 Dividends received (see note 3)		-
1.4 Interest received	2	4
1.5 Interest and other costs of finance paid		(61)
1.6 Income taxes paid		-
1.7 Government grants and tax incentives	983	3,767
1.8 Other (provide details if material) ¹	(198)	(1,383)
1.9 Net cash from / (used in) operating activities	(8,057)	(23,171)

¹ Quarterly VAT payment

2. Cash flows from investing activities²		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	(941)	(143,342)
(c) property, plant and equipment	(261)	(1,314)
(d) investments	-	-
(e) intellectual property	-	(113)

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Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(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)
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(1,202)	(144,796)

² Approx. \$4.1m prior periods transaction related costs have been re-categorised from investing activities to operating activities

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities) ³	-	146,578
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	233	358
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	(7,089)
3.5 Proceeds from borrowings	-	2,767
3.6 Repayment of borrowings	(89)	(3,054)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	107	107
3.10 Net cash from / (used in) financing activities	251	139,667

³ 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	16,032	34,933
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(8,057)	(23,171)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(1,202)	(144,796)

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	251	139,667
4.5	Effect of movement in exchange rates on cash held	21	413
4.6	Cash and cash equivalents at end of period	7,046	7,046

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	7,046	16,032
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)	7,046	16,032

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	(287)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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.

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7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	10,000	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	10,000	-
7.5 Unused financing facilities available at quarter end		10,000
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.	
	<p>Working Capital Financing Facility Lender: Northcity Asset Pty Ltd Interest: 10% pa on funds drawn and 1% pa on undrawn funds Term: 5 years, secured Refer to December 4C Commentary and Operational Update Presentation (page 19) lodged with ASX on 19 January 2022 for further terms and conditions</p>	

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(8,057)
8.2 Cash and cash equivalents at quarter end (item 4.6)	7,046
8.3 Unused finance facilities available at quarter end (item 7.5)	10,000
8.4 Total available funding (item 8.2 + item 8.3)	17,046
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.12
<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: 29 April 2022

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.

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