

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 TO ACQUIRE QUSTODIO

Family Zone to acquire global parental control leader Qustodio and launch a capital raising

Highlights

- Family Zone to acquire global leader in parental controls Qustodio for US\$52 million with 52% payable upfront in a combination of cash, vendor finance and Family Zone shares and the remaining 48% payable in Family Zone shares subject to the satisfaction of performance milestones.
- The merger of the Qustodio business into the Family Zone group will significantly expand the Company's capability and global footprint.
- The transaction is subject to Spanish Foreign Direct Investment approval, completion of a capital raising by Family Zone and Family Zone shareholder approval of the issue of securities to the vendors.

"The bringing together of Qustodio and Family Zone will be seen in time as a turning point in online safety globally. We are honoured and excited to be welcoming Qustodio team into our family". **Tim Levy,**
Managing Director Family Zone

"Qustodio and Family Zone share the view of a better world where schools, parents and children can work together to create safe and enriching online experiences. This shared vision has led us to unite forces and bring game changing unified approaches in online safety to market. Our combination will represent the creation of a truly global leader in online safety with unmatched scale and capabilities." **Eduardo Cruz,**
Co-founder & CEO

About Qustodio

In 2010, Eduardo Cruz, Josh Gabel and Josep Gasper were working together in cyber security. They saw the new iPhone 4 and knew that a wave of digital devices would soon enter families' homes – bringing both huge opportunities and huge risks. At the same time, they'd been inspired by the way new analytics tools were helping businesses capture data visually. It was then that they had the idea to use intuitive visual data to help families keep their kids safe.



They built their first prototype in 2011 and officially founded Qustodio in 2012 (naming it in reference to the Latin term for guardian, 'custodia'). The initial product helped parents see what their kids were doing on their Windows computers in an easy-to-understand way. In the years since then, Qustodio has added multiple features and expanded to cover many operating systems. It's now a truly comprehensive parental control solution that works on (almost) all devices.

Based in Barcelona Spain, today Qustodio is a global leader in parental controls with customers in more than 100 countries and operating in 9 languages.

Qustodio is founder led and managed with a shareholding of Founders (59%); Staff (3%); Venture Capital Investors (35%); and individual Angel investors (3%).

Qustodio has grown consistently since its founding. It is well run and profitable providing services to in excess of 270,000 paid parent control accounts.

Qustodio generates circa AU\$16 million of Annual Recurring Revenue with 95% from its consumer channels and the remainder through its launched K-12 (education) offerings.

Qustodio has a sophisticated marketing capability and a channel diversity with direct, affiliate and partner channels. Qustodio's channel partners are some of the world's leading telco operators with Qustodio's telco partners reselling Qustodio in Spain, France, Singapore, Mexico, Japan, Brazil & Chile.

Rationale

The acquisition of Qustodio meets the Company's strategic intent of attracting the best people and the best technology.

The acquisition will offer Family Zone expertise, capability, scale, new markets, operational efficiencies and brings forward the Company's inflection point.

- **Cross-sell into K-12:** Qustodio has a highly resolved product, well suited to offer through Family Zone's 24,000 school footprint.
- **Global footprint & language skills:** Qustodio operates globally with a strong presence in key countries. These are hubs for K-12 expansion.



- **Talent and talent pools:** Qustodio is an outstanding outfit and Spain has a strong and cost effective talent pool in an attractive timezone.
- **Dedicated consumer capability:** The merger allows pooling of consumer capability and dedication of resources to direct and B2B2C channels.
- **Expanded features:** The merger will create an opportunity to bring together our consumer feature sets.
- **Operating efficiencies:** The merger will allow realisation of efficiencies through scale and duplication of effort.

Together Family Zone and Qustodio to become a dominant global online safety operator with (on a proforma basis):

- AU\$70 million of annual recurring revenue and growing in excess of 30% pa
- 85% gross margin with stable costs and opportunities for efficiencies
- 23,800 schools
- 11 million students
- 340,000 parent accounts
- 9 languages
- 10 telco resellers
- 510 FTEs

The transaction

Family Zone has entered into an agreement to acquire 100% of the shares in Qustodio LLC (the US holding company of Qustodio) and its Spanish subsidiaries through its wholly-owned subsidiary, Family Zone, Inc.. The transaction is conditional upon completion of a capital raising launched today by Family Zone to raise up to AU\$42 million ("Capital Raising"), Spanish Foreign Direct Investment approval and Family Zone shareholder approval of the issue of all securities to the vendors. Key terms include:

- An overall acquisition price of US\$52 million on a cash and debt free basis (and subject to completion financial adjustments) with 52% paid at completion of the acquisition and 48% to be issued in Family Zone ordinary shares ("Shares") subject to subscription revenue and/or EBITDA targets being satisfied ("Deferred Consideration Rights").
- Assuming all targets are achieved, the EV/ARR multiple is ~4.5x. The value of Deferred Consideration Rights is reduced on a dollar for dollar basis to the extent the subscription revenue and/or EBITDA targets are not achieved.
- Consideration payable on completion of the acquisition consists of:
 - US\$9.9m in cash payable to staff shareholders of Qustodio (excluding its founding shareholders ("Founders")), angel investor shareholders of Qustodio ("Angel Investors") and venture capital investor shareholders of Qustodio ("VC Investors");
 - US\$7.7m in Convertible Notes to be issued to the VC Investors. The Convertible Notes have a term of 24 months, are interest only and convert at AU\$60c. The Convertible Notes are repayable in cash if not converted and are convertible into Shares (by the note holders) and redeemable for cash (by Family Zone), at any time;
 - US\$5.7m of Shares issued at A\$0.426 to the Angel Investors and Founders which are subject to orderly market realisation terms.



- US\$3.6m to be retained from the VC Investors and the Founders as a provision for warranty and indemnity claims. These hold-backs are to be released 50% at 8 months and 50% at 16 months, after completion of the acquisition.
- Up to US\$25.1m in Deferred Consideration Rights to the Founders subject to Qustodio achieving over 2 years:
 - 25% growth in subscription revenue; and
 - 9.5% EBITDA margins each year; or
 - 40,000 referred parent accounts from Family Zone schools.
- The value of the Founder's Deferred Consideration Rights will be adjusted for any warranty and indemnity claims (up to 15% of total Deferred Consideration Rights), within 18 months of completion of the acquisition. Subject to the satisfaction of the subscription revenue and/or EBITDA targets, the Deferred Consideration Rights convert into Shares at the 30 day VWAP at the time, subject to a cap of AU\$0.60 and a floor of A\$0.426.
- The Shares, Convertible Notes and Deferred Consideration Rights to be issued to the vendors are all subject to shareholder approval to be sought at a general meeting of Family Zone shareholders in June 2022.
- The vendors of Qustodio have provided warranties and indemnities customary for a transaction of this nature.
- A break fee of US\$500,000 is payable by Family Zone to the vendors if the acquisition agreement is terminated due to breach by Family Zone or if Family Zone fails to complete the Capital Raising.

Further details on Qustodio, the transaction and the rationale are provided in the enclosed investor presentation and will be detailed in an upcoming Notice of Meeting to be sent to shareholders and lodged with the ASX.

Azure Capital Pty Ltd is acting as corporate adviser and Thomson Geer is acting as legal adviser to Family Zone in relation to the transaction.

Invitation to join Company Webinar

The Company is pleased to invite shareholders to listen to Managing Director Tim Levy update the market on this transaction at the NWR Virtual Investor Conference on Tuesday 3 May, 2022 12:20 PM AEST.

Investors and interested parties can register for the presentation via the following link:

https://us02web.zoom.us/webinar/register/WN_rNVBTvTIQFGKJlgza7IGwA

After registering, you will receive a confirmation email containing a calendar invitation and information about joining the webinar.

This announcement was made on 2 May 2022 and was authorised by the Managing Director 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.

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Ends.



To protect & support every child's digital journey

Acquisition of Qustodio

Family Zone has entered into an agreement to acquire world leading parental control provider, Qustodio.

ASX: FZO

About

Our mission is to save and better children's lives; to empower parents; to deliver for tomorrow's educators and be a key influencer in cyber safety globally. We seek to deliver for our staff their best ever employment experience and deliver exceptional returns for our investors.



Peter Pawlowitsch
Chairman



Tim Levy
Managing Director



Crispin Swan
COO



Jordan Foster

Chief Wellbeing Officer
2020 Telstra Business Women
2018 WA Young Achiever
World leading Cyber Expert
Clinical Psychologist



Matthew Stepka

Non Executive Director
Machina Ventures
Lecturer, Berkeley
VP, Operations & Strategy, Google
GM, Drugstore.com
CEO/Founder, Big World Travel



Georg Ell

Non Executive Director
Venture Partner, Craft Partners
CEO Smoothwall
Director, Western Europe, Tesla
GM EMEA, Yammer
EU Sales Executive, Microsoft



Executive Summary

- ✓ **Family Zone's strategy is working**
Targeted acquisitions for talent & product expansion and successful integrations are driving growth through new business and cross sales.
- ✓ **Announcing agreement to merge with Qustodio**
A world leading, growing and profitable parental control provider based in Spain. A large US presence, multilingual and global telco distribution.
- ✓ **Creates a game changing capability & scale**
Merged group proforma is \$70 million ARR and growing at +30% pa with the world's best parental control capability and a global presence.
- ✓ **Attractive deal metrics; vendor finance & earn out**
Valued at \$70m; ~ 4.5 X EV/Rev. 52% upfront in cash & convertible notes. Remainder over 24 months subject to performance milestones. *
- ✓ **Capital raising for integration and breakeven**
Fully funded, subject to completion of the capital raising associated with this transaction.

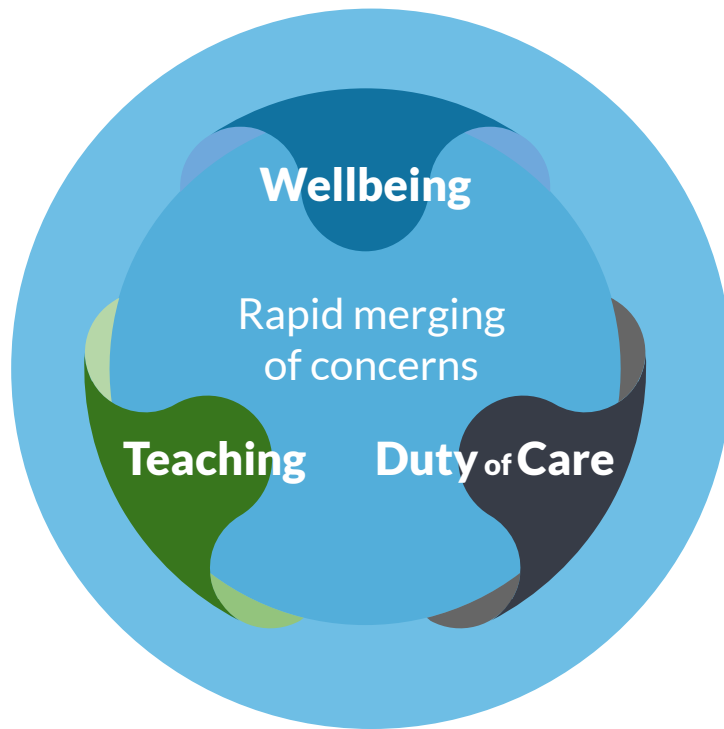
* Deal is priced in USD. Calculations converted at AUD;USD 0.75.



The online safety industry is growing and consolidating rapidly

Growing awareness is driving new regulation and new technology has enabled a coalescing of concerns.

This is driving a remarkable expansion in the addressable market.



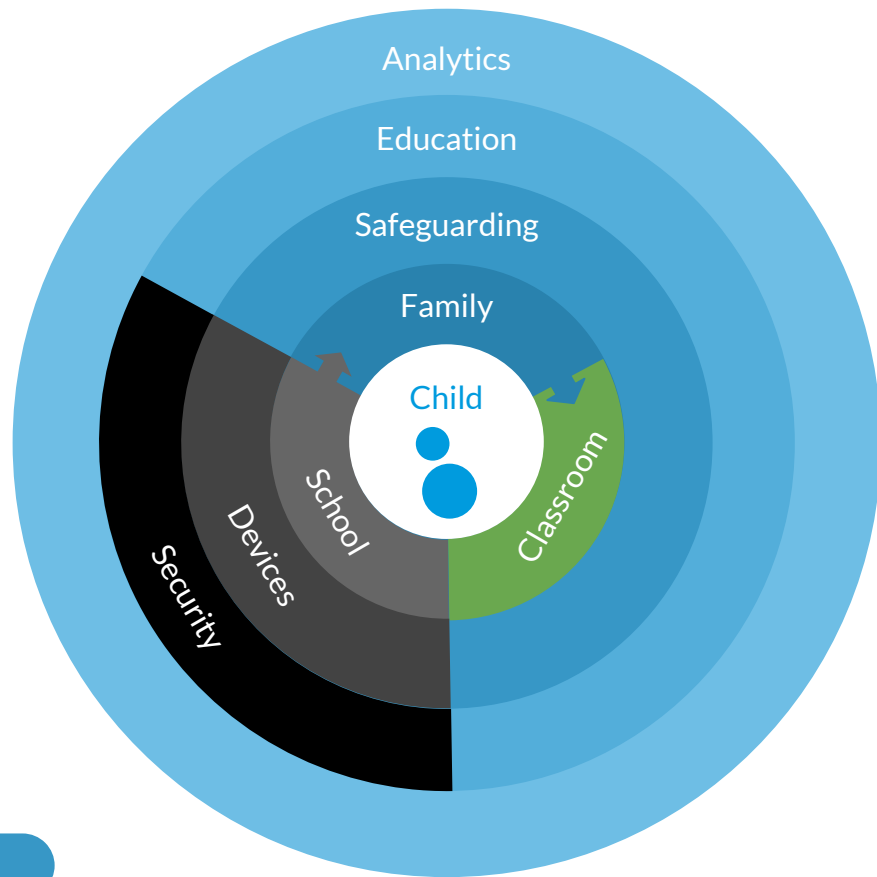
Our unique vision is a unified approach to online safety

Family Zone seeks out the best technology and people so we can create a fundamental change in our children's online experience.

Best People

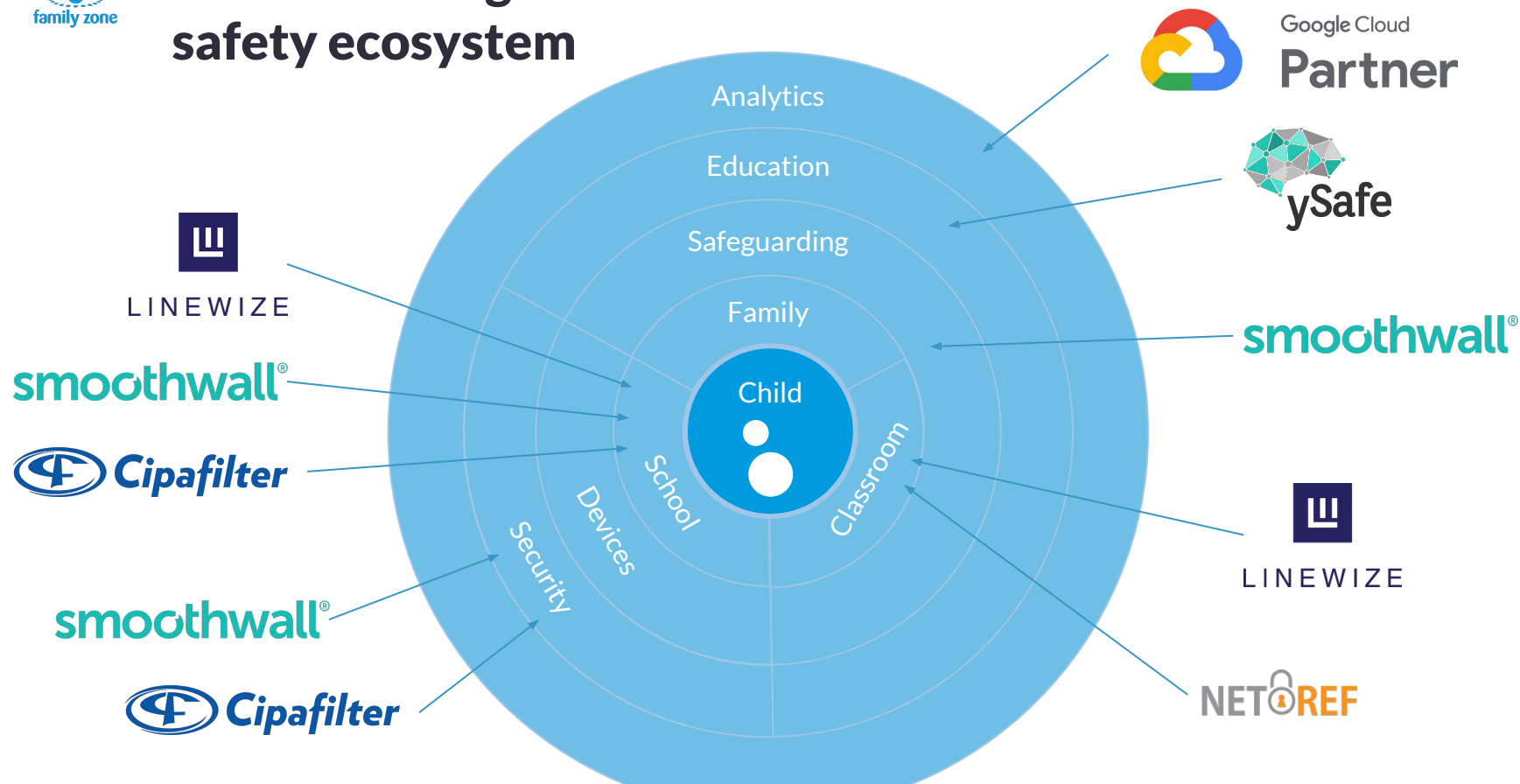
+

Best Products





We're building an online safety ecosystem



Single global brand launching H2 CY 2022

Family Zone's M&A strategy is working

Market demand is growing fast and the industry is moving quickly to deliver. The Company is pursuing aggressive organic growth with a targeted M&A strategy.



6 successful mergers

Family Zone has acquired and successfully integrated Sonar, Linewize, ySafe, Smoothwall, NetRef and Cipafilter into our online safety ecosystem.



and accelerating growth

With each acquisition, Family Zone's organic growth has accelerated through scale and product expansion. Family Zone has industry leading growth and retention rates.



and delivering operating leverage

Family Zone's gross margins exceed 80% and continue to improve with scale and cross selling enabled through successful mergers and product expansion.

Family Zone's US & UK strategies are working

Family Zone is the dominant online safety provider in the UK and an emerging leader in the US. We're achieving above industry growth rates in both markets.

The opportunity exists for further globalisation.

✓ 11 million students

✓ 23,800 schools

✓ 38% of UK schools

✓ 15% of US districts

Qustodio

**Family Zone has
reached terms to
acquire Qustodio**



Background

Launched in 2012 by Eduardo Cruz, Jose Gaspar and Joshua Gabel, Qustodio is a global leader in parental controls. Qustodio operates worldwide, in 9 languages and has high quality channels including online and a large telco reseller footprint.

- Founded in 2012 in Barcelona by three cyber security tech entrepreneurs.
- Owned by the Founders (59%); Staff (3%); Venture Capital Investors (35%); and individual Angel investors (3%).
- Has grown +15% in 2021 and is EBITDA profitable.
- Predominantly a consumer parental control provider with circa 270,000 paid accounts.
- Generates circa AU\$16 million of ARR, 95% consumer with most of the remainder in recently launched K-12 offerings.
- Renowned, well run parental control innovator. Industry leading low churn rates.
- Has a broad distribution model operating “direct” across the globe and through 10 telco resellers across Spain, France, Singapore, Mexico, Japan, Brazil & Chile.
- Qustodio currently support 9 languages.

Qustodio

Jose Gaspar, Co-founder

Eduardo Cruz, Co-founder & CEO

Josh Gabel, Co-founder

Highlights

Established 2012
Founder led from Spain
EBITDA profitable

World leading Parental Controls
Operates in 9 languages
10 telco resellers

A\$16 million ARR
270K paid subscribers
Strong growth; 15% in '21



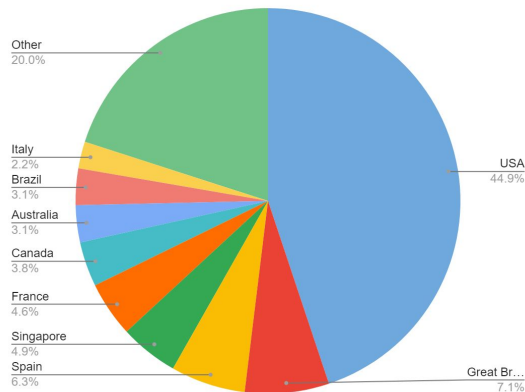
“Qustodio and Family Zone share the view of a better world where schools, parents and children can work together to create safe and enriching online experiences. This shared vision has led us to unite forces and bring game changing unified approaches in online safety to market. Our combination represents the creation of a truly global leader in online safety with unmatched scale and capabilities.”

Eduardo Cruz, Co-founder & CEO

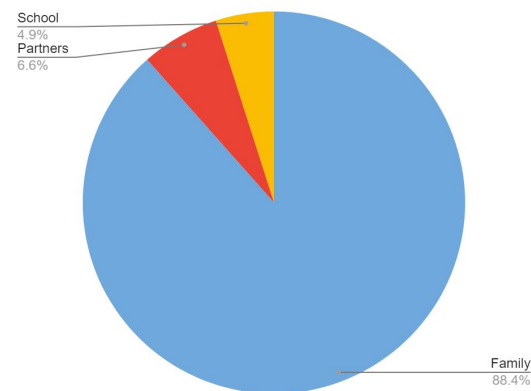
Snapshot

Qustodio's primary revenue source is parental controls sold direct to consumer with small but growing channels in K-12 (B2B) and selling through telcos (partners). 45% of Qustodio revenue is from the US.

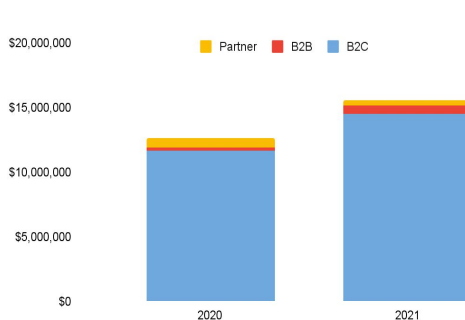
Subscribers by Region



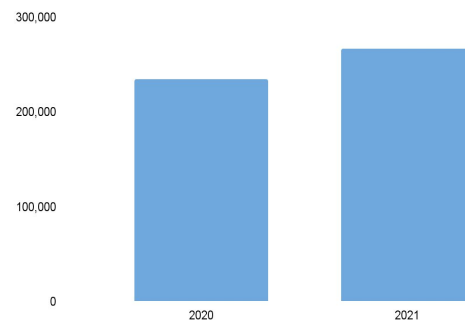
Revenue by Segment



ARR by Segment



Consumer Subscribers





A leader in parental controls



Set time limits

Easily limit the time your child spends on a device per day.



Control games & apps

Set time limits and decide which games you want your children to play.



Block inappropriate content

Filter out internet content you don't want your children to see.



Supervise social media

Know how much time your children spend on social networks and chats.



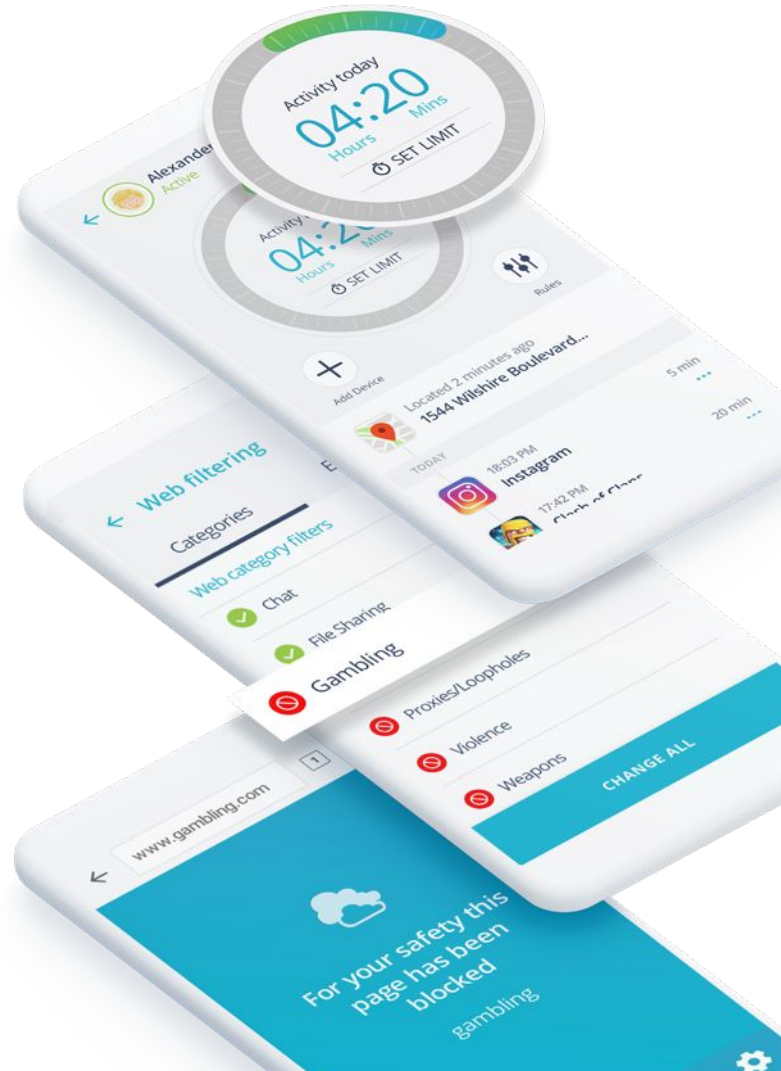
Track calls & SMS

See who your child calls or texts most and block unwanted contacts.



Location tracking & panic button

Know where your kids are and receive alerts if they are in trouble.



Better together

The combination of Qustodio and Family Zone platforms creates a world leading capability and a game changing global opportunity.

✓ Content filtering
✓ Routines & calendars
✓ Time management
✓ Device management
✓ Call & messaging control
✓ Panic buttons
✓ Location & geofencing
✓ Safe home networking
✓ Work with schools
✓ Work with global telcos





Qustodio



Google Cloud
Partner

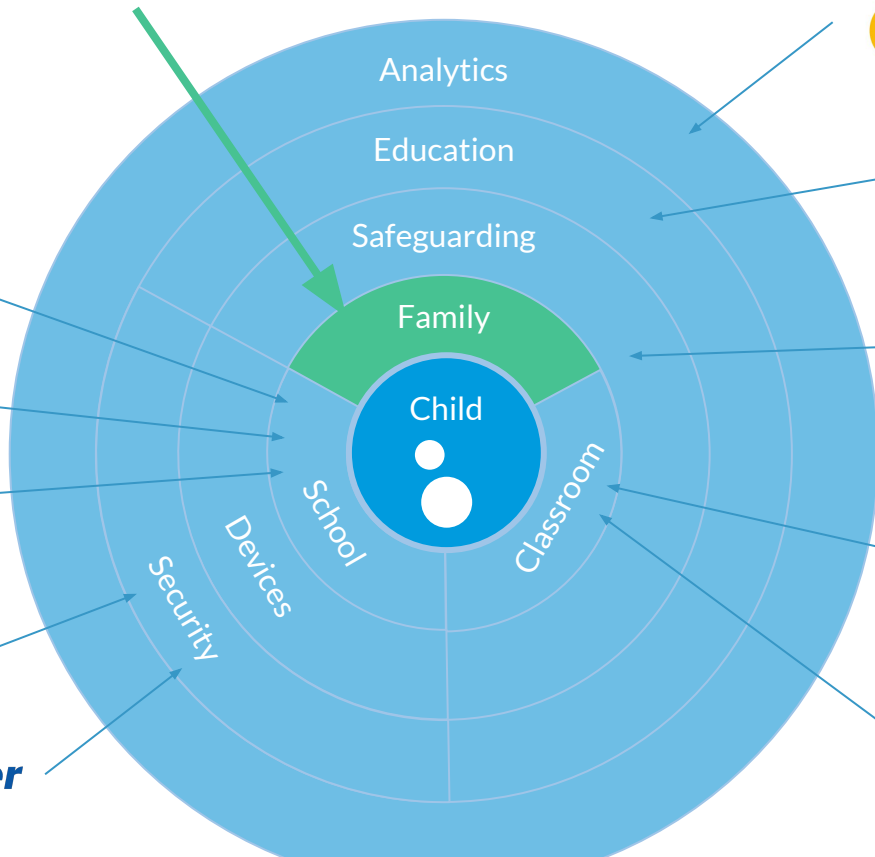


smoothwall®



LINEWIZE

NET*LOCK*REF



LINEWIZE

smoothwall®



Cipafilter

smoothwall®



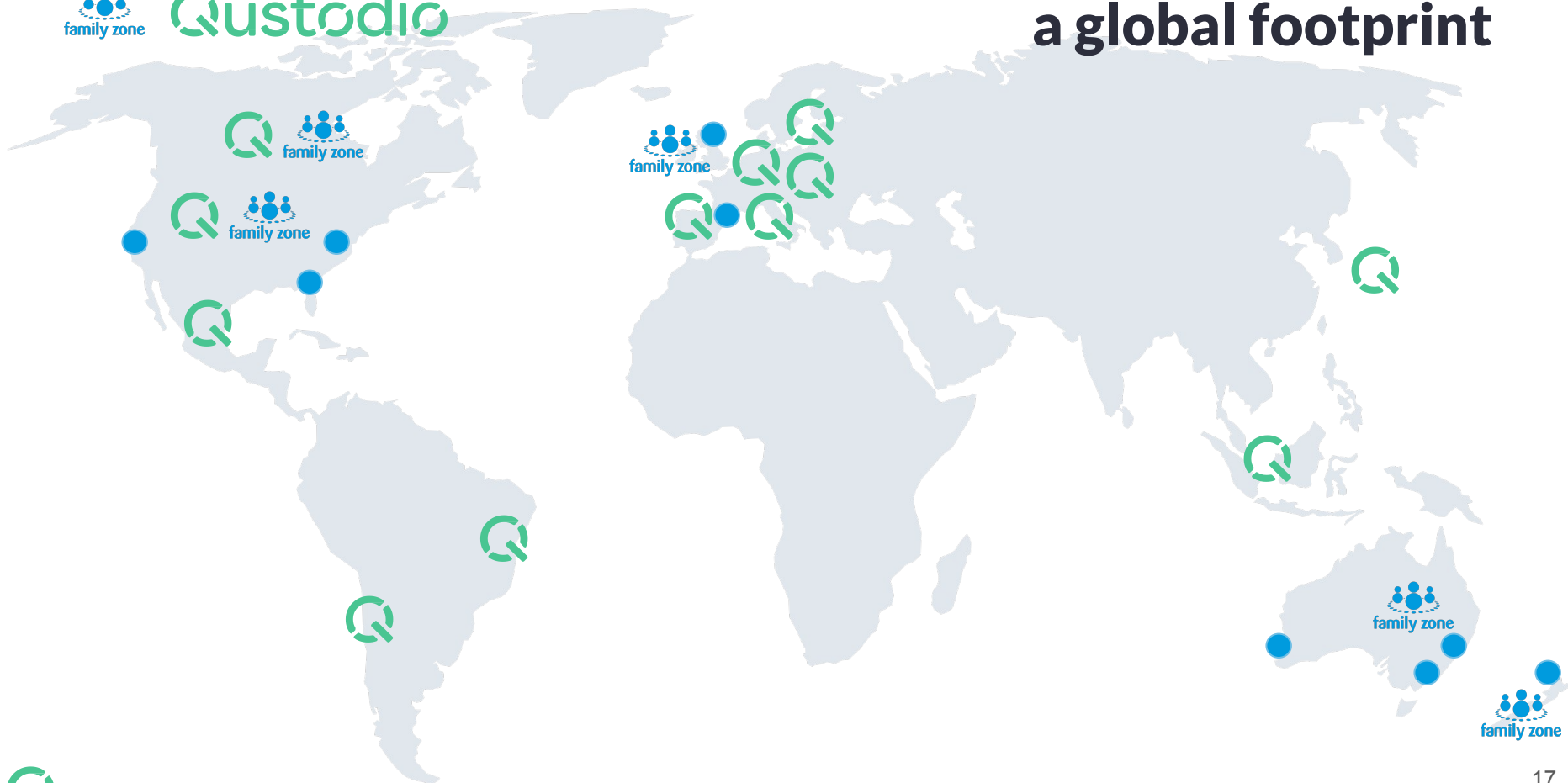
Cipafilter

Single global brand launching H2 CY 2022



Qustodio

a global footprint



Highlights Qustodio's large consumer markets or telco partners

Strategic rationale

The acquisition of Qustodio meets our strategic intent of attracting the best people and the best technology.

The acquisition offers us expertise, capability, scale, new markets, operational efficiencies and brings forward our inflection point.

1

Cross-sell into K-12

Qustodio has a highly resolved product, well suited to offer through Family Zone's 24,000 school footprint.

2

Global footprint & language skills

Qustodio operates globally with a strong presence in key countries. These are hubs for K-12 expansion.

3

Talent and talent pools

Qustodio is an outstanding outfit and Spain has a strong and cost effective talent pool in an attractive timezone.

4

Dedicated consumer capability

The merger allows pooling of consumer capability and dedication of resources to direct and B2B2C channels.

5

Expanded features

The merger creates an opportunity to bring together our consumer feature sets.

6

Operating efficiencies

The merger allows realisation of efficiencies through scale and duplication of effort.

Proforma profile

The acquisition of Qustodio cements Family Zone as the world's leading provider of online safety solutions and the destination for global talent and technology.

ARR

✓ AU\$70 million
With a proforma growth profile of above 30% pa

Leverage

✓ 85% gross margin
With stable costs and opportunities for efficiencies

Business

✓ 23,800 schools
✓ 11 million students
✓ 340,000 parent accounts
✓ 9 languages
✓ 10 telco resellers
✓ 510 FTEs

Fully funded, subject to completion of the capital raising associated with this transaction.

The deal

In a sign of confidence in the merged business, the founders are taking 100% of their consideration in shares with 81% linked to ongoing business performance.



US\$52 million valuation | 4.5X multiple

The transaction values Qustodio at US\$52 million on a cash and debt free basis or 4.5X EV/ARR with 52% paid upfront and 48% subject to earn out arrangements.

52% upfront in cash, shares & vendor finance

US\$9.9m in Cash to Staff (exc Founders), Angels and VC investors
US\$7.7m in Notes to VC investors convertible at 60c over 2yrs
US\$5.7m Shares to Angels and Founders
US\$3.6m retained from VC investors and Founders

48% in deferred consideration to founders

US\$25.1m in Deferred Consideration Rights to Founders subject to Qustodio achieving over 2 years:

- 25% growth in subscription revenue; and
- 9.5% EBITDA margins each year; or
- 40,000 referred parent accounts from Family Zone schools.

The conversion price for the Deferred Consideration Rights is capped at AU\$0.60 with a floor equal to the 30-day VWAP at time of signing.

NOTES

Family Zone, through its wholly-owned US subsidiary Family Zone Inc has entered into an agreement to acquire 100% of the shares in Qustodio LLC (US holding company) and its Spanish subsidiaries subject to completion of a capital raising, Spanish Foreign Direct Investment approval (which the Company has high confidence in obtaining) and shareholder approval of the issues of all securities to the Vendors. Terms include:

1. Assuming all targets are achieved, EV/ARR multiple is ~4.5X. If targets are not achieved, the value of Deferred Consideration Rights is reduced dollar for dollar to the extent the subscription revenue and EBITDA targets are not achieved.
2. Upfront cash is paid on close of the transaction.
3. Interest only notes converting at AU\$60c over 24 months. Repayable in cash if not converted. Convertible into shares (by note holder) and redeemable for cash (by Family Zone) at anytime.
4. Angel investors and a small parcel of Founder holdings are to receive shares on closing, issued at the 30-day VWAP at time of signing, subject to shareholder approval. Founders shares received are subject to orderly realisation arrangements.
5. 15% of VC consideration (US\$2.7 million) retained in cash and released 50%/50% in 8/16 months of closing, respectively, subject to any warranty claims. 15% of upfront share consideration to Founders (US\$0.9 million) is issued 50%/50% in 8/16 months of closing, respectively, subject to any warranty claims (issued at the 30-day VWAP at time of signing).
6. Founders are allocated Deferred Consideration Rights subject to the milestones set out above. Adjustment for any warranty claims, up to 15% of total Deferred Consideration, within 18 months of closing. Conversion price of rights is capped at AU\$0.60 with a floor equal to \$0.426 (the 30-day VWAP at time of signing). Founder Deferred Consideration Rights are subject to shareholder approval.

Family Zone is subject to a US\$500,000 break fee should the acquisition agreement be terminated due to breach by Family Zone or should Family Zone fail to complete a capital raising to fund the transaction.

Further details are available in the upcoming Notice of Meeting.