



To protect & support every child's digital journey

JUN 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 & Director



Dr Jane Watts

Non Executive Director

NED Liberty Financial Group
NED Orygen Youth Mental Health Foundation
NED Westpac Foundation

Formerly: Senior Executive at Westpac, BT Financial, Macquarie, MLC and Lend Lease.



Matthew Stepka

Non Executive Director

Managing Partner, Machina Ventures
Lecturer, Berkeley

Formerly: VP of Operations & Strategy at Google; GM at Drugstore.com and CEO/Founder of Big World Travel.



Georg Ell

Non Executive Director

CEO Memsources
Venture Partner, Craft Partners

Formerly: CEO at Smoothwall; Director or Europe at Tesla; GM Sales at Yammer and Senior Sales Executive Microsoft.

Qtr Highlights

"This quarter we once again broke sales records and achieved a remarkable 132% Net Revenue Retention. All SaaS metrics are world class and on the rise. We confidently enter the December half fully funded with strong industry tailwinds; pro-forma \$77 million of ARR and with world leading products and a strong sales pipeline."

Tim Levy, Managing Director



Record growth in Recurring Revenue

\$5 million organic ARR added *



Record cash collections

\$11.6 million collected nett of channel comms



World class SaaS metrics

132% NRR, 82% Gross Margin, < 4% Churn *



Agreed a merger with Qustodio

Parental controls category leader. Completes 1 Aug.



Successful institutional capital raising

Completed \$42 million raising and now fully funded

* NRR = Net Revenue Retention. Gross Margin is after IT, Data & Hosting, Hardware and Selling Costs. Recurring Revenue or ARR includes effective costs of selling through resellers and channel partners.



AT A GLANCE

San Diego

Charlotte

Orlando

Leeds

Barcelona

✓ 12M students

✓ 24K schools

✓ 38% of UK schools

✓ 16% of US districts

✓ 340K parent accounts *

✓ \$77 million ARR *

Perth

Sydney

Melbourne

Auckland

Family Zone; the global leader in online safety

Family Zone is the only truly global provider of online safety technology offering solutions in K-12 and parental controls.

* Proforma ARR inclusive of Qustodio. Merger of Qustodio with the Company is to occur 1 August 2022.

Industry

The online safety industry is growing and funding is expanding

Growing awareness of online safety and new technologies are driving massive expansion of funding in edu-tech and safety-tech.



U.S. Department of Education

Student Loans

Grants

Laws

Building on President Biden's Unity Agenda, Education Department Urges Colleges to Use American Rescue Act Funds to Provide Mental Health Supports to Students

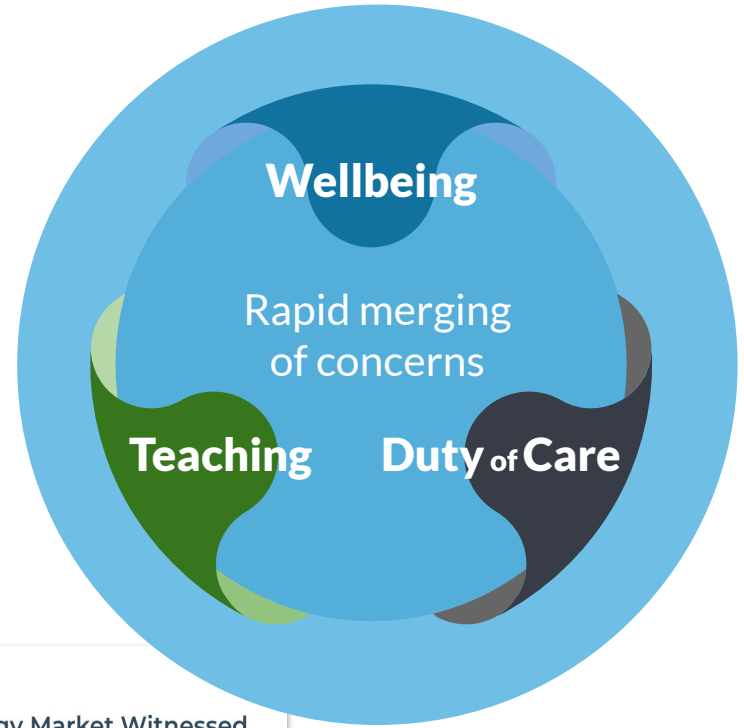
MAY 19, 2022

SKYQUEST

Global Education Technology Market Witnessed Gold Rush of Investors, Secured \$35 billion Funding in just Two Years as Market is Eyeing to Surpass \$302 billion by 2028

Global education technology market was valued at \$105.78 billion in 2021, and it is expected to reach a value of \$302.58 billion by 2028, at a CAGR of 16.20% over the forecast period (2022–2028).

July 21, 2022 10:11 ET | Source: SkyQuest Technology Consulting Pvt. Ltd.



FY2022 Achievements

In FY 2022 Family Zone was transformed. We enter FY 2023 with scale, international reach, \$77 million of ARR, world class SaaS margins and rates of net revenue retention.



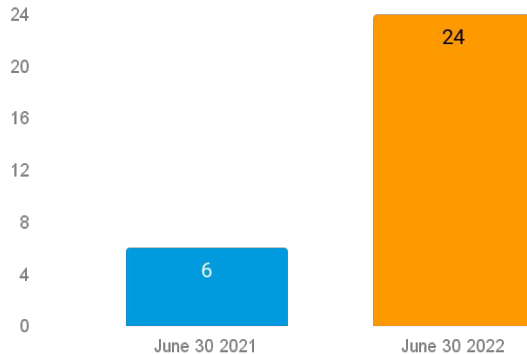
FY2022 ACHIEVEMENTS

in FY 2022 we ACHIEVED SCALE

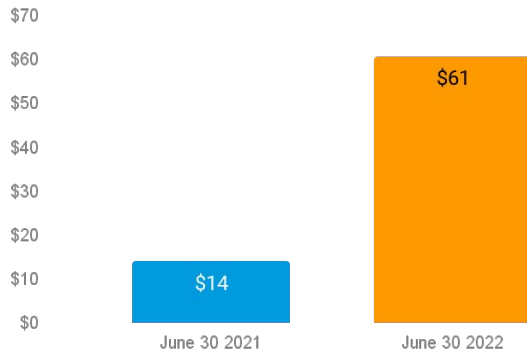
In FY 2022 we:

- ✓ Grew the # of schools serviced by **316%** (6K to 24K)
- ✓ Grew the # students services by **300%** (3M to 12M)
- ✓ Grew our K-12 ARR by **330%** (\$14M to \$61M)
- ✓ Organically grew our ARR by **96%**
- ✓ Reached 16% of US school districts (from < 10%)

School Clients
Thousands



Annual Recurring Revenue
AUD Millions





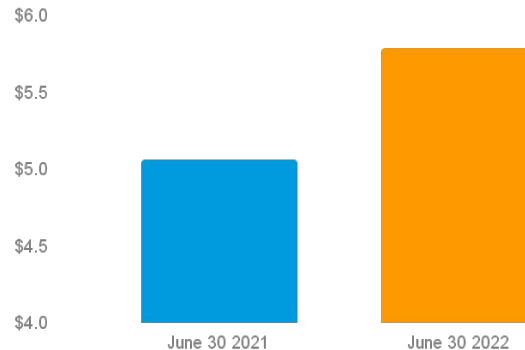
FY2022 ACHIEVEMENTS

in FY 2022 we
ACHIEVED LEVERAGE

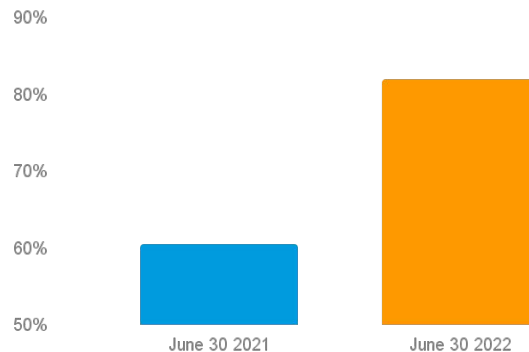
In FY 2022 we:

- ✓ Grew average revenue / student by **14%**
- ✓ Grew gross margin to **82%** (from 61%)

Average Revenue per Student AUD (GAAP)



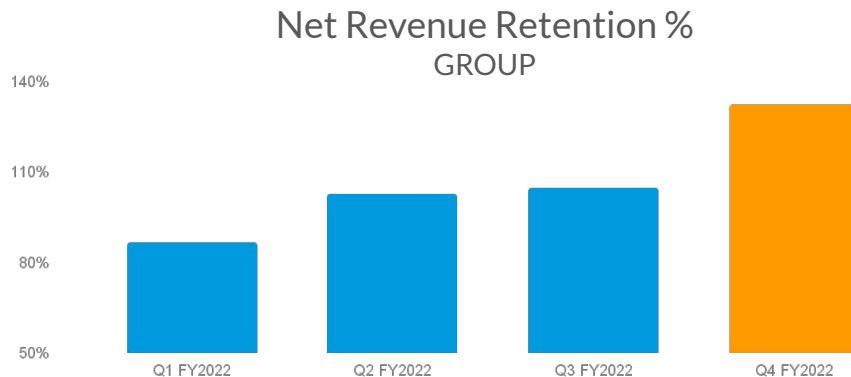
Gross Margin % After IT, Hardware & Selling Costs



FY2022 ACHIEVEMENTS

in FY 2022 we
TRANSFORMED
from a *gross* to a *net new* business

In FY 2022 we achieved massive growth in Net Revenue Retention growing from Qtr 1: 87% to Qtr 4: 132%.

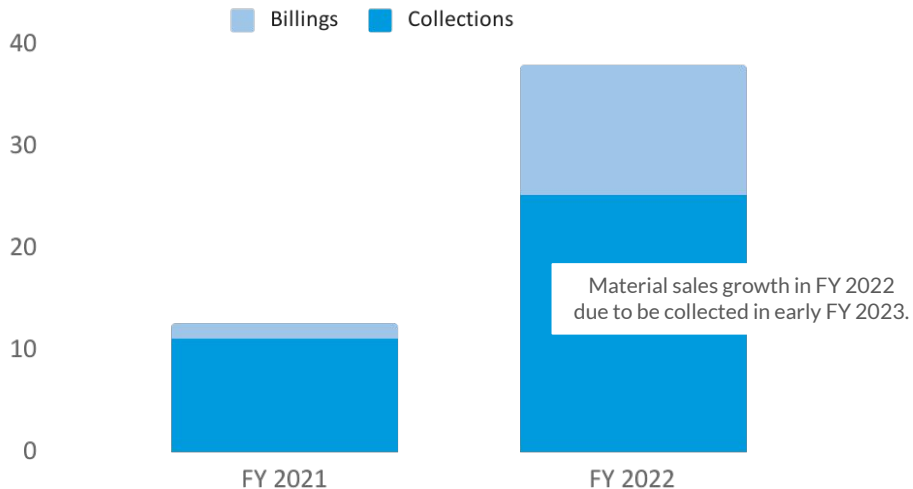


FY2022 ACHIEVEMENTS

in FY 2022 we converted **ARR to CASH**

In FY 2022 we billed \$38 million and achieved **125%** growth in customer cash collections.

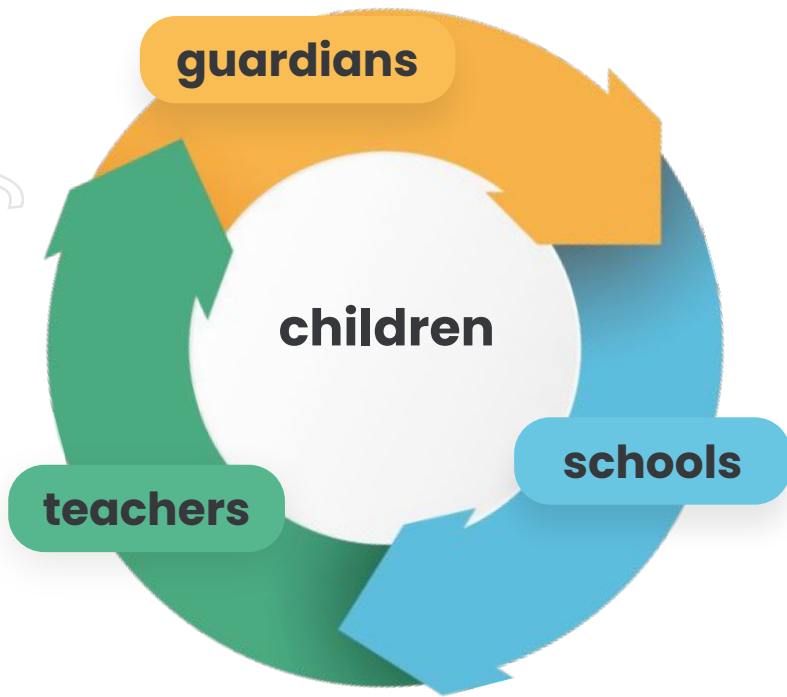
Customer Collections & Billings
Net of Channel Commissions | AUD Millions



Qustodio

Positive digital environment
for kids **at school, at home**
and across any device





We're stronger together

Developing **healthy digital citizens** requires an engaged community. As the saying goes – it takes a village!



Qustodio for your school community

includes:



School device free protection & visibility



Free personal protection for 2 devices



Plus 1 month trial of **Qustodio Premium**





June Qtr Update



Sales and renewals

Driving growth in NRR and revenue / student

The Company achieved record contract sales in the quarter with net growth in ARR of more than \$5 million organically.

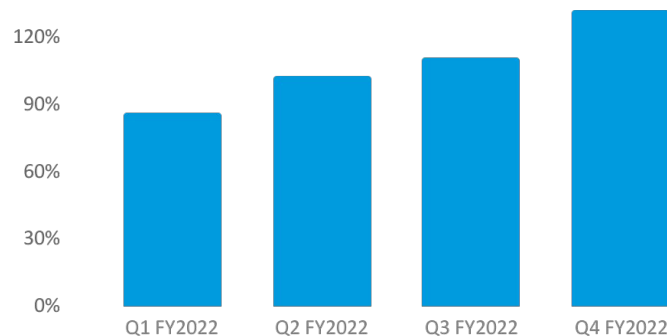
The largest contributor was the US operation which added in excess of \$4.5 million. All markets achieved or bettered targets.

The most pleasing result for the quarter was the contribution to ARR growth from existing customers. Renewal rates continue at circa 95% and Net Revenue Retention was a remarkable 132% for the quarter (against Company target of 110-120%).

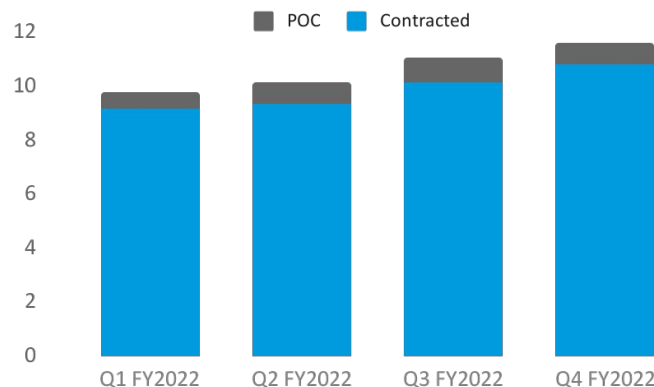
Pleasingly also, Average Revenue per student continues to grow with the ARPs of deals done in the quarter coming in at ~\$9 pa across the group. This compares to ~\$4.50 in the September quarter 2021 (prior to the Smoothwall merger).

During the quarter the Company passed through 12 million students and now services in excess of 24,000 schools across the world. We are proud to support online safety programs in more than 16% of US school districts.

Net Revenue Retention
Group | % or Renewal Deals in Qtr



Student Licences
Group | Count | Millions





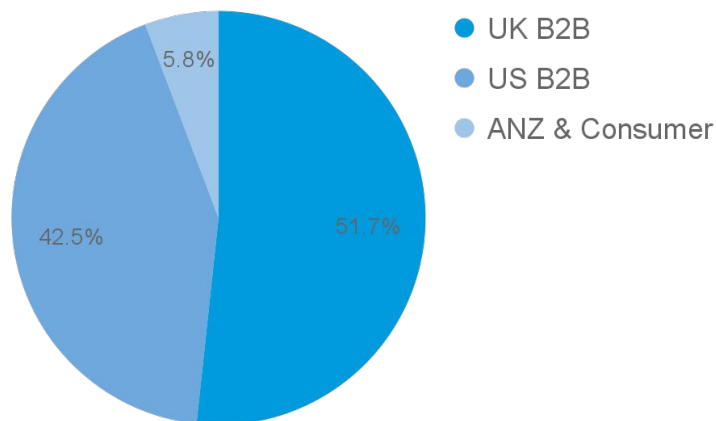
Annual Recurring Revenue

Record organic growth in revenue

The Company added gross ARR of ~\$5 million in the quarter.

Adjustments required for changes to accounting policies reduced ARR by \$1 million however this was offset by falls in the AU exchange rate to the USD.

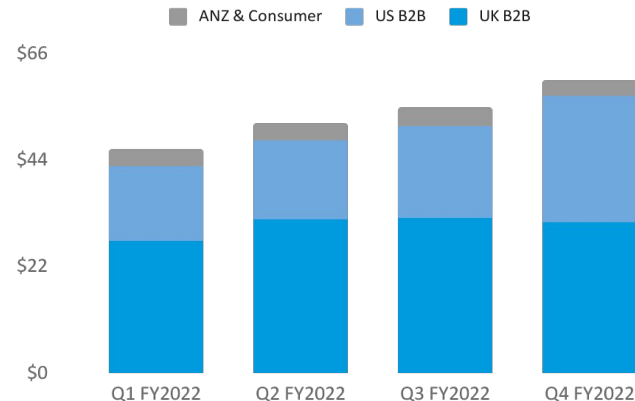
The Company ended the quarter with circa \$61 million of ARR split 52% (from 59%) UK and 42% (from 34%) US.



NOTE: These charts exclude Qustodio. These will be incorporated in the September quarter.

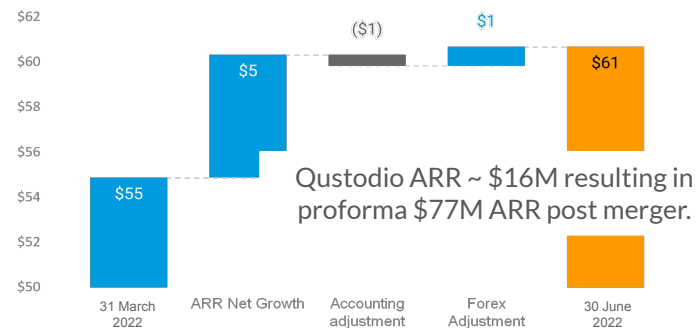
ARR by Region

Group | AUD Millions



ARR Waterfall

Group | AUD Millions





Operating leverage

Continuing improvements

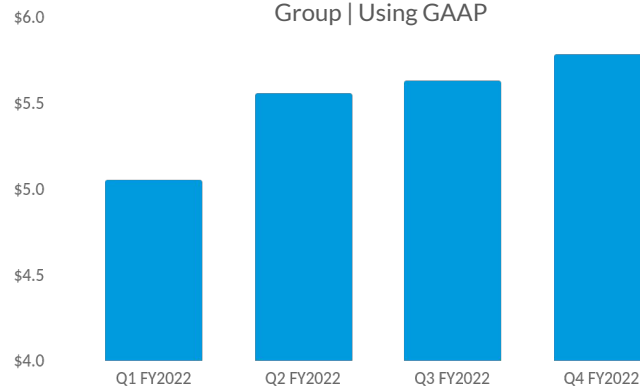
Continued efforts in cost structure and cross/up sells is delivering consistent improvements in operating leverage for the Company.

Average revenue per student, as calculated using GAAP, continues to improve nearing \$6 per annum this quarter. We expect continued growth of this metric with a target of \$10 within 2-3 years.

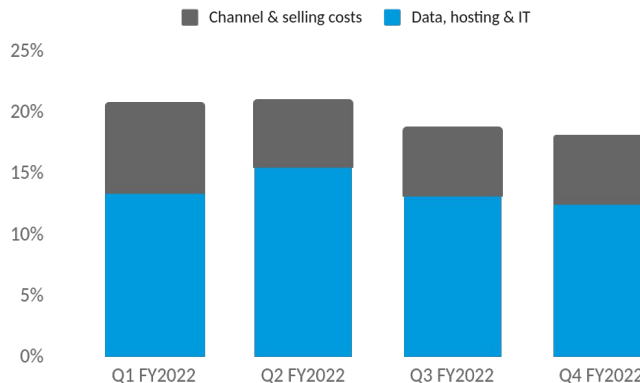
Direct costs associated with selling student licenses similarly continue to fall with gross margins comfortably above 80%.

Qustodio joins the Company on 1 August 2022 and this is expected to materially improve reported margins. Qustodio's current margins are ~90% and the expected uptake of Qustodio through our school online safety programs will be margin accretive to the group.

Average Revenue per Student
Group | Using GAAP



Direct Costs by Category
Group | % of ARR





Community & B2B2C

Launching category leader Qustodio in August

Community refers to Family Zone's school offerings which support community online safety. These include online safety content and advice, plus access to free and paid parental controls.

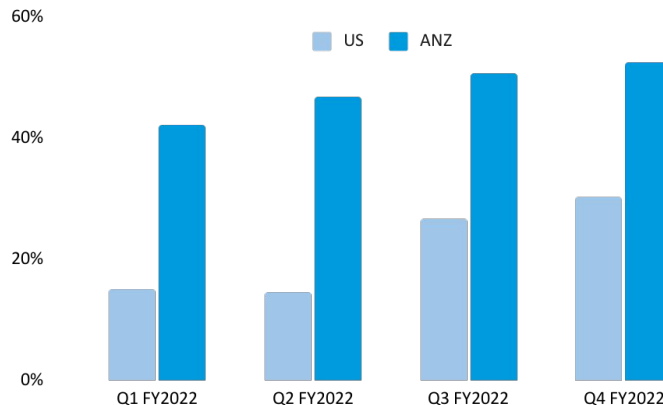
The roll out of the content platform is going exceptionally well with adoption by our school clients, particularly in the US, exploding. This platform serves as a foundation for communicating with school communities in matters of online safety and the promotion of parental controls, which will soon be bolstered by the addition of Qustodio into our offerings.

Qustodio is the world's leading parental control app and joins our Company on 1 August 2022. Phase 1 of the planned integration of Family Zone with Qustodio is focussed on the US K-12 market. The software engineering is now complete permitting trials to begin in August 2022. Progressive and accelerating marketing will progress from then.

The Company will update the market as these trials move into commercial launch.

Community Penetration by Region

Group | % of Clients with a Community Hub





Outlook

Product & funding expansion driving growth

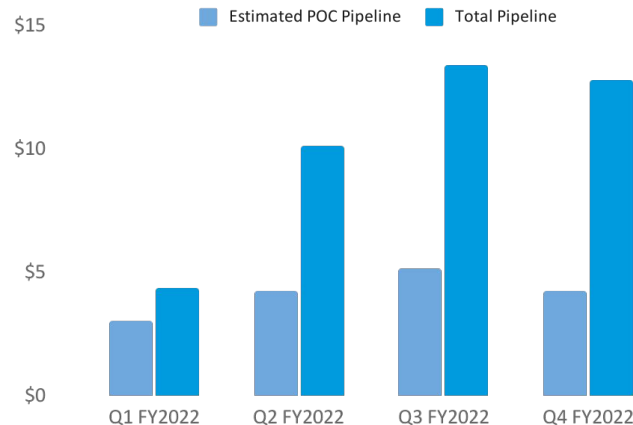
Our sales pipeline remains extremely strong with only a slight drop from last quarter. With circa \$12 million in the pipe we are confident of continued strong growth into the September and December quarters.

The Company is excited to be working on:

- Driving to operating cash flow break-even in the 2023 financial year;
- Completing the Qustodio merger and growing our consumer business;
- Continuing to focus on Net Revenue Retention and growing average revenue per license and margins through feature enhancement and cross selling;
- Extending our product range into wellbeing and education; and
- In the medium term pressing further into non-English speaking markets.

B2B Sales Pipeline

Group | AU\$ Millions





Capital Management

Driving towards positive operating cash flow

Growth in ARR and margins, plus strong conversion of ARR to billings/receipts, sees the Company progressing as planned to sustainable cash flow.

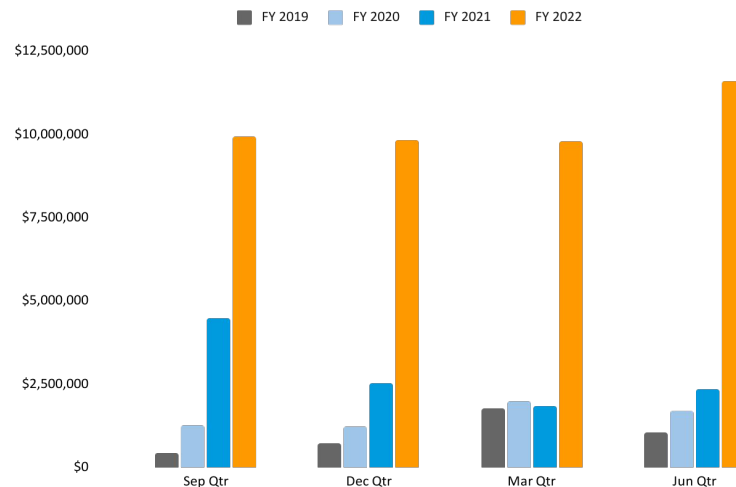
The Company collected a record of ~\$12 million in the quarter. This is the equivalent to ~\$14 million of ARR inclusive of channel commissions.

The December Half is the strongest period for cash receipts given the structure of the UK/US sales cycles.

The Company continues to focus on managing fixed costs and driving operational efficiencies. Like all tech companies wages inflation is a challenge that has been met well through salary packaging and share based remuneration.

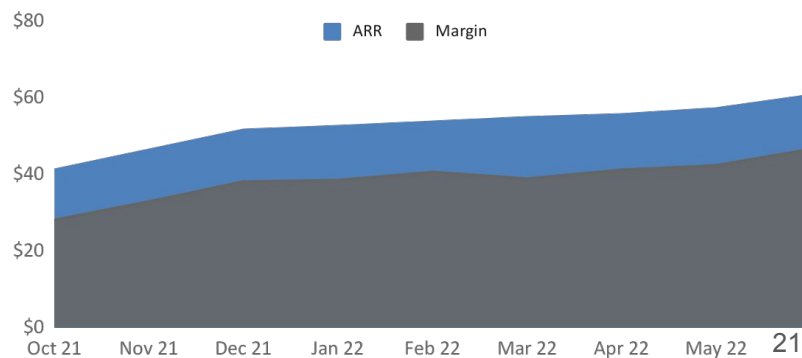
The Company is confident existing funding and business plan supports self sufficiency.

Customer Receipts | Group | Nett of Commissions



Run Rate ARR and Contribution

Group | AU\$ Millions





Quarterly Cash flows

Driving towards positive operating cash flow

Receipts from customers for the quarter were a record \$11.3 million (net of channel commissions). Debtors at June 30 were also a record \$13 million.

Key cash outflows for the quarter included:

> **Staff costs:** \$13.7M (from \$11.8M). Includes \$1.55M for an extra fortnight of pay, 4 months of PAYG tax payments plus the CIPAFilter payroll. Effectively there was no growth in payroll costs on a normalised basis.

> **Admin/corporate:** \$5.2M (from \$4.0M). This included \$2M of costs for one-off legal & corporate fees.

Adjusted 4C Cashflow	Dec 2022	Mar 2022	Jun 2022
Direct Costs	(\$2,405)	(\$2,571)	(\$2,306)
Variable Staff	(\$4,534)	(\$4,363)	(\$4,934)
Fixed Staff	(\$6,490)	(\$7,508)	(\$7,577)
Fixed Other	(\$3,655)	(\$2,718)	(\$2,798)

Normalised quarterly cash outflows in AUD Thousands.
Adjusted for one-off / non-operational flows & timing.

Given the aforementioned one off / non-operational and timing matters the below chart has been provided as a useful comparison. It normalises Company cash flows over the past 3 quarters and is broken into fixed and variable items.

As this chart shows the Company's Direct Costs (IT, Data & Hosting and Hardware) are stable; variable Staff Costs (sales, marketing, support & deliver teams) and growing with the customer base and sales; and Fixed Staff (Engineering and Admin) and other Fixed Costs have been flat and falling respectively.

These results demonstrates the Company's successes in stabilising cost structure, driving operating leverage and fixed costs efficiencies.



Quarterly Cash flows

Driving towards positive operating cash flow

Funding

The Company finished the quarter with circa \$43 million of available funding including \$33 million of cash and a \$10 million funding facility. Cash flow will be buoyed by entering the seasonally strongest cash generating half.

As part of the expected settlement of the Qustodio transaction in August 2022, the Company will pay out nett \$15M in the settlement. This will be fully funded out of cash holdings.

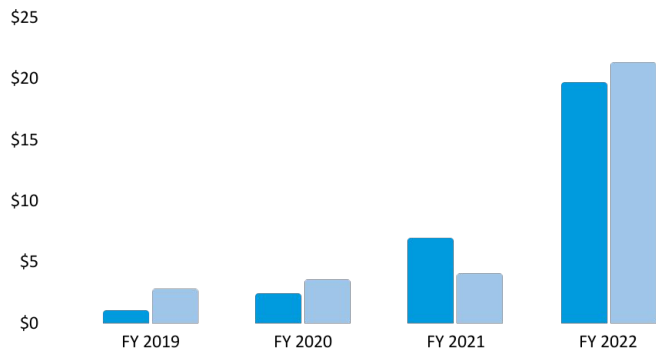
Related Party Transactions

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 \$290k 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

■ Dec Half ■ Jun Half





AVAILABLE FUNDING

\$43M⁵

ORDINARY SHARES

857,795,699

MARKET CAP (@35c)

\$300M

TOP 20 SHAREHOLDERS

63%

FOUNDERS & EXECUTIVES

4%

Notes

At 24 July 2022

1 Remaining Linewize acq securities have target of NZ\$9.25M ARR from NZ and Linewize technology.

2 Exec salaries received PRs in lieu of cash

3 Employee incentives time based milestones

4 Various performance based targets

5 Includes \$33M cash as at 30 June 2022 & \$10M undrawn WC facility described on the next page

Perf Shares/Rights 47,225,670

\$9.25m Rev' from NZ¹ 3,000,000

Exec salaries² 3,734,702

Employee³ 14,405,968

Employee & Exec⁴ 26,085,000

Options

16,337,500

21c (expiring 2022) 1,537,500

18c-24c (expiring 2023) 2,700,000

50-68c (expiring 2025) 5,000,000

ZEPOs (expiring 2024) 2,000,000

60c (expiring 2026) 5,100,000

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 June 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	11,319	41,689
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(2,915)	(9,644)
(c) advertising and marketing	(465)	(1,916)
(d) leased assets	-	-
(e) staff costs	(13,681)	(47,604)
(f) administration and corporate costs	(5,181)	(18,947)
1.3 Dividends received (see note 3)		-
1.4 Interest received	3	7
1.5 Interest and other costs of finance paid	(250)	(311)
1.6 Income taxes paid		-
1.7 Government grants and tax incentives	-	3,767
1.8 Other (provide details if material) ¹	(1,033)	(2,416)
1.9 Net cash from / (used in) operating activities	(12,203)	(35,375)
2. Cash flows from investing activities²		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	(543)	(143,886)
(c) property, plant and equipment	(984)	(2,299)
(d) investments	-	-
(e) intellectual property	-	(113)

¹ Quarterly VAT payment

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 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	(1,528)	(146,323)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities) ³	42,000	188,578
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	358
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(2,442)	(9,531)
3.5	Proceeds from borrowings	37	2,804
3.6	Repayment of borrowings	(5)	(3,059)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	107
3.10	Net cash from / (used in) financing activities	39,589	179,256

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	7,046	34,933
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(12,203)	(35,375)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,528)	(146,323)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	39,589	179,256
4.5	Effect of movement in exchange rates on cash held	59	472
4.6	Cash and cash equivalents at end of period	32,963	32,963

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	32,963	7,046
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)	32,963	7,046

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	(290)
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.</i> <i>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	10,081	81
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	10,081	81
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.		
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		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(12,203)
8.2 Cash and cash equivalents at quarter end (item 4.6)	32,963
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)	42,963
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	3.52
<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: 28 July 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.