

ASX Announcement

PERTH JANUARY 31, 2019

4C COMMENTARY & OPERATIONAL UPDATE

Family Zone Cyber Safety Ltd (ASX: FZO, Family Zone or the Company) is pleased to provide an update of its activities and achievements in the December 2018 quarter.

HIGHLIGHTS FOR THE QUARTER

Highlights for the quarter ended 31 December 2018 include:

- **Outstanding revenue growth:** 184% YoY growth in quarterly customer revenue at \$1.3M; 125% YoY growth in quarterly customer invoicing at \$1.3M; and 120% YoY growth in quarterly customer cash collections at \$720K.
- **Accelerating EDU contracts:** A\$800K (annual value) of contracts signed with Australian schools (75% YoY growth) during the quarter; A\$140K of quarterly contracts signed (annual value) with USA schools; and New Zealand school contracts passing through NZ\$1M, representing 70% YoY growth.
- **Strengthened financials:** Tax incentives and grants revenue of \$2.8M in the quarter with \$1.8M received; a \$2.5m strategic placement; and a cash cost reduction program instituted targeting \$4m in annual cost savings by June 2019.

Dec 2018 Quarter

	Result	YoY
Customer Revenue	\$1.3M	184%
Total Revenue *	\$4.1M	93%
Cash Receipts	\$720K	120%
Student Licenses	366K	NA
Paying Accounts	93K	210%
Live Schools	619	12%
Cash balance	\$3.6M	

* Includes tax incentives & grants

During the quarter, the Company made great advances in the development of its business with:

- The launch of the FZ ONE cyber-safe mobile phone through Family Zone direct and through a national partnership with Woolworths; and
- Terms reached for a (free to the customer - paid service to Family Zone) bundling deal with Bharti Airtel, India's second largest telco.

FINANCIAL COMMENTARY

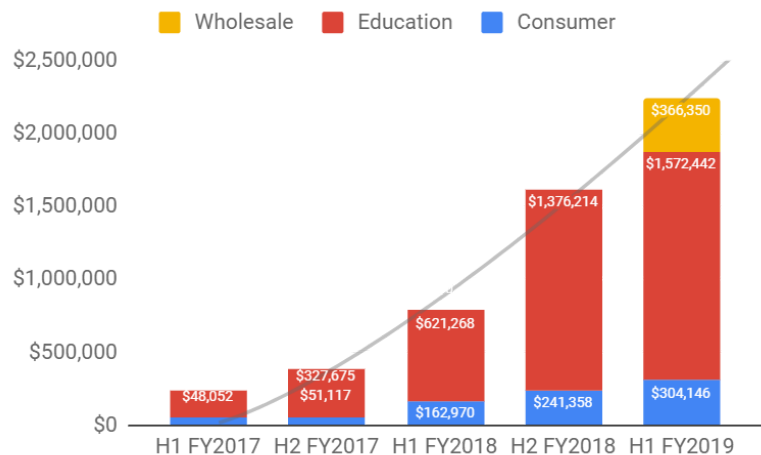
Rapid Customer Revenue Growth

Family Zone's revenue continues to grow strongly with close to 200% YoY growth being achieved every year since IPO.

Importantly in this quarter all three sales channels (consumer, education and wholesale) are clearly providing material contributions.

It is highlighted that over 95% of Family Zone's customer revenue is generated through recurring contracts, particularly through schools and parents.

As the Company's contracted recurring customer base builds, so too does its revenue. This growth trend is clear in the half yearly revenue chart above.



Family Zone's wholesale business delivered strong revenue in H1 FY19 of more than \$300K. (+88% YoY). This comprised \$60K of service revenue with the remainder generated from wholesale sales of hardware including the recently launched FZ ONE. This healthy growth represents further validation of the Company's multi-pronged commercialisation strategy.

Accounting note: The majority of Family Zone's revenue is earned under service contracts. Under accounting standards, such revenue is amortised against contract terms. The accounting process is therefore Contracting (no revenue impact) → Invoicing and collections (no revenue but cashflow impact) → service delivery (amortisation of revenue over contract period).

Fast growing recurring contracted revenue

The December quarter is typically a strong sales period in education in Australia and New Zealand. Family Zone took advantage of this important period signing a record of \$1.4M of contracts with schools including in excess of \$800K in annual value.

Pleasingly contracts signed in the December quarter included a step-changing A\$140K from USA school districts. This is the product of the Company's investment in an experienced USA sales team in the second half of 2018.

Linewize acquisition delivering strong results

In November 2017 the Company completed the acquisition of New Zealand-based Linewize. This acquisition gave Family Zone access to an innovative school firewall, filtering platform plus classroom management tools and an established school client list.



As previously announced, Linewize's platform, renamed School Manager, has now been integrated into Family Zone and is being rapidly rolled out throughout Family Zone's existing and new customers.

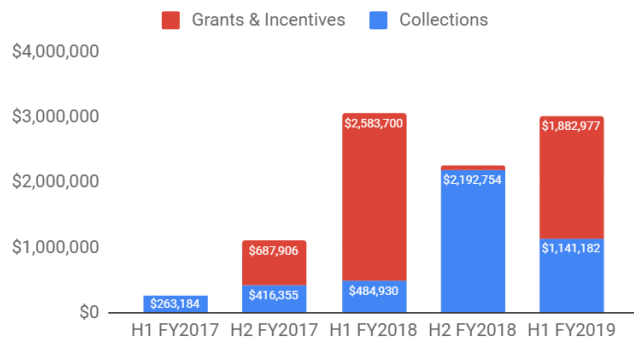
In the December quarter, Family Zone's contracted revenue in New Zealand passed through NZ\$1M. This represents approximately 70% revenue growth in the acquired business in just 13 months.

Strongly improving inflows

With a building recurring revenue contracted customer base, the Company's cash inflows are growing rapidly.

In the half year to December, the Company collected in excess of \$1.1M from customers representing 35% YoY growth. With the Company achieving its highest ever sales contracting period last quarter, and strong growth in all segments and countries, cash inflows are expected to grow strongly going forward.

Operational cash receipts



In addition to customer revenue, the Company claimed \$2.8M and received approximately \$1.88M in incentives and grants relating to FY 2018 during the half year to December.

Accounting Note: Historically the Company took tax incentives and grants to revenue in the accounts on receipt of the funds. In the December quarter, given the routine nature of our associated activity, the Company commenced processing quarterly claims and shall be accruing income on this basis going forward.

Streamlining operations and driving to cashflow breakeven

As advised in Family Zone's recent end of year update, the Company's commercialisation strategy is well developed and on the pathway to delivering material revenues and positive operating cashflow. The significant investments the Company made in product and sales in 2018 are creating synergies, opportunities for improvements in productivity and overhead reductions.

As previously advised, the Company has initiated a program to bring forward the achievement of cashflow breakeven. This program is targeting annualised cash cost savings of circa \$4M through reductions in the Company's overheads and costs of sale.

As at 31 January 2019, initiatives implemented are expected to generate annualised cash savings of circa \$3.5M and savings in CY 2019 of \$3M. This figure includes \$2.5M of savings related to staffing and contractors, inclusive of announced changes whereby the Board, senior executives and some consultants have agreed to convert some \$550K of CY 2019 remuneration to shares.

The restructuring program will incur some cost, with March quarter impacts estimated to be in the order of \$350K.

The Company expects effective annual overheads to reduce to between \$10 million and \$11 million per annum within the next 3-6 months. With top line revenue for FY19 (including tax incentives)



expected to approach or exceed \$9 million, the Company believes it is well positioned to deliver growth in shareholder value.

Funding

As announced on 21 December 2018, the Company has received commitments for \$2.5 million through a private placement at \$0.225 per share. Family Zone also earned \$1.82 million in tax incentives during the quarter.

The Company's cash balance as at 31 December 2018 was \$3.6 million. An additional \$350K and \$675K has since been received in finalisation of the aforementioned private placement and tax incentives respectively.

Through the Company's continued strong revenue growth, expanding opportunity set and cost saving initiatives, the Company enters CY19 well positioned for growth.

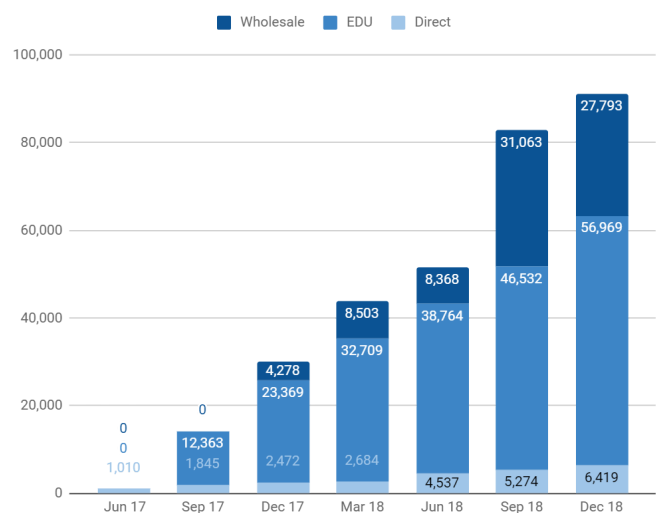
OPERATIONAL COMMENTARY

Accelerating subscriber growth

Family Zone continues to achieve impressive growth in consumer "Family Packs" subscriptions. Family Packs may be subscribed to directly by parents, through schools or through wholesale providers (eg telcos).

As at 31 December the Company had 93,326 paying accounts of which close to 56,969 were paid for by schools.

At the same time the Company had 27,793 accounts contracted through wholesale (telco) clients. As previously announced, this figure fell slightly from November to December given agreed changes with Telkomsel to pause their trial given the imminent launch of "Insights" (see below) across Family Zone's telco partners.



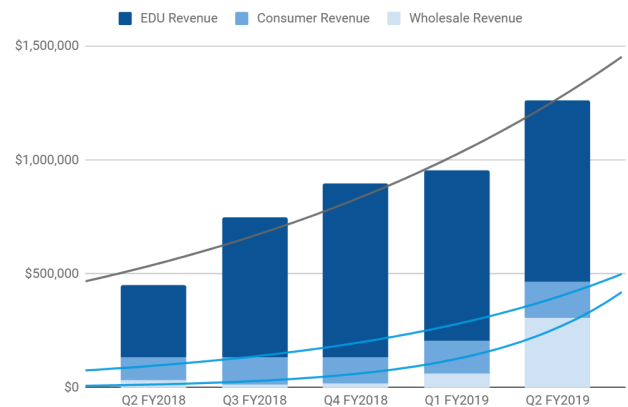
Outstanding revenue growth

Family Zone is pleased to report outstanding revenue growth in the December quarter. This included:

- 184% YoY growth in quarterly customer revenue at \$1.3M;
- 152% YoY growth in quarterly customer revenue from schools at \$800K; and
- 125% YoY growth in quarterly customer invoicing at \$1.3M.

As the majority of Family Zone's revenue relates to subscription based service contracts, such revenue is subject to accounting amortisation over the relevant contract term.

Accordingly, as Family Zone's contracted customer base builds, so too does the Company's revenue.



Accelerating contracts in schools

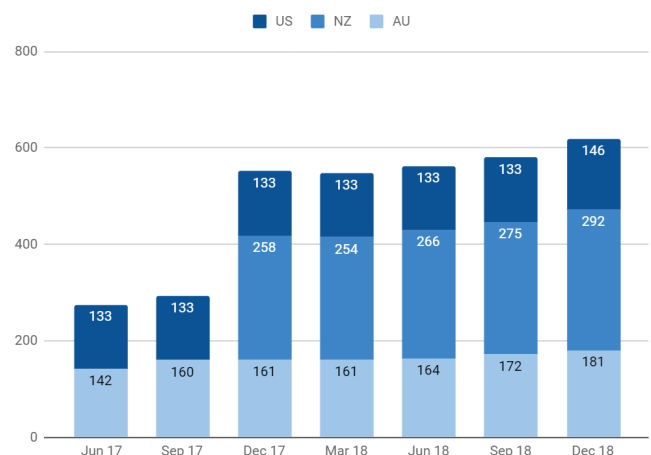
The December quarter is typically a strong education sales period in Australia & New Zealand. Family Zone took advantage of this important period signing a record of \$1.7M of contracts with an annual value in excess of \$800K.

Most pleasingly, our new USA sales team continues to build momentum signing a step-changing A\$140K from USA schools last quarter and growing our USA school footprint to 146 schools.

The USA education sector is large and strategically important. It is 10 times the size of the Australian market, with approximately 70,000 schools across 14,000 Public School Districts plus 30,000 independent private schools and 55 million kindergarten-12 students.

Our exciting performance in the USA is a product of significant investments in the second half of 2018 to establish an experienced sales and delivery team. This team has built a pipeline in excess of \$2M and with a number of proof of concepts deployments live and performing well, the Company has every confidence in continued and accelerating growth from USA education.

In the December quarter, Family Zone's annual contracted revenue from New Zealand schools passed through the milestone of NZ\$1M. This represents approximately 70% growth on the acquired business from Linewize some 13 months ago.



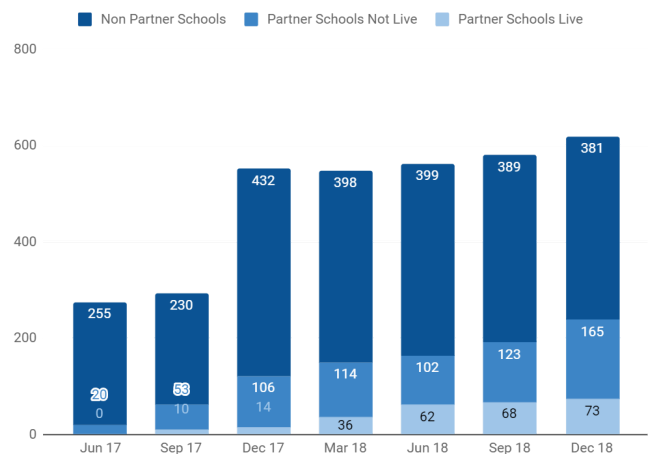
Growth in deployments, school partnerships and penetration

During the December quarter the Company focussed on growing both the value and volume of our school clients.

In terms of volume of clients we achieved a modest 12% YoY growth in net active school clients however in value the average revenue we earn per school grew strongly in the quarter at a 122% YoY growth.

During the quarter we added new schools in all markets and feel confident in continuing sales momentum.

Roll out of school partnerships (whereby schools work with Family Zone to run cyber safety programs) continues apace, with the Company recently passing through 70 active partner schools. Penetration of these schools (ie. take-up by parents) remains an impressive 24% on average (despite ongoing new schools being added).



Business model development

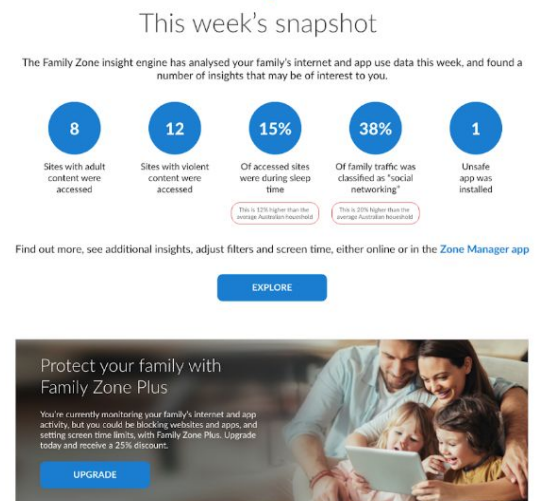
Launch of Insights

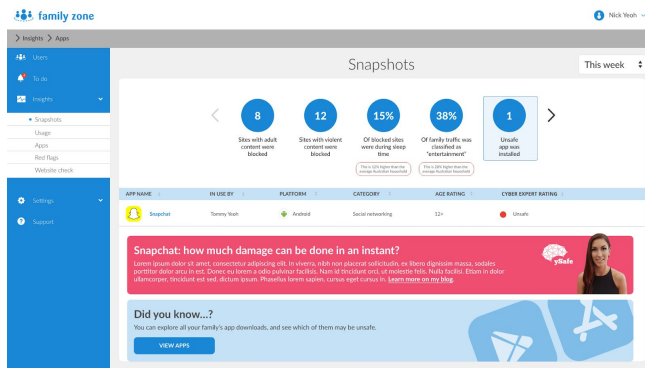
As previously announced, Family Zone is further developing its commercialisation model to accelerate the scale of its customer base. The Company has proven the uniqueness and value of its holistic approach to cyber safety, and Family Zone's next phase focuses on simplicity and scalability.

Key to gaining scale will be the introduction of Family Zone Insights early in 2019. Insights is a free version of Family Zone which will be:

- Available for parents to download on their children's devices;
- Included free when schools install Family Zone technology on student devices;
- Included free for telcos and device manufacturers to re-brand and bundle with their offerings; and
- Included free with Family Zone hardware (ie the FZ ONE and Family Zone Box).

Under this go-to-market model, schools, telcos and device manufacturers become Family Zone's effective sales force driving cyber safety messages and introducing the Company's premium paid services to their constituents.





Our “insights” strategy allows the Company to more cost effectively identify, connect and inform those parents who are the best candidates for the upsell of the Family Zone premium services. The Company believes this strategy will accelerate customer acquisition and drive down the average cost of acquiring a customer.

All of the Company’s partners are embracing and are excited about introducing this “Insights-led” model. In addition, a number of

telcos are working with the Company to bundle the Family Zone Insights service (ie free to the customer) into their premium service model.

Education business models, insights and the US

With strong traction being achieved in USA school districts and with the introduction of Insights, Family Zone is similarly developing its business model in education. Commencing in 2019, Family Zone’s services may be subscribed to by schools through a student license model. The license fee depends on the market and features requested. Access to Family Packs (our consumer offering) may be bundled or purchased separately.

Our revised commercial models provide Family Zone more flexibility to address the needs of independent and public/state schools, which comprise the vast majority of the addressable market.

Reporting note: With our revised commercial models, Family Zone will now start reporting student numbers and increasingly over time license fees per student.

Bharti Airtel partnership

In November, Family Zone signed a Letter of Intent with India’s second largest telco, Bharti Airtel Limited, for the resale of Family Zone’s services in India. Bharti Airtel ranks within the top three telcos globally and operates in 16 countries. In India, it offers pre- and post-paid mobile services, broadband, home telephony and has more than 400 million customers and 1.2 million retailers.

Under the agreed terms, Bharti Airtel will offer Family Zone bundled into its consumer post-paid mobile plan options, alongside global heavyweights, such as Netflix and Amazon Prime. It will also market Family Zone’s soon-to-be-launched free “parental monitoring” service to its pre-paid customers and drive upgrades to paid add-ons.

Family Zone and Bharti Airtel will consider offering fixed line services in later phases. A long-form agreement between the companies is expected to be finalised during FY19.

Partnership with Woolworths

The Company has secured a key distribution agreement with Woolworths Mobile which now sees Family Zone’s innovative FZ ONE sold through 752 Woolworths supermarket locations and online.





Under the agreed arrangements Woolworths buys Family Zone products on a wholesale basis for re-sale through their channels. Woolworths is responsible for marketing and promotion.



Woolworths has recently announced a major emphasis on families and recently announced the launch of Happy Family Mobile Plans.

Family Zone is excited to be working with and part of Woolworths' family-focused initiatives.

Partnership with PB Technologies

In October, Family Zone announced a partnership with New Zealand's largest computing and I.T. retailer, PB Technologies.

PB Technologies is New Zealand's largest computing and I.T. retailer operating across 11 superstores plus service and retail stores throughout New Zealand. It is also the leading I.T. and technology supplier in New Zealand Education, servicing nearly half of all schools in the country.



Family Zone's distribution partnership with PB Technologies enables consumers to access Family Zone products and services in-store and online and schools to incorporate Family Zone in BYOD programmes. Family Zone services became available through PB channels during the Christmas period 2018.

Positioning and upcoming activity

The Company is well positioned both operationally and financially to continue its strong growth in 2019, while moving the Company closer to cash flow breakeven.

Key highlights and near-term milestones include:

- **Growing education contracts:** Australia and New Zealand sales continue to grow, with the March quarter the seasonally strongest period of activity and invoicing.
- **Accelerating in the USA:** The Company's US operation is showing positive signs with a rapidly growing sales pipeline, driven through competitive advantages in feature sets and pricing.
- **Proof of concept in telco:** Trials in our telco clients in 2018 have demonstrated the potential of the wholesale business to both Family Zone and our key clients.
- **Scalable products launching:** The recently announced freemium "Insights" product will start rolling out across select channels this year. Additional scale-oriented product developments are on the 2019 roadmap for future announcement.
- **FZ ONE retail opportunities:** The launch of the FZ ONE cyber safe mobile phone and partnership with Woolworths is creating exciting opportunities and new (retail) sales channels.
- **Streamlining operations and restructuring initiatives** being implemented targeting annualised cash cost savings of circa \$4M through reductions in the Company's overheads and costs of sale.



About Family Zone

Family Zone is an ASX-listed technology company focused on cyber safety. Meeting a growing demand to keep kids safe online and manage digital lifestyles, Family Zone has developed a unique and innovative cloud-based solution which combines Australian innovation with leading global technology.

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

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Family Zone Cyber Safety Limited

ABN

33 167 509 177

Quarter ended ("current quarter")

31 December 2018

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	720	1,141
1.2	Payments for		
	(a) research and development	(974)	(974)
	(b) product manufacturing and operating costs	(596)	(1,366)
	(c) advertising and marketing	(241)	(571)
	(d) leased assets	-	-
	(e) staff costs	(1,406)	(3,584)
	(f) administration and corporate costs	(590)	(1,372)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	1	1
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	1,883	1,883
1.8	Other (provide details if material)	-	-
1.9	Net cash from / (used in) operating activities	(1,203)	(4,842)

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	-	(214)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(d) intellectual property	(6)	(75)
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(6)	(289)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	1,935	6,511
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(110)	(194)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
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	1,825	6,317

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	2,992	2,461
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,203)	(4,842)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(6)	(289)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,825	6,317

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(13)	(52)
4.6	Cash and cash equivalents at end of quarter	3,595	3,595

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	3,595	2,992
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)	3,595	2,992

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 3.6
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

(152)

-

Director wages and salaries

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$A'000**

-

-

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. Estimated cash outflows for next quarter*	\$A'000
9.1 Research and development	800
9.2 Product manufacturing and operating costs	1,106
9.3 Advertising and marketing	155
9.4 Leased assets	-
9.5 Staff costs	1,470
9.6 Administration and corporate costs	435
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows*	3,966

* These figures do not include any expected cash inflows for the next quarter.

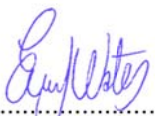
10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

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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.

Sign here:


.....
(Company secretary)

Date:31/01/2019.....

Print name: Emma Wates.....

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.