

## ASX ANNOUNCEMENT

Family Zone Cyber Safety Limited

ASX:FZO ("Family Zone" or the "Company")



Our mission is to protect & support  
every child's digital journey.

# FAMILY ZONE SIGNS INDICATIVE TERMS TO ACQUIRE US BASED PREMIUM CLASSROOM TECHNOLOGY & BUSINESS

Family Zone is pleased to advise that it has signed a non-binding letter of intent to acquire the Net Ref business, an innovative classroom management technology business based in the United States.

## Highlights

- The Company and the owner of the Net Ref business, US based, Verite Educational Services LLC (**Verite**) have reached indicative terms for the sale of the Net Ref business to Family Zone.
- Net Ref is a relatively new entrant into the USA school classroom safety market with its comprehensive classroom management and learning analytics tool ('Net Ref') growing swiftly to support in excess of 250,000 students.
- The acquisition of the Net Ref business offers the Company a new and innovative product line plus access to specialist and highly relevant technical and sales expertise in the US. Furthermore the acquisition would immediately increase the Company's student footprint by approximately 10%<sup>1</sup>.
- Agreed consideration will be based on a multiple of the annual recurring revenue of the Net Ref business at 31 December 2021 and is estimated to be USD4.3 million (AUD5.8m) (payable in cash and shares). All shares issued under the proposed agreement are subject to a 6 month voluntary escrow.
- On completion, the Company will welcome US based boutique technology company Verite as a shareholder and technology partner.

<sup>1</sup> Based on the 250k students to be acquired as part of the NetRef business. The Company currently has approximately 2m contracted students



- The proposed transaction aligns with Company strategy for acquisitive growth where opportunities provide access to complementary capability or distribution.
- Completion of a binding agreement is subject to the completion of due diligence by the Company, any regulatory approvals required, Verite Group Board approval and the completion of the formal documentation. There is no drop-dead date by which a binding agreement must be finalised and completed.

## Background to Verite and Net Ref

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Verite is a relatively new entrant into the US K-12 online safety market with their innovative Net Ref cloud managed classroom tool. In less than 12 months Verite has grown to support in excess of 250,000 students and is growing rapidly. Verite has established a high quality team of domain experts in software engineering, customer success and sales.

Net Ref's speciality is high performance technology and exceptional user experiences and their technology pedigree is derived from parent company Verite Group, Inc. Verite Group is a US based boutique provider of custom software solutions operating across education, government and private enterprise.

The Company is currently completing its due diligence on Verite and has received representations, basic information and reports from Verite on its financials and customer base. The Company has conducted thorough management interviews covering technology, sales and operational processes. The due diligence process is anticipated to be complete by 30 June 2021.

## Strategic Rationale

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The proposed acquisition of Net Ref aligns perfectly to the Company's growth strategy. The proposed acquisition:

- Provides the Company with access to a premium classroom management tool, for sale alongside or independent to its Linewise offerings.
- Provides access to engineering expertise in technology domains key to the Company's success.
- Establishes a core engineering capability in the US, offering the potential for a more responsive development cycle for our US customers.
- Expands the Company's sales capability with an established east coast enterprise sales team.
- Immediately increases the Company's student base by approximately 10<sup>2</sup>%.

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<sup>2</sup> Based on the 250k students to be acquired as part of the NetRef business. The Company currently has approximately 2m contracted students

# Agreement Details

## Key Terms

The Company has entered into a non-binding letter of intent to acquire the Net Ref business from Verite Educational Services LLC, a wholly owned subsidiary of Verite Group Inc. Key terms include:

- The total consideration payable by Family Zone for the acquisition of the NetRef business is an agreed amount calculated by applying a fixed multiple to the contracted annual recurring revenue of customer contracts of the Net Ref business (**ARR**) as at 31 December 2021 (**Total Consideration**).
- ARR is determined based on the annual value of Net Ref contracts existing at 30 June 2021 plus new contracts added, less cancelled contracts by 31 December 2021. Consideration is only payable where contracts are in place at 30 June 2021 or where entered into after that date if they are for a minimum of 12 months.
- Total Consideration is anticipated to be USD4.325 million (AUD5.8m) assuming the Net-Ref business achieves an ARR of USD850,000 by 31 December 2021.
- Total Consideration is paid in three tranches comprising an initial payment plus two trailing payments to account for customers converted from the NetRef pipeline during this trailing period as outlined below:
  - **(First Tranche Consideration)** The First Tranche Consideration is calculated by applying a fixed multiple to the Net Ref Business ARR at 30 June 2021. First Tranche Consideration is anticipated to be USD1.4 million based on an expected contracted ARR of USD400,000 at 30 June 2021. The First Tranche Consideration is payable 50% in cash and 50% in fully paid ordinary shares in Family Zone on or before 31 July 2021.
  - **(Second Tranche Consideration)** The second tranche consideration is calculated by applying a fixed multiple to the Net Ref Business ARR at 30 September 2021 less the First Tranche Consideration. The Second Tranche Consideration is payable 50% in cash and 50% in fully paid ordinary shares in Family Zone on or before 31 October 2021, subject to the Maximum Consideration Shares cap.
  - **(Third Tranche Consideration)** The third tranche consideration is calculated by applying a fixed multiple to the Net Ref Business ARR at 31 December 2021 less the First Tranche Consideration and the Second Tranche Consideration. The Third Tranche Consideration is payable 50% in cash and 50% in fully paid ordinary shares in Family Zone on or before 31 January 2022, subject to the Maximum Consideration Shares cap.
- The number of fully paid ordinary shares issued to be issued as consideration (**Consideration Shares**) will be calculated using the 30-day VWAP of the Company's share prior to the issue date of the Consideration Shares.
- The total number of Consideration Shares that can be issued is capped based on the following calculation USD2.21 million/ 30 day VWAP at completion (**Maximum**



**Consideration Shares**). The Maximum Consideration Shares is estimated to be 5,357,576 based on an indicative share price of \$0.55<sup>3</sup> and a USD/AUD of 0.75<sup>4</sup>.

- Consideration Shares will be subject to voluntary escrow for 6 months from the date of issue.
- The agreement includes a 3 month handover to 30 September 2021 and technical support for 12 months.
- The agreement includes transfer of staff and obligations subject to suitable employment arrangements being negotiated during the handover period.

## Materiality and Projections

Whilst the proposed acquisition of the Net Ref business is currently subject to a non-binding letter of intent and therefore may or may not proceed to a binding agreement, given the Company is currently undertaking a capital raising, it has announced details of the LOI to ensure the market is fully informed. The Company is unable to forecast the potential revenues from this letter of intent however (should the acquisition proceed) the Company considers it to be strategically important as outlined in the strategic rationale above.

*This announcement was made on June 25, 2021 and was authorised by the Board of Family Zone Cyber Safety Limited.*

## About Family Zone

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Family Zone, **supporting and protecting every child's digital journey**, is an ASX-listed technology company and an emerging leader in the fast growing global cyber safety industry. Family Zone's unique innovation is its patented cyber safety ecosystem, a platform enabling a world-first collaboration between schools, parents and cyber safety educators. Family Zone's unique approach is delivering rapid growth in the education sector, as well as through direct sales and scalable reseller arrangements with telco providers.

To learn more about the Family Zone platform and the Company please visit [www.familyzone.com](http://www.familyzone.com).

## Contacts

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

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

**Family Zone Cyber Safety Ltd**  
945 Wellington Street  
West Perth, WA 6005

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<sup>3</sup> 30 day VWAP of the Company's shares as at 22 June 2021

<sup>4</sup> Exchange rate as at 22 June 2021