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## Life360 (360)

Better to be safe

**Recommendation**

**Buy** (unchanged)

**Price**

**\$7.66**

**Target (12 months)**

**\$11.00** (previously \$11.25)

**GICS Sector**

**Software and Services**

**Expected Return**

Capital growth	<b>43.6%</b>
Dividend yield	<b>0.0%</b>
Total expected return	<b>43.6%</b>

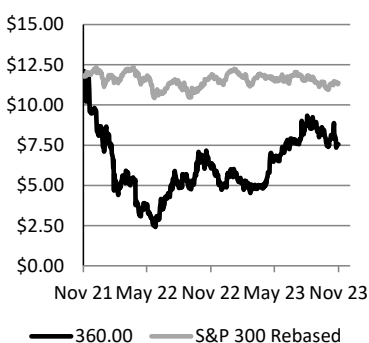
**Company Data & Ratios**

Enterprise value	<b>\$1,649m</b>
Market cap	<b>\$1,552m</b>
Issued capital	<b>202.7m</b>
Free float	<b>95%</b>
Avg. daily val. (52wk)	<b>\$5.6m</b>
12 month price range	<b>\$4.40 - \$9.48</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	7.79	8.41	6.30
Absolute (%)	-3.08	-10.23	19.84
Rel market (%)	-5.74	-8.56	22.76

**Absolute Price**



SOURCE: IRESS

**Revenue down slightly but EBITDA unchanged**

We have reviewed our forecasts post the release of the 3Q2023 result a couple of weeks ago and made some minor adjustments. The key change is a 2% downgrade in our revenue forecasts in 2023, 2024 and 2025 driven by lower average revenue per paying circle (ARPPC) which has reduced our subscription forecasts. There is no change in paying circles forecast in 2023 and we have actually modestly increased our paying circles forecasts in 2024 and 2025. Despite the revenue downgrades there is negligible change in our EBITDA/adjusted EBITDA forecasts as we continue to expect good cost control and a trajectory to modest positive EBITDA in 2025. Note our 2023 forecasts are consistent with the guidance and we now forecast revenue of US\$306m (vs guidance of US\$300-310m) and unchanged adjusted EBITDA of US\$13.9m (vs guidance of US\$12-16m). That is, we expect the company to report within both guidance ranges and do not expect a beat in either.

**Investment view: PT down 2% to \$11.00, Maintain BUY**

We have updated each valuation used in the determination of our price target for the forecast changes and also rolled forward the DCF by a year given we are getting close to year end. There are no changes in the key assumptions we apply which are a 3.75x multiple in the EV/Revenue and a 9.5% WACC in the DCF. The net result is a 2% decrease in our PT to \$11.00 which is >15% premium to the share price so we maintain our BUY recommendation.

**Q4 and 2023 result still a potential catalyst**

Despite expecting a 2023 result consistent with the guidance we still see the result as a potential catalyst for the share price given the anticipated continued strong growth in paying circles (we forecast q-o-q growth of 82k to 1.83m) and also the provision of initial 2024 guidance. We forecast 2024 revenue and adjusted EBITDA of US\$357m and US\$24.2m which equate to growth of 17% and 74% respectively. Guidance consistent with our forecasts would be well received in our view and would also suggest that cash will grow by around US\$15m or more over the year.

**Earnings Forecast**

Year end 31 December	2022	2023e	2024e	2025e
Total revenue (US\$m)	228.3	306.2	357.3	412.6
EBITDA (adjusted) (US\$m)	-40.1	13.9	24.2	48.6
NPAT (adjusted) (US\$m)	-38.0	14.5	23.8	48.1
EPS (adjusted, diluted) (Acps)	-29.3	11.0	16.0	30.8
EPS growth (%)	NM	NM	46%	93%
PER (x)	NM	69.9	47.9	24.9
Price/CF (x)	NM	NM	46.1	24.6
EV/Revenue (x)	5.0	3.6	3.3	3.0
Dividend (A¢ps)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
ROE (%)	NM	NM	NM	1.7%
Franking (%)	0%	0%	0%	0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Change in Forecasts

## Revenue Down Slightly but EBITDA Unchanged

We have reviewed our forecasts post the release of the 3Q2023 result a couple of weeks ago and made some minor adjustments. The key change is a 2% downgrade in our revenue forecasts in 2023, 2024 and 2025 driven by lower average revenue per paying circle (ARPPC) which has reduced our subscription forecasts. There is no change in paying circles forecast in 2023 and we have actually modestly increased our paying circles forecasts in 2024 and 2025.

A breakdown of the quarterly revenue for the year so far as well our revised forecasts for Q4 are shown below. Note the breakdown is non-GAAP and differs slightly from the broader, GAAP breakdown of just subscription and hardware revenue due in part to the distortion created by bundled offerings. We choose to show the non-GAAP measure, however, as it is more detailed and shows the split in US and international subscription revenue. (Note the total revenue figures are the same whether non-GAAP or GAAP.)

Figure 1 - Historical and forecast breakdown of quarterly revenue in 2023 (non-GAAP)

Three months ended	Mar-23 Actual	Jun-23 Actual	Sep-23 Actual	Dec-23 Forecast
<b>Revenue</b>				
<i>U.S. subscription</i>	45.7	47.0	51.6	56.7
<i>International subscription</i>	6.0	5.7	6.2	6.9
<b>Subscription</b>	<b>51.7</b>	<b>52.7</b>	<b>57.8</b>	<b>63.6</b>
<i>Hardware</i>	10.0	11.6	14.4	18.5
<i>Other</i>	6.5	6.5	6.5	6.5
<b>Total</b>	<b>68.1</b>	<b>70.8</b>	<b>78.6</b>	<b>88.6</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The key take outs are:

- **Forecast core subscription revenue growth of 50%:** Our Q4 subscription revenue forecast of US\$63.6m means our forecast core subscription revenue growth in 2023 is 50% which is consistent with if not slightly below the guidance of growth “in excess of 50%”. We therefore may have some conservatism in our forecasts but the quarterly breakdown shows we have assumed strong growth in both US and international subscription revenue in Q4.
- **Forecast hardware revenue growth of 14%:** Our Q4 hardware revenue forecast of US\$18.5m means our forecast hardware revenue growth in 2023 is 14% which is consistent with the guidance of 10-15% growth. Our Q4 forecast is also consistent with the fourth quarter being traditionally the strongest quarter for Tile.

Despite the revenue downgrades there is negligible change in our EBITDA/adjusted EBITDA forecasts as we continue to expect good cost control and a trajectory to modest positive EBITDA in 2025. A summary of the changes in our key forecasts is shown below.

Figure 2 - Change in key forecasts

Year end 31 December	2023e			2024e			2025e		
	Old	New	Change	Old	New	Change	Old	New	Change
Total revenue (US\$m)	311.0	306.2	-1.5%	363.8	357.3	-1.8%	420.8	412.6	-2.0%
EBITDA (statutory)	-25.6	-25.6	0.0%	-11.3	-11.3	0.7%	14.1	14.0	-0.6%
<b>EBITDA (adjusted) (US\$m)</b>	<b>13.9</b>	<b>13.9</b>	<b>0.0%</b>	<b>24.2</b>	<b>24.2</b>	<b>-0.3%</b>	<b>48.7</b>	<b>48.6</b>	<b>-0.2%</b>
NPAT (adjusted) (US\$m)	14.5	14.5	0.0%	23.9	23.8	-0.3%	48.2	48.1	-0.2%
<b>Diluted EPS (adjusted) (Ac)</b>	<b>11.0c</b>	<b>11.0c</b>	<b>0.0%</b>	<b>16.1c</b>	<b>16.0c</b>	<b>-0.3%</b>	<b>30.9c</b>	<b>30.8c</b>	<b>-0.2%</b>
DPS (Ac)	0.0c	0.0c	NM	0.0c	0.0c	NM	0.0c	0.0c	NM

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Change in Valuation

## 2% Decrease in PT to \$11.00

We have updated each valuation used in the determination of our price target for the forecast changes and also rolled forward the DCF by a year given we are getting close to year end. There are no changes in the key assumptions we apply which are a 3.75x multiple in the EV/Revenue and a 9.5% WACC 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**

	Old (as at 15-Nov-23)			New (as at 28-Nov-23)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
<b>Methodology</b>						
EV/Revenue	\$10.38	67%	\$6.92	\$10.15	67%	\$6.77
DCF	\$12.98	33%	\$4.33	\$12.70	33%	\$4.23
<b>Total</b>			<b>\$11.25</b>			<b>\$11.00</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows a modest low single digit decrease in each valuation. The net result is a 2% decrease in our PT to \$11.00 which is >15% premium to the share price so we maintain our BUY recommendation.

## Q4 and 2023 Result still a Potential Catalyst

Despite expecting a 2023 result consistent with the guidance we still see the result as a potential catalyst for the share price given the anticipated continued strong growth in paying circles (we forecast q-o-q growth of 82k to 1.83m) and also the provision of 2024 guidance. We forecast 2024 revenue and adjusted EBITDA of US\$357m and US\$24.2m which equate to growth of 17% and 74% respectively. Guidance consistent with our forecasts would be well received in our view and would also suggest that cash will grow by around US\$15m or more over the year.

Note we expect the Q4 and 2023 result to be released on 1<sup>st</sup> March 2024 which is earlier in the month compared to when the 2022 result was released. The earlier release is due to a change in the classification of the company under US financial reporting requirements and regulations.

# 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 \$11.00. 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 44% 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 >1.7m 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:	\$7.66	Target price:	\$11.00		
						No. of issued shares:	202.7m	Market cap:	\$1,552m		
<b>Profit &amp; Loss (US\$m)</b>						<b>Valuation data</b>					
Year end 31 Dec	2021	2022	2023e	2024e	2025e	Year end 31 Dec	2021	2022	2023e	2024e	2025e
Revenue	112.6	228.3	306.2	357.3	412.6	Adjusted NPAT (A\$m)	-21.1	-55.3	21.9	32.8	64.2
Change	40%	103%	34%	17%	15%	Diluted adjusted EPS (Ac)	-13.6	-29.3	11.0	16.0	30.8
						Change	NM	NM	NM	46%	93%
Cost of revenue	22.8	79.7	76.5	89.3	103.1	P/E ratio (x)	NM	NM	69.9	47.9	24.9
Gross profit	89.9	148.6	229.6	268.0	309.4	CFPS (Acps)	-10.8	-44.0	2.5	16.6	31.1
Gross margin	79.8%	65.1%	75.0%	75.0%	75.0%	Price/CF (x)	NM	NM	NM	46.1	24.6
Expenses (excl. D&A, int.)	122.1	243.0	264.6	289.0	305.3	DPS (cps)	0.0	0.0	0.0	0.0	0.0
% of revenue	108.4%	106.4%	86.4%	80.9%	74.0%	Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA (statutory)	-31.4	-85.2	-25.6	-11.3	14.0	Frinking	0%	0%	0%	0%	0%
Depreciation & Amortisation	-0.9	-9.2	-9.4	-9.7	-9.9	EV/Revenue (x)	10.6	5.0	3.6	3.3	3.0
EBIT	-32.3	-94.4	-35.0	-21.0	4.1	EV/EBITDA (x)	NM	NM	NM	NM	88.1
Net interest (expense)/revenue	-1.4	3.1	1.5	0.8	1.2	EV/Adjusted EBITDA (x)	NM	NM	78.8	49.4	25.4
Pre-tax profit	-33.7	-91.3	-33.4	-20.2	5.3	NTA per share (Acps)	161.0	43.2	46.3	56.0	82.6
Income tax expense	0.1	-0.3	0.0	0.0	-0.3	Price/NTA (x)	4.8	17.7	16.5	13.7	9.3
NPAT (statutory)	-33.6	-91.6	-33.4	-20.2	5.0	<b>Performance ratios</b>					
Adjusted EBITDA	-13.1	-40.1	13.9	24.2	48.6	Year end 31 Dec	2021	2022	2023e	2024e	2025e
Adjusted NPAT	-15.3	-38.0	14.5	23.8	48.1	EBITDA margin	-27.9%	-37.3%	-8.3%	-3.2%	3.4%
<b>Cash Flow (US\$m)</b>						Adjusted EBITDA margin	-11.6%	-17.6%	4.5%	6.8%	11.8%
Year end 31 Dec	2021	2022	2023e	2024e	2025e	EBIT margin	-28.6%	-41.4%	-11.4%	-5.9%	1.0%
NPAT (statutory)	-33.6	-91.6	-33.4	-20.2	5.0	Return on assets	-11.1%	-27.0%	-10.2%	-5.9%	1.3%
Depreciation & Amortisation	0.9	9.2	9.4	9.7	9.9	Return on equity	NM	NM	NM	NM	1.7%
Amortisation of costs	4.0	2.9	0.0	0.0	0.0	ROIC	NM	NM	NM	NM	NM
Stock-based compensation	11.8	34.7	36.4	35.5	34.6	Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Other adjustments	5.2	-9.5	0.0	0.0	0.0	Effective tax rate	-0.4%	0.3%	0.0%	0.0%	-5.0%
Gross cash flow	-11.7	-54.3	12.4	24.9	49.5	<b>Leverage ratios</b>					
Change in working capital	-0.4	-2.8	-9.1	-0.3	-0.9	Year end 31 Dec	2021	2022	2023e	2024e	2025e
Operating cash flow	-12.2	-57.1	3.3	24.7	48.6	Net debt/(cash) (A\$m)	-288.7	-101.1	-96.3	-116.2	-171.2
Payments for PPE	-0.1	-0.7	-1.5	-1.8	-2.0	Net debt/equity	NM	NM	NM	NM	NM
Payments for acquisitions	-3.0	-110.9	-13.1	0.0	0.0	Gearing	NM	NM	NM	NM	NM
Investing cash flow	-7.1	-111.6	-14.6	-1.8	-2.0	Net debt/EBITDA (x)	NM	NM	NM	NM	NM
Proceeds from issue of shares	193.1	32.2	0.0	0.0	0.0	Net interest cover (x)	NM	NM	NM	NM	NM
Proceeds from exer. of options	3.5	2.4	2.5	2.5	2.5	<b>Segmentals</b>					
Taxes paid related to equity	-4.7	-4.1	-10.0	-5.0	-5.0	Year end 31 Dec	2021	2022	2023e	2024e	2025e
Proceeds from borrowings	2.1	0.6	0.0	0.0	0.0	Revenue (US\$m)					
Payments on borrowings	0.0	-3.5	-4.0	-3.5	0.0	Direct revenue - Life360 US	77.2	116.1	175.7	210.4	250.0
Financing cash flow	194.0	27.7	-11.5	-6.0	-2.5	Direct revenue - Tile/Jiobit		20.0	25.3	28.9	32.3
Net change in cash	174.7	-141.0	-22.8	16.9	44.1	Direct revenue - US	77.2	136.1	201.0	239.4	282.3
Cash at start of period	56.6	231.3	90.4	67.5	84.5	Direct revenue - International	9.3	17.2	24.8	35.1	45.4
Cash at end of period	231.3	90.4	67.5	84.5	128.6	Indirect revenue	25.1	27.1	26.0	26.3	26.6
<b>Balance Sheet (US\$m)</b>						Hardware	1.0	47.9	54.5	56.5	58.2
Year end 31 Dec	2021	2022	2023e	2024e	2025e	Total revenue	112.6	228.3	306.2	357.3	412.6
Cash	231.0	88.7	65.9	82.8	127.0	<b>Growth</b>					
Accounts receivable	11.8	33.1	54.3	59.9	65.0	Direct revenue - Life360 US		50%	51%	20%	19%
Costs capitalised	1.3	1.4	1.4	1.4	1.4	Direct revenue - Tile/Jiobit			27%	14%	12%
Prepaid expenses and other	10.6	8.5	8.5	8.5	8.5	Direct revenue - US		76%	48%	19%	18%
Restricted cash	0.4	1.6	1.6	1.6	1.6	Direct revenue - International		84%	44%	42%	29%
PPE	0.6	0.4	1.1	2.0	3.0	Indirect revenue		8%	-4%	1%	1%
Costs capitalised	0.3	0.6	0.6	0.6	0.6	Hardware		4930%	14%	4%	3%
Intangibles - Goodwill	31.1	133.7	133.7	133.7	133.7	Total revenue		103%	34%	17%	15%
Intangibles - Other	8.0	52.7	44.0	35.2	26.3	Cost of subscription revenue	-17.8	-30.7	-45.1	-52.2	-59.0
Notes due from affiliates	0.0	0.0	0.0	0.0	0.0	Cost of hardware revenue	-1.3	-45.4	-39.5	-39.6	-39.3
Right of use assets	1.6	0.8	0.8	0.8	0.8	Cost of other revenue	-3.6	-3.6	8.1	2.4	-4.9
Prepaid expenses and other	3.7	7.1	7.1	7.1	7.1	Total cost of revenue	-22.8	-79.7	-76.5	-89.3	-103.1
Total assets	302.4	339.6	329.2	343.6	385.5	Gross profit	89.9	148.6	229.6	268.0	309.4
Accounts payable	13.8	40.8	52.1	57.2	61.9	Gross margin	79.8%	65.1%	75.0%	75.0%	75.0%
Current borrowings	0.0	0.0	4.2	3.4	0.0	<b>Interims (US\$m)</b>					
Deferred revenue	13.9	30.1	30.1	30.1	30.1	Year end 31 Dec		1H2022	2H2022	1H2023	2H2023e
Other current liabilities	0.0	0.0	0.0	0.0	0.0	Revenue		99.8	128.5	138.9	167.3
Deferred rent	0.0	0.0	0.0	0.0	0.0	Gross profit		64.4	84.2	104.6	125.0
Non-current borrowings	8.3	4.1	0.8	0.1	0.1	Gross margin		64.5%	65.5%	75.3%	74.8%
Other non-current liabilities	2.6	3.4	3.4	3.4	3.4	EBITDA (statutory)		-56.1	-29.1	-14.6	-11.0
Total liabilities	52.3	95.1	89.2	90.8	95.5	EBITDA (adjusted)		-32.3	-7.8	6.2	7.7
Common stock and paid capital	416.3	501.8	494.3	491.8	489.3						
Notes due from affiliates	-1.0	-0.3	-0.3	-0.3	-0.3						
Accumulated deficit	-165.3	-257.0	-254.0	-238.7	-199.1						
Total shareholders' equity	250.0	244.5	240.0	252.8	289.9						

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

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

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

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Disclosure: Bell Potter Securities acted as joint lead manager of 360's A\$50m capital raising in November 2022 and received fees for that service.

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