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Life360 (360)

Clouds clearing?

Recommendation

Buy (unchanged)

Price

\$5.37

Target (12 months)

\$10.00 (unchanged)

GICS Sector

Software and Services

Expected Return

Capital growth	86.2%
Dividend yield	0.0%
Total expected return	86.2%

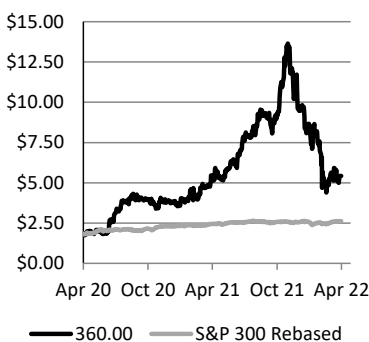
Company Data & Ratios

Enterprise value	\$1,104.7m
Market cap	\$990.0m
Issued capital	184.4m
Free float	90%
Avg. daily val. (52wk)	\$7.7m
12 month price range	\$3.48 - \$13.94

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	5.22	8.56	4.91
Absolute (%)	3.83	-36.68	10.46
Rel market (%)	-1.15	-37.81	3.18

Absolute Price



SOURCE: IRESS

More clarity likely with release of quarterly next week

Life360 is scheduled to release its Appendix 4C for 1Q2022 next Wednesday, 27th April and we expect this and other commentary by the company to provide more clarity regarding the outlook for 2022 and potentially beyond. Firstly we expect the quarterly will show continued strong y-o-y growth in the core business while we expect Jiojob and Tile revenue to be relatively flat. Secondly we expect an update on the proposed US listing and perhaps a decision on whether this is proceeding or being put on hold for now. If it is the former then we expect Life360 to again clarify that it will not conduct a capital raising around the current share price. If it is the latter then there is the potential for the company to provide 2022 guidance which it has been unable to do to date due to the listing process under US securities law. Additionally the company may even provide an expected pathway to profitability given this is a key focus of the market at present for loss making companies.

No change in forecasts

There is no change in our forecasts. We already forecast strong growth in the core business in 2022 (e.g. 38% revenue growth) and only modest growth for Jiojob and Tile. We then forecast continued strong growth in the core business in 2023 (e.g. 28% revenue growth) and stronger growth for Jiojob and Tile in the double digit percentages. We also continue to forecast underlying EBITDA losses of US\$33.5m in 2022 and US\$12.6m in 2023 and then a modest EBITDA profit in 2024. Note the company has more than enough cash to fund the forecast losses in 2022 and 2023.

Investment view: \$10.00 PT unchanged, BUY maintained

While there is no change in our forecasts we have updated each valuation used in the determination of our price target for market movements and time creep. There are no changes in our key assumptions of no premium/discount in the EV/Revenue valuation and an 8.7% WACC and 5.0% terminal growth rate in the DCF. The net result, however, is no change in our PT of \$10.00 and we retain our BUY recommendation. We see the release of the quarterly next week as a potential catalyst for the stock.

Earnings Forecast

Year end 31 December	2021	2022e	2023e	2024e
Total revenue (US\$m)	112.6	269.8	329.0	391.2
EBITDA (underlying) (US\$m)	-13.1	-33.5	-12.6	0.6
NPAT (underlying) (US\$m)	-15.3	-35.4	-15.0	-2.2
EPS (underlying, diluted) (Acps)	-13.6	-25.5	-10.4	-1.5
EPS growth (%)	NM	NM	NM	NM
PER (x)	NM	NM	NM	NM
Price/CF (x)	NM	NM	NM	NM
EV/Revenue (x)	4.4	2.6	2.1	1.8
Dividend (A¢ps)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
ROE (%)	NM	NM	NM	NM
Franking (%)	0%	0%	0%	0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Clouds Clearing?

More Clarity Likely with Release of Quarterly Next Week

Life360 is scheduled to release its Appendix 4C for 1Q2022 next Wednesday, 27th April and we expect this and other commentary by the company to provide more clarity regarding the outlook for 2022 and potentially beyond. Firstly we expect the quarterly will show continued strong y-o-y growth in the core business while we expect Jiobit and Tile revenue to be relatively flat. Our key forecasts for the core business are shown below and note we expect another quarter of at least 50% y-o-y growth in AMR despite Q1 traditionally not being a strong quarter. We do not provide any forecasts for Jiobit or Tile given no pcg data is available for either business.

Figure 1 - Key forecasts for core business in Q1

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
	Actual	Actual	Actual	Actual	Forecast
US monthly active users	18.1m	20.3m	22.2m	23.7m	25.0m
International monthly active users	10.0m	12.1m	11.6m	11.8m	12.0m
Global monthly active users	28.0m	32.3m	33.8m	35.5m	37.0m
<i>Q-o-Q increase</i>	1.5m	4.2m	1.5m	1.7m	1.5m
<i>Q-o-Q percentage increase</i>	6%	15%	5%	5%	4%
Global paying circles	0.92m	1.00m	1.10m	1.23m	1.30m
<i>Q-o-Q percentage increase</i>	3%	9%	10%	11%	5%
Quarterly revenue*	US\$23.0m	US\$25.0m	US\$29.3m	US\$33.1m	US\$34.0m
<i>Q-o-Q percentage increase</i>	1%	9%	17%	13%	3%
<i>Y-o-Y percentage increase</i>	20%	28%	45%	46%	48%
Annualised monthly revenue (AMR)*	US\$95.8m	US\$105.9m	US\$120.1m	US\$135.7m	US\$143.8m
<i>Q-o-Q percentage increase</i>	7%	11%	13%	13%	6%
<i>Y-o-Y percentage increase</i>	26%	36%	48%	51%	50%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

* EXCLUDES JIOBIT AND TILE

Secondly we expect an update on the proposed US listing and perhaps a decision on whether this is proceeding or being put on hold for now. If it is the former then we expect Life360 to again clarify that it will not conduct a capital raising around the current share price. If it is the latter then there is the potential for the company to provide 2022 guidance which it has been unable to do to date due to the listing process under US securities law. Additionally the company may even provide an expected pathway to profitability given this is a key focus of the market at present for loss making companies.

We view either scenario – ruling out a capital raising around the current share price or putting the listing on hold and providing 2022 guidance plus potentially the pathway to profitability – as positive and a potential catalyst for the share price. The latter scenario, however, is likely to be more of a potential catalyst given it categorically rules out any capital raising – at least in the short term – and provides clarity around revenue and loss expectations for 2022 as well as when positive underlying EBITDA can be expected. Note we currently forecast positive underlying EBITDA in 2H2024 though believe there are levers the company can pull to bring this forward by 6-12 months if desired.

Note we believe a US listing will occur in time as this has been the long held desire of the company and founder/CEO Chris Hulls. So while such a listing may be put on hold for now due to current market conditions we believe it will occur in the medium term and regard this as a potentially positive development given the typically much higher valuations attributed to companies with apps that have high penetration such as Life360.

Earnings and Valuation Changes

No Change in Forecasts

There is no change in our forecasts. We already forecast strong growth in the core business in 2022 (e.g. 38% revenue growth) and only modest growth for Jibit and Tile. We then forecast continued strong growth in the core business in 2023 (e.g. 28% revenue growth) and stronger growth for Jibit and Tile in the double digit percentages. We also continue to forecast underlying EBITDA losses of US\$33.5m in 2022 and US\$12.6m in 2023 and then a very modest EBITDA profit in 2024. Note the company has more than enough cash to fund the forecast losses in 2022 and 2023.

A summary of our key forecasts is shown below. Note we forecast no dividends over the next three years. The low in cash we expect to be at the end of 2024 and c.US\$43m. We therefore see no need for a capital raise and do not assume one in our forecasts.

Figure 2 - Key forecasts

Year end 31 December	2022e	Change	2023e	Change	2024e	Change
Total revenue (US\$m)	269.8	>100%	329.0	22%	391.2	19%
EBITDA (underlying) (US\$m)	-33.5	NM	-12.6	NM	0.6	NM
NPAT (underlying) (US\$m)	-35.4	NM	-15.0	NM	-2.2	NM
Diluted EPS (underlying) (Ac)	-25.5c	NM	-10.4c	NM	-1.5c	NM
DPS (Ac)	0.0c	NM	0.0c	NM	0.0c	NM

SOURCE: BELL POTTER SECURITIES ESTIMATES

\$10.00 PT Unchanged

While there is no change in our forecasts we have updated each valuation used in the determination of our price target for market movements and time creep. There are no changes in our key assumptions of no premium or discount in the EV/Revenue valuation and an 8.7% WACC and 5.0% terminal growth rate in the DCF.

The change in each valuation and the impact on our PT calculation is shown below.

Figure 3 - Change in valuations and impact on PT

Methodology	Old (as at 17-Mar-22)			New (as at 19-Apr-22)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
EV/Revenue	\$9.29	67%	\$6.19	\$9.25	67%	\$6.17
DCF	\$11.42	33%	\$3.81	\$11.50	33%	\$3.83
Total			\$10.00			\$10.00

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows a modest decrease in the EV/Revenue valuation – driven by a further decrease in the average multiple of the listed peers – but an offsetting modest increase in our DCF (driven by time creep). The net result, however, is no change in our PT of \$10.00 which is an 86% premium to the current share price and we retain our BUY recommendation. We see the release of the quarterly next week as a potential catalyst for the stock given the expected continued strong growth in the core business and additional clarity around the outlook for 2022 and potentially beyond.

Life360

Company Description

Life360 provides a market leading app for families – called Life360 – with features that range from communications to driving safety and location sharing. The company has more than 30 million monthly active users and is becoming a dominant brand at the centre of family life in both the US and internationally. Life360 operates a “freemium” model where the app is available to users at no charge but over the past five years the company has been monetising its user base by providing premium subscription options as well as recently introducing a membership program.

Life360 was founded in 2007 by Chris Hulls who is still the CEO today and one of the largest shareholders in the company. The company was also co-founded by Alex Haro who is a non-executive director and also one of the largest shareholders. Life360 is based in San Francisco, California and is located in approximately 195 countries.

Investment Thesis

We maintain our BUY recommendation on Life360. Our investment thesis is based on:

- **Valuation:** Our 12 month price target on Life360 is \$10.00. The price target is generated from a blend of two valuation methodologies we apply to the company: EV/Revenue and DCF. The price target is an 86% premium to the current share price and the total expected return is the same given there is no forecast dividend yield.
- **Large and resilient subscriber base:** Life360 has >1,200k paying circles – the best measure of customer numbers – and managed to grow this base by 8% in 2020 and 38% in 2021 despite the disruptions associated with COVID-19. This growth shows resilience in the subscriber base and, furthermore, the potential for strong growth in the base when market conditions return to normal.
- **Potential to enter and disrupt other markets:** Life360 has the potential to leverage its large and growing user base to enter new markets and disrupt the legacy incumbents. An example is roadside assistance where Life360 launched a subscription-based product called Driver Protect which disrupted the market and helped enable monetisation of its user base. Other markets Life360 could potentially enter include insurance, item & pet tracking, senior monitoring, home security and/or identity theft.

Key Risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **User and paying circle retention and growth:** The growth of Life360 depends on its ability to attract new users and convert users to paying circles. A failure to grow and retain users and paying circles may have a material adverse impact on future financial performance.
- **Competition and new technologies:** The consumer subscription services market is fast-paced and constantly changing. Some existing and potential competitors have significantly more resources than Life360. If Life360 does not successfully compete and adapt then its financial performance and operations could be adversely affected.
- **Product development:** Life360 intends to grow its revenue through new subscription-based products and also indirect revenue. Revenue from these areas may take a few years or more to become meaningful or may ultimately be lower than originally forecast.

Table 1 - Financial summary

Life360 (360)						Share price:	\$5.37	Target price:	\$10.00		
						No. of issued shares:	184.4m	Market cap:	\$990.0m		
Profit & Loss (US\$m)						Valuation data					
Year end 31 Dec	2020	2021	2022e	2023e	2024e	Year end 31 Dec	2020	2021	2022e	2023e	2024e
Revenue	80.7	112.6	269.8	329.0	391.2	NPAT (underlying) (A\$m)	-10.2	-21.1	-47.2	-20.0	-2.9
Change	37%	40%	140%	22%	19%	Diluted EPS (underlying) (Ac)	-6.9	-13.6	-25.5	-10.4	-1.5
Cost of revenue	15.4	22.8	84.0	95.1	108.7	Change	NM	NM	NM	NM	NM
Gross profit	65.3	89.9	185.8	233.9	282.4	P/E ratio (x)	NM	NM	NM	NM	NM
Gross margin	80.9%	79.8%	68.9%	71.1%	72.2%	CFPS (Acps)	-6.8	-10.8	-28.2	-11.5	-2.4
Expenses (excl. D&A, int.)	81.9	122.1	252.9	283.8	303.1	Price/CF (x)	NM	NM	NM	NM	NM
% of revenue	101.6%	108.4%	93.8%	86.3%	77.5%	DPS (cps)	0.0	0.0	0.0	0.0	0.0
Other income (excl. interest)	0.0	0.0	0.0	0.0	0.0	Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Change in fair value of liability	0.0	0.0	0.0	0.0	0.0	Franking	0%	0%	0%	0%	0%
EBITDA (statutory)	-16.0	-31.4	-66.0	-48.3	-19.0	EV/Revenue (x)	8.2	4.4	2.6	2.1	1.8
Depreciation & Amortisation	-0.7	-0.9	-1.2	-1.5	-1.7	EV/EBITDA (underlying) (x)	NM	NM	NM	NM	1248.6
EBIT	-16.7	-32.3	-67.2	-49.8	-20.7	NTA per share (Acps)	58.6	161.0	33.7	24.5	24.2
Net interest (expense)/revenue	0.3	-1.4	-0.7	-0.9	-1.1	Price/NTA (x)	9.2	3.3	15.9	22.0	22.2
Pre-tax profit	-16.3	-33.7	-67.9	-50.7	-21.8	Performance ratios					
Income tax expense	0.0	0.1	0.0	0.0	0.0	Year end 31 Dec	2020	2021	2022e	2023e	2024e
NPAT (statutory)	-16.3	-33.6	-67.9	-50.7	-21.8	EBITDA margin	-19.8%	-27.9%	-24.5%	-14.7%	-4.9%
EBITDA (underlying)	-7.0	-13.1	-33.5	-12.6	0.6	EBIT margin	-20.6%	-28.6%	-24.9%	-15.1%	-5.3%
NPAT (underlying)	-7.4	-15.3	-35.4	-15.0	-2.2	Return on assets	-18.9%	-11.1%	-21.5%	-16.6%	-7.1%
Cash Flow (US\$m)						Return on equity	NM	NM	NM	NM	NM
Year end 31 Dec	2020	2021	2022e	2023e	2024e	ROIC	NM	NM	NM	NM	NM
NPAT (statutory)	-16.3	-33.6	-67.9	-50.7	-21.8	Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation & Amortisation	0.7	0.9	1.2	1.5	1.7	Effective tax rate	0.0%	-0.4%	0.0%	0.0%	0.0%
Amortisation of costs	7.0	4.0	0.0	0.0	0.0	Leverage ratios					
Stock-based compensation	8.1	11.8	32.5	35.8	19.7	Year end 31 Dec	2020	2021	2022e	2023e	2024e
Change in fair value of liability	0.0	5.2	0.0	0.0	0.0	Net debt/(cash) (A\$m)	-78.1	-307.7	-69.7	-49.8	-47.0
Gross cash flow	-0.6	-11.7	-34.2	-13.5	-0.5	Net debt/equity	NM	NM	NM	NM	NM
Change in working capital	-6.7	-0.4	-5.0	-3.0	-3.1	Gearing	NM	NM	NM	NM	NM
Operating cash flow	-7.3	-12.2	-39.1	-16.4	-3.6	Net debt/EBITDA (x)	NM	NM	NM	NM	NM
Payments for PPE	-0.7	-0.1	-0.8	-1.0	-1.0	Net interest cover (x)	NM	NM	NM	NM	NM
Payments for acquisitions	0.0	-3.0	-133.4	0.0	0.0	Segmentals (US\$m)					
Investing cash flow	-0.7	-7.1	-134.2	-1.0	-1.0	Year end 31 Dec	2020	2021	2022e	2023e	2024e
Proceeds from issue of shares	0.0	193.1	0.0	0.0	0.0	Revenue (US\$m)					
Proceeds from exer. of options	1.6	3.5	2.5	2.5	2.5	Subscription revenue	58.5	84.3	127.4	169.7	209.5
Taxes paid related to equity	-1.1	-4.7	0.0	0.0	0.0	Data and other revenue	22.2	26.1	24.8	24.8	25.4
Proceeds from borrowings	3.1	2.1	0.0	0.0	0.0	Jiobit			12.4	16.1	20.1
Payments on borrowings	-3.1	0.0	0.0	0.0	0.0	Tile			105.3	118.4	136.2
Financing cash flow	0.4	194.0	2.5	2.5	2.5	Total revenue	80.7	112.6	269.8	329.0	391.2
Net change in cash	-7.5	174.7	-170.8	-14.9	-2.1	Growth					
Cash at start of period	64.1	56.6	231.3	60.6	45.6	Subscription revenue	33%	44%	51%	33%	23%
Cash at end of period	56.6	231.3	60.6	45.6	43.5	Data and other revenue	49%	18%	-5%	0%	3%
Balance Sheet (US\$m)						Jiobit			0%	30%	25%
Year end 31 Dec	2020	2021	2022e	2023e	2024e	Tile				13%	15%
Cash	56.4	231.0	60.2	45.3	43.2	Total revenue	37%	40%	140%	22%	19%
Accounts receivable	9.0	11.8	27.0	32.9	39.1	Gross profit					
Costs capitalised	3.4	1.3	1.3	1.3	1.3	Subscription revenue	44.9	66.4	100.3	135.8	167.6
Prepaid expenses and other	10.0	12.9	12.9	12.9	12.9	Data and other revenue	20.4	21.1	22.3	22.3	22.9
Restricted cash	0.2	0.4	0.4	0.4	0.4	Jiobit			10.5	13.7	17.1
PPE	0.8	0.6	3.5	3.0	2.3	Tile			52.6	62.2	74.9
Costs capitalised	0.6	0.3	0.3	0.3	0.3	Total gross profit	65.3	89.9	185.8	233.9	282.4
Intangibles - Goodwill	0.8	31.5	196.6	196.6	196.6	Gross margin					
Intangibles - Other	0.0	8.0	8.0	8.0	8.0	Subscription revenue	76.8%	78.9%	78.8%	80.0%	80.0%
Notes due from affiliates	0.3	0.0	0.0	0.0	0.0	Data and other revenue	91.8%	81.0%	90.0%	90.0%	90.0%
Right of use assets	2.6	1.6	1.6	1.6	1.6	Jiobit		0.0%	85.0%	85.0%	85.0%
Prepaid expenses and other	2.2	3.7	3.7	3.7	3.7	Tile			50.0%	52.5%	55.0%
Total assets	86.3	303.1	315.5	305.9	309.4	Total gross margin	80.9%	79.8%	68.9%	71.1%	72.2%
Accounts payable	2.4	3.2	13.5	16.5	19.6	Interims (US\$m)					
Accrued expenses	5.2	24.7	24.7	24.7	24.7	Year end 31 Dec	1H2020	2H2020	1H2021	2H2021	
Deferred revenue	11.9	13.9	13.9	13.9	13.9	Revenue	37.8	42.9	48.0	64.6	
Deferred rent	0.0	0.0	0.0	0.0	0.0	Cost of revenue		6.9	8.5	9.2	13.5
Other non-current liabilities	2.3	2.6	2.6	2.6	2.6	Gross profit		30.9	34.4	38.8	51.1
Total liabilities	21.8	52.7	63.0	65.9	69.0	Gross margin		81.6%	80.3%	80.7%	79.1%
Common stock and paid capital	196.9	416.3	453.8	456.3	458.8	EBITDA (statutory)		-7.1	-8.9	-10.4	-21.0
Notes due from affiliates	-0.6	-0.6	-0.6	-0.6	-0.6	EBITDA (underlying)		-2.6	-4.5	-4.8	-8.3
Accumulated deficit	-131.8	-165.3	-200.7	-215.7	-217.9						
Total shareholders' equity	64.5	250.4	252.5	240.0	240.3						

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

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Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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