



ASX Announcement

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FAMILY ZONE ACHIEVES SUBSTANTIAL EXPANSION WITH ACQUISITION OF INNOVATIVE EDUCATION TECHNOLOGY PROVIDER

- Family Zone continues its aggressive expansion in the education sector, acquiring fast-growing and in-revenue edu-tech innovator, Linewize
- Linewize is the leading provider of cyber security and safety services in New Zealand
- Follows the successful partnership agreement announced in July 2017
- Provides Family Zone access to a rapidly expanding network of schools and parents (currently 260 schools and 130,000 students) plus access to world leading technology for schools and experienced executives
- Provides strategic opportunities for Family Zone to build out features, transform service levels and achieve order of magnitude reductions in service costs through Linewize's innovative and world class cloud technology
- Consideration consists of a deposit of \$NZ 200,000 in cash, the issue of 9.5m ordinary shares in FZO plus 9.5m performance shares with aggressive growth hurdles at completion (subject to shareholder approval).

Family Zone Cyber Safety Limited (ASX:FZO) is pleased to announce it has signed a Share Sale Agreement to acquire 100% of the shares of Linewize Services Limited and Linewize Limited (**Linewize** or **the Linewize Companies**).

Tim Levy, Managing Director of Family Zone, said:

“Through the acquisition of Linewize, we press further into education. We establish a significant presence in New Zealand, add material new revenue and enhance our technology stack and management capability.

“Most importantly, the Family Zone cyber safety ecosystem is enhanced with some serious strategic technology which will bring massive improvements in our cost structure and services.”

Scott Noakes, Chief Executive Officer of Linewize, said:

“We believe the combination of Linewize's leading school internet access management technologies with Family Zone's holistic approach to addressing cyber safety issues provides an unrivalled solution for both schools and parents.

“We're excited to offer our existing schools the ability to provide thought leadership around cyber safety to their communities, and at the same time offer more schools access to Linewize services through Family Zone's unique business model.”

Linewize Background



Linewize was founded in 2013 by Scott Noakes and Michael Lawson, the New Zealand based internet innovators behind advertising platform Adscale Labs.

Linewize provides an innovative cloud-managed firewall service, specifically developed for the needs of the education sector.

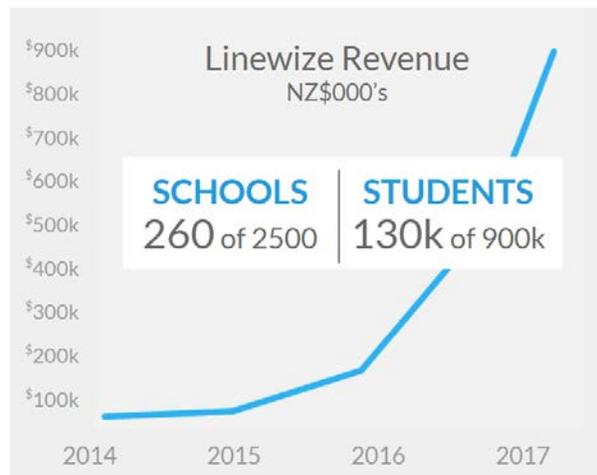
The Linewize platform and service covers user authentication, content filtering, network appliances, telecoms services, BYOD support, network access management and an award winning suite of classroom tools.

Within a short time, Linewize has achieved significant penetration into New Zealand education, now reaching more than 11% of New Zealand's schools and 15% of New Zealand's students.



Innovative New Zealand based provider of cyber platforms for education.

- ✓ Leading educational firewall provider
- ✓ Fast growing school presence (now 260)
- ✓ Fast growing revenue (100% YoY in 2017)
- ✓ Technical & product innovation
- ✓ Already serving 130,000 students
- ✓ Already promoting Family Zone
- ✓ Executive expertise & relationships



NEW ZEALAND
INNOVATION
AWARDS * 2017

Linewize has been honored to win the 2017 award for
Innovation in Education, Training and Development

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Background and Drivers

Family Zone's technical, sales and executive teams have been working with Linewize since July 2017 to interface our platforms and develop a partnering relationship to drive Family Zone sales through Linewize's school clients.

During this time the Linewize and Family Zone teams assessed a compelling opportunity to bring together the companies, merge the technologies and aggressively pursue Family Zone's commercialisation model.

The key drivers for the acquisition are set out below.

Position in New Zealand

Linewize is the leading provider of cyber security and safety platforms to the New Zealand school system (outside of the government's mandatory provided filter). Despite competing against a free, state provided alternative, Linewize has grown rapidly in the predominantly public education sector. Growth has been driven by Linewize's impressive features and affordability.

Adding Family Zone's "School Community" pricing strategy to Linewize's platform is expected to drive rapid take-up into the 2,500 New Zealand schools.

Cost Structure

Linewize's platform has been built for ease of deployment, support and for scale. Linewize supports some 260 schools today with less than 2 full-time support staff. This is an order of magnitude better than Family Zone or comparable providers.

Furthermore, the Linewize platform can operate on hardware costing some 10-20% of the cost of comparable alternatives (including School Zone).

Strategic technology opportunity

Linewize has developed a world class cloud based firewall and suite of tools and services to support school cyber safety and security.

Linewize's technology is synergistic with Family Zone's cloud-based ecosystem. The bringing together of Linewize's firewall with key features of the School Zone (Sonar/MyNet) platform is expected to propel Family Zone's on-premise solutions well beyond the competition.

Planning for the "merge" is well underway with technical effort expected to commence in November.

Roll-out to AU and globally in Q1/18

The merger of the Linewize and Family Zone platforms offer more features for schools plus significant reductions in costs of deployment and support.

This will permit Family Zone to be more aggressive in marketing to schools and through schools to parents using Family Zone's disruptive "School Community" go-to-market strategy.

Big Data and Machine Learning

With deep expertise in big data and machine learning, the founders of Linewize have put data mining, analysis and insights at the forefront of the Linewize platform.

The Linewize platform accelerates Family Zone's moves into value added services in Education such as classroom, welfare and pastoral care tools.

130,000 students and growing

Since announcing the Family Zone / Linewize partnership in July the response from the New Zealand education sector has been very positive. Clearly New Zealand schools are dealing with the same cyber challenges as Australia.

Through ownership of Linewize, Family Zone now has significantly enhanced flexibility to sell through Linewize schools to their parent community.

Executive relationships / expertise

The Linewize founders have considerable expertise and relationships in matters critical to Family Zone's commercialisation: education, education-technology, machine learning and big data. Additionally, their presence, reputation and relationships in New Zealand represents a significant opportunity for Family Zone to drive towards domination of the market.

Short to medium term impacts

There are important distinctions between the New Zealand and Australian education sectors. Of particular importance is that all public schools in New Zealand have purchasing discretion within their allocated budget. This includes making decisions around the use of technology.

Linewize has taken advantage of this purchasing authority to grow rapidly. Linewize has more than doubled revenue and penetration into schools in the past 12 months, and with its low-cost structure, is approaching profitability.

New Zealand education sector: key facts



Schools	~2,500
Primary	~1950
Secondary	~550
Private	~90
Average roll/school	310
Students	~900k
Population	~4.8m
Internet use at home	+ 80%
Average first mobile	10-12 years

Family Zone's objectives for Linewize extend far beyond New Zealand. The expanded tech stack will fast track several valuable new features and will fundamentally improve Family Zone's cost structure.

Accordingly, the Company's business plan is:

1. Aggressive expansion inside New Zealand, leveraging Linewize's product and market positioning, and Family Zone's consumer offerings and "School Community" engagement model.
2. Rapid merging of the School Zone and Linewize platforms. The Company will then roll out the merged platform through existing school deployments.
3. Rolling out Linewize's data analytics and machine learning services across Family Zone's entire suite of service offerings for parents, schools and telco carriers.
4. Leveraging the merged platform globally. The merged platform offers Family Zone order of magnitude improvements in deployment speed and servicing costs, accelerating potential global expansion.

Key Terms of the Acquisition

Pursuant to the Share Sale Agreement, Family Zone will acquire 100% of the shares of the Linewize Companies from the existing shareholders of Linewize, being:

- Scott Noakes (CEO) - 32%
- Michael Lawson (CTO) - 32%
- Linewize Employee trust - 16%; and
- Punakaiki Fund Limited (New Zealand based investment company) - 20%.

(the **Vendors**)

The key terms of the Share Sale Agreement are summarised below:

1. **Consideration Shares:** Family Zone to issue the Vendors 9,500,000 fully paid ordinary shares subject to the following voluntary escrow:
 - a. Scott Noakes & Michael Lawson: 24 months;
 - b. Linewize Employee trust: 50% for 12 months, remainder without escrow; and
 - c. Punakaiki Fund Limited: No escrow.

Note: Should the 5-day VWAP of Family Zone shares prior to completion be less than \$0.70 per share, then 20% of the Consideration Shares will be subject to an adjustment. The issued Consideration Shares for this portion will be recalculated based on dividing AU\$1.33m by the said 5-day VWAP.

2. **Cash Consideration:** NZ\$200,000 deposit paid upfront.
3. **Performance Shares:** Family Zone to issue the Vendors 9,500,000 Performance Shares, vesting subject to the achievement within 5 years of the performance milestones set out below:

Tranche	Performance Shares	Recurring Revenue	or	LW School Deploys	or	FZO NZ Accounts
1	1m	\$1.25m	or	310	or	5,000
2	1m	\$1.75m	or	360	or	10,000
3	2m	\$3.75m	or	460	or	20,000
4	2.5m	\$6.25m	or	585	or	32,500
5	3m	\$9.25m*				

WHERE:

Recurring Revenue means the recurring service revenue of the Linewize Companies or their services globally.

LW School Deploys means the total school deployments of the core technology of the Linewize Companies, (based on number of schools, not physical deployment) in any country.

FZO NZ Accounts means New Zealand Family Zone accounts with active services and an active and valid payment method.

* For the purpose of tranche 5, all revenue of the Family Zone group derived from New Zealand will be included in the calculation of revenue.

4. **Executive Appointments:** Family Zone to engage Scott Noakes and Michael Lawson on executive employment agreements including the issue of 1,000,000 Executive Performance Shares each. The Executive Performance Shares are subject to the same terms as provided to the founders and key executives of Family Zone.
5. **Shareholder approvals:** The issue of the Consideration Shares and Performance Shares is subject to Shareholder approval at a Family Zone shareholder meeting. Should Shareholders not agree to issue the ordinary shares to the Vendors, then Family Zone will be required to pay the Vendors the upfront consideration of AU\$6.65m in cash at completion. Should Shareholders not agree to the issue of Performance Shares to the Vendors, then on satisfaction of any performance milestone Family Zone will pay an amount calculated by taking the number of Performance



Shares which would have been issued and multiplying this number by the 30-day VWAP at the time the applicable milestone is achieved.

6. **Other conditions:** Completion of the Acquisition is also conditional on the following:
- a. Family Zone conducting due diligence on the Linewize Companies and their assets and business operations and being satisfied with the results of such due diligence in its absolute discretion;
 - b. the Vendors obtaining any third party consents or approvals required, including from counterparties to contracts, to give effect to the Linewize Acquisition;
 - c. Family Zone entering into executive employment agreements with each of Scott Noakes and Michael Lawson;
 - d. the relevant Vendors entering into voluntary escrow agreements for the escrow contemplated above.
7. The Share Sale Agreement includes typical warranties and limits of liability for such a transaction.

Further details in respect to the acquisition of the Linewize Companies will be outlined in the shareholder meeting documentation to be sent to shareholders shortly.

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.

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