



ASX Announcement

PERTH APRIL 30, 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 March 2019 quarter.

HIGHLIGHTS FOR THE QUARTER

- Revenue* grew to \$2.2M (up from \$1.95M last quarter)
- Record customer receipts of \$1.75M (+143% from \$720K last quarter)
- Reached 409K student licenses (up from 365K last quarter)
- Reached 724 school clients (up from 619 last quarter)
- Reached 96K paying subscribers (up from 91K last quarter)
- Rapid growth in USA education and swift, costless entry into UK education
- 83% YoY growth in the total value of contracts signed in the quarter
- Surpassed \$500K of contracted revenue from USA education in less than five months
- Converted 75% of our proof of concept trials in USA school districts into paying clients
- Have built a \$6M pipeline of school opportunities in Australia, New Zealand, USA, UK & India
- Partner schools added 40K parent accounts with a remarkable 45% activation rate
- Family Zone launched a free to the consumer Family Zone offer with Woolworths Mobile
- Family Zone welcomed Mr Michael Clarke, former Australian Cricket Captain as a brand ambassador and senior Facebook executive Bharathi Ramavarjula as strategic advisor

** For the purpose of this commentary Revenue has been normalised to apportion grants and incentives over the financial year as opposed to accounting for such revenue on receipt. Please note all revenue disclosed in this report is unaudited.*

OPERATIONAL COMMENTARY

Introduction

The quarter ending 31 March 2019 marked the beginning of Family Zone's transition from pilot mode to our future, scalable, global business model.

The Company has achieved important milestones, particularly in the past 12 months which provide confidence in our model:

1. We launched our direct to consumer offering in late 2016 and have achieved consistent doubling of sales YoY without increased investment in marketing.
2. We launched our innovative "school partnering" model in Australia in late 2017 and recently achieved > 45% parent take-up in these schools.
3. We launched our rebranded and expanded School platform in late 2018 and have subsequently achieved rapid take up in USA schools, confirming product-market fit and scale opportunity.
4. We have completed a series of reseller trials with PLDT and Telkomsel which have confirmed the market and scale opportunity of reselling Family Zone.

Accordingly, Family Zone is now focussing resources and investment into ensuring scalability in our product, deployment and support arrangements in the large markets of USA and Asia.

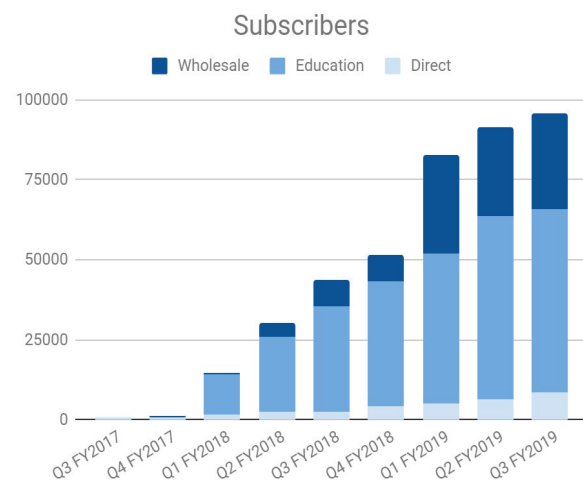
Continued Strong Subscriber Growth

As indicated in previous updates, Family Zone's education business model is transitioning from a pure focus on Family Pack subscriptions (our consumer offering) to one which offers schools the ability to purchase student licenses or family licenses. Accordingly, whilst growing subscriber numbers remains a key priority, our short term focus is on building student licenses alongside growing subscriptions.

In the March quarter, subscriptions grew across all segments: Consumer Paid +228% YoY; School Paid +75% YoY; and Wholesale Paid +251% YoY.

Pleasingly, Wholesale subscribers remain at 30K as we continue trials with Telkomsel pending the launch of Insights.

The Company ended the quarter with 96,000 paying subscribers.



B2B Education Update

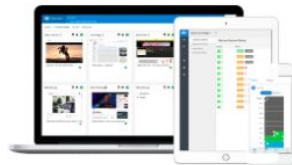
Student & Device Licenses

\$7-\$10 per student per year



SCHOOL MANAGER

Manage student activity at network administration



CLASSROOM TOOLS

Transformed teaching with transparency & control



MOBILE ZONE AGENTS

Manage off-net activity on personal & learning devices



DEVICE MANAGER

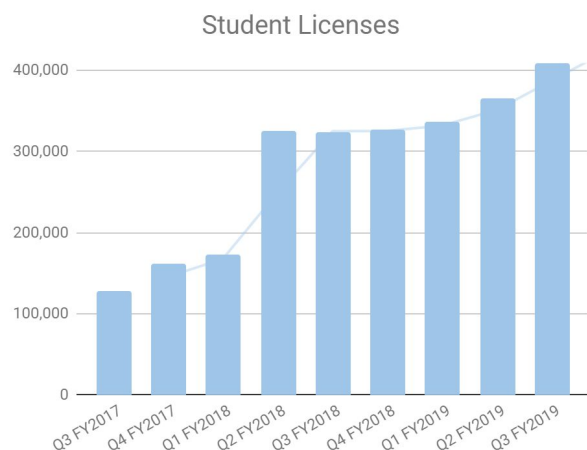
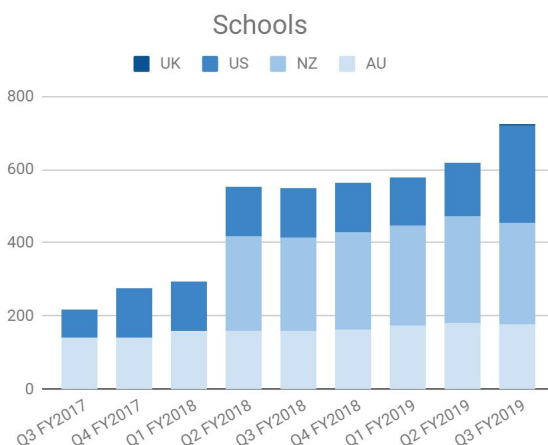
Device & app management for school devices

March Quarter Highlights

- Reached 724 school clients (32% YoY growth) & 409K student licenses (26% YoY growth)
- 83% YoY growth in the total value of contracts signed in the quarter
- Surpassed \$500K of contracted revenue from USA education in less than five months
- 75% POC conversion in USA
- \$6M pipeline build in Australia, New Zealand, USA, UK & India (up from \$2M in prior quarter)

School Clients & Student Licenses

Family Zone's education channel continues to grow, with the number of schools we serve and students managed by our platform growing swiftly.





UK Launch

In March 2019, Family Zone entered the UK education market following an inbound inquiry from a UK based edu-tech reseller. The Company now has 5 live sites operating through a reseller at commercial rates. Significantly, this was achieved with no incremental marketing spend and no requirement for the Company to employ resources or establish a physical presence in-market.

Quarterly Sales and Contracting

The March quarter is considered a low sales quarter in Australia, New Zealand and in USA education. Notwithstanding, the Company achieved 83% YoY growth in the total value of contracts signed this past quarter.

Pleasingly, over 40% of contracts signed in the quarter were through the Company's USA sales team which has built contracted revenue in excess of \$500K per year in less than five months.

The following table highlights our growth in education. It details the contract value & applicable numbers schools/students for contracts signed in the past 5 quarters.

CONTRACTS		Q2 FY2018	Q3 FY2018	Q1 FY2019	Q2 FY 2019	Q3 FY2019
Contract Revenue	Added	\$294,368	\$292,966	\$457,962	\$649,569	\$624,709
	Renewed	\$322,375	\$129,440	\$289,372	\$668,400	\$515,379
	Total	\$616,743	\$422,406	\$747,334	\$1,317,968	\$1,140,088
Applicable Students	Added	10,491	13,073	15,720	43,561	58,737
	Renewed	15,006	4,093	11,189	42,381	64,021
	Total	25,497	17,166	26,909	85,942	122,758
Applicable Schools	Added	13	20	13	85	114
	Renewed	19	5	8	79	111
	Total	32	25	21	164	225

Note: The data in this table is NOT aggregated. It is the value of contracts signed in the period only.

Family Zone Education KPIs Achieved

EDUCATION	Q3 FY2018	Q4 FY2018	Q1 FY2019	Q2 FY2019	Q3 FY2019	YoY
Schools	548	563	580	619	745	32%
Students	323,868	327,103	336,980	365,872	409,051	26%
Revenue	\$614,238	\$761,976	\$822,677	\$797,449	\$929,385	51%
Ave / School	\$4,483	\$5,414	\$5,674	\$5,153	\$5,128	14%
Ave / Student	\$7.59	\$9.32	\$9.77	\$8.72	\$9.09	20%

B2B2C Education Update

Family Zone's education business offers opportunities for the Company to engage with and offer products and services to communities of parents.

March Quarter Highlights

- Went live with 30 new partner schools in ANZ
- 40K parent accounts created by partner schools
- Significant improvement in penetration, with 45% of parent accounts activated

School Paid Community Packs Family Paid Family Packs



MOBILE ZONE AGENTS

Manage off-net activity on personal & learning devices



SCHOOL COMMUNITY

Engage with parents and manage cyber safety risk

Next steps

The Company is focussed on streamlining processes to support school and parent adoption of Family Zone's technology.

These developments include the imminent launch of its free monitoring tool, Insights, plus a range of features which allow schools, students and parents to onboard quickly. These features will be available for roll-out into our USA schools districts in the September quarter.

It should be highlighted that our USA school footprint is approaching an addressable opportunity of 300,000 parents. Achievement of 45% take-up in Australia suggests significant commercial opportunities in USA and other markets.

Consumer Update

Family Zone's direct to consumer business operates in Australia only. With a fixed marketing spend oriented to 'back-to-school' periods, the channel is growing consistently as our brand and reputation builds and offering develops.

March Quarter Highlights

- ~ 9K direct paying accounts in Australia
- 228% growth in subscribers YoY
- 50% growth in revenue YoY
- 2.5K FZONE mobile phones sold via Woolworths Mobile and Direct
- 2 major retailers are now stocking the FZONE



Family Zone Consumer KPIs Achieved

CONSUMER	Q3 FY2018	Q4 FY2018	Q1 FY2019	Q2 FY2019	Q3 FY2019	YoY
Subscribers	2,684	4,487	5,274	6,564	8,805	228%
Revenue	\$122,821	\$118,537	\$144,617	\$159,235	\$182,699	50%

Wholesale Update

As previously announced, the Company and its Asian telco partners agreed to move to the “Insights” led acquisition strategy and deprecate promotion of our parental control product. Insights is currently in beta trials with go-to-market planning commencing soon.

In the interim, we continue to trial offers with Telkomsel and sell products and services through Woolworths Mobile. The recent results highlighted above and below demonstrate the potential for this channel to contribute to user and revenue growth.

Highlights this quarter

- Launched a bundled Family Zone deal with Woolworth Mobile with positive results
- Launched beta trials for Family Zone’s freemium Insights product
- Continued progress in trials with Telkomsel
- Strong service revenue growth

Wholesale partnership with Woolworths

Announced this quarter was an exciting wholesale partnership with Woolworths Mobile under which Family Zone services are purchased from Family Zone and provided without charge to parents through Woolworth’s Happy Family Mobile Plans.

Early signs have been positive and the Company and Woolworths Mobile are in discussions on expansion of the program.



Michael Clarke appointed Brand Ambassador

During the quarter, the Company welcomed former Australian cricket captain Michael Clarke as a global brand ambassador and shareholder of Family Zone.

Since his retirement from professional sport, Mr Clarke has developed extensive business and media relationships in India, as a popular figure in the sub-continent with 5 million followers on social media platforms as well as a significant television audience.

India is a strategic market for Family Zone. Family Zone has established reseller channels in India with two of the world’s largest telecommunications providers; Vodafone and Bharti Airtel.



Combined, these two companies have more than 800 million mobile subscribers and an estimated 60M children using smartphones.

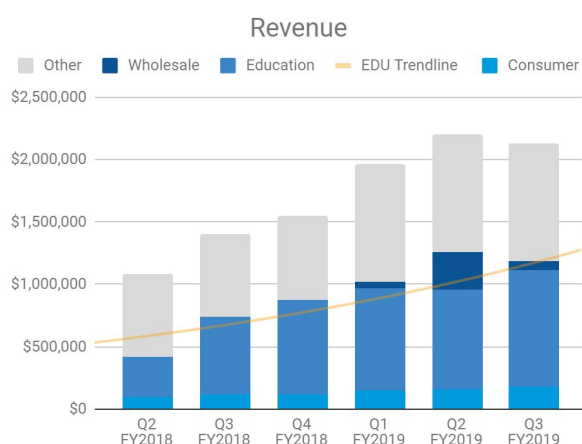
As a global brand ambassador, Mr Clarke has commenced supporting the promotion of cyber safety and Family Zone to parents, schools, governments and the media in Australia and India.

Family Zone Wholesale KPIs Achieved

WHOLESALE	Q3 FY2018	Q4 FY2018	Q1 FY2019	Q2 FY2019	Q3 FY2019	YoY
Subscribers	8,503	8,368	31,063	27,793	29,894	252%
Revenue	\$0	\$0	\$54,593	\$305,179	\$75,687	

FINANCIAL COMMENTARY

Continued Strong Revenue Growth



Revenue continues to grow strongly with education the largest contributor to growth following record contracts signed last quarter.

Our direct consumer business continues to grow strongly driven by 228% YoY growth in subscribers. Also pleasing is the growth in services revenue being generated in our wholesale channel with telco partners contributing \$75K for the quarter.

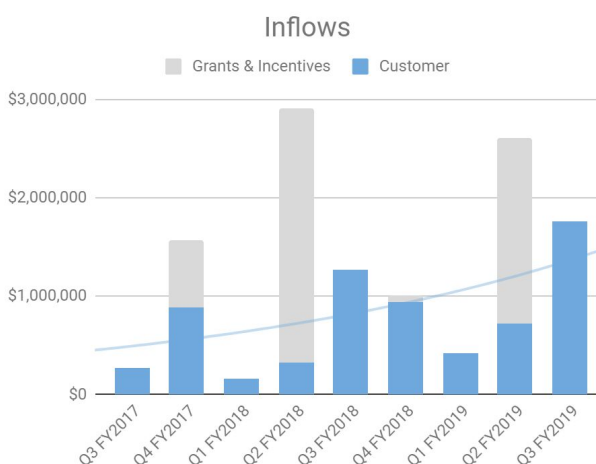
As an indicator of the upward trend, our (unaudited) revenue for the month of March 2019 has come in at \$780K including \$540K of customer-related revenues.

Strongly improving inflows

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

In the March quarter, the Company collected in excess of \$1.75M from customers, compared to \$720K in the prior quarter.

With the Company achieving rapid growth in school contracts, cash inflows are expected to continue to grow strongly.



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 March 2019, initiatives implemented are expected to generate annualised cash savings of circa \$3.5M and savings in CY 2019 of \$3M.

Approximately \$400K of restructuring costs were taken-up in the March quarter.

Funding

In April, the Company completed a placement of 35,483,872 new shares at \$0.155 per share to raise \$5.5 million (before costs).

The Company was supported in the placement by a number of existing institutional investors and welcomed a range of new institutional and sophisticated investors from Australia, Asia and the USA.

Net proceeds of the capital raising will be used to accelerate growth, to build on the rapid progress being made in USA education and to underpin the Company's commitment to achieving cashflow break even early in CY 2020.

Blue Ocean Equities acted as Lead Manager to the share placement.

Quarterly Cashflow Commentary

The Company commenced the quarter with \$3.6M in cash balances and ended with \$2.1M. Cashflow was impacted by restructuring costs, some delays in cost / staff reductions, seasonal marketing expenditure and investments in hardware (network appliances) required to support the USA sales team.

Sustained diligence continues to drive down costs with significant projects underway, including a cloud project with Google Cloud Services.

CORPORATE COMMENTARY

Strategic Advisor appointments

Family Zone appointed two strategic advisors during the quarter. Senior Facebook executive and Asia Pacific Head of WhatsApp, Ms Bharathi Ramavarjula, has joined as a strategic advisor to Family Zone's Managing Director, and Family Zone appointed IDEA - X Partners Pte Ltd Singapore (IDEA - X) as a strategic advisor to the Company.

Ms Ramavarjula, a globally experienced US technology executive, heads WhatsApp in APAC, a senior executive position at Facebook where she has worked for five years. She has a background in applied technology, innovation, venture capital, payments and social networks. In her current role Ms Ramavarjula has developed extensive relationships with telecommunications providers across Asia Pacific, and she has relevant relationships and specialist skills in product vision and development. She has previously held roles with globally-recognised brands Visa and Walmart.

IDEA - X is a Singapore-based advisory firm, established as a catalyst for positive Social Impact globally. Its founding partner, Yash Mishra, is a passionate champion of education and financial literacy who has worked alongside INSEAD, Yale – NUS as a mentor in the areas of Wealth Management and Private Equity. Ms Mishra has served on the Association of Independent Asset Managers Singapore executive committee, chairing 'Professional Standards' and is an active member of UNIFEM / The Financial Women's Association. She is chief Editor of the Financial Planning Association of Singapore (FPAS) magazine and has volunteered on the FPAS editorial board since 2008.

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.

Contacts

For more information, please contact:

Tim Levy
Managing Director
timl@familyzone.com
+61 413 563 333

Tim Allerton
City Public Relations
media@familyzone.com
+61 412 715 707

Tim Dohrmann
Investor Relations
tim@nwrcommunications.com.au
+61 468 420 846

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 March 2019

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	1,754	2,895
1.2	Payments for		
	(a) research and development	(1,064)	(2,038)
	(b) product manufacturing and operating costs	(610)	(1,976)
	(c) advertising and marketing	(217)	(788)
	(d) leased assets	-	-
	(e) staff costs	(1,689)	(5,273)
	(f) administration and corporate costs	(899)	(2,271)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	2	3
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	1,883
1.8	Other (provide details if material)	-	-
1.9	Net cash from / (used in) operating activities	(2,722)	(7,564)

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(220)	(434)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
	(d) intellectual property	-	(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	(220)	(509)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	430	6,941
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	(87)	(304)
3.5	Proceeds from borrowings	1,018	1,018
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	1,361	7,655

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	3,595	2,461
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,722)	(7,564)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(220)	(509)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,361	7,655

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	(29)
4.6	Cash and cash equivalents at end of quarter	2,014	2,014

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	2,014	3,595
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)	2,014	3,595

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

(90)

-

Director wages and salaries (includes December 2018 salaries paid in January 2019)

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

(50)

-

Company secretarial and financial management services

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	1,018	1,018
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.		

Key Facility Terms:

- Counterparty: Innovation Structured Finance Co LLC facilitated by Radium Capital
- Amount: 80% of the expected R&D tax offset resulting from each period's eligible R&D expenditures, with principal and interest repaid from the actual tax offsets at the end of the financial year.
- Maturity Date: 30/9/2019
- Interest Rate: 15% per annum
- Security: Secured against the R&D refund receivable from the ATO
- Conditions: R&D expenditure has to be reviewed by R&D Tax Consultants
- Purpose of Loan as per agreement: Wholly or predominantly for research and development expenditures.

9. Estimated cash outflows for next quarter*	\$A'000
9.1 Research and development	1,060
9.2 Product manufacturing and operating costs	703
9.3 Advertising and marketing	179
9.4 Leased assets	-
9.5 Staff costs	1,223
9.6 Administration and corporate costs	499
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows*	3,664

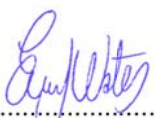
* These figures do not include any expected cash inflows for the next quarter.

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	-	-

-

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:  Date: 30/04/2019.....
(Company secretary)

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.