

Analyst

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Authorisation

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Life360 (360)

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Recommendation

Buy (unchanged)

Price

\$19.27

Target (12 months)

\$22.50 (previously \$20.50)

Sector

Software and Services

Expected Return

Capital growth	16.8%
Dividend yield	0.0%
Total expected return	16.8%

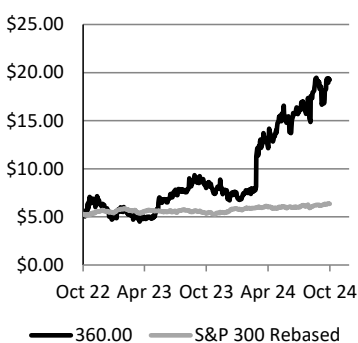
Company Data & Ratios

Enterprise value	\$4,046m
Market cap	\$4,290m
Issued capital	222.6m
Free float	95%
Avg. daily val. (52wk)	\$14.7m
12 month price range	\$6.60 - 19.96

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	19.12	16.37	8.33
Absolute (%)	0.99	17.96	131.81
Rel market (%)	-0.45	12.36	115.51

Absolute Price



SOURCE: IRESS

No change in forecasts

There is no change in our forecasts which we last updated at the release of the 2Q/1H2024 result in August. Our 2024 forecasts remain consistent with the guidance where we are around the middle of the adjusted and statutory EBITDA ranges and consistent with if not slightly below VA consensus. We continue to forecast strong top line revenue growth in 2024, 2025 and 2026 of 22%, 20% and 17% and positive statutory EBITDA and NPAT in 2025 and beyond.

Expecting a strong Q3

Life360 will report its 3Q2024 result on Wednesday, 13th November and we expect a strong result. Note Q3 is typically the strongest quarter for paying circle growth with back-to-school in the northern hemisphere. Our key forecasts for 3Q2024 are: Revenue up 22% y-o-y to US\$96.2m; Paying circles up 121k q-o-q to 2.15m; ARPPC up 6% y-o-y to US\$127.76; and AMR up 28% y-o-y to US\$331.2m. We expect the company to reiterate its 2024 guidance but see some prospect of an upgrade at EBITDA given the relatively large uplift in H2 opex assumed in the current guidance.

Investment view: PT up 10% to \$22.50, Maintain BUY

We have increased the multiple we apply in our EV/Revenue valuation from 6.25x to 7.0x due to the rally in the tech sector since we last updated our price target. We have also reduced the WACC we apply in the DCF from 9.1% to 8.6% due to a reduction in the risk free rate from 4.5% to 4.0%. The net result is a 10% increase in our PT to \$22.50 which is >15% premium to the share price so we maintain our BUY recommendation. Potential catalysts for the stock include the upcoming Q3 result which, as mentioned, we expect to be strong with some potential of an EBITDA guidance upgrade. We also see some potential for the paying circle growth to positively surprise given our Q3 forecast of 121k is below the Q2 actual of 132k. Another potential catalyst is inclusion in the S&P/ASX 100 index at the next quarterly rebalance in early December which can cause some initial volatility in the share price but ultimately we expect the impact to be positive.

Earnings Forecast

Year end 31 December	2023	2024e	2025e	2026e
Total revenue (US\$m)	304.5	372.4	448.2	526.6
EBITDA (adjusted) (US\$m)	20.6	36.9	56.1	81.3
NPAT (adjusted) (US\$m)	21.9	34.2	54.3	75.4
EPS (adjusted, diluted) (Acps)	16.5	23.8	34.8	46.0
EPS growth (%)	NM	44%	46%	32%
PER (x)	NM	80.9	55.3	41.9
Price/CF (x)	NM	NM	54.7	42.5
EV/Revenue (x)	8.8	7.3	6.2	5.4
Dividend (A¢ps)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
ROE (%)	NM	NM	0.8%	5.7%
Franking (%)	0%	0%	0%	0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Forecasts and Q3 Preview

No Change in Forecasts

There is no change in our forecasts which we last updated at the release of the 2Q/1H2024 result in August. Our 2024 forecasts remain consistent with the guidance where we are around the middle of the adjusted and statutory EBITDA ranges and consistent with if not slightly below VA consensus. For instance, the adjusted EBITDA guidance is US\$36-41m and our forecast is US\$36.9m while VA consensus is US\$38.4m. We continue to forecast strong top line revenue growth in 2024, 2025 and 2026 of 22%, 20% and 17% and positive statutory EBITDA and NPAT in 2025 and beyond.

A summary of our key forecasts is shown below.

Figure 1 - Key forecasts						
Year end 31 December	2024e	Growth	2025e	Growth	2026e	Growth
Total revenue (US\$m)	372.4	22%	448.2	20%	526.6	17%
EBITDA (statutory)	-11.0	NM	13.2	NM	37.9	NM
EBITDA (adjusted)	36.9	79%	56.1	52%	81.3	45%
NPAT (adjusted)	34.2	56%	54.3	59%	75.4	39%
Diluted EPS (adjusted) (Ac)	23.8c	44%	34.8c	46%	46.0c	32%
DPS (Ac)	0.0c	NM	0.0c	NM	0.0c	NM

SOURCE: BELL POTTER SECURITIES ESTIMATES

Expecting a Strong Q3

Life360 will report its 3Q2024 result on Wednesday, 13th November and we expect a strong result. Note Q3 is typically the strongest quarter for paying circle growth with back-to-school in the northern hemisphere.

Our 3Q and 4Q2024 forecasts for revenue and EBITDA are shown below. Note that advertising revenue is currently included within Other and has not been separately disclosed to date due to its small size. We estimate that advertising revenue was <US\$1m in 2Q/1H2024 but forecast it will grow to US\$2.5m in 3Q2024 and US\$4.6m in 4Q2024 which equates to US\$8.5m for the year.

Figure 2 - Historical and forecast quarterly revenue and EBITDA						
Three months ended	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
	Actual	Actual	Actual	Actual	Forecast	Forecast
Revenue - GAAP (US\$m)						
<i>U.S. subscription</i>	50.4	53.3	54.4	57.4	61.8	66.9
<i>International subscription</i>	6.2	6.5	7.2	8.3	9.2	10.1
Subscription	56.6	59.8	61.6	65.7	71.0	77.0
<i>Hardware</i>	15.5	21.1	10.2	11.9	16.2	25.0
<i>Other</i>	6.5	6.1	6.5	7.3	9.0	11.1
Total revenue	78.6	87.0	78.2	84.9	96.2	113.1
<i>Q-o-Q percentage increase</i>	11%	11%	-10%	8%	13%	18%
<i>Y-o-Y percentage increase</i>	37%	22%	15%	20%	22%	30%
Adjusted EBITDA	5.5	8.9	4.3	11.0	8.5	13.1
Statutory EBITDA	-4.2	-2.0	-4.1	-5.6	-2.8	1.5

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Our 3Q and 4Q2024 forecasts for MAU, paying circles, ARPPC and AMR are shown below. Note that, despite Q3 traditionally being the strongest quarter for paying circle growth, we forecast lower growth in 3Q2024 relative to 2Q2024 (i.e. 121k vs 132k). This is really for conservatism given the growth in 1Q and 2Q2024 were particularly strong. But if history is a guide then paying circle growth in 3Q2024 could well exceed our forecast and be up around 140k or even higher.

Figure 3 - Historical and forecast quarterly MAU, paying circles, ARPPC and AMR

Three months ended	Sep-23 Actual	Dec-23 Actual	Mar-24 Actual	Jun-24 Actual	Sep-24 Forecast	Dec-24 Forecast
US monthly active users	35.4m	36.8m	38.8m	40.5m		
International monthly active users	23.0m	24.6m	27.5m	30.1m		
Global monthly active users (MAUs)	58.4m	61.4m	66.4m	70.6m	75.0m	78.0m
<i>Q-o-Q increase</i>	4.4m	3.0m	4.9m	4.3m	4.4m	3.0m
<i>Q-o-Q percentage increase</i>	8%	5%	8%	6%	6%	4%
<i>Y-o-Y percentage increase</i>	23%	26%	30%	30%	27%	26%
US paying circles	1.30m	1.33m	1.39m	1.47m	1.54m	1.59m
International paying circles	0.45m	0.47m	0.51m	0.56m	0.61m	0.64m
Total paying circles	1.75m	1.80m	1.90m	2.03m	2.15m	2.23m
<i>Q-o-Q increase</i>	117k	55k	96k	132k	121k	82k
<i>Q-o-Q percentage increase</i>	7%	3%	5%	7%	6%	4%
<i>Y-o-Y percentage increase</i>	17%	21%	21%	25%	23%	24%
Average rev per paying circle (ARPPC)	US\$119.97	US\$124.17	US\$123.97	US\$125.96	US\$127.76	US\$132.89
<i>Q-o-Q percentage increase</i>	1%	4%	0%	2%	1%	4%
<i>Y-o-Y percentage increase</i>	28%	17%	3%	6%	6%	7%
Annualised monthly rev (ex. hardware)	US\$259.1m	US\$274.1m	US\$284.7m	US\$304.8m	US\$331.2m	US\$364.9m
<i>Q-o-Q percentage increase</i>	4%	6%	4%	7%	9%	10%
<i>Y-o-Y percentage increase</i>	41%	22%	19%	23%	28%	33%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Valuation Changes

10% Increase in PT to \$22.50

We have increased the multiple we apply in our EV/Revenue valuation from 6.25x to 7.0x due to the rally in the tech sector since we last updated our price target. We have also reduced the WACC we apply in the DCF from 9.1% to 8.6% due to a reduction in the risk free rate from 4.5% to 4.0%.

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

Figure 4 - Change in valuations and impact on PT

	Old (as at 9-Aug-24)			New (as at 4-Oct-24)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
Methodology						
EV/Revenue	\$20.14	67%	\$13.43	\$21.98	67%	\$14.65
DCF	\$21.22	33%	\$7.07	\$23.53	33%	\$7.84
Total			\$20.50			\$22.50

SOURCE: BELL POTTER SECURITIES ESTIMATES

The net result is a 10% increase in our PT to \$22.50 which is >15% premium to the share price so we maintain our BUY recommendation. Potential catalysts for the stock include:

- **Upcoming Q3 result:** As mentioned, we expect the Q3 result to be strong with some potential of an EBITDA guidance upgrade. As also mentioned, we also see some potential for the paying circle growth to positively surprise given our Q3 forecast of 121k is below the Q2 actual of 132k.
- **Inclusion in the S&P/ASX 100:** The next quarterly rebalance of the S&P/ASX indices is in early December and with a market cap now >\$4bn and good liquidity/free float we believe there is a reasonable chance that Life360 will be included in the 100. Inclusion in this index can cause some initial volatility in the share price – as most small cap fund managers are forced to sell the stock over a certain period – but ultimately we expect the impact to be positive given the lack of good quality global technology companies in the 100. We note, for example, the recent entry of Technology One into the 100 which has gone well and there wasn't even a period of initial volatility or weakness.

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 several 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. 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 \$22.50. 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 17% 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 >2.0m 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:	\$19.27	Target price:	\$22.50		
						No. of issued shares:	222.6m	Market cap:	\$4,290m		
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	372.4	448.2	526.6	Adjusted NPAT (A\$m)	-55.1	33.1	50.7	79.0	107.8
Change	103%	33%	22%	20%	17%	Diluted adjusted EPS (Ac)	-29.3	16.5	23.8	34.8	46.0
Cost of revenue	79.7	81.9	98.7	116.5	134.3	Change	NM	NM	44%	46%	32%
Gross profit	148.6	222.6	273.7	331.7	392.3	P/E ratio (x)	NM	NM	80.9	55.3	41.9
Gross margin	65.1%	73.1%	73.5%	74.0%	74.5%	CFPS (Acps)	-44.0	5.7	18.9	35.2	45.4
Expenses (excl. D&A, int.)	243.0	252.6	294.2	328.3	364.7	Price/CF (x)	NM	NM	NM	54.7	42.5
% of revenue	106.4%	83.0%	79.0%	73.3%	69.3%	DPS (cps)	0.0	0.0	0.0	0.0	0.0
EBITDA (statutory)	-85.2	-20.8	-11.0	13.2	37.9	Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation & Amortisation	-9.2	-9.1	-9.5	-9.8	-10.2	Frinking	0%	0%	0%	0%	0%
EBIT	-94.4	-30.0	-20.5	3.4	27.6	EV/Revenue (x)	12.2	8.8	7.3	6.2	5.4
Net interest (expense)/revenue	3.1	2.4	1.2	2.4	3.6	EV/EBITDA (x)	NM	NM	NM	210.7	74.8
Pre-tax profit	-91.3	-27.6	-19.3	5.8	31.3	EV/Adjusted EBITDA (x)	NM	130.4	74.0	49.6	34.8
Income tax expense	-0.3	-0.6	-2.9	-2.9	-7.8	NTA per share (Acps)	43.2	50.6	108.3	123.0	149.3
NPAT (statutory)	-91.6	-28.2	-22.2	2.9	23.5	Price/NTA (x)	44.6	38.1	17.8	15.7	12.9
Adjusted EBITDA	-40.1	20.6	36.9	56.1	81.3	Performance ratios					
Adjusted NPAT	-37.9	21.9	34.2	54.3	75.4	Year end 31 Dec	2022	2023	2024e	2025e	2026e
Cash Flow (US\$m)						EBITDA margin	-37.3%	-6.8%	-3.0%	2.9%	7.2%
Year end 31 Dec	2022	2023	2024e	2025e	2026e	Adjusted EBITDA margin	-17.6%	6.8%	9.9%	12.5%	15.4%
NPAT (statutory)	-91.6	-28.2	-22.2	2.9	23.5	EBIT margin	-41.4%	-9.8%	-5.5%	0.7%	5.3%
Depreciation & Amortisation	9.2	9.1	9.5	9.8	10.2	Return on assets	-27.0%	-8.8%	-5.3%	0.6%	4.7%
Amortisation of costs	2.9	3.0	0.0	0.0	0.0	Return on equity	NM	NM	NM	0.8%	5.7%
Stock-based compensation	34.7	38.5	41.9	42.9	43.5	ROIC	NM	NM	NM	NM	NM
Other adjustments	-9.5	-1.5	0.0	0.0	0.0	Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Gross cash flow	-54.3	20.9	29.2	55.7	77.1	Effective tax rate	0.3%	2.2%	15.0%	-50.0%	-25.0%
Change in working capital	-2.8	-13.4	-2.1	-0.8	-2.7	Leverage ratios					
Operating cash flow	-57.1	7.5	27.2	54.9	74.4	Year end 31 Dec	2022	2023	2024e	2025e	2026e
Payments for PPE	-0.7	-2.2	-4.5	-3.5	-3.8	Net debt/(cash) (A\$m)	-101.1	-99.9	-232.6	-271.1	-336.5
Payments for acquisitions	-110.9	-13.1	-5.0	0.0	0.0	Net debt/equity	NM	NM	NM	NM	NM
Investing cash flow	-111.6	-15.3	-9.5	-3.5	-3.8	Gearing	NM	NM	NM	NM	NM
Proceeds from issue of shares	32.2	0.0	91.2	0.0	0.0	Net debt/EBITDA (x)	NM	NM	NM	NM	NM
Proceeds from exer. of options	2.4	5.8	7.5	8.0	8.5	Net interest cover (x)	NM	NM	NM	NM	NM
Taxes paid related to equity	-4.1	-14.0	-30.0	-30.0	-30.0	Segmentals					
Proceeds from borrowings	0.6	0.3	0.0	0.0	0.0	Year end 31 Dec	2022	2023	2024e	2025e	2026e
Payments on borrowings	-3.5	-3.9	0.0	0.0	0.0	Revenue (US\$m)					
Financing cash flow	27.7	-11.8	68.7	-22.0	-21.5	Subscription - Life360 US	114.6	175.3	219.0	265.3	311.3
Net change in cash	-141.0	-19.7	86.3	29.4	49.1	Subscription - Tile/Jiobit	21.5	21.0	21.5	22.1	22.6
Cash at start of period	231.3	90.4	70.7	157.0	186.4	Subscription - US	136.1	196.3	240.5	287.4	333.9
Cash at end of period	90.4	70.7	157.0	186.4	235.6	Subscription - International	17.2	24.5	34.8	47.0	58.6
Balance Sheet (US\$m)						Hardware	47.9	58.2	63.3	66.4	68.9
Year end 31 Dec	2022	2023	2024e	2025e	2026e	Indirect and advertising	27.1	25.5	33.8	47.4	65.2
Cash	88.7	69.0	155.3	184.7	233.8	Total revenue	228.3	304.5	372.4	448.2	526.6
Accounts receivable	33.1	42.2	52.1	60.5	71.1	Growth					
Costs capitalised	1.4	1.0	1.0	1.0	1.0	Subscription - Life360 US	48%	53%	25%	21%	17%
Prepaid expenses and other	8.5	15.2	15.2	15.2	15.2	Subscription - Tile/Jiobit		-2%	3%	3%	3%
Restricted cash	1.6	1.7	1.7	1.7	1.7	Subscription - US	76%	44%	23%	20%	16%
PPE	0.4	0.7	3.0	4.7	6.6	Subscription - International	84%	42%	42%	35%	25%
Costs capitalised	0.6	0.8	0.8	0.8	0.8	Hardware	4930%	2.1%	9%	5%	4%
Intangibles - Goodwill	133.7	133.7	133.7	133.7	133.7	Indirect and advertising	8%	-6%	33%	40%	38%
Intangibles - Other	52.7	45.4	43.2	35.1	26.8	Total revenue	103%	33%	22%	20%	17%
Notes due from affiliates	0.0	0.0	0.0	0.0	0.0	Cost of subscription revenue	-30.7	-31.0	-51.6	-60.2	-68.7
Right of use assets	0.8	1.0	1.0	1.0	1.0	Cost of hardware revenue	-45.4	-47.4	-41.1	-44.8	-46.5
Prepaid expenses and other	7.1	6.8	6.8	6.8	6.8	Cost of other revenue	-3.6	-3.5	-5.9	-11.5	-19.1
Total assets	339.6	321.7	417.6	449.8	503.9	Total cost of revenue	-79.7	-81.9	-98.7	-116.5	-134.3
Accounts payable	40.8	33.4	41.0	49.3	57.9	Gross profit	148.6	222.6	273.7	331.7	392.3
Current borrowings	4.2	3.4	3.4	0.0	3.5	Gross margin	65.1%	73.1%	73.5%	74.0%	74.5%
Deferred revenue	30.1	33.9	33.9	33.9	33.9	Interims (US\$m)					
Other current liabilities	0.0	0.0	0.0	0.0	0.0	Year end 31 Dec		1H2023	2H2023	1H2024	2H2024e
Deferred rent	0.0	0.0	0.0	0.0	0.0	Revenue		138.9	165.6	163.1	209.3
Non-current borrowings	4.1	1.1	0.0	0.0	0.0	Gross profit		104.6	118.0	123.6	150.1
Other non-current liabilities	3.4	2.8	2.8	2.8	2.8	Gross margin		75.3%	71.3%	75.8%	71.7%
Total liabilities	95.1	74.7	77.7	86.0	94.7	EBITDA (statutory)		-14.6	-6.3	-9.6	-1.3
Common stock and paid capital	501.8	532.2	605.4	583.4	561.9	EBITDA (adjusted)		6.2	14.4	15.3	21.6
Notes due from affiliates	-0.3	0.0	0.0	0.0	0.0						
Accumulated deficit	-257.0	-285.1	-265.4	-219.6	-152.7						
Total shareholders' equity	244.5	247.1	339.9	363.8	409.2						

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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