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Life360 (360)

Life's full of surprises

Recommendation

Buy (unchanged)

Price

\$14.18

Target (12 months)

\$16.25 (previously \$14.50)

GICS Sector

Software and Services

Expected Return

Capital growth	14.6%
Dividend yield	0.0%
Total expected return	14.6%

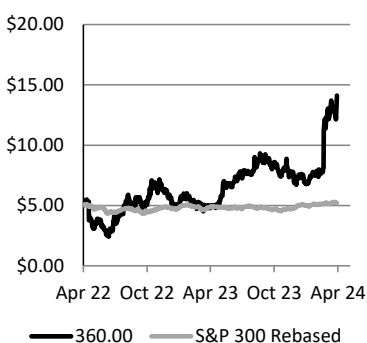
Company Data & Ratios

Enterprise value	\$2,814m
Market cap	\$2,914m
Issued capital	205.5m
Free float	95%
Avg. daily val. (52wk)	\$7.5m
12 month price range	\$4.74 - \$14.84

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	11.97	7.48	5.01
Absolute (%)	17.88	88.64	181.64
Rel market (%)	17.12	86.46	174.03

Absolute Price



SOURCE: IRESS

Positive market update

Life360 provided a positive and unexpected market update with two key metrics in 1Q2024 materially exceeding both our and market expectations: 1. Global monthly active users increased 4.9m to 66.4m (vs BPe 2.6m increase to 64.0m); and 2. Global paying circles increased 96k to 1.897m (vs BPe 66k increase to 1.867m). No explanation or commentary was provided as to what drove the strong growth and the company said it was too early to determine whether these metrics will have a material positive impact on revenue, earnings or any other financial results for 1Q2024. Both metrics are clearly very strong but in our view the growth in paying circles is key as this metric disappointed somewhat in 4Q2023 with an increase of only 55k – albeit after very strong growth in 3Q2023 – so growth of 96k in 1Q2024 signals a strong rebound.

Modest upgrades

We have upgraded our revenue forecasts in 2024, 2025 and 2026 by 1%, 3% and 4% on the back of increases in our subscription revenue forecasts – driven by increases in our paying circles forecasts – and also our advertising forecasts. We now forecast 2024 revenue of US\$369.5m which is near the middle of the US\$365-375m guidance range. We have also upgraded our adjusted EBITDA forecasts by 2%, 2%, and 3% on the back of the revenue upgrades and now forecast 2024 adjusted EBITDA of US\$31.1m which is still towards the lower end of the US\$30-35m guidance range.

Investment view: PT up 12% to \$16.25, Maintain BUY

We have updated each valuation used in the determination of our price target for the forecast changes and also increased the multiple we apply in the EV/Revenue valuation from 4.75x to 5.5x due to the positive update and also successful IPO of Reddit on the NYSE. The net result is a 12% increase in our PT to \$16.25 which is a 15% premium to the share price and we maintain our BUY recommendation. The next potential catalyst for the stock is the 1Q2024 result on 10th May which we expect to be good with strong double digit growth in revenue and continued improvement in EBITDA. At this stage, however, we would not expect an upgrade in the guidance.

Earnings Forecast

Year end 31 December	2023	2024e	2025e	2026e
Total revenue (US\$m)	304.5	369.5	438.9	514.1
EBITDA (adjusted) (US\$m)	20.6	31.1	50.1	75.3
NPAT (adjusted) (US\$m)	21.9	31.4	50.7	73.7
EPS (adjusted, diluted) (Acps)	16.5	22.7	34.8	47.9
EPS growth (%)	NM	38%	53%	38%
PER (x)	85.8	62.4	40.8	29.6
Price/CF (x)	NM	62.1	41.6	30.0
EV/Revenue (x)	6.1	5.1	4.5	4.0
Dividend (A¢ps)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
ROE (%)	NM	NM	1.0%	8.1%
Franking (%)	0%	0%	0%	0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Life's Full of Surprises

Positive Market Update

Life360 provided a positive and unexpected market update with two key metrics in 1Q2024 materially exceeding both our and market expectations:

1. **Global monthly active users** increased 4.9m to 66.4m (vs BPe 2.6m increase to 64.0m); and
2. **Global paying circles** increased 96k to 1.90m (vs BPe 66k increase to 1.87m).

No explanation or commentary was provided as to what drove the strong growth and the company said it was too early to determine whether these metrics will have a material positive impact on revenue, earnings or any other financial results for 1Q2024. A summary of the quarterly growth in global MAUs and paying circles – both historical and forecast – is shown below.

Figure 1 - Historical and forecast growth in global MAUs and paying circles

Three months ended	Mar-23 Actual	Jun-23 Actual	Sep-23 Actual	Dec-23 Actual	Mar-24 Actual	Jun-24 Forecast	Sep-24 Forecast	Dec-24 Forecast
US monthly active users	31.7m	33.6m	35.4m	36.8m	38.7m*			
International monthly active users	19.1m	20.4m	23.0m	24.6m	27.7m*			
Global monthly active users (MAUs)	50.8m	54.0m	58.4m	61.4m	66.4m	69.1m	74.1m	77.1m
Q-o-Q increase	2.3m	3.2m	4.4m	3.0m	4.9m	2.7m	5.1m	2.9m
Q-o-Q percentage increase	5%	6%	8%	5%	8%	4%	7%	4%
Y-o-Y percentage increase	32%	28%	23%	26%	30%	27%	26%	24%
US paying circles	1.20m	1.23m	1.30m	1.33m	1.39m	1.43m	1.50m	1.54m
International paying circles	0.36m	0.40m	0.45m	0.47m	0.51m	0.53m	0.57m	0.59m
Total paying circles	1.57m	1.63m	1.75m	1.80m	1.90m	1.95m	2.07m	2.14m
Q-o-Q increase	73k	62k	117k	55k	96k	58k	114k	66k
Q-o-Q percentage increase	5%	4%	7%	3%	5%	3%	6%	3%
Y-o-Y percentage increase	22%	17%	17%	21%	21%	20%	18%	19%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

* US AND INTERNATIONAL MAUS ARE ESTIMATES

Rebound in Paying Circle Growth

The growth in both key metrics is clearly very strong but in our view the growth in paying circles is key as this metric disappointed somewhat in 4Q2023 with an increase of only 55k – albeit after very strong growth in 3Q2023 – so growth of 96k in 1Q2024 signals a strong rebound. It is also worth highlighting that the split in paying circle growth between US and international was 65%/35% which was a notable difference from each quarter in 2023 when the split was more even and in the range of 48-57%/43-52%. This is noteworthy as the average revenue per paying circle (ARPPC) in the US is much higher than internationally – US\$150 vs US\$48 at the end of 2023 – so a higher percentage split in the US has a positive impact on subscription revenue.

Figure 2 - Percentage split in US and international paying circle growth

Three months ended	Mar-23 Actual	Jun-23 Actual	Sep-23 Actual	Dec-23 Actual	Mar-24 Actual
% split in paying circle growth					
US	56%	48%	57%	49%	65%
International	44%	52%	43%	51%	35%

SOURCE: COMPANY DATA

Forecast and Valuation Changes

Modest Upgrades

We have upgraded our revenue forecasts in 2024, 2025 and 2026 by 1%, 3% and 5% on the back of increases in our subscription revenue forecasts – driven by increases in our paying circles forecasts – and also our advertising forecasts. We now forecast 2024 revenue of US\$370m which is in the middle of the US\$365-375m guidance range. We have also upgraded our adjusted EBITDA forecasts by 2%, 2%, and 3% on the back of the revenue upgrades and now forecast 2024 adjusted EBITDA of US\$31m which is still towards the lower end of the US\$30-35m guidance range.

A summary of the changes in our key forecasts is shown below. We continue to forecast no dividends over the next three years.

Figure 3 - Change in key forecasts

Year end 31 December	2024e			2025e			2026e		
	Old	New	Change	Old	New	Change	Old	New	Change
Total revenue (US\$m)	365.1	369.5	1.2%	425.9	438.9	3.1%	492.0	514.1	4.5%
EBITDA (statutory)	-12.5	-11.9	NM	9.6	10.7	11.4%	34.4	36.8	6.9%
EBITDA (adjusted) (US\$m)	30.4	31.1	2.2%	49.0	50.1	2.2%	72.9	75.3	3.3%
NPAT (adjusted) (US\$m)	30.7	31.4	2.1%	49.7	50.7	2.1%	71.5	73.7	3.0%
Diluted EPS (adjusted) (Ac)	22.3c	22.7c	2.1%	34.0c	34.8c	2.1%	46.5c	47.9c	3.0%
DPS (Ac)	0.0c	0.0c	NM	0.0c	0.0c	NM	0.0c	0.0c	NM

SOURCE: BELL POTTER SECURITIES ESTIMATES

12% Increase in PT to \$16.25

We have updated each valuation used in the determination of our price target for the forecast changes and also increased the multiple we apply in the EV/Revenue valuation from 4.75x to 5.5x due to the positive update and also successful IPO of Reddit on the NYSE. There is, however, no change in the 9.3% WACC we apply in the DCF.

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

Figure 4 - Change in valuations and impact on PT

Methodology	Old (as at 2-Mar-24)			New (as at 8-Apr-24)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
EV/Revenue	\$13.00	67%	\$8.67	\$14.98	67%	\$9.99
DCF	\$17.51	33%	\$5.84	\$18.80	33%	\$6.26
Total			\$14.50			\$16.25

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows a double digit percentage increase in the EV/Revenue valuation and a more modest mid to high single digit percentage increase in the DCF. The net result is a 12% increase in our PT to \$16.25 which is a 15% premium to the share price and we maintain our BUY recommendation. The next potential catalyst for the stock is the 1Q2024 result on 10th May which we expect to be good with strong double digit growth in revenue and continued improvement in EBITDA. At this stage, however, we would not expect an upgrade in the guidance. We also believe that, with the recent successful IPO of Reddit in the US, the company may look to recommence the process of a dual listing particularly with the large difference in revenue multiples between the two companies (i.e. mid single digit for Life360 versus low double digit for Reddit).

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 \$16.25. 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 15% 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 c.1.9m paying circles – the best measure of subscriber numbers – and managed to grow this base by 39% in 2021, 23% in 2022 and 21% in 2023 despite the disruptions associated with COVID-19. This growth shows resilience in the subscriber base and, furthermore, the potential for continued strong growth in the base with market conditions now back 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:	\$14.18	Target price:	\$16.25		
						No. of issued shares:	205.5m	Market cap:	\$2,914m		
Profit & Loss (US\$m)						Valuation data					
Year end 31 Dec	2022	2023	2024e	2025e	2026e	Year end 31 Dec	2022	2023	2024e	2025e	2026e
Revenue	228.3	304.5	369.5	438.9	514.1	Adjusted NPAT (A\$m)	-55.1	33.1	46.5	72.4	101.6
<i>Change</i>	103%	33%	21%	19%	17%	Diluted adjusted EPS (Ac)	-29.3	16.5	22.7	34.8	47.9
						<i>Change</i>	NM	NM	38%	53%	38%
Cost of revenue	79.7	81.9	96.1	109.7	128.5	P/E ratio (x)	NM	85.8	62.4	40.8	29.6
Gross profit	148.6	222.6	273.5	329.2	385.5	CFPS (Acps)	-44.0	5.7	22.8	34.1	47.3
<i>Gross margin</i>	65.1%	73.1%	74.0%	75.0%	75.0%	Price/CF (x)	NM	NM	62.1	41.6	30.0
						DPS (cps)	0.0	0.0	0.0	0.0	0.0
Expenses (excl. D&A, int.)	243.0	252.6	294.7	328.1	358.6	Yield	0.0%	0.0%	0.0%	0.0%	0.0%
<i>% of revenue</i>	106.4%	83.0%	79.8%	74.8%	69.8%	Franking	0%	0%	0%	0%	0%
						EV/Revenue (x)	8.5	6.1	5.1	4.5	4.0
EBITDA (statutory)	-85.2	-20.8	-11.9	10.7	36.8	EV/EBITDA (x)	NM	NM	NM	184.1	55.4
Depreciation & Amortisation	-9.2	-9.1	-9.4	-9.6	-9.8	EV/Adjusted EBITDA (x)	NM	90.7	61.2	39.3	27.1
EBIT	-94.4	-30.0	-21.2	1.1	27.0	NTA per share (Acps)	43.2	50.6	58.4	79.8	114.0
Net interest (expense)/revenue	3.1	2.4	1.2	1.8	2.7	Price/NTA (x)	32.8	28.0	24.3	17.8	12.4
Pre-tax profit	-91.3	-27.6	-20.0	2.9	29.7	Performance ratios					
Income tax expense	-0.3	-0.6	0.0	-0.1	-3.0	Year end 31 Dec	2022	2023	2024e	2025e	2026e
NPAT (statutory)	-91.6	-28.2	-20.0	2.8	26.7	EBITDA margin	-37.3%	-6.8%	-3.2%	2.4%	7.2%
						Adjusted EBITDA margin	-17.6%	6.8%	8.4%	11.4%	14.6%
Adjusted EBITDA	-40.1	20.6	31.1	50.1	75.3	EBIT margin	-41.4%	-9.8%	-5.7%	0.2%	5.3%
Adjusted NPAT	-37.9	21.9	31.4	50.7	73.7	Return on assets	-27.0%	-8.8%	-6.1%	0.8%	6.3%
						Return on equity	NM	NM	NM	1.0%	8.1%
Cash Flow (US\$m)						ROIC	NM	NM	NM	NM	NM
Year end 31 Dec	2022	2023	2024e	2025e	2026e	Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
NPAT (statutory)	-91.6	-28.2	-20.0	2.8	26.7	Effective tax rate	0.3%	2.2%	0.0%	-5.0%	-10.0%
Depreciation & Amortisation	9.2	9.1	9.4	9.6	9.8	Leverage ratios					
Amortisation of costs	2.9	3.0	0.0	0.0	0.0	Year end 31 Dec	2022	2023	2024e	2025e	2026e
Stock-based compensation	34.7	38.5	40.4	39.4	38.4	Year end 31 Dec	2022	2023	2024e	2025e	2026e
Other adjustments	-9.5	-1.5	0.0	0.0	0.0	Net debt/(cash) (A\$m)	-101.1	-99.9	-118.9	-161.0	-232.4
Gross cash flow	-54.3	20.9	29.8	51.8	75.0	Net debt/equity	NM	NM	NM	NM	NM
Change in working capital	-2.8	-13.4	1.8	-2.1	-2.3	Gearing	NM	NM	NM	NM	NM
Operating cash flow	-57.1	7.5	31.5	49.7	72.8	Net debt/EBITDA (x)	NM	NM	NM	NM	NM
Payments for PPE	-0.7	-2.2	-2.5	-2.8	-3.0	Net interest cover (x)	NM	NM	NM	NM	NM
Payments for acquisitions	-110.9	-13.1	0.0	0.0	0.0	Segmentals					
Investing cash flow	-111.6	-15.3	-2.5	-2.8	-3.0	Year end 31 Dec	2022	2023	2024e	2025e	2026e
Proceeds from issue of shares	32.2	0.0	0.0	0.0	0.0	Revenue (US\$m)					
Proceeds from exer. of options	2.4	5.8	2.5	3.0	3.5	Subscription - Life360 US	116.1	172.5	208.0	247.3	289.0
Taxes paid related to equity	-4.1	-14.0	-17.5	-17.5	-17.5	Subscription - Tile/Jiobit	20.0	23.8	26.7	29.4	31.6
Proceeds from borrowings	0.6	0.3	0.0	0.0	0.0	Subscription - US	136.1	196.3	234.8	276.7	320.6
Payments on borrowings	-3.5	-3.9	-3.8	0.0	0.0	Subscription - International	17.2	24.5	36.0	46.4	57.1
Financing cash flow	27.7	-11.8	-18.8	-14.5	-14.0	Hardware	47.9	58.2	64.3	67.5	70.0
Net change in cash	-141.0	-19.7	10.3	32.5	55.8	Indirect and advertising	27.1	25.5	34.5	48.3	66.4
Cash at start of period	231.3	90.4	70.7	81.0	113.5	Total revenue	228.3	304.5	369.5	438.9	514.1
Cash at end of period	90.4	70.7	81.0	113.5	169.2	Growth					
						Subscription - Life360 US	50%	49%	21%	19%	17%
Balance Sheet (US\$m)						Subscription - Tile/Jiobit		19%	13%	10%	8%
Year end 31 Dec	2022	2023	2024e	2025e	2026e	Subscription - US	76%	44%	20%	18%	16%
Cash	88.7	69.0	79.2	111.7	167.5	Subscription - International	84%	42%	47%	29%	23%
Accounts receivable	33.1	42.2	48.0	57.1	66.8	Hardware	4930%	21%	11%	5%	4%
Costs capitalised	1.4	1.0	1.0	1.0	1.0	Indirect and advertising	8%	-6%	35%	40%	38%
Prepaid expenses and other	8.5	15.2	15.2	15.2	15.2	Total revenue	103%	33%	21%	19%	17%
Restricted cash	1.6	1.7	1.7	1.7	1.7	Cost of subscription revenue	-30.7	-31.0	-50.8	-58.2	-66.1
PPE	0.4	0.7	2.0	3.4	4.9	Cost of hardware revenue	-45.4	-47.4	-41.8	-45.6	-47.3
Costs capitalised	0.6	0.8	0.8	0.8	0.8	Cost of other revenue	-3.6	-3.5	-3.5	-6.0	-15.2
Intangibles - Goodwill	133.7	133.7	133.7	133.7	133.7	Total cost of revenue	-79.7	-81.9	-96.1	-109.7	-128.5
Intangibles - Other	52.7	45.4	37.3	29.1	20.7	Gross profit	148.6	222.6	273.5	329.2	385.5
Notes due from affiliates	0.0	0.0	0.0	0.0	0.0	<i>Gross margin</i>	65.1%	73.1%	74.0%	75.0%	75.0%
Right of use assets	0.8	1.0	1.0	1.0	1.0	Interims (US\$m)					
Prepaid expenses and other	7.1	6.8	6.8	6.8	6.8	Year end 31 Dec		1H2022	2H2022	1H2023	2H2023
Total assets	339.6	321.7	330.6	365.9	425.4	Revenue	99.8	128.5	138.9	165.6	
Accounts payable	40.8	33.4	40.6	48.3	56.5	Gross profit		64.4	84.2	104.6	118.0
Current borrowings	4.2	3.4	3.4	0.0	3.5	<i>Gross margin</i>		64.5%	65.5%	75.3%	71.3%
Deferred revenue	30.1	33.9	33.9	33.9	33.9	EBITDA (statutory)					
Other current liabilities	0.0	0.0	0.0	0.0	0.0	EBITDA (adjusted)					
Deferred rent	0.0	0.0	0.0	0.0	0.0			-56.1	-29.1	-14.6	-6.3
Non-current borrowings	4.1	1.1	0.3	0.3	0.3			-32.3	-7.8	6.2	14.4
Other non-current liabilities	3.4	2.8	2.8	2.8	2.8						
Total liabilities	95.1	74.7	78.1	85.8	94.0						
Common stock and paid capital	501.8	532.2	517.2	502.7	488.7						
Notes due from affiliates	-0.3	0.0	0.0	0.0	0.0						
Accumulated deficit	-257.0	-285.1	-264.7	-222.5	-157.3						
Total shareholders' equity	244.5	247.1	252.5	280.2	331.4						

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

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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