

space – is there more to come?

By **Tim Boreham** · August 25, 2021



Family Zone has purchased UK-based Smoothwall for \$142 million in cash.

Head of cyber filtering mob **Family Zone Cyber Safety (ASX: FZO)**, Tim Levy is bemused by the lack of cyber protection policies covering schools and parents, particularly when home schooling became the norm during the pandemic.

In essence, because the schools administer the devices the parents can’t install the filtering tools (easily at least).

Family Zone this month pulled off the purchase of UK based Smoothwall –tripling its annualised recurring revenue (ARR) to circa \$45 million.

The \$142 million cash purchase was funded by a \$146.4 million rights issue at\$0.55 per share. While struck at an 8% discount, the shares resumed trading on 9 August at a 27% premium and remain 20% above this offer price.

Mr Levy says home incarceration meant that more kids were developing serious online addictions.

“It’s like having crystal meth in your home that your kid can use and you have no ability to control,” he said.

In the main, Aussie parents were left to their own devices (pun intended).

US Government supports cyber protection

Over in the United States, something like US\$50 billion (A\$69 billion) of government spendoolies were splashed around to ensure that students were adequately armed with devices and the requisite cyber protection.

“There was a huge explosion of use of one-to-one devices in the US and almost a limitless amount of money available to deliver tech safely to kids,” Mr Levy said.

Enacted well before the pandemic, the Clinton-era US Child Online Protection Act compels schools to protect children from online threats.

“If a school in the US isn’t protecting kids the school district loses funding,” Mr Levy said. “Nothing like that exists here.”

In the United Kingdom, a “statutory guidance” called Keeping Children Safe in Education compels school councils to look actively for risks such as bullying and radicalisation.

“The UK has even stepped ahead of everyone else by lifting obligations for schools around digital citizenship,” Mr Levy said.

In purchasing Smoothwall, Family Zone overnight has bolstered its share in the UK market and created a springboard for further expansion into the US.

Smoothwall boasts a 38% share of the UK school market, while in the US, Family Zone has carved out a 5.5% share off its own bat.

The sale came about after Smoothwall’s private equity owner Tenzing decided to close its fund that houses the asset.

Family Zone competed with 13 other suitors but won the beauty parade because of the parties’ mutual knowledge of – and respect for – each other.

“We are lucky because these people are fundamentally aligned with our mission,” Mr Levy said.

“We saw it not so much as buying a house but looking for a flat mate, an opportunity to bring the business together.”

And the mission?

“Our approach is to offer schools all cyber safety options. We’re not there yet and this acquisition doesn’t get us there, but it jumps it forward in a massive way particularly with the products that schools need.”

While Family Zone provides its protection directly to parents, its modus operandi is more about signing up schools – or school clusters – on a per-student subscription basis.

The biggest opportunity lies with school districts that can cover thousands of schools and up to half a million students. Usually, the company is involved with school districts of between 8,000 and 80,000 students.

Typically, the school district signs the contract with Family Zone and then compels all the schools to use the product on a per-student subscription basis.

“We can then extend our platform to others responsible for safeguarding the child, such as the teacher,” Mr Levy said.

“Or a pastoral carer can be alerted if the kid is considering bringing a gun into school.”

After all, we are talking about America.

Current competition

Currently, Family Zone competes with a handful of substantive providers, including Lightspeed Systems, GoGuardian and Securely.

Because they are all private, they are not obliged to disclose financials, but Mr Levy reckons the Family Zone/Smoothwall combo elevates the company into the top four global providers.

“The platform can be used by mums and dads for other schools, \$7-a-month type revenue.”

Sizing up the ASX landscape

As far as ASX-listed stocks goes, Family Zone is often compared to cyber security providers such as **Tesserent (ASX: TNT)**, which has a market cap of\$280 million; **Sensen (ASX: SNS)**, market cap of \$73 million; **Whitehawk (ASX: WHK)** with a \$37 million market cap; and **Archtis (ASX: AR9)**.

These companies pitch their wares at the corporate and government markets.

In the family protection space, there’s a \$1.4 billion market cap player hiding in plain sight: the US-based **Life360 (ASX: 360)**.

Working on a ‘freemium’ model, Life360 provides tracking tools which we must say borders on the Orwellian. These include a module that allows anxious parents to check the whereabouts and habits of young drivers, including average speed.

In the event of a crash, the app directly calls emergency services.

Life360 claims to have facilitated more than 14,000 ambulance trips and –more happily – more than 2 million safe arrival notifications.

So, perhaps the privacy compromises of the Brave New World are worthwhile.

Life360 claims 32 million active users in 195 countries, mainly the US.

As one would expect, most users opt for the freebie version.

But given Life360 expects US\$110-120 million (A\$152-166 million) of annual recurring revenue in calendar 2021, there’s a substantial paying audience as well.

Subscriptions range from US\$4.99 a month to US\$19.99/month (around A\$6.90-27.60/month) for the platinum version, which includes perks such as free towing and medical assistance and cover for phone and identity theft.

However, Life360 does not operate in the school market.

In May 2019, Life360 listed on the ASX as Chess Depositary Instruments, at\$4.79 apiece. Its shares did absolutely nothing for almost two years but have doubled in the past six months on speculation of a buyout and/or a planned Nasdaq listing.

Typically for an early-stage subscription-based business Life360 is not yet profitable, having lost \$15.5 million last year and \$29 million in 2019.

Still, the revenue traction is music to the shell-likes of its high-profile investors including Vanessa Bryant (wife of the late basketballer Kobe Bryant), professional skateboarder Tony Hawk and Olympic swimmer Michael Phelps and his missus Nicole.

Shared DNA

Closer to home, Family Zone shares DNA with **Spacetalk (ASX: SPA)**, which developed a tool to track student truancies before turning to smart watches for the under 12s.

While its core focus is filtering, Family Zone plans to add truancy alerts and other locations services to its repertoire.

“I would be surprised if we weren’t increasingly encroaching on what they do over time,” Mr Levy said.

Not surprisingly, the companies have discussed merging in the past.

There’s no action at the moment, but with a \$31 million market cap and tidy register, Spacetalk would make for a tempting morsel.



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