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Life360 (360)

Life is good

Recommendation

Buy (unchanged)

Price

\$6.47

Target (12 months)

\$9.00 (previously \$8.75)

GICS Sector

Software and Services

Expected Return

Capital growth	39.1%
Dividend yield	0.0%
Total expected return	39.1%

Company Data & Ratios

Enterprise value	\$1,400m
Market cap	\$1,287m
Issued capital	198.9m
Free float	95%
Avg. daily val. (52wk)	\$5.6m
12 month price range	\$2.41 - \$7.43

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	4.96	5.71	3.49
Absolute (%)	26.41	9.81	79.66
Rel market (%)	27.56	13.52	77.37

Absolute Price



SOURCE: IRESS

Strong quarter ahead of our expectations

Life360 reported 1Q2023 results that were ahead of our expectations on all key metrics: Paying circles up 73k q-o-q to 1.6m (vs BPe up 35k); Average revenue per paying circle of US\$121 (vs BPe US\$116); Annualised monthly revenue (excl. hardware) of US\$239.5m (vs BPe US\$235m); Global monthly users up 5% q-o-q to 50.8m (vs BPe 50.3m); Revenue up 34% y-o-y to US\$68.1m; Adjusted EBITDA US\$0.5m (positive figure achieved one quarter ahead of expectations); and Cash at 31 March of US\$76.1m (vs BPe US\$70-75m). The company reiterated its 2023 guidance. Operating cash flow in Q1 was an outflow of US\$(9.2)m but this was expected and the company reiterated it expects to be operating cash flow positive from Q2 onwards.

Upgrade in 2023 forecasts to above guidance

We have upgraded our 2023 revenue and adjusted EBITDA forecasts by 2% and 42% to US\$312.6m and US\$10.5m. Notably our forecasts are now ahead of the guidance of US\$300-310m for revenue and US\$5-10m for adjusted EBITDA. We now see potential for an upgrade to the guidance later in the year. There is little change, however, in our 2024 and 2025 forecasts which already assume strong growth. We continue to forecast mid to high teens percentage growth in revenue in 2024 and 2025 and at least a doubling of adjusted EBITDA in each period.

Investment view: PT up 3% to \$9.00; Maintain BUY

We have updated each valuation used in the determination of our price target for the forecast changes as well as market movements, exchange rate changes and time creep. There are no changes in the key assumptions we apply which are a 3.0x multiple in the EV/Revenue and 9.4% WACC and 5.0% terminal growth rate in the DCF. The net result is a 3% increase in our PT to \$9.00 which is >15% premium to the share price so we maintain our BUY recommendation. The next potential catalyst is the release of the Q2/H1 results in September where despite a likely decrease in paying circle growth in Q2 – due to the Android price increases – we expect another good quarter and importantly positive operating cash flow.

Earnings Forecast

Year end 31 December	2022	2023e	2024e	2025e
Total revenue (US\$m)	228.3	312.6	363.9	420.4
EBITDA (adjusted) (US\$m)	-40.1	10.5	24.7	54.5
NPAT (adjusted) (US\$m)	-38.0	7.6	22.0	50.8
EPS (adjusted, diluted) (Acps)	-29.3	5.5	14.8	32.5
EPS growth (%)	NM	NM	NM	NM
PER (x)	NM	NM	43.7	19.9
Price/CF (x)	NM	NM	41.8	19.4
EV/Revenue (x)	4.2	3.1	2.8	2.5
Dividend (A¢ps)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
ROE (%)	NM	NM	NM	6.4%
Franking (%)	0%	0%	0%	0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Forecast and Valuation Changes

Upgrade in 2023 Forecasts to Above Guidance

We have upgraded our 2023 revenue and adjusted EBITDA forecasts by 2% and 42% to US\$312.6m and US\$10.5m. Notably our forecasts are now ahead of the guidance of US\$300-310m for revenue and US\$5-10m for adjusted EBITDA. We now see potential for an upgrade to the guidance later in the year. There is little change, however, in our 2024 and 2025 forecasts which already assume strong growth. We continue to forecast mid to high teens percentage growth in revenue in 2024 and 2025 and at least a doubling of adjusted EBITDA in each period.

A summary of the changes in our key forecasts is shown below. We continue to forecast no dividends in any period. Note we forecast year end cash of US\$77.5m in 2023 so the Balance Sheet is strong.

Figure 1 - Change in key forecasts

Year end 31 December	2023e			2024e			2025e		
	Old	New	Change	Old	New	Change	Old	New	Change
Total revenue (US\$m)	307.2	312.6	1.8%	364.2	363.9	-0.1%	421.1	420.4	-0.2%
EBITDA (adjusted) (US\$m)	7.4	10.5	42.4%	24.7	24.7	0.0%	54.6	54.5	-0.1%
NPAT (adjusted) (US\$m)	4.5	7.6	70.3%	22.0	22.0	0.0%	50.8	50.8	-0.1%
Diluted EPS (adjusted) (Ac)	3.2c	5.5c	71.6%	14.8c	14.8c	0.0%	32.5c	32.5c	-0.1%
DPS (Ac)	0.0c	0.0c	NM	0.0c	0.0c	NM	0.0c	0.0c	NM

SOURCE: BELL POTTER SECURITIES ESTIMATES

3% Increase in PT to \$9.00

We have updated each valuation used in the determination of our price target for the forecast changes as well as market movements, exchange rate changes and time creep. There are no changes in the key assumptions we apply which are a 3.0x multiple in the EV/Revenue and 9.4% 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 2 - Change in valuations and impact on PT

Methodology	Old (as at 5-May-23)			New (as at 16-May-23)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
EV/Revenue	\$7.20	67%	\$4.80	\$7.39	67%	\$4.93
DCF	\$11.85	33%	\$3.95	\$12.22	33%	\$4.07
Total			\$8.75			\$9.00

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows a low single digit percentage increase in each valuation. The net result is a 3% increase in our PT to \$9.00 which is >15% premium to the share price so we maintain our BUY recommendation. The next potential catalyst is the release of the Q2/H1 results in September where despite a likely decrease in paying circle growth in Q2 – due to the Android price increases – we expect another good quarter and importantly positive operating cash flow. But note we don't expect an upgrade to guidance at the Q2/H1 result in September as we believe the company will be more inclined to wait and see the result of the traditionally strong Q3.

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 \$9.00. 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 a 39% 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 >1.5m paying circles – the best measure of subscriber numbers – and managed to grow this base by 39% in 2021 and 23% in 2022 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 with market conditions returning 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:	\$6.47	Target price:	\$9.00		
						No. of issued shares:	198.9m	Market cap:	\$1,287m		
Profit & Loss (US\$m)						Valuation data					
Year end 31 Dec	2021	2022	2023e	2024e	2025e	Year end 31 Dec	2021	2022	2023e	2024e	2025e
Revenue	112.6	228.3	312.6	363.9	420.4	Adjusted NPAT (A\$m)	-21.1	-55.3	10.9	30.4	67.7
Change	40%	103%	37%	16%	16%	Diluted adjusted EPS (Ac)	-13.6	-29.3	5.5	14.8	32.5
Cost of revenue	22.8	79.7	97.7	104.6	110.3	Change	NM	NM	NM	NM	NM
Gross profit	89.9	148.6	214.9	259.3	310.0	P/E ratio (x)	NM	NM	NM	43.7	19.9
Gross margin	79.8%	65.1%	68.8%	71.3%	73.8%	CFPS (Acps)	-10.8	-44.0	5.9	15.5	33.3
Expenses (excl. D&A, int.)	122.1	243.0	255.5	272.0	290.1	Price/CF (x)	NM	NM	NM	41.8	19.4
% of revenue	108.4%	106.4%	81.8%	74.8%	69.0%	DPS (cps)	0.0	0.0	0.0	0.0	0.0
EBITDA (statutory)	-31.4	-85.2	-30.7	-2.4	30.9	Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation & Amortisation	-0.9	-9.2	-9.9	-10.4	-10.9	Franchising	0%	0%	0%	0%	0%
EBIT	-32.3	-94.4	-40.6	-12.7	20.0	EV/Revenue (x)	9.0	4.2	3.1	2.8	2.5
Net interest (expense)/revenue	-1.4	3.1	-1.5	-0.8	-0.4	EV/EBITDA (x)	NM	NM	NM	NM	34.0
Pre-tax profit	-33.7	-91.3	-42.2	-13.5	19.6	EV/Adjusted EBITDA (x)	NM	NM	92.4	41.1	19.3
Income tax expense	0.1	-0.3	0.0	0.0	-1.0	NTA per share (Acps)	161.0	43.2	43.4	55.7	85.7
NPAT (statutory)	-33.6	-91.6	-42.2	-13.5	18.6	Price/NTA (x)	4.0	15.0	14.9	11.6	7.5
Adjusted EBITDA	-13.1	-40.1	10.5	24.7	54.5	Performance ratios					
Adjusted NPAT	-15.3	-38.0	7.6	22.0	50.8	Year end 31 Dec	2021	2022	2023e	2024e	2025e
Cash Flow (US\$m)						EBITDA margin	-27.9%	-37.3%	-9.8%	-0.6%	7.3%
Year end 31 Dec	2021	2022	2023e	2024e	2025e	Adjusted EBITDA margin	-11.6%	-17.6%	3.4%	6.8%	13.0%
NPAT (statutory)	-33.6	-91.6	-42.2	-13.5	18.6	EBIT margin	-28.6%	-41.4%	-13.0%	-3.5%	4.8%
Depreciation & Amortisation	0.9	9.2	9.9	10.4	10.9	Return on assets	-11.1%	-27.0%	-12.8%	-3.9%	4.8%
Amortisation of costs	4.0	2.9	0.0	0.0	0.0	Return on equity	NM	NM	NM	NM	6.4%
Stock-based compensation	11.8	34.7	37.3	27.0	23.7	ROIC	NM	NM	NM	NM	NM
Other adjustments	5.2	-9.5	0.0	0.0	0.0	Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Gross cash flow	-11.7	-54.3	5.0	23.9	53.2	Effective tax rate	-0.4%	0.3%	0.0%	0.0%	-5.0%
Change in working capital	-0.4	-2.8	3.1	-0.9	-1.2	Leverage ratios					
Operating cash flow	-12.2	-57.1	8.1	23.0	52.0	Year end 31 Dec	2021	2022	2023e	2024e	2025e
Payments for PPE	-0.1	-0.7	-0.8	-1.0	-1.0	Net debt/(cash) (A\$m)	-288.7	-101.1	-108.5	-132.6	-194.5
Payments for acquisitions	-3.0	-110.9	-13.1	0.0	0.0	Net debt/equity	NM	NM	NM	NM	NM
Investing cash flow	-7.1	-111.6	-13.9	-1.0	-1.0	Gearing	NM	NM	NM	NM	NM
Proceeds from issue of shares	193.1	32.2	0.0	0.0	0.0	Net debt/EBITDA (x)	NM	NM	NM	NM	NM
Proceeds from exer. of options	3.5	2.4	2.5	2.5	2.5	Net interest cover (x)	NM	NM	NM	NM	NM
Taxes paid related to equity	-4.7	-4.1	-4.0	-3.8	-3.8	Segmentals					
Proceeds from borrowings	2.1	0.6	0.0	0.0	0.0	Year end 31 Dec	2021	2022	2023e	2024e	2025e
Payments on borrowings	0.0	-3.5	-4.0	-3.5	0.0	Revenue (US\$m)					
Financing cash flow	194.0	27.7	-5.5	-4.8	-1.3	Direct revenue - Life360 US	77.2	116.1	185.5	222.1	265.4
Net change in cash	174.7	-141.0	-11.2	17.2	49.7	Direct revenue - Tile/Jiobit		20.0	26.1	30.9	34.6
Cash at start of period	56.6	231.3	90.4	79.1	96.4	Direct revenue - US	77.2	136.1	211.6	253.0	300.0
Cash at end of period	231.3	90.4	79.1	96.4	146.1	Direct revenue - International	9.3	17.2	25.8	33.9	41.4
Balance Sheet (US\$m)						Indirect revenue	25.1	27.1	26.1	26.8	27.4
Year end 31 Dec	2021	2022	2023e	2024e	2025e	Hardware	1.0	47.9	49.1	50.3	51.6
Cash	231.0	88.7	77.5	94.7	144.5	Total revenue	112.6	228.3	312.6	363.9	420.4
Accounts receivable	11.8	33.1	46.9	52.8	58.9	Growth					
Costs capitalised	1.3	1.4	1.4	1.4	1.4	Direct revenue - Life360 US		50%	60%	20%	19%
Prepaid expenses and other	10.6	8.5	8.5	8.5	8.5	Direct revenue - Tile/Jiobit			31%	18%	12%
Restricted cash	0.4	1.6	1.6	1.6	1.6	Direct revenue - US		76%	56%	20%	19%
PPE	0.6	0.4	0.8	1.3	1.8	Direct revenue - International		84%	50%	31%	22%
Costs capitalised	0.3	0.6	0.6	0.6	0.6	Indirect revenue		8%	-4%	3%	3%
Intangibles - Goodwill	31.1	133.7	133.7	133.7	133.7	Hardware		4930%	3%	3%	3%
Intangibles - Other	8.0	52.7	43.2	33.3	22.9	Total revenue		103%	37%	16%	16%
Notes due from affiliates	0.0	0.0	0.0	0.0	0.0	Cost of subscription revenue	-17.8	-30.7	-47.5	-54.5	-61.4
Right of use assets	1.6	0.8	0.8	0.8	0.8	Cost of hardware revenue	-1.3	-45.4	-35.6	-35.2	-34.8
Prepaid expenses and other	3.7	7.1	7.1	7.1	7.1	Cost of other revenue	-3.6	-3.6	-14.6	-14.9	-14.1
Total assets	302.4	339.6	330.0	343.2	388.1	Total cost of revenue	-22.8	-79.7	-97.7	-104.6	-110.3
Accounts payable	13.8	40.8	54.7	59.1	63.1	Gross profit	89.9	148.6	214.9	259.3	310.0
Current borrowings	0.0	0.0	4.2	3.4	0.0	Gross margin	79.8%	65.1%	68.8%	71.3%	73.8%
Deferred revenue	13.9	30.1	30.1	30.1	30.1	Interims (US\$m)					
Other current liabilities	0.0	0.0	0.0	0.0	0.0	Year end 31 Dec		1H2022	2H2022	1H2023e	2H2023e
Deferred rent	0.0	0.0	0.0	0.0	0.0	Revenue		99.8	128.5	137.4	175.2
Non-current borrowings	8.3	4.1	0.8	0.1	0.1	Gross profit		64.4	84.2	96.2	118.7
Other non-current liabilities	2.6	3.4	3.4	3.4	3.4	Gross margin		64.5%	65.5%	70.0%	67.8%
Total liabilities	52.3	95.1	91.9	92.8	96.7	EBITDA (statutory)		-56.1	-29.1	-20.4	-10.4
Common stock and paid capital	416.3	501.8	500.3	499.1	497.8	EBITDA (adjusted)		-32.3	-7.8	2.3	8.3
Notes due from affiliates	-1.0	-0.3	-0.3	-0.3	-0.3						
Accumulated deficit	-165.3	-257.0	-261.9	-248.4	-206.1						
Total shareholders' equity	250.0	244.5	238.1	250.4	291.4						

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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