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Life360 (360)

Riding the wave

Recommendation
Buy (unchanged)
Price
$6.68
Target (12 months)
$7.75 (previously $7.00)

GICS Sector

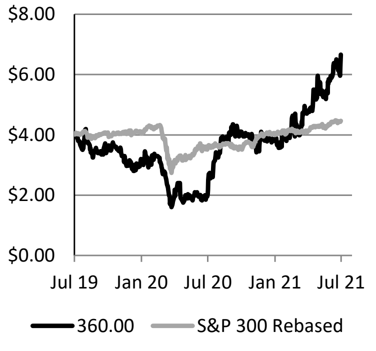
Software and Services

Expected Return	
Capital growth	**16.0%**
Dividend yield	**0.0%**
Total expected return	**16.0%**
Company Data & Ratios	
Enterprise value	**$934.3m**
Market cap	**$1,012.3m**
Issued capital	**151.5m**
Free float	**90%**
Avg. daily val. (52wk)	**$2.6m**
12 month price range	**$2.00 - $6.80**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	5.70	4.79	1.85
Absolute (%)	16.84	39.04	260.00
Rel market (%)	13.37	30.75	233.13

Absolute Price



SOURCE: IRESS

Positive market update

Life360 provided a market update and the key take-out in our view was a soft upgrade in the guidance for annualised monthly revenue (AMR) in December 2021 from in the range of US$110-120m to now "at the higher end" of this range. The key drivers of the upgrade were "early success of user experience improvements and a recent surge in downloads driven by virality on social media, primarily TikTok". The company also said a further update will be provided at the release of the 1H2021 result in August when "the extent, impact, and duration of the new wave of registrations will be clearer" suggesting there may be some further upside to the guidance. The other key take-out from the update was a US$2.1m investment in the company by a group led by Bryant Stibel which is an investment company founded by Kobe Bryant and Jeff Stibel.

Modest revenue upgrades

We have modestly increased our revenue forecasts in 2021, 2022 and 2023 by 1%, 2% and 2%. The key driver of these upgrades is increases in our AMR forecasts in December each year – in turn driven by a higher number of year end paying circles – and note we now forecast year end AMR of US$120.0m in 2021 versus our previous forecast of US$116.6m. Despite the revenue upgrades there is little change in our EBITDA forecasts as we have also allowed for some additional investment in areas like customer acquisition. Note our updated forecast underlying EBITDA loss of US$(14.5m) is consistent with the guidance of a loss no greater than US$(15m).

Investment view: PT up 11% to $7.75, Maintain BUY

We have updated each valuation used in the determination of our price target for the revenue changes as well as market movements and time creep. We have also reduced the discount we apply in the relative valuations from 15% to 10% given the prospect of a further positive update at the release of the 1H2021 result in August. The net result is an 11% increase in our PT to $7.75 which is >15% premium to the share price so we maintain our BUY recommendation. The next potential catalysts are a strong quarterly update in late July and then a guidance update in late August.

Earnings Forecast

Year end 31 December	2020	2021e	2022e	2023e
Total revenue (US$m)	80.7	105.2	147.3	187.7
EBITDA (underlying) (US$m)	-7.0	-14.5	-6.6	6.1
NPAT (underlying) (US$m)	-7.3	-15.3	-7.8	4.7
EPS (underlying, diluted) (Acps)	-6.8	-13.3	-6.6	3.9
EPS growth (%)	NM	NM	NM	NM
PER (x)	NM	NM	NM	>100
Price/CF (x)	NM	NM	NM	>100
EV/EBITDA (underlying) (x)	NM	NM	NM	>100
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

Earnings and Valuation Changes

Modest Revenue Upgrades

We have modestly increased our revenue forecasts in 2021, 2022 and 2023 by 1%, 2% and 2%. The key driver of these upgrades is increases in our AMR forecasts in December each year – in turn driven by a higher number of year end paying circles – and note we now forecast year end AMR of US$120.0m in 2021 versus our previous forecast of US$116.6m. Despite the revenue upgrades there is little change in our EBITDA forecasts as we have also allowed for some additional investment in areas like customer acquisition. Note our updated forecast underlying EBITDA loss of US$(14.5m) is consistent with the guidance of a loss no greater than US$(15m).

A summary of the changes in our key forecasts is shown below. Note we do not forecast any dividends over the next three years.

Figure 1 - Change in key forecasts

Year end 31 December	2021e Old	2021e New	2021e Change	2022e Old	2022e New	2022e Change	2023e Old	2023e New	2023e Change
Total revenue (US$m)	104.2	105.2	*1.0%*	144.3	147.3	*2.1%*	183.9	187.7	*2.1%*
EBITDA (underlying) (US$m)	-14.7	-14.5	*NM*	-7.2	-6.6	*NM*	5.8	6.1	*6.5%*
NPAT (underlying) (US$m)	-15.5	-15.3	*NM*	-8.3	-7.8	*NM*	4.3	4.7	*8.6%*
Diluted EPS (underlying) (Ac)	**-13.5c**	**-13.3c**	***NM***	**-7.0c**	**-6.6c**	***NM***	**3.6c**	**3.9c**	***8.6%***
DPS (Ac)	0.0c	0.0c	*NM*	0.0c	0.0c	*NM*	0.0c	0.0c	*NM*

SOURCE: BELL POTTER SECURITIES ESTIMATES

11% Increase in PT to $7.75

We have updated each valuation used in the determination of our price target for the revenue changes as well as market movements and time creep. We have also reduced the discount we apply in the relative valuations from 15% to 10% given the prospect of a further positive update at the release of the 1H2021 result in August. There are, however, no changes in the key assumptions we apply in the DCF which are a 9.5% WACC and 4.5% terminal growth rate.

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

Figure 2 - Change in valuations and impact on PT

	Old (as at 21-May-21)			New (as at 30-Jun-21)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
Methodology						
EV/Revenue	$6.85	50%	$3.43	$8.15	50%	$4.08
DCF	$7.15	50%	$3.58	$7.34	50%	$3.67
Total			**$7.00**			**$7.75**

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows a double digit percentage increase in the EV/Revenue valuation and a more modest low single digit percentage increase in the DCF. The net result is an 11% increase in our PT to $7.75 which is >15% premium to the share price so we maintain our BUY recommendation. The next potential catalysts are a strong quarterly update in late July and then a guidance update in late August.

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 26 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.

Lifce360 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 $7.75. 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 16% 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 currently has around 900k paying circles – the best measure of customer numbers – and managed to grow this base by 8% in 2020 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.

Life360
as at 30 June 2021

Recommendation	Buy
Price	$6.68
Target (12 months)	$7.75

Table 1 - Financial summary

Life360 (360)

Share price:	$6.68	**Target price:**	$7.75
No. of issued shares:	151.5m	**Market cap:**	$1,012.3m

Profit & Loss (US$m)					
Year end 31 Dec	**2019**	**2020**	**2021e**	**2022e**	**2023e**
Revenue	**58.9**	**80.7**	**105.2**	**147.3**	**187.7**
Change	*84%*	*37%*	*30%*	*40%*	*27%*
Cost of revenue	11.9	15.4	20.2	26.7	32.6
Gross profit	**47.1**	**65.3**	**85.0**	**120.6**	**155.1**
Gross margin	*79.9%*	*80.9%*	*80.8%*	*81.9%*	*82.6%*
Expenses (excl. D&A, int.)	**76.1**	**81.9**	**112.2**	**142.1**	**165.6**
% of revenue	*129.1%*	*101.6%*	*106.8%*	*96.5%*	*88.3%*
Other income (excl. interest)	0.7	0.0	0.0	0.0	0.0
Change in fair value of liability	-0.6	0.0	0.0	0.0	0.0
EBITDA (statutory)	**-28.7**	**-16.0**	**-26.3**	**-20.1**	**-8.7**
Depreciation & Amortisation	-0.3	-0.7	-1.0	-1.5	-1.8
EBIT	**-29.0**	**-16.7**	**-27.2**	**-21.6**	**-10.5**
Net interest (expense)/revenue	0.0	0.3	0.3	0.3	0.4
Pre-tax profit	**-29.0**	**-16.3**	**-27.0**	**-21.3**	**-10.2**
Income tax expense	0.0	0.0	0.0	0.0	0.0
NPAT (statutory)	**-29.0**	**-16.3**	**-27.0**	**-21.3**	**-10.2**
EBITDA (underlying)	**-22.9**	**-7.0**	**-14.5**	**-6.6**	**6.1**
NPAT (underlying)	**-23.2**	**-7.3**	**-15.3**	**-7.8**	**4.7**

Cash Flow (US$m)					
Year end 31 Dec	**2019**	**2020**	**2021e**	**2022e**	**2023e**
NPAT (statutory)	-29.0	-16.3	-27.0	-21.3	-10.2
Depreciation & Amortisation	0.3	0.7	1.0	1.5	1.8
Amortisation of costs	1.8	7.0	0.0	0.0	0.0
Stock-based compensation	5.8	8.1	11.7	13.5	14.8
Change in fair value of liability	0.6	0.0	0.0	0.0	0.0
Gross cash flow	**-20.4**	**-0.6**	**-14.3**	**-6.3**	**6.5**
Change in working capital	-10.1	-6.7	-2.3	-3.2	-2.9
Operating cash flow	**-30.5**	**-7.3**	**-16.6**	**-9.5**	**3.7**
Payments for PPE	-0.4	-0.7	-1.0	-1.5	-2.0
Payments for acquisitions	0.1	0.0	-1.0	0.0	0.0
Investing cash flow	**-0.3**	**-0.7**	**-2.0**	**-1.5**	**-2.0**
Proceeds from issue of shares	73.2	0.0	0.0	0.0	0.0
Proceeds from exer. of options	0.7	1.6	2.5	2.5	2.5
Taxes paid related to equity	0.0	-1.1	0.0	0.0	0.0
Proceeds from borrowings	0.0	3.1	0.0	0.0	0.0
Payments on borrowings	-5.0	-3.1	0.0	0.0	0.0
Financing cash flow	**68.9**	**0.4**	**2.5**	**2.5**	**2.5**
Net change in cash	**38.0**	**-7.5**	**-16.1**	**-8.5**	**4.2**
Cash at start of period	26.1	64.1	56.6	40.5	32.0
Cash at end of period	**64.1**	**56.6**	**40.5**	**32.0**	**36.2**

Balance Sheet (US$m)					
Year end 31 Dec	**2019**	**2020**	**2021e**	**2022e**	**2023e**
Cash	63.8	56.4	40.3	31.8	36.0
Accounts receivable	7.9	9.0	11.6	15.8	19.7
Costs capitalised	4.5	3.4	3.4	3.4	3.4
Prepaid expenses and other	5.3	10.0	10.0	10.0	10.0
Restricted cash	0.3	0.2	0.2	0.2	0.2
PPE	0.5	0.8	0.8	0.8	1.0
Costs capitalised	1.3	0.6	0.6	0.6	0.6
Intangibles - Goodwill	0.8	0.8	38.8	38.8	38.8
Intangibles - Other	0.3	0.0	0.0	0.0	0.0
Notes due from affiliates	0.3	0.3	0.3	0.3	0.3
Right of use assets	0.0	2.6	2.6	2.6	2.6
Prepaid expenses and other	3.5	2.2	2.2	2.2	2.2
Total assets	**88.3**	**86.3**	**110.8**	**106.5**	**114.7**
Accounts payable	0.5	2.4	2.6	3.7	4.7
Accrued expenses	3.4	5.2	5.2	5.2	5.2
Deferred revenue	11.1	11.9	11.9	11.9	11.9
Deferred rent	0.2	0.0	0.0	0.0	0.0
Other non-current liabilities	0.8	2.3	2.3	2.3	2.3
Total liabilities	**16.0**	**21.8**	**22.0**	**23.1**	**24.1**
Common stock and paid capital	188.3	196.9	236.4	238.9	241.4
Notes due from affiliates	-0.6	-0.6	-0.6	-0.6	-0.6
Accumulated deficit	-115.5	-131.8	-147.1	-154.8	-150.1
Total shareholders' equity	**72.3**	**64.5**	**88.7**	**83.5**	**90.7**

Valuation data					
Year end 31 Dec	**2019**	**2020**	**2021e**	**2022e**	**2023e**
NPAT (underlying) (A$m)	-33.1	-10.1	-20.4	-10.4	6.2
Diluted EPS (underlying) (Ac)	**-31.9**	**-6.8**	**-13.3**	**-6.6**	**3.9**
Change		*NM*	*NM*	*NM*	*NM*
P/E ratio (x)	**NM**	**NM**	**NM**	**NM**	**>100**
CFPS (Acps)	-42.1	-6.8	-14.5	-8.0	3.0
Price/CF (x)	**NM**	**NM**	**NM**	**NM**	**>100**
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Yield	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Franking	0%	0%	0%	0%	0%
EV/Revenue (x)	10.9	8.4	6.8	4.9	3.9
EV/EBITDA (underlying) (x)	**NM**	**NM**	**NM**	**NM**	**>100**
NTA per share (Acps)	69.5	58.6	42.7	37.3	42.4
Price/NTA (x)	**9.6**	**11.4**	**15.6**	**17.9**	**15.8**

Performance ratios					
Year end 31 Dec	**2019**	**2020**	**2021e**	**2022e**	**2023e**
EBITDA margin	**-48.6%**	**-19.8%**	**-25.0%**	**-13.6%**	**-4.6%**
EBIT margin	-49.1%	-20.6%	-25.9%	-14.6%	-5.6%
Return on assets	-32.8%	-18.9%	-24.4%	-19.9%	-8.9%
Return on equity	**NM**	**NM**	**NM**	**NM**	**NM**
ROIC	NM	NM	NM	NM	NM
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Effective tax rate	0.0%	0.0%	0.0%	0.0%	0.0%

Leverage ratios					
Year end 31 Dec	**2019**	**2020**	**2021e**	**2022e**	**2023e**
Net debt/(cash) (A$m)	-91.5	-78.1	-54.0	-42.7	-48.2
Net debt/equity	**NM**	**NM**	**NM**	**NM**	**NM**
Gearing	NM	NM	NM	NM	NM
Net debt/EBITDA (x)	NM	NM	NM	NM	NM
Net interest cover (x)	NM	NM	NM	NM	NM

Segmentals (US$m)					
Year end 31 Dec	**2019**	**2020**	**2021e**	**2022e**	**2023e**
Revenue (US$m)					
Subscription revenue	44.1	58.5	75.4	100.6	129.5
Data and other revenue	14.9	22.2	25.5	33.2	40.6
Jiobit	0.0	0.0	4.3	13.5	17.5
Total revenue	**58.9**	**80.7**	**105.2**	**147.3**	**187.7**
Growth					
Subscription revenue	*78%*	*33%*	*29%*	*33%*	*29%*
Data and other revenue	*105%*	*49%*	*15%*	*30%*	*23%*
Jiobit				*218%*	*30%*
Total revenue	*84%*	*37%*	*30%*	*40%*	*27%*
Gross profit					
Subscription revenue	33.0	44.9	58.4	79.2	103.6
Data and other revenue	14.1	20.4	23.0	29.8	36.6
Jiobit			3.6	11.5	14.9
Total gross profit	**47.1**	**65.3**	**85.0**	**120.6**	**155.1**
Gross margin					
Subscription revenue	*74.9%*	*76.8%*	*77.5%*	*78.8%*	*80.0%*
Data and other revenue	*94.6%*	*91.8%*	*90.0%*	*90.0%*	*90.0%*
Jiobit			*85.0%*	*85.0%*	*85.0%*
Total gross margin	***79.9%***	***80.9%***	***80.8%***	***81.9%***	***82.6%***

Interims (US$m)				
Year end 31 Dec	**1H2020**	**2H2020**	**1H2021e**	**2H2021e**
Revenue	**37.8**	**42.9**	**48.1**	**57.0**
Cost of revenue	6.6	8.8	9.6	10.5
Gross profit	**31.2**	**34.1**	**38.5**	**46.5**
Gross margin	*82.5%*	*79.5%*	*80.0%*	*81.5%*
EBITDA (statutory)	**-7.1**	**-8.9**	**-12.8**	**-13.5**
EBITDA (underlying)	**-2.6**	**-4.4**	**-7.5**	**-7.0**
NPAT (statutory)	**-7.2**	**-9.1**	**-13.1**	**-13.9**
NPAT (underlying)	**-2.6**	**-4.7**	**-7.8**	**-7.4**

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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