

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 ACQUIRES SMOOTHWALL, THE LEADING UK K-12 DIGITAL SAFETY SOLUTIONS PROVIDER & LAUNCHES A FULLY UNDERWRITTEN \$146 MILLION CAPITAL RAISING

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Highlights

- Family Zone executes binding agreement to acquire Smoothwall, UK's leading provider of K-12 digital safety solutions, for £75.5 million (A\$142.0 million¹) cash consideration.
- Smoothwall is an industry pioneer, with a mature filtering product and a leading position in UK education, servicing approximately 38% of the market.
- Smoothwall's market leading "Monitor" product is a key driver of growth and services the rapidly growing market for data, analytics & monitoring (a market recently buoyed by regulatory mandates in the UK). This product is proven and portable to all markets.
- Smoothwall currently provides services to more than 12,400 schools and 6 million students. The company generates circa A\$30 million of annual recurring revenue and delivered a pro forma unaudited EBITDA of ~ A\$7.0 million for the financial year ended March 2021.

¹ Consideration converted from £ to A\$ at exchange rate of 0.53 on 4 August 2021



- The acquisition of Smoothwall creates the world's most compelling K-12 digital safety solution incorporating Family Zone's fast growing Linewize K-12 solutions, Family Zone's parental controls and Smoothwall's scale and world-leading solutions.
- The acquisition is accretive to Family Zone shareholders, being acquired for ~4.7x annual recurring revenue.
- The acquisition will be funded by a fully underwritten institutional placement of ~A\$71.0 million and a pro-rata accelerated non-renounceable entitlement offer of ~A\$75.4 million to raise gross proceeds of approximately ~A\$146.4 million.
- The capital raising associated with the Acquisition is being undertaken by the Joint Lead Managers, Shaw & Partners and Euroz Hartleys, with Argonaut as Co-Manager.

About Smoothwall

smoothwall®

Smoothwall is one of the world's leading providers of digital and safeguarding services with a strong market position in the UK and operations in the US.

Smoothwall is profitable, successful and scaled, with a (proforma) EBITDA of A\$7 million on circa A\$30 million in annual recurring revenue. Smoothwall services in excess of 12,400 schools and protects more than 6 million students across its platforms and regions.

In its UK home, Smoothwall services approximately 38% of the market, has enjoyed long term relationships with most of its clients and has average contract lengths of ~ 3 years.

Smoothwall launched in August 2000 as a firewall platform and has developed into a broad suite of digital safety solutions aimed primarily at the K-12 education market.

In 2017, Smoothwall's founders departed through a management buyout backed by UK Private Equity firm Tenzing. Through that transaction, Georg Ell, previously Director of Western Europe at Tesla, joined as CEO.

Smoothwall has a comprehensive portfolio of mature digital safety products covering:

- **Filter:** Enabling a safer, digital learning environment with real-time, content-aware and granular control filtering.
- **Firewall:** Provides an all-in-one protection package designed for the security needs of enterprises and educational institutions.
- **Monitor:** Helping schools proactively detect online risks before they become real-life incidents.

- **Safeguard Record Manager:** Easily and securely record child protection issues and safeguarding incidents electronically.

Smoothwall Monitor

Of particular note is Smoothwall Monitor, which is a global leader in the rapidly growing cyber safety segment of data analytics & monitoring.

Monitor is a best-in-class student monitoring solution that combines AI and human moderation to identify and intervene in life threatening situations. Smoothwall Monitor is scalable and globally portable, offering a fully 24/7 managed solution for K-12 institutions.

Smoothwall Monitor

Smoothwall Monitor responds to the evolving duty of care school institutions have to keep students safe in and outside the classroom. In the UK, this school obligation has recently been codified through the Keeping Children Safe in Education (KCSIE) legislation which requires schools to assume risks are present and use technological means to monitor and intervene.

Smoothwall Monitor identifies individuals at risk of bullying, self-harm, violence, suicide ideation, child sexual exploitation and radicalisation, a wider range currently than any other global provider. It provides online and offline monitoring to capture any activity that may indicate a risk, even outside of web browsers. Artificial intelligence (AI) and an analysis engine provide a first layer of moderation, ensuring timely and effective alerts and highlighting issues that human moderation may miss. A highly trained team of moderators then review highlighted activity and provide appropriate alerting to safeguarding staff.

Smoothwall Monitor is 100% cloud based, operates independent of incumbent filtering platforms, is globally portable and compliant with all relevant privacy laws, including the EU General Data Protection Regulation (GDPR).

Company profile

Annual Recurring Revenue*	Total	A\$30 million
By Region	UK	A\$25 million
	USA	A\$5 million
By Product	Firewall & Filter	A\$23 million
	Monitor	A\$6 million
	Other	A\$ 1 million
Schools	Total	12,400
By Region	UK	10,500
	USA	1,900
Number of staff	Total	113

* Pro forma results at 31 March 2021, unaudited, converted from £ to A\$ at an exchange rate of 0.53.



Acquisition of Smoothwall

Family Zone is pleased to announce that it has entered into an unconditional share purchase agreement to acquire the Smoothwall business through the acquisition of 100% of the shares in TopCo Oasis Limited (**TopCo**) and its subsidiaries for £75.5 million (A\$142.0 million²) cash consideration (**Acquisition**), with £65.0 million payable at completion of the Acquisition (scheduled for Monday 12 August 2021, UK time following the closing of the Institutional Entitlement Offer) and a further £10.5 million in deferred consideration payable on 1 September 2021 (following the closing of the Retail Entitlement Offer).

TopCo is a UK based company which together with its wholly owned subsidiaries owns and operates the Smoothwall business.

The acquisition of Smoothwall represents a unique opportunity for Family Zone as a highly complementary business of significant scale with an attractive target market customer base.

Family Zone secured the acquisition through a competitive process managed by the corporate advisors of the Smoothwall shareholders. This process included comprehensive due diligence being undertaken by both the vendor and the Company's representatives.

The sale and purchase agreement provides comprehensive warranties in relation to the Smoothwall business. Family Zone will purchase warranty and indemnity insurance for the Smoothwall Acquisition which is customary for a transaction of this nature.

Rationale

The Board considers the potential and benefits of the acquisition to be material:

- **Scale:** The combined group generates annual recurring revenue of c. A\$44 million and services in excess of 18,000 schools and 9 million students across the UK, USA and ANZ.
- **Product portfolio:** The combination of Family Zone and Smoothwall delivers a world leading portfolio of K-12 online safety products inclusive of compliance/filtering, classroom management, data analytics, monitoring and case management.
- **K-12 synergies:** Family Zone and Smoothwall's product sets are uniquely complementary, offering significant synergistic revenue opportunities including the delivery of new filtering and classroom management capabilities into the UK market and the delivery of Smoothwall's market leading monitoring solution into Family Zone's US and Australian and New Zealand client base and sales propositions.
- **Consumer opportunities:** With in excess of 6 million students associated with Smoothwall's UK client base, a significant opportunity is available to promote Family Zone's world leading parental control services through UK school communities.


² Consideration converted from £ to A\$ at RBA exchange rate of 0.53



- **Talent & culture:** Both Smoothwall and Family Zone are proud to be mission driven organisations with aligned values. The combination creates an upscaled talent pool with important (and rare) domain experience, to support our continued growth ambitions.
- **Cost efficiencies:** Whilst not the focus of the Acquisition, it is anticipated that material improvements in operating leverage will accrue to the group over time through scale and buying power.

Consolidated business profile

On a pro forma consolidated basis, the combination of Family Zone and Smoothwall establishes a compelling global cyber safety company with market leading offerings and the scale for sustainable growth.

	smoothwall®	 family zone	MergeCo
Geographic presence			
UK	Y		Y
US	Y	Y	Y
ANZ		Y	Y
Products			
Filter (cloud & on-premise)	Competing	Market leading	Market leading
Monitoring	Market leading	In development	Market leading
Classroom management	In development	Competing	Competing
Parental controls		Market leading	Market leading
Metrics			
Employees (heads)	113	190	+ 300
Students #s	6,100,000	3,000,000	+ 9 million
School #'s	12,400	5,600	+ 18 thousand
Estimated ARR at 30 Jun '21 ¹	~ A\$ 30 million	~ A\$ 14 million	+ A\$ 44 million

1. Converted to AUD based on AUD:GBP of 0.54 as at 15 July 2021. Shown on a UK Financial Year basis

Integration & outlook

The Company spent considerable time in the course of the due diligence process building relationships with Smoothwall management and carefully considering opportunities for integration, whilst ensuring the successful fundamentals of each business are retained.

Planning for the bringing together of the organisations is well underway with a short-term emphasis on maintaining market momentum, adding value to each group and building an integrated platform and operating model in time.

As communicated to the market in the Company's June quarter operations update, the immediate outlook for Family Zone's business is strong, driven by the K-12 sales cycle and US funding. Smoothwall enjoys similar tailwinds plus regulatory changes in the UK which drive UK schools to take on technology-based student monitoring approaches.



Advisers

Azure Capital Pty Ltd is acting as corporate adviser and GTP Legal and Locke Lord (UK) LLP are acting as legal advisers to Family Zone in relation to the Acquisition.

Capital raising

The Acquisition and associated transaction costs will be funded by a combination of a fully underwritten:

- pro-rata accelerated non-renounceable entitlement offer to raise ~A\$75.4 million (**Entitlement Offer**); and
- placement to institutional investors and sophisticated investors to raise ~A\$71.0 million (**Placement**, together with the Entitlement Offer, the **Equity Raising**).

Approximately 266.1 million new Family Zone shares will be issued under the Equity Raising. New Family Zone shares will rank equally with existing Family Zone shares on issue and Family Zone will, upon issue of those shares, seek quotation of the shares on the ASX.

All new Family Zone shares offered under the Equity Raising will be issued at a price of \$0.55 per new Family Zone share (**Offer Price**) which represents a

- 8.3% discount to the last closing price on Friday 30 July 2021 of A\$0.60 and 6.0% discount to the 15 day VWAP of A\$0.585; and
- 6.5% discount to Theoretical Ex-Rights Price³

Shaw and Partners Limited and Euroz Hartleys Limited are acting as joint lead managers and underwriters to the Equity Raising. Argonaut Limited acted as Co-Manager.



Shaw and Partners
an EFG company



ARGONAUT

Placement

Up to approximately 129.1 million new Family Zone shares are expected to be issued to institutional and sophisticated investors under the Placement at the Offer Price. The Placement will be conducted concurrently with the Institutional Entitlement Offer (as described below).

The Company proposes to issue approximately 85.5 million shares under its Listing Rule 7.1 capacity and 43.6 million shares under its Listing Rule 7.1A capacity.

The number of shares includes approximately 20.55 million shares pursuant to “supersize” waiver of Listing Rule 7.1 which the ASX has granted the Company. The “supersize” waiver permits the

³ Theoretical ex-rights price (“TERP”) includes shares issued under the Institutional Entitlement Offer and the Retail Entitlement Offer, and excludes shares issued under the Placement. TERP is a theoretical calculation only and the actual price at which FZO shares trades immediately following the ex-date for the Entitlement Offer may be different from TERP. The TERP has been calculated by reference to FZO’s closing price of A\$0.60 on 30 July 2021.



Company to calculate the number of ordinary shares which it may issue without Shareholder approval pursuant to the Placement on the basis that variable "A" of the formula in Listing Rule 7.1 is deemed to include the number of ordinary shares in the Company that may be issued under the underwritten component of the Entitlement Offer.

New Family Zone shares issued under the Placement will not be eligible to participate in the Entitlement Offer.

Entitlement Offer

Under the Entitlement Offer, eligible shareholders are invited to subscribe for 5 new Family Zone shares for every 16 existing Family Zone shares (**Entitlement**) held at the Record Date.

Eligible institutional and sophisticated shareholders will be invited to participate in the institutional component of the Entitlement Offer (**Institutional Entitlement Offer**), which is being conducted today, Friday 6 August 2021.

Eligible institutional shareholders can choose to take up all, part or none of their Entitlement. Institutional Entitlements cannot be traded on ASX or transferred.

Institutional Entitlements that eligible institutional shareholders do not take up by the close of the Institutional Entitlement Offer, and Institutional Entitlements that would otherwise have been offered to ineligible institutional shareholders, will be offered to new institutional investors and existing institutional shareholders concurrently with the Institutional Entitlement Offer.

Family Zone's shares will remain in a trading halt pending completion of the Placement and the Institutional Entitlement Offer.

Eligible retail shareholders in Australia, New Zealand, Singapore, Hong Kong and the United Kingdom will be invited to participate in the retail component of the Entitlement Offer (**Retail Entitlement Offer**) at the same Offer Price and offer ratio as the Institutional Entitlement Offer. The Retail Entitlement Offer will open on Wednesday, 11 August 2021 and close at 5:00pm (AWST) on Friday 20 August 2021.

Further details about the Retail Entitlement Offer are set out in the Retail Entitlement Offer information booklet (**Retail Offer Booklet**), lodged with ASX today and to be dispatched to eligible retail shareholders on Wednesday, 11 August 2021. The Retail Offer Booklet will also enclose personalised entitlement and acceptance forms.

Entitlements cannot be traded on ASX or transferred. Eligible retail shareholders who do not take up their Entitlement under the Retail Entitlement Offer, in full or in part, will not receive any value in respect to those Entitlements not taken up.

Timetable

Event	Dates
Announce Acquisition and Equity Raising	Friday 6 August 2021
Lodge Offer Document, Appendix 3B, and cleansing notice (before noon AEST) Commencement of Institutional Offer	Friday 6 August 2021
Placement bookbuild and Institutional Entitlement Offer conducted	Friday 6 August 2021
Announcement of results of Placement and Institutional Entitlement Offer (Pre-market)	Monday 9 August 2021
Trading recommences on an ex-Entitlements basis	Monday 9 August 2021
Record Date for Retail Entitlement Offer (5.00pm (AWST))	Monday 9 August 2021
Retail Offer Booklet and personalised entitlement and acceptance forms dispatched to eligible retail shareholders	Wednesday 11 August 2021
Retail Entitlement Offer opens Retail Entitlement Offer Document and Entitlement & Acceptance Form sent to Eligible Retail Shareholders	Wednesday 11 August 2021
DVP settlement of the Placement and Institutional Entitlement Offer and lodgement of Appendix 2A	Thursday 12 August 2021
Issue of shares under the Placement and Institutional Entitlement Offer and commencement of trading of these shares	Friday 13 August 2021
Closing date for acceptances under Retail Entitlement Offer (5.00pm AWST)	Friday 20 August 2021
Announcement of results of Retail Entitlement Offer and issue of new shares under the Retail Entitlement Offer Notification to Underwriter of any Shortfall	Wednesday 25 August 2021
Issue of Shortfall shares	Monday 30 August 2021

All dates and times are indicative only and subject to change. Unless otherwise specified, all times and dates refer to Australian Western Standard Time (AWST). The Company reserves the right to amend any or all of these dates and times subject to the Corporations Act 2001 (Cth), the ASX Listing Rules, and other applicable laws.

This announcement was made on 6th August, 2021 and was authorised by the Board of Family Zone Cyber Safety Limited.

About Family Zone

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.

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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