



family zone

To support and
protect every child's
digital journey

ASX: FZO

4C COMMENTARY & OPERATIONAL UPDATE

DEC QTR 2021

2022 01





OUR PURPOSE

to protect **and** support every child's digital journey.

69% of boys & **23%** of girls have viewed porn by age 13

64% of teens access porn at least once each week

Children's first exposure to porn is between **8 & 10**

88% of porn contains violence against women

42% of teens report being bullied on Instagram

Rates of online bullying have **doubled in 10yrs**

Suicide is the leading cause of death of children in Australia

Teen girls who use social media are most at-risk of suicide



WHY FAMILY ZONE

SOCIAL IMPACT

Keeping our children safe,
protecting their mental health and
supporting their education.

SUBSTANTIAL INNOVATION

Technical IP and innovative
commercial model aimed at creating
cyber safe communities.

MASSIVE MARKET

Untapped, fragmented global cyber
safety markets in education and
consumer.

PROVEN & SCALABLE

10M students & 20K schools
across AU, NZ, US and UK. + 38%
share in UK and +10% in the US.

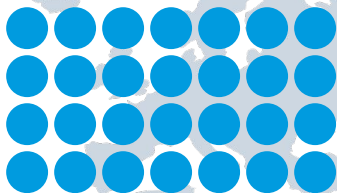
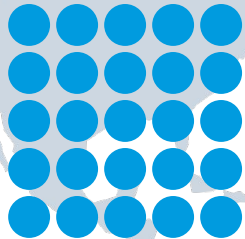
RECURRING REVENUE

Rapidly growing contracted
recurring revenue at **\$52 million** &
growing at **+40%** per annum.

OPERATING LEVERAGE

Strong service margins of +70% with
clear path beyond 80% through
scale, engineering and value adds.

December Quarter 2021



10M
STUDENTS

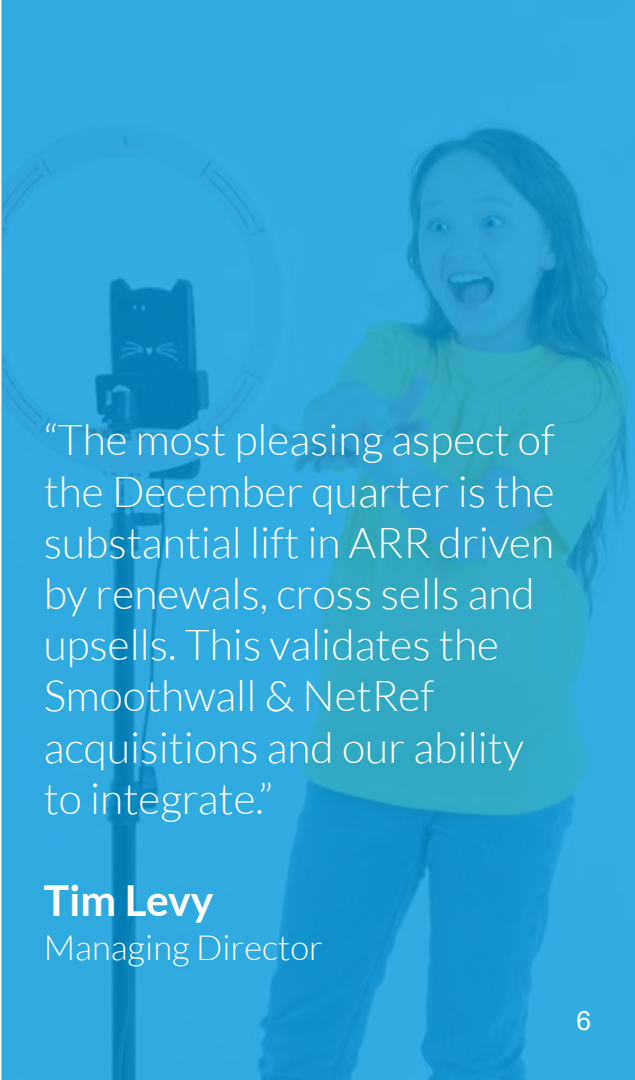
20,000
SCHOOLS

72K
PARENTS

\$52M
ARR

Family Zone's acquisition of Smoothwall has been validated with outstanding sales growth across our UK and US operations.

- +10% increase in ARR quarter on quarter
- +10 million students served
- Strong renewals & cross sells in UK driving ARR growth
- Near doubling of US student license fees on new deals
- A record ~ 800K US student POCs
- A record ~ \$7 million sales pipeline
- \$21M of customer receipts in the half (showing strong ARR conversion)
- Organisational integration of Smoothwall completed
- \$27M in effective available funds (\$17m cash & \$10m undrawn facility)



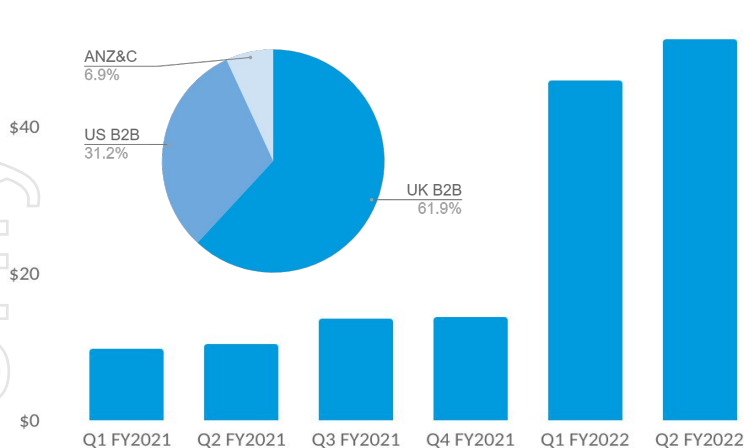
“The most pleasing aspect of the December quarter is the substantial lift in ARR driven by renewals, cross sells and upsells. This validates the Smoothwall & NetRef acquisitions and our ability to integrate.”

Tim Levy
Managing Director

ANNUAL RECURRING REVENUE

GROUP ANNUAL RECURRING REVENUE

AUD (millions) | Spot Rates



Annual Recurring Revenue (ARR) grew by ~\$5 million this quarter driven by strong renewals, cross sells and upsells, in particular across the Smoothwall customer base. Since the Smoothwall acquisition growth in ARR is equivalent to +40% annualised growth. This despite the December quarter being typically slow in UK & US K-12 and the distractions of the recent mergers.

Our UK team renewed >95% of deals (target 90%) and achieved outstanding net revenue retention of 111%.

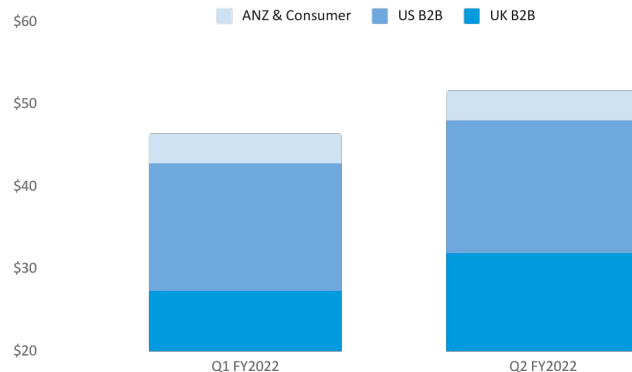
ANZ&C = Australian, New Zealand & Consumer ARR

In the US, new business and renewals remain strong. Most encouragingly the average revenue per student for new deals signed in the quarter was 112% above that of the previous quarter. This is the result of the additional products made available through our acquisitions of Smoothwall & NetRef. If this performance was to be achieved over future US renewals it would equate to an incremental \$15 million of ARR.

The group's pipeline is building strongly into the key selling half in the US and UK. The unweighted pipeline of qualified sales leads exceeded \$7 million, for the first time.

RECURRING REVENUE BY REGION

AUD (millions) | Spot Rates



STUDENTS

Group | Contracted & POC Trials | millions

12

■ POC ■ Contracted

10

8

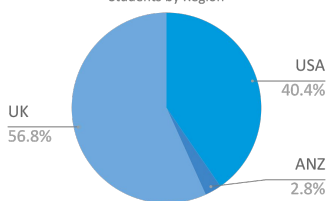
6

4

2

0

Students by Region



USA
40.4%

ANZ
2.8%

UK
56.8%

Q1 FY2021

Q2 FY2021

Q3 FY2021

Q4 FY2021

Q1 FY2022

Q2 FY2022

The Company ended the quarter with 9.4 million contracted students with 10.2 million on the platform, including a record 800,000 students in POC trials in the US (excluding a number of state opportunities the Company is participating in). Pleasingly Family Zone's business, excluding Smoothwall, passed through the Company's target of 3 million contracted students.

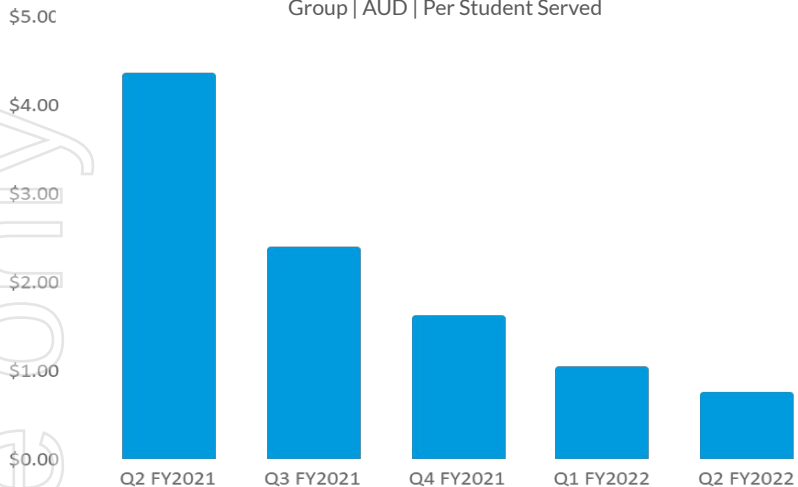
"This quarter our student numbers passed through 10 million, placing Family Zone firmly in the top tier of online safety players globally."

Crispin Swan

Chief Operations Officer, Director

DATA & HOSTING COSTS

Group | AUD | Per Student Served



The Company's continued focus on data & hosting costs and its strong partnership with Google Cloud has seen continued falls in data & hosting costs which dropped to less than A\$0.80 per student per annum.

New arrangements with Google were agreed from 1 January 2022 which provide immediate pricing improvements plus significant investments from Google towards further improvements in costs and capability.

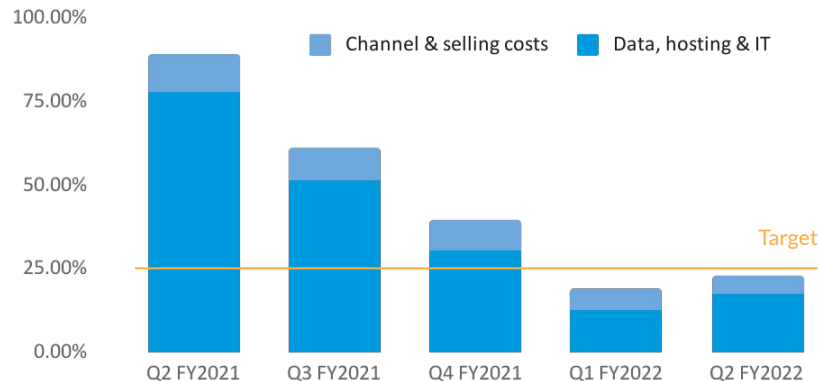
Overall direct costs as a percentage of revenue are trending down and inline with the Company's objective to balance investments in cost structure and feature advancement.

The slight uptick in direct costs in the December quarter reflects the first full quarter of Smoothwall in our numbers.

The Company is confident of delivering ongoing service margin improvements targeting +80% by mid CY 2022.

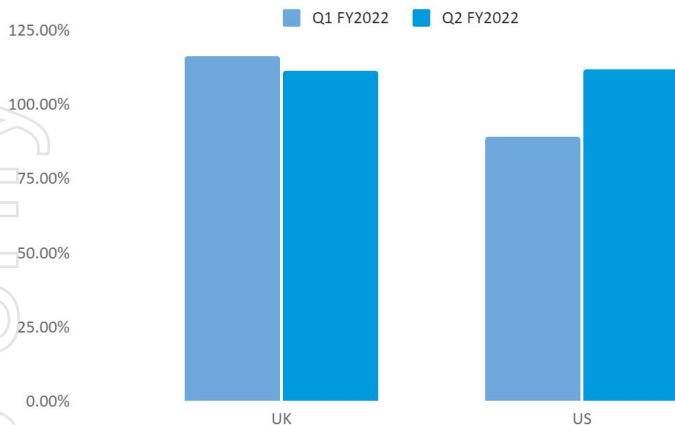
DIRECT COSTS % OF REVENUE

Group | As a % of revenue per student



NET REVENUE RETENTION

UK v US | NRR %



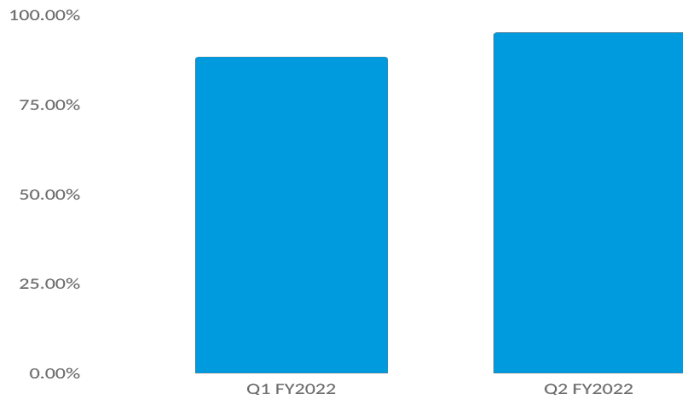
With the acquisition of Smoothwall and the growing scale of our US K-12 operation, an increased focus has been put on **Net Revenue Retention** ('NRR'). NRR is the calculation of revenue retained / grown from existing customers after accounting for churn. A score greater than 100 reflects strong customer sentiment and product fit.

Our most pleasing result in the quarter was the continued outstanding NRR results in UK (+110%) and strong lift in NRR in the US. This US result has been achieved notwithstanding the disruption of merging NetRef and Smoothwall into our US operations and reflects the outstanding calibre of our US team and the value of adding the Smoothwall and NetRef products to our US base.

Another outstanding result was our UK team's renewal rate at 95% which significantly exceeded target (90%) and Smoothwall's performance prior to the merger.

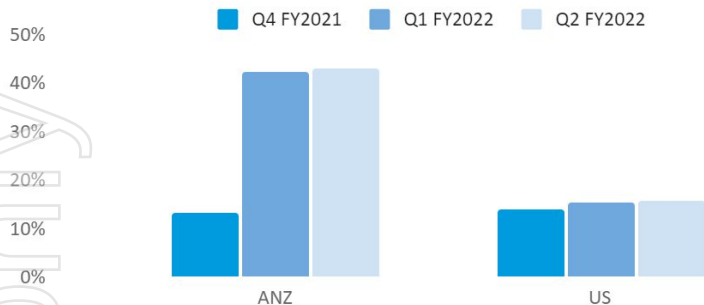
UK RENEWAL RATE

UK | As a % of renewal opportunities in the quarter



COMMUNITY PROGRAMS

US v ANZ | % of clients



During 2021 the Company renewed it's focus on its consumer products and B2B2C (or Community) sales model. A pilot launched in late 2021 into a number of US school districts based on the experiences in Australia. The pilot has identified changes required which are being worked on and delivered in an agile delivery approach.

Confidence remains high in our plans and this is buoyed by continued improvements in our Australian parental control business where all KPIs are improving including product stability, churn, product engagement, support SLAs and customer feedback.

72,500 *
consumer
accounts

101
US School
Districts Live

* Premium & insights accounts

The integration of Smoothwall continues apace with the organisational integration now complete. Globally integrated teams have now formed across technology, sales and support.

Much of our focus to date has been on strategy & structure and ensuring that our sales operations are uninterrupted and performing. This has been a clear success with our UK operation (Smoothwall) in particular overachieving in renewal revenue as it transitions to a “software as a service” sales model (discussed next slide).

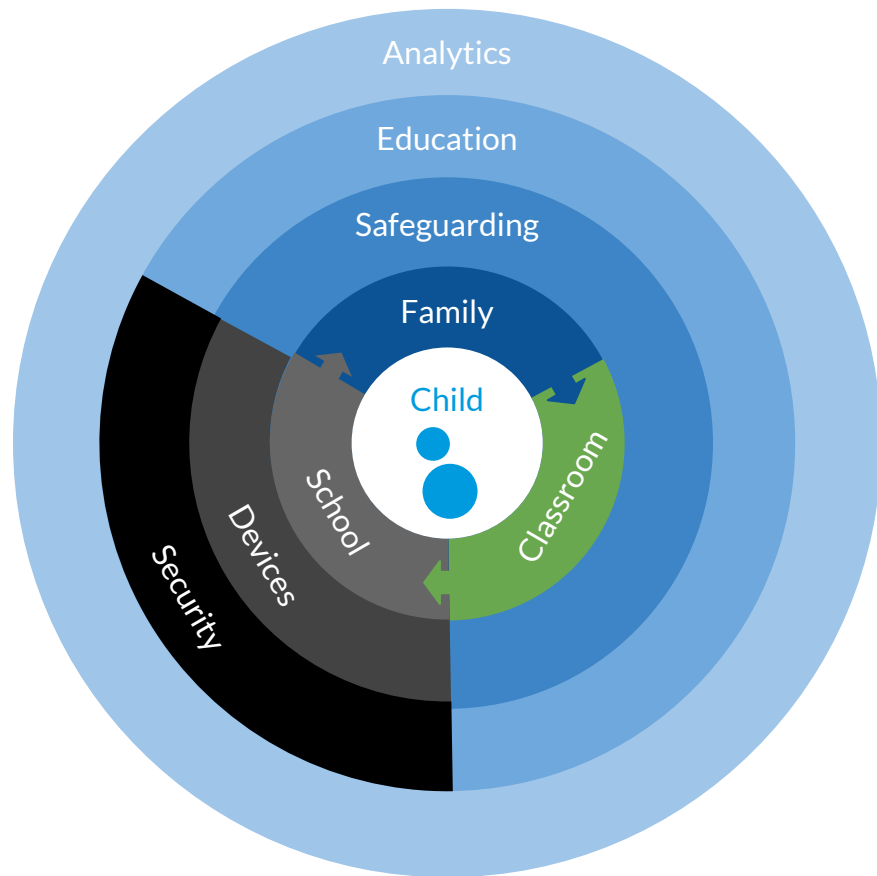
The next phase of integration concentrates on developing a singular brand identity and deep integration of our products.

OneBrand: Our UK marketing team are spearheading a global brand consolidation exercise. This is expected to be completed this half.

smoothwall®

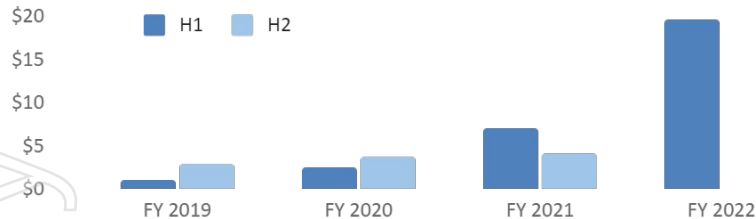


OnePlatform: With the merger of our global technology teams our focus moves to deep product integration and a unique platform approach to protecting and supporting every child’s digital journey.



CUSTOMER COLLECTIONS

A\$ millions



Smoothwall's rapid move to SAAS sales

Until 2020 Smoothwall followed a traditional enterprise security sales model characterised by multi-year deals invoiced upfront. In late 2020 Smoothwall began transitioning to a SAAS (software as a service) sales model characterised by annual billing cycles. This move follows industry trends, changing budgetary models in the UK school system and is aimed at (and is delivering) improving average sales prices and margins.

With sales team incentives encouraging SAAS deals and an accommodative market, Smoothwall's sales mix and renewals in particular, has moved almost entirely and much faster than planned to annualised invoicing. This has seen substantial lifts in ARR and average sales price, but has resulted in an increased short term working capital requirement. The working capital needs of Smoothwall will naturally reverse in the coming 12-15 months as customers move to annual billing.

Quarterly Cash flows

The Company's underlying business is strong with ARR growth well ahead of target, operating margins improving and fixed cost in line with budget. Strong sales in our UK operations (Smoothwall) along with its transition to an annualised (SAAS) billing model (see left) has resulted in an increased working capital requirement circa \$4 million.

Receipts from customers for the quarter were \$10m, being slightly below expectation as a result of a slower billing over the Christmas period with a number of larger collections falling into the next quarter. Key cash outflows for the quarter included staff payments of \$11.3m and admin/corporate costs of \$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 the Smoothwall/NetRef acquisitions of ~\$1.6 million.

Consequently the Company's operating cash outflow for the quarter of \$7.0 million was higher than planned.

Cash outflows from investing activities included the second tranche payment of \$1.5 million for the NetRef business.

The Company has approx **\$27 million** in funding available comprising \$17 million in cash at 31 Dec 2021 and a \$10 million in a 5-year undrawn working capital facility agreed in Jan 2022.

Outlook

Key Sales Cycles in UK and US

The main UK edu-tech sales period kicks off in January with the UK's BETT conference. With COVID restrictions BETT has been delayed until March 2022 however the Company's pipe generation activities are delivering and the Company expects a strong March quarter and a record half.

The key US edu-tech sales period typically kicks off in February with the months of May-July being the biggest. The Company enjoys a record sales pipeline and strong out-of-cycle sales, buoyed by the introduction of Smoothwall products to our US business.

Operations

With the organisational integration of Smoothwall and NetRef complete, the Company now turns to driving efficiency, particularly in direct costs and indirect overheads. The Company recently concluded a new agreement with Google which delivers substantial immediate pricing improvements in data and hosting.

Consumer

The Company continues to track solid improvements in its consumer business and the performance of the Family Zone parental control products.

A customer user group has been formed in the US which is working with our US marketing team, our product team and a select group of school districts to ensure our products meet the US market requirements. We expect to see a stream of ongoing product releases and marketing programs in coming months.

Corporate Activity

As discussed in previous announcements, the online safety industry is experiencing significant consolidation and corporate activity. Family Zone's acquisition of Smoothwall in August 2021 has been followed by:

- Raptor Technologies acquiring CPOMs (Oct 21)
- Impero Technologies acquiring ContentKeeper (Dec 21)
- Lightspeed Systems acquiring CatchOn (Jan 22)

As a global leader in the sector and on the back of our successes in acquiring and integrating NetRef and Smoothwall, the Company is secure and well positioned to target strategic opportunities to expand product and distribution.

Corporate

KEY PERSONS



Peter Pawlowitsch
Chairman



Tim Levy
Managing Director



Phil Warren
Non-Exec Director



Crispin Swan
Executive Director



Matthew Stepka
Non-Exec Director



Emma Wates
Company Secretary



Ben Trigger
CTO



Paul Robinson
CPO



Todd Morcombe
CFO



Ross Young
EVP North America



Gavin Logan
EVP UK



Georg Ell
CEO Smoothwall



Jordan Foster
MD ySafe



Nadine Mills
VP People



David Dunstan
VP Marketing

AVAILABLE FUNDING

\$27M⁵

ORDINARY SHARES

710,989,211

MARKET CAP (@60c)

\$426M

TOP 20 SHAREHOLDERS

55%

FOUNDERS & EXECUTIVES

5%

Notes

At 15 January 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 \$17M cash as at 31 Dec 2021 & \$10M undrawn WC facility described on the next page

Perf Shares/Rights

44,530,040

\$9.25m Rev' from NZ¹

3,000,000

Exec salaries²

4,817,822

Employee³

8,702,218

Employee & Exec⁴

28,010,000

Options

20,056,787

50-68c (expiring 2025)

11,287,876

18c-25c (expiring 2022)

6,068,911

18c-24c (expiring 2023)

2,700,000

WORKING CAPITAL FACILITY

To support continued sales acceleration the Company is pleased to announce the entering into binding terms for working capital debt facility. Key terms of this facility include:

- The Company may draw up to a maximum of \$10 million over the 5 Year life of the facility. Each drawdown is for a minimum of \$1 million with no maximum.
- The Company is not obligated to draw down funds and may terminate the facility at anytime.
- Interest rate is 10% pa on drawn funds and 1% pa on undrawn funds.
- No debt covenants are applicable. Negative pledges are included regards incurring any additional indebtedness, granting security, making distributions, disposing of assets that are material in nature. Security is to be provided through a first ranking registered security over all present and future assets of the Company. Initial drawdown is subject to execution of security agreements in customary form.
- A facility fee of 2.0% of the Facility Amount is payable along with 3m options with an exercise price of \$0.60 expiring on 31 January 2026 on signing. Thereafter a Facility maintenance fee of up to 7 million 60c options subject to shareholder approval (or \$500,000 in cash if not) payable in three installments dated 31 Jul 2022, 31 Jan 2022 ad 31 Jul 2023 unless the facility is terminated by the Company.



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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 December 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	9,973	20,629
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(2,815)	(4,183)
(c) advertising and marketing	(324)	(720)
(d) leased assets	-	-
(e) staff costs	(11,281)	(22,039)
(f) administration and corporate costs	(4,201)	(6,174)
1.3 Dividends received (see note 3)		-
1.4 Interest received		-
1.5 Interest and other costs of finance paid		-
1.6 Income taxes paid		-
1.7 Government grants and tax incentives	2,726	2,726
1.8 Other (provide details if material) ¹	(1,060)	(1,143)
1.9 Net cash from / (used in) operating activities	(6,983)	(10,905)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	(1,546)	(148,613)
(c) property, plant and equipment	(485)	(1,054)
(d) investments	-	-
(e) intellectual property	-	(113)

¹ Quarterly VAT payment

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 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	(2,031)	(149,806)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities) ²	-	146,578
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	89	125
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(7,089)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	(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	89	139,416

² 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	25,651	38,054
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(6,983)	(10,905)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,031)	(149,807)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	89	139,417
4.5	Effect of movement in exchange rates on cash held	4	(29)
4.6	Cash and cash equivalents at end of period	16,729	16,729

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	16,729	25,651
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)	16,729	25,651

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	(66)
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 end³ \$A'000	Amount drawn at quarter end \$A'000
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.		
³ Working Capital Financing Facility (finalised in January 2022) Lender: Northcity Asset Pty Ltd Interest: 10% pa on funds drawn and 1% pa on undrawn funds Term: 5 years, secured Refer to 4C Commentary and Operational Update Presentation (page 19) 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)	(6,983)
8.2 Cash and cash equivalents at quarter end (item 4.6)	16,729
8.3 Unused finance facilities available at quarter end (item 7.5) ²	10,000
8.4 Total available funding (item 8.2 + item 8.3)	26,729
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	3.83
² The Company finalised a \$10m working capital facility in January 2022. Further details are outlined further in the 4C Commentary and Operational Update Presentation. <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: 19 January 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.