

Unlocking Intellectual Property Value

TZ Limited is a US-focused Intellectual Property (IP) and technology development company providing commercialisation of its own products as well as product design and development for third parties. It is a world leader in Shape Memory Alloy (SMA) actuation technology and has invested cUS\$30 million in its IP portfolio over the past decade. The company's SMA electronic locking devices can deliver security and environmental monitoring solutions at a micro-level at a price that is 2 – 3 times less than the next best competing alternative.

TZ's major operational and financial restructuring in the past 12 months has been driven by current Board members Mark Bouris (Executive Chairman) and Kenneth Ting (Executive Director) who were appointed in June 2009. They have been instrumental in recapitalising the company and providing a greater commercial focus targeting the security-conscious growth markets of data centres and corporate mail.

Telezygology, Inc. (TZI), TZ's technology and commercialisation business, has formed development and distribution agreements with NYSE-listed global electrical and electronic supplier Anixter International, Inc. to drive sales of its Infrastructure Protection systems to the data centre market. TZI has also formed an agreement with International Office Products Cooperative to supply NYSE-listed Pitney Bowes Management Services with a custom Packaged Asset Delivery system to market to its corporate managed mail services clients.

The share price has continued to decline since trading was reinstated in March 2010 and is currently near all-time lows. However, we believe the new Board and management team, recapitalised Balance Sheet, partnership agreements with global corporations, and targeted marketing of its leading technology provides a strong opportunity to resurrect the company. Consequently, we view TZ as undervalued based on its IP portfolio and growth potential in current and anticipated target markets.

We expect positive sales updates and meeting FY11 guidance to be the key catalysts for gaining market credibility and being positively re-rated. Our 12-month price target of \$0.84 per share is derived from our sum-of-parts valuation and implies the market capitalisation increases from c\$30 million to c\$60 million based on existing shares. We believe this is justified given the company has invested cUS\$30 million in IP and its products are now being globally launched by NYSE-listed partners. We are forecasting a 12-month return of 105% and initiate coverage with a Speculative Buy recommendation.

Year End June 30	2009A	2010A	2011F	2012F	2013F
Reported NPAT (\$m)	(25.7)	(21.2)	(8.3)	(4.1)	0.5
Recurrent NPAT (\$m)	(22.7)	(13.0)	(8.3)	(4.1)	0.5
Recurrent EPS (cents)	(46.8)	(24.5)	(9.3)	(3.7)	0.3
EPS Growth (%)	na	na	na	na	na
PER (x)	na	na	na	na	na
PEG	na	na	na	na	na
EBITDA (\$m)	(14.1)	(10.1)	(4.8)	(0.2)	4.4
EV/EBITDA (x)	(2.2)	(4.0)	(11.7)	(351.2)	12.8
Free Cashflow	(14.8)	(6.2)	(10.3)	(4.7)	0.4
FCFPS (cents)	(30.5)	(11.6)	(11.5)	(4.3)	0.3
PFCF (x)	na	na	na	na	na
DPS (cents)	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	0.0	0.0	0.0

6 September 2010

12mth Rating **SPECULATIVE BUY**

Price	A\$	0.41
Target Price	A\$	0.84
12m Total Return	%	104.7

RIC: TZL.AX	BBG: TZL AU	
Shares o/s	m	74.9
Free Float	%	80.0
Market Cap.	A\$m	30.7
Net Debt (Cash)	A\$m	18.6
Net Debt/Equity	%	819.0
3m Av. D. T'over	A\$m	0
52wk High/Low	A\$	0.98/0.27
2yr adj. beta		na

Valuation:

Methodology		DCF
Value per share	A\$	0.84

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Patersons Securities Limited has been appointed as Corporate Adviser to TZ Limited. It has received fees for acting in this capacity.

12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	na	na	na
Rel. S&P/ASX 300	na	na	na

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Executive Summary

Company Overview

TZ Limited is a US-focused Intellectual Property (IP) and technology development company providing commercialisation of its own products as well as product design and development for third parties. It is a world leader in Shape Memory Alloy (SMA) actuation technology and has invested cUS\$30 million in its IP portfolio over the past decade. The company's SMA electronic locking devices can deliver security and environmental monitoring solutions at a micro-level at a price that is 2 – 3 times less than the next best competing alternative.

Its operations are divided into Telezygology, Inc. (TZI) and Product Development Technologies, Inc. (PDT). TZI leverages its IP creation and technology development to commercialise products that help global enterprises protect, deliver and maintain critical assets with a full audit trail. PDT uses its extensive design and engineering capabilities to deliver turn-key product development for clients to use in creating market leading products.

TZ's major operational and financial restructuring in the past 12 months has been driven by current Board members Mark Bouris (Executive Chairman) and Kenneth Ting (Executive Director) who were appointed in June 2009. Following the strategic review, TZI's business model was restructured to provide a greater commercial focus targeting the security-conscious markets of data centres, corporate mail, and OEM aerospace suppliers.

TZI has formed development and distribution agreements with NYSE-listed global electrical and electronic supplier Anixter International, Inc. to drive sales of its Infrastructure Protection systems to the data centre market. Anixter is a leading global supplier of communications and IT components with over 100,000 customers and annual sales of approximately US\$5 billion. We view these agreements as clear endorsements of the commercial viability of the TZ Praetorian and TZ Centurion systems. In addition, it allows TZ to leverage Anixter's global footprint in 52 countries which provides distribution channels in North America, Europe, South America and the Asia Pacific region. Both infrastructure protection systems are currently being globally launched by Anixter at trade shows.

Investment Case

The company has undergone significant operational restructuring in the past 12 months which has been driven by Board members Mark Bouris and Kenneth Ting. This has resulted in a more commercial strategy targeting key growth markets in which to deploy its leading technology. TZ also announced in May 2010 the appointment of original founders John Wilson (interim CEO of TZI) and Dickory Rudduck (US-based Executive Director).

In addition to addressing the operational issues, the Board has substantially strengthened TZ's financial position through debt to equity swaps, additional investment by existing shareholders and a US\$4.1 million loan facility with major shareholder QVT. This has allowed the company to provide the market with guidance on its FY11 performance targets and start to implement its strategic plans.

We believe positive sales updates and meeting FY11 guidance will be the key catalysts for gaining market credibility and being positively re-rated. At current levels, TZ is yet to see any positive re-rating and appears undervalued based on the company's impressive IP portfolio and the growth potential in its current and anticipated target markets. The large number of applications for TZ's IP may also allow the growth of emerging business units (e.g. gaming machines, hospital drug enclosures, high-end retailers) to be funded by selling or demerging more mature business units once they have established market penetration.

Valuation & Recommendation

The share price has continued to decline since trading was reinstated in March 2010 and is currently near all-time lows. However, we believe the new Board and management team, recapitalised Balance Sheet, partnership agreements with global corporations, and targeted marketing of its leading technology provides a strong opportunity to resurrect the company.

Our 12-month price target of \$0.84 per share is derived from our sum-of-parts valuation.

We are forecasting a 12-month return of 105% and initiate coverage with a Speculative Buy recommendation.

Financials

Forecasts

In July 2010, TZ provided an update on its internal operational performance objectives including FY11 guidance. The operating budgets and performance targets were prepared by senior management of TZI and PDT and based on expectations of successful execution of plans and objectives.

Telezygology, Inc.

Infrastructure Protection

Following the successful implementation of core business initiatives and based on the current enquiry pipeline of around US\$1.5 million, Infrastructure Protection has been set a FY11 revenue target of US\$3.7 million. TZ indicated that the business has a CY11 revenue target is US\$7.5 million which reflects the anticipated impact of growth initiatives currently being implemented.

Packaged Asset Delivery

TZ has developed relationships with International Office Products Cooperative and Pitney Bowes Management Services which provides a strong foundation for sales growth in the corporate mail sector. In addition, the company is in the process of extending the current platform infrastructure to enable a new offering to the high-density residential market. Taking this into account, Packaged Asset Delivery has been set a FY11 revenue target of US\$3.0 million.

Product Development Technologies, Inc.

TZ announced that for the first 11 months of FY10, PDT delivered an EBITDA of US\$1.6 million on revenue of US\$13.6 million. Both revenue and earnings were approximately 12% ahead of internal budgets. Project backlogs remain high as a result of some large medical and defence industry projects and the company expects another solid year of growth in FY11.

Operations Excluded from Forecasts

Aerospace Asset Maintainability

TZ does not anticipate any significant revenue from Aerospace Asset Maintainability in the next 12 months. However, the company indicated that it is actively pursuing partnerships and licensing relationships with OEM suppliers to support market entry and adoption.

Intanova

In July 2010, TZ announced that it had resolved a long-standing dispute with Techbuilt Interiors in relation to licence and royalty payments of TZI's FutureWall System. The FutureWall System is a patented interior building platform that offers an interior fit-out solution for full height demountable partitioning, free-standing pavilions, glass walls and sliding doors, integrated storage, wall cladding and lining systems. Techbuilt was granted the exclusive licence for Australia and NZ in late 2003 and extended to the UK in 2008. Techbuilt's customers currently using the Futurewall System include Corrs Chambers Westgarth, Kemp Strag, the Australian Tax Office and Chase Manhattan Bank.

Following settlement of the dispute, a new joint venture company, Intanova Pty Limited, has been established as a 50/50 JV between TZI and former senior managers of Techbuilt. TZ indicated that Intanova is a significant part of the company's future plans with proven revenue generation and a track record of successful projects over the last six years.

It is worth noting that TZI has an option to increase its interest to 70% by providing an additional \$1.2 million in working capital in three tranches commencing in February 2011. The exercise of this option is predicated on Intanova achieving sales or a revenue pipeline target of \$4.7 million for FY11. However, at this stage we do not assume any contribution from Intanova.

A summary of our medium-term revenue and EBITDA forecasts is provided in Figure 1.

Figure 1: PSL Forecasts

Division	Revenue (\$m)					EBITDA (\$m)				
	FY11F	FY12F	FY13F	FY14F	FY15F	FY11F	FY12F	FY13F	FY14F	FY15F
TZI	7.9	22.2	35.2	52.8	68.2	(3.8)	0.7	5.1	10.6	13.6
Infrastructure Protection	4.4	15.9	25.4	38.1	47.6	-	-	-	-	-
Packaged Asset Delivery	3.5	6.4	9.8	14.7	20.5	-	-	-	-	-
PDT	17.5	19.3	21.2	23.3	25.7	2.0	2.3	2.7	2.9	3.2
Total Corporate Costs	-	-	-	-	-	(3.0)	(3.2)	(3.3)	(3.5)	(3.6)
Group Total	25.4	41.5	56.4	76.1	93.9	(4.8)	(0.2)	4.4	10.0	13.2

Source: Company and PSL

Our full financial forecasts assume a \$5 million capital raising is undertaken in 1H11 and a \$10 million capital raising is undertaken in 1H12 to provide sufficient working capital to fund our forecast growth. We also assume QVT converts its remaining \$12 million of convertible notes in FY13 at \$0.50 per share.

Capital Structure

Figure 2: Capital structure

Description	Number (m)
Existing Ordinary Fully Paid	74.9
Forecast Ordinary Fully Paid post assumed \$5 million raising	89.2
Forecast Ordinary Fully Paid post assumed \$10 million raising	109.2
Convertible Notes - FV \$1,000; 10%; matures 18 Feb 2013	12,000
Options with Notes - \$4.00 exercise; expiry 19 Feb 2013	3.0
Options - various exercise prices and expiry dates	6.8
Performance Rights - expiry 30 Jun 2012	1.4

Source: Company and PSL

Key Shareholders

Figure 3: Key shareholders

Holder Name	Undiluted (%)	Diluted ¹ (%)	Diluted ² (%)	Location	First on Register
QVT	18%	40%	46%	US	2009
Dutch Shareholders	15%	11%	10%	Netherlands	pre listing
Acument Global Technologies	5%	3%	3%	US	2007
Board of Directors	3%	2%	2%	Australia	2009
Patrick Chew	2%	1%	1%	Australia	2008

Source: Company and PSL

QVT originally invested \$24 million via a convertible note and has now converted half of the principal plus interest payments into equity at \$1.00 per share. Acument Global Technologies (formally Textron Fastening Systems) acquired its holding through a scrip deal when TZ reacquired the licensing rights to its intelligent fastening IP.

1. After the conversion of 13.25 million of convertible notes by QVT on 30 March 2010, QVT currently holds a total of \$13.714 Series I and III convertible notes with a coupon rate of 10% pa. Diluted shareholdings assume that QVT converts these notes at 50.4 cents and 42 cents respectively.

2. Fully Diluted shareholdings assume that shareholder approval is granted at TZL's 2010 AGM to convert the debt due to QVT of USD\$4.1 into series IIIB convertible notes and QVT converts its series IIIB convertible notes at 42 cents.

Valuation

Sum-of-Parts Valuation

Figure 4: Sum-of-parts valuation

	(\$ million)	(\$ per share)
Telezygology, Inc.	117.3	0.88
Product Development Technologies, Inc.	32.3	0.24
Corporate & Other	-35.6	-0.27
FY13 Net Debt*	-2.2	-0.02
Valuation	\$111.8m	\$0.84

Source: PSL

* Following convertible note conversion in FY13

Price Target

Our 12-month price target of \$0.84 per share is based solely on our sum-of-parts valuation.

Sensitivity

Figure 5: Sensitivity analysis scenario 1

		Infrastructure Protection Revenue Scenario				
	\$A	-50%	-25%	Base	+25%	+50%
Packaged Asset	-50%	0.42	0.54	0.67	0.84	1.03
	-25%	0.50	0.61	0.74	0.91	1.10
Delivery	Base	0.59	0.70	0.84	1.00	1.20
Revenue Scenario	+25%	0.72	0.83	0.97	1.13	1.33
	+50%	0.88	0.99	1.13	1.29	1.49

Source: PSL

Figure 6: Sensitivity analysis scenario 2

		PDT Long-Term EBITDA Margin				
	\$A	7.5%	10.0%	12.5%	15.0%	17.5%
TZI	15.0%	0.55	0.59	0.63	0.67	0.71
	17.5%	0.66	0.70	0.74	0.78	0.81
Long-Term	20.0%	0.76	0.80	0.84	0.88	0.92
EBITDA Margin	22.5%	0.86	0.90	0.94	0.98	1.02
	25.0%	0.97	1.01	1.05	1.09	1.13

Source: PSL

Figure 7: Sensitivity analysis scenario 3

		DCF Valuation Beta				
	\$A	2.40	2.20	2.00	1.80	1.60
DCF Valuation	-5.0%	0.56	0.57	0.58	0.59	0.60
	-3.0%	0.63	0.65	0.66	0.67	0.68
Terminal	0.0%	0.80	0.82	0.84	0.86	0.88
Growth Rate	3.0%	1.16	1.20	1.24	1.28	1.32
	5.0%	1.76	1.85	1.94	2.04	2.15

Source: PSL

Catalysts & Risks

Catalysts

Global Partner Targeting Data Centre Market

TZ commenced its focus on the data centre market when it was approached by Anixter to develop a micro-security level product to fill a market gap and meet the requirements of its customers. Anixter is a leading global supplier of communications and IT components with over 100,000 customers and annual sales of approximately US\$5 billion.

The TZ Praetorian system was co-developed with Anixter to work with existing third party building access control systems and extend physical security and audit trail to the cabinet enclosure level. The company developed its TZ Centurion system in parallel to provide an internet-based access control system focused on both physical security and environmental monitoring. Anixter highlighted the TZ Praetorian system on the first page of its 2009 Annual Report with an overview of the Enterprise Cabling & Security Solutions division. The division generated sales of US\$2.7 billion in 2009 (representing 54% of 2009 group sales) and the overview included the following commentary:

"In 2009, Anixter's Infrastructure Solutions Lab delivered two innovative solutions based on the feedback of our customers: Anixter ipAssured and the TZ Praetorian Locking System. The TZ Praetorian system improves cabinet-level access control by integrating with video monitoring for improved data centre security."

It is worth noting that Anixter has not formed strategic relationships with individual vendors in the past and primarily conducts its product development in-house. Anixter and TZ also formed a distribution agreement in April 2009 to ensure a coordinated sales and promotional effort and to support demand creation through the implementation of structured in-field sales training programs. This allows TZ to leverage Anixter's global footprint in 52 countries which provides distribution channels in North America, Europe, South America and the Asia Pacific region. Both infrastructure protection systems are currently being globally launched by Anixter at trade shows.

We view the development and distribution agreements with Anixter as clear endorsements of the commercial viability of the TZ Praetorian and TZ Centurion systems. Demand is expected to be underpinned by increasing compliance requirements and commoditised nature of the data rack and cabinet markets to underpin an increasing focus by manufacturers to seek higher value offerings through integrated security and environmental monitoring. The company also sees significant potential in the retrofit market across the installed base of predominant keyed data centre cabinet enclosures.

TZ estimates that the total annual data center infrastructure spend at \$16 - 18 billion. The company's research indicates that Security & Environmental Monitoring is c15% of new spend with Power & Cooling representing c60%, cabling c20%, and racks c5%. The total potential market for TZ represents a portion of the Security & Environmental Monitoring spend plus a portion of the retrofittable installed base. TZ estimates this opportunity at c\$1.5 billion growing to \$2.0 billion over the next 4 years. Our Infrastructure Protection forecasts imply TZ gains a 1.0% market share in FY12 and increases to 2.2% over a four-year period.

Board and Management Changes

TZ's major operational and financial restructuring in the past 12 months has been driven by current Board members Mark Bouris (Executive Chairman) and Kenneth Ting (Executive Director) who were appointed in June 2009. They have been instrumental in renegotiating the terms of QVT's convertible note, investigating the company's financial position, and forming a clear strategy for the TZI business defined by target markets, customer needs and value proposition.

In addition, TZ announced in May 2010 the recruitment of John Wilson as interim CEO of TZI and the appointment of Dickory Rudduck to the Board. John Wilson originally founded the company with Dickory Rudduck and helped take it to ASX listing in 2004, establish the US operations, and negotiate the technology licensing agreement with Textron Fastening Systems. Dickory Rudduck's appointment provides a-US based director and ensures that technology development is strategic and outside the focus of the business units.

Operational Restructuring

TZI is expected to be a key driver for the company going forward but recent performance has been constrained by focusing on selling intelligent devices without a clear strategy and strong system solution selling approach. Following a strategic review by the current Board during 1H10, TZI's business model was restructured to provide a greater commercial focus targeting three key market segments.

Infrastructure Protection is focused on customers in the data centre market and offers new levels of physical security, protection and remote control over global IT assets. Packaged Asset Delivery provides secure storage and enclosure systems which ensure a secure exchange and full audit trail to corporate mail rooms and high density residential buildings. Aerospace Asset Maintainability offers aerospace industry suppliers cost effective and lightweight latching and actuation technologies through partnerships with OEM suppliers.

Financial Restructuring

In addition to the operational issues outlined above, TZI's operations have been significantly constrained by a lack of funding. Under the current Board, the company's financial position has been substantially strengthened through a debt to equity swap as well as additional investment by existing shareholders. In addition, its financial position has recently been further strengthened by a US\$4.1 million loan facility with QVT and a \$4.7 million note conversion by Sydcomp. This has allowed the company to provide the market with guidance on its FY11 performance targets and start to implement its strategic plans.

Outsourcing Trend

PDT uses its extensive design and engineering capabilities to deliver turn-key product development for clients to use in creating market leading products. It is a mature and autonomous division of TZ which continued to perform relatively strongly during the Global Finance Crisis. The key reason for this was that the decrease in product development demand was offset by increased outsourcing in the US as companies reduced staff levels.

Berkshire Select, Inc. indicated in a research report that the overall design services industry should grow by 4 - 5% in the next 12 months despite the anticipated lower economic growth as a result of the upturn in outsourcing demand. We expect the challenging economic conditions to continue placing pressure on companies to reduce operational costs and avoid capital expenditures on non-core activities like product design, testing and analytical services. PDT is well placed to benefit from companies becoming more aggressive with outsourcing decisions as it has a leading position in targeted markets of healthcare, defence and consumer goods.

Global Partner Targeting Corporate Mail Market

Packaged Asset Delivery provides secure storage and enclosure systems which ensure a secure exchange and full audit trail. The delivery infrastructure automates the "last mile" package delivery and enables accountable mail and parcels to be delivered securely to a centralised location with automated notification to the specific recipient either by email or SMS. Proof of package receipt is established automatically when the client retrieves the package which helps improve the chain of custody, reduce costs and improve customer convenience and access.

In July 2009, TZI entered into a value-added reseller agreement with International Office Products Cooperative (IOPC) for the manufacture and distribution of TZI's intelligent package delivery locker systems integrating TZI's hardware and software. In June 2010, IOPC entered into an agreement to supply Pitney Bowes Management Services (PBMS) with a TZ custom designed 28-locker system. This system is marketed by PBMS to their corporate managed mail services clients as their own Intelligent Locker System.

Partnering with workroom interior company IOPC and managed mail service provider PBMS provides a strong foundation for sales growth in the corporate mail sector. It is also worth noting that the supply of both Packaged Asset Delivery hardware and software is a progression from the previous hardware focused product offering. The software component is expected to generate ongoing revenue from software upgrades, scheduled maintenance and value-added services programs.

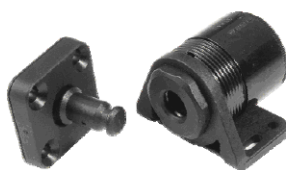
Competitive Advantage of SMA Products

TZI can deliver data center security and environmental monitoring solutions at a micro-level at a price that is 2 – 3 times less than the next best competing alternative. TZI is a world leader in Shape Memory Alloy (SMA) actuation technology and has developed an IP portfolio around intelligent devices which utilise SMA actuation, integrated electronics, networking and communication, and software control. SMA locking devices developed by TZI have the following important competitive advantages:

- SMA is a magnitude cheaper at approximately \$0.20 compared to \$15 for a solenoid or DC motor
- An SMA actuator is 1/10th of the volume which enables smaller devices
- An SMA actuator is 1/100th of the weight of the next best alternative
- SMA actuation is silent in operation
- SMA does not create an Electromagnetic Field when it operates nor EMF noise in the power supply which is key for applications such as data centre cabinet locking

In addition, TZ devices require an inexpensive micro-controller to manage the SMA actuator. This enables the devices to be programmed and controlled by software, networked and used for other meaningful tasks like turning on lights or controlling other systems like sensors and sending alert notifications. It is also worth noting that the software component is expected to generate ongoing revenue for TZI from software upgrades, scheduled maintenance and value-added services programs. Some of the key advantages of TZI's products are illustrated in Figures 8 and 9.

Figure 8: Competitive analysis



TZ Radial™ Locking Device

Avg. Price per Cabinet:

TZ Praetorian™ - \$1,200 *

► Integrates with 3rd party access control systems

TZ Centurion™ - \$600



Solenoid Lock Equivalent

Avg. Price per Cabinet:

APC Netbotz - \$1,602

Rittal - \$2,474

Source: Company

Figure 9: Feature comparison

Manufacturer	TZ	TZ	APC	Rittal	EMKA
Solution Name	TZ Centurion	TZ Praetorian with third party Access Controller	NetBotz Rack Access PX-HID NetBotz 450/550 InfraStruXure Central Basic	CMC TC	ELM
Non-electromagnetic lock	✓	✓	✗	✗	✗
Lock with integrated door status	✓	✓	✗	No, requires contact	✓
One reader per many locks	✓	✓	✗	✗	✗
Single power feed for many locks	✓	✓	✗	✗	✗
Lock on Frame or Door	Frame and Door option	Frame and Door option	Door	Door	Door
Works over structured cable	✓	✓	✗	✗	✗
Environmental Monitoring (Temp., Humidity, Fluid and door contact)	✓	per 3rd party AC	✓	✓	✓
Other Sensors	future expansion - Airflow, Power and others	Can be accommodated via Access Control System	Vibration, Sensor Pods (temp, humidity, airflow, and inputs)	Automatic Door Opener based on heat/fire, Airflow, Acoustic, Leak, Vandalism	Tilt
Support for 3rd party Wiegand readers	✓	✓	✗	✗	✗

Source: Company

Risks

Early Market Establishment

TZ's initially targeted markets of intelligent data centre cabinets and intelligent delivery enclosures are both at relatively early stages of development and product establishment. This makes it difficult to estimate the potential size of the market opportunity as the products are effectively defining new segments.

We expect this to be an ongoing challenge for the company as it rolls-out additional products into new targeted markets such as the gaming industry (audit trail for gaming machines), healthcare (audit trail for drug enclosures), and high-retailers (audit trail for accessing valuable goods).

However, we do note that TZI has mitigated this risk to date by forming strategic distribution agreements with Anixter, IOPC and indirectly with PBMS. These agreements provide access to significant networks and established customer bases which we expect to assist TZ in gaining sales momentum for its products.

Reputational Damage

The events leading up to TZ's Board and management changes, operational restructuring, and financial restructuring created substantial uncertainty for the company. While the new appointments and strategic review have addressed these historical issues, the risk of reputational damage may still remain.

TZ indicated in May 2010 that senior management and the new Board members have met with major suppliers, joint development partners and customers to restore confidence in the on-going business relationships. The company advised that all relationships are now on a steady footing and are continuing to move forward at a manageable pace.

Unresolved Litigation

Since the appointment of the current Board in June 2009, the company has dealt with litigation on numerous fronts. TZ indicated in May 2010 that several disputes had been resolved and the only material litigation remaining consists of the litigation involving former directors.

The company commenced proceedings in the Supreme Court of NSW seeking the recovery of a material sum of damages from a former director. The hearing date has been altered a number of times and is now expected to commence in November 2010. Key events in the company's unresolved litigation are illustrated in Figure 10. While progress has been made with the resolution of several disputes, ongoing litigation is an unwanted distraction for management as TZ begins to implement its strategic plans.

Figure 10: Key events in unresolved litigation

Date	Event
July 2009	▪ Claim received from Andrew Sigalla for costs allegedly owed under his Deed of Release
August 2009	▪ Asset freezing orders obtained against previous directors of TZ
September 2009	▪ TZ issues letter of demand to former director seeking the return of material sums of money
September 2009	▪ Original hearing date for proceedings in the Supreme Court of NSW ▪ TZ is seeking recovery of a material sum of damages against a former director of TZ
November 2010	▪ New hearing date for proceedings in the Supreme Court of NSW ▪ TZ is seeking recovery of a material sum of damages against a former director of TZ

Source: Company and PSL

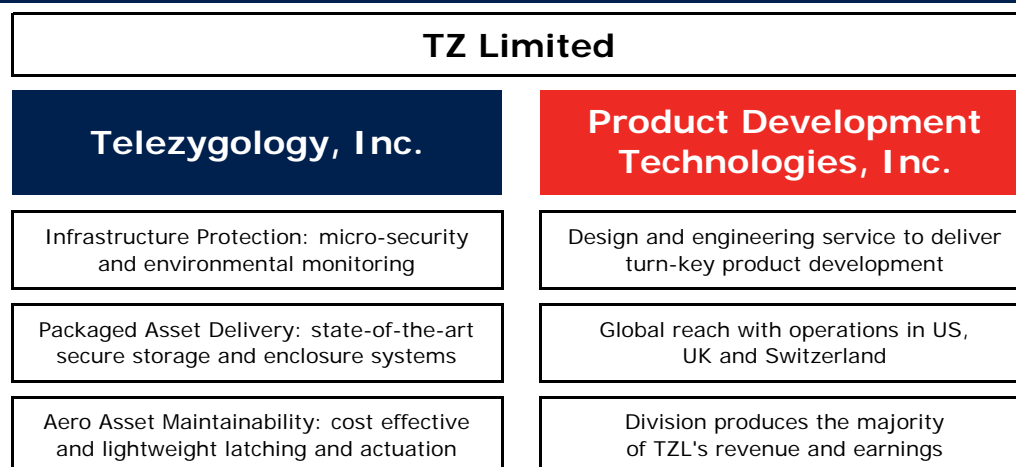
About TZ Limited

Company Overview

TZ Limited is a US-focused Intellectual Property (IP) and technology development company providing commercialisation of its own products as well as product design and development for third parties. The company operates throughout the US, Europe and Australia and provides technology development services to manufacturers in the automotive, aerospace and construction industries.

The company's operations are divided into two US-based operating businesses, Telezygology, Inc. (TZI) and Product Development Technologies, Inc. (PDT) as illustrated in Figure 11. TZI leverages its IP creation and technology development to commercialise products that help global enterprises protect, deliver and maintain critical assets with a full audit trail. PDT uses its extensive design and engineering capabilities to deliver turn-key product development for clients to use in creating market leading products.

Figure 11: Company overview



Source: Company and PSL

Telezygology, Inc.

Telezygology, Inc. (TZI) is a world leader in Shape Memory Alloy (SMA) actuation technology and has developed an IP portfolio around intelligent devices which utilise SMA actuation, integrated electronics, networking and communication, and software control. TZI purchases SMA wire from its suppliers and uses internally-developed IP and algorithms to control the actuation of the wire. SMA actuation technology has many applications and can be used in electronic locking. SMA locking devices developed by TZI offer a much smaller, cheaper, lighter alternative to traditional solenoid locking systems. An advantage of SMA locking devices over solenoid based alternatives is that SMA does not create electromagnetic fields and noise which is important in applications such as data centre cabinet locking.

TZI has invested approximately US\$30 million in IP and technology over the past decade and has 178 current pending patent applications filed in 16 countries. A total of 49 patents have been granted and a further 33 are in national phase applications in a number of countries.

TZI commercialises the technology by embedding it into everyday objects and using strategic development and distribution relationships with global companies to build market acceptance and to exploit the applications. Following a strategic review by the current Board during 1H10, the division's business model was restructured to provide a greater commercial focus and reduced cost base. TZI now consists of Infrastructure Protection, Packaged Asset Delivery, and Aerospace Asset Maintainability as illustrated in Figure 12.

Figure 12: Telezygology, Inc. division overview

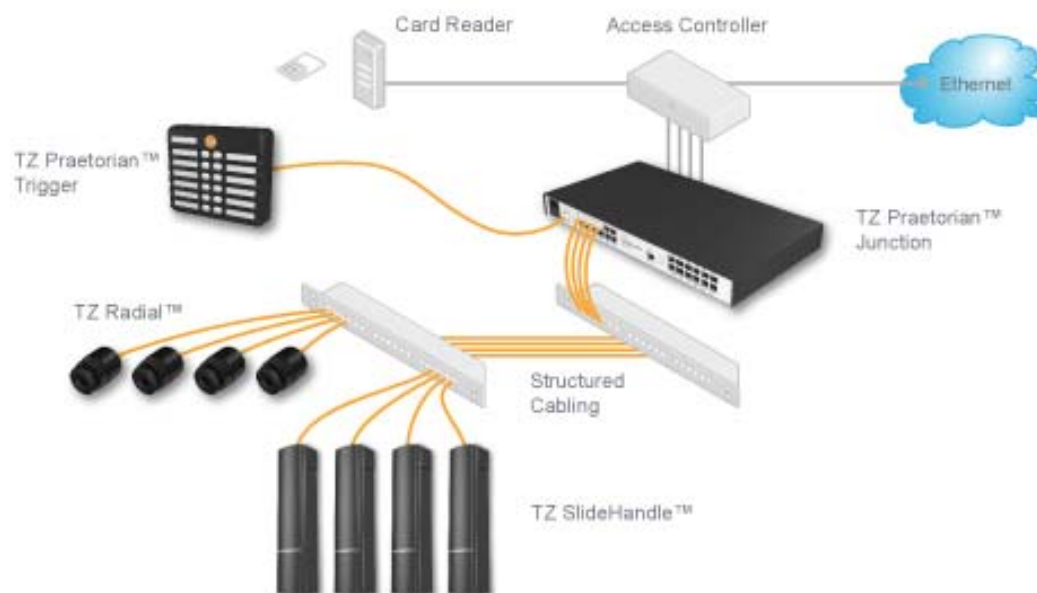
Telezygology, Inc. Division		
Infrastructure Protection	Packaged Asset Delivery	Aero Asset Maintainability
Praetorian: extend access security to cabinet level	Courier: designed for use by corporate mail rooms	Cost effective and lightweight latching and actuation
Centurion: physical security and environmental monitoring	Concierge: used by property managers to distribute mail	Commercialisation through partnerships with OEM suppliers
	Asset Manager: adds analytic capabilities to other two systems	

Source: Company and PSL

Infrastructure Protection

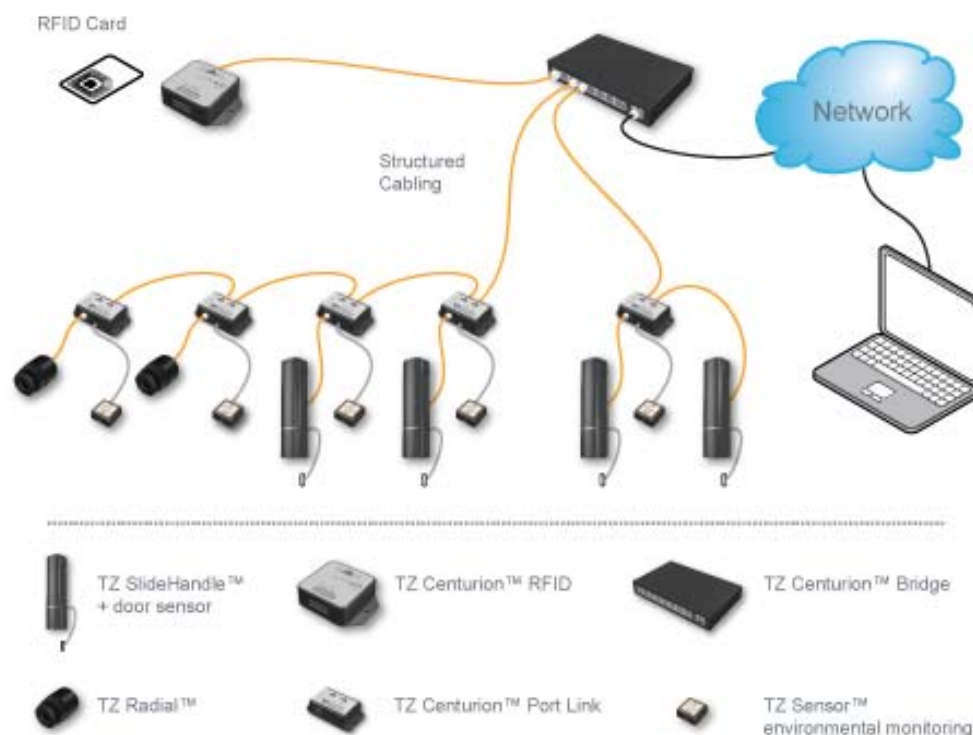
TZI's Infrastructure Protection business was established to provide a greater focus on commercial offerings to the data centre and IT markets. The business offers affordable and highly scalable micro-security and environmental monitoring solutions through its two core infrastructure protection systems, TZ Praetorian and TZ Centurion.

TZ Praetorian was co-developed with Anixter and is designed to work with existing third party building access control systems to extend physical security and audit trail capability down to the cabinet enclosure level. It allows the same ID card used for building access to provide timed authorisation to nominated cabinet doors with discrete event monitoring and system access reporting. An example of the TZ Praetorian system is illustrated in Figure 13.

Figure 13: TZ Praetorian system example

Source: Company

TZ Centurion is designed to provide an internet-based access control system focused on both physical security and environmental monitoring such as temperature sensing and leak detection. An example of the TZ Centurion system is illustrated in Figure 14. It is a highly scalable system with each bridge able to be connected to up to 32 locking devices and 64 sensors which can then be managed individually or within a larger system.

Figure 14: TZ Centurion system example

Source: Company

Packaged Asset Delivery

Packaged Asset Delivery provides secure storage and enclosure systems which focus on managing parcel delivery to ensure a secure exchange and full audit trail. Its three core delivery systems are Courier, Concierge and Asset Manager.

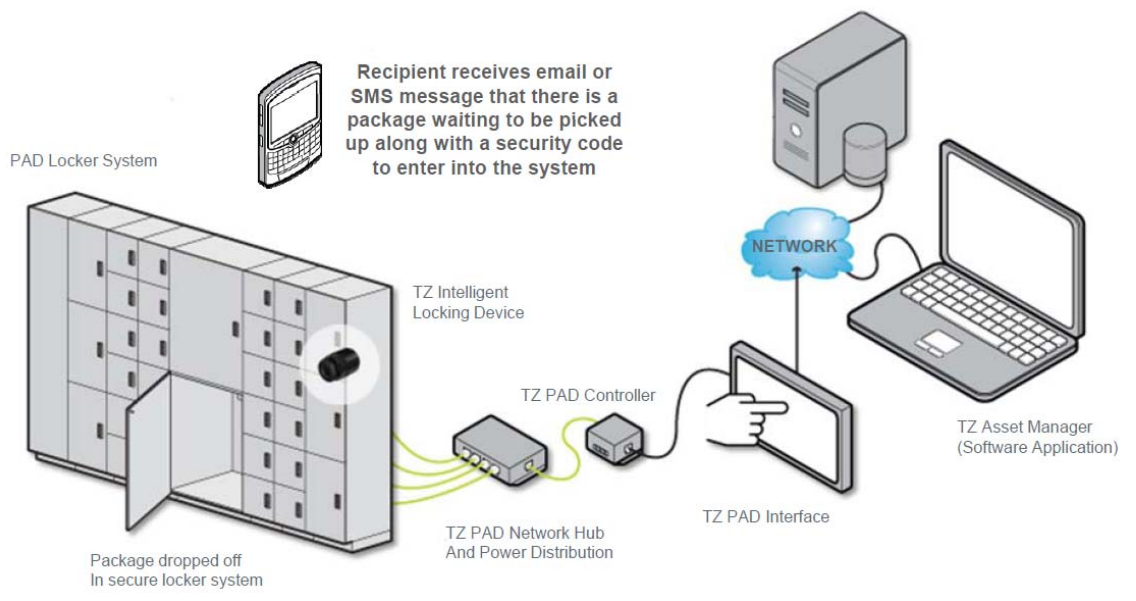
Courier is designed for use by corporate mail rooms to improve the process of parcel distribution and exchange. The delivery system enables couriers to drop off packages in a secure enclosure which will then automatically track delivery and notify the employees for secure pick up. It allows companies to dramatically improve delivery accountability within the organisation and provides an effective means to meet regulatory compliance and safeguard valuable packaged assets.

Concierge is designed for use by property managers of high density residential buildings to reduce delivery costs and ensure secure and accountable delivery of parcels. As deliveries arrive, they are dropped off in a Concierge locker unit using a completely secure process. Residents are immediately notified of the delivery by email or SMS, enabling them to pick up their packages at their convenience. They access the system and retrieve their parcels by simply entering a uniquely generated authentication code by swiping their building access card.

Asset Manager integrates with Courier and Concierge to provide analytic capabilities that query the status of any packaged asset transaction. The software is suitable for customers seeking to remotely access, monitor and control their systems. In addition, customers can use Asset Manager to analyse real-time system data to allow organisations to plan and manage workflow processes more effectively.

An application of the Packaged Asset Delivery system is illustrated in Figure 15.

Figure 15: Packaged Asset Delivery example



Source: Company

Aerospace Asset Maintainability

Aerospace Asset Maintainability offers aerospace industry suppliers cost effective and lightweight latching and actuation technologies which enable the design and development of innovative, intelligent components for sophisticated commercial and military aircraft.

Product Development Technologies, Inc.

Product Development Technologies, Inc. (PDT) was established in 1995 and has grown into a global award winning product development firm with 90 employees in the US, UK and the Ukraine. The business has integrated all critical design processes to enable ideas to progress rapidly from concept to production.

Strategy

Following the company's restructuring and strategic review during 1H10, its focus on technology development has been modified to a more commercial strategy. TZ's stated strategy for commercialising its technology is illustrated in Figure 16.

Figure 16: TZ stated strategy

TZ Stated Strategy		
Technology and Market Validation	Original Equipment	Licensing Technology
Data centre focus through partners such as Anixter	Getting large companies to use TZ technology in their products	Selling the right to use TZ's technology to other companies
Intelligent enclosure focus through partners such as IOPC	Deployed technology in products from Dell and Cardinal Health	Need validation and OEM success to build better licensing deals
Tactical OEM component sales through PDT relationships	Targeting market leaders like Honeywell, Tyco and Siemens	Targeting markets with barriers to entry like aerospace and defence

Source: Company and PSL

Progress post-Strategic Review

Telezygology, Inc.

Infrastructure Protection

TZ announced in June 2010 that the initial TZ Praetorian pilot sites had performed flawlessly since installation in late 2009 and established a positive track record with test customers. The 11 early adopter clients comprise installations with institutional, government and corporate customers including Washington University Genome, the Church of Jesus Christ of Latter-day Saints in Utah, the State of Nebraska, and BlueLock Cloud Hosting.

TZ indicated that testimonials from pilot site customers have helped generate early sales of Infrastructure Protection solutions not only in North America but also in Europe and Asia. The company also indicated that sales opportunities continue to grow with a significant increase in the installed client base expected during the next six months.

In addition, TZ undertook an initial soft launch of its stand-alone TZ Centurion system in April 2010 at the InterOp Business Technology Expo in Las Vegas. The company indicated that interest for the system had been strong and a number of beta site installations have now been deployed. TZ has set a sales target of at least 15 new clients and sales installations across North America, Europe and Asia in the coming six months once beta testing has been completed.

Packaged Asset Delivery

The company announced in June 2010 that its value-added reseller, International Office Products Cooperative (IOPC) had entered into a supply agreement with Pitney Bowes Management Services (PBMS) for a TZ custom designed 28-locker system module. The locker system integrates TZ's Packaged Asset Delivery hardware and software and will be marketed by PBMS to their managed mail services clients as its Intelligent Locker System.

Aerospace Asset Maintainability

Due to the heavy compliance and regulatory requirements in the aerospace and defence industries, TZ is focused on partnering with major OEM suppliers to commercialise its technology in these sectors. Given the long lead times associated with product engineering, testing and compliance, the company does not anticipate any significant revenue from this segment in the next 12 months.

Product Development Technologies, Inc.

PDT is a mature and autonomous division of TZ which continued to perform relatively strongly during the Global Finance Crisis. The key reason for this was that the decrease in product development demand was offset by increased outsourcing in the US as companies reduced staff levels. In addition, the business has recently strengthened its presence within the Personal Computer and Medical Device categories with technology deployed in products from Dell and Cardinal Health.

PDT collaborated with Dell on the design and engineering of the new luxury brand Dell Adamo laptop. The Adamo notebook is the thinnest laptop in the world with an unprecedented 0.65 inch profile. TZ's Tube Actuator is utilised in the design to enable the keyboard of the laptop to be opened by sliding a finger on the lid's heat sensing strip.

PDT collaborated with Cardinal Health to find a new way to safely manage and reduce the highly pathogenic fluid waste generated during surgeries. Cardinal Health is a global manufacturer and distributor of medical and surgical supplies and equipment and had a critical need for a completely contained system that could operate safely.

FY11 Performance Targets

Telezygology, Inc.

Infrastructure Protection

Following the successful implementation of core business initiatives and based on the current enquiry pipeline of around US\$1.5 million, Infrastructure Protection has been set a FY11 revenue target of US\$3.7 million. TZ indicated that the business has a CY11 revenue target is US\$7.5 million which reflects the anticipated impact of growth initiatives currently being implemented.

Packaged Asset Delivery

TZ has developed relationships with International Office Products Cooperative and Pitney Bowes Management Services which provides a strong foundation for sales growth in the corporate mail sector. In addition, TZI is in the process of extending the current platform infrastructure to enable a new offering to the high density residential market. Taking this into account, Packaged Asset Delivery has been set a FY11 revenue target of US\$3.0 million.

Aerospace Asset Maintainability

TZ does not anticipate any significant revenue from Aerospace Asset Maintainability in the next 12 months. However, the company indicated that it is actively pursuing partnerships and licensing relationships with OEM suppliers to support market entry and adoption.

Product Development Technologies, Inc.

TZ announced that for the first 11 months of FY10, PDT delivered an EBITDA of US\$1.6 million on revenue of US\$13.6 million. Both revenue and earnings were approximately 12% ahead of internal budgets. Project backlogs remain high as a result of some large medical and defence industry projects and the company expects another solid year of growth in FY11.

Board

Mark Bouris - Chairman and Executive Director

Mr Bouris has been involved in the finance and property sectors for over 25 years. He founded Wizard Home Loans in 1996 which became Australia's largest non-bank lender. From 1996 to 2004, Mr Bouris introduced three substantial capital partners to the business and raised in excess of \$150 million. The money was raised with subscriptions from Publishing and Broadcasting, Deutsche Asset Management (representing the largest industry funds in Australia) and ABN Amro Bank. All of these entities became equal shareholders in the group holding company Australian Financial Investments Group. Each of the above shareholders had two board seats with Mr Bouris as Executive Chairman.

Australian Financial Investments Group made a major acquisition in 2002 from ABN Amro Bank when it acquired Australian Mortgage Securities Ltd (AMS). AMS was a global leader in issuance of Residential Mortgage Backed Securities raising in excess of \$10 billion throughout its business life. Mr Bouris chaired that part of the business and attended the global road shows in raising those funds. In 2004, General Electric acquired the Australian Financial Investments Group, and its subsidiary company Wizard Home Loans, from companies associated with Mr Bouris, Publishing and Broadcasting, Deutsche Asset Management and ABN Amro. Mr Bouris was retained as Non-Executive Chairman by General Electric until February 2009 when his tenure terminated.

Mr Bouris is the founder and Chairman of Yellow Brick Road (YBR), a financial advisory firm which owns a number of accountancy practices, legal practices, financial planning businesses and insurance broking businesses. YBR advises a range of clients in most aspects of finance, tax, fund raising, accounting standards, audit, forensic research, and equity market activity.

Kenneth Ting - Executive Director and Company Secretary

Mr Ting has a background in accounting, law and investment banking with a focus on the commercialisation of technology and public and private equity raisings. Mr Ting joined Deutsche Bank in 1997 after 4 years at PricewaterhouseCoopers Corporate Finance and Tax division. He was Vice President of Technology Investment Banking at Deutsche Bank and worked in Deutsche Bank's Sydney, San Francisco and London offices.

Mr Ting has a passion for technology and has worked with many technology companies throughout his career. He has been involved in the completion of over \$5 billion in M&A, private equity and IPO assignments in Australia, USA and Europe. His industry specialisation is in the electronics manufacturing, software, IT services, telecommunication and internet sectors.

Dickory Rudduck - Executive Director

Mr Rudduck co-founded Telezygology Pty Ltd with Mr John Wilson in 1999 and played a key role in developing its IP and technology portfolio as Chief Technology Officer. He is a prolific inventor and source behind TZ's technology and thinking. Mr Rudduck is also an architect by profession and built a successful Sydney-based industrial architectural practice over a 20-year consulting career.

The success of Mr Rudduck's consulting practice enabled him to focus on his interest in innovation and invention. This allowed him to establish Intellectual Exchange Pty Ltd in 1996 with the objective of developing IP with global relevance and application. Mr Rudduck has explored a diverse range of patented concepts from electronic hardware and software developments, building and construction systems to even sporting inventions.

Key Management

John Wilson – TZI Chief Executive Officer

Mr Wilson was appointed interim CEO of TZI in May 2010. He originally founded Telezygology Pty Ltd with Dickory Rudduck in 1999 and helped to take the company to ASX listing in 2004. Mr Wilson was the key driver behind the establishment of the US operations and technology licensing agreement with Textron Fastening Systems prior to leaving the company in 2007.

Mr Wilson established a successful management consulting company helping a number of early stage technology companies commercialise technology and expand internationally. He has successfully negotiated and secured licensing agreements and strategic alliance partnerships with major companies in Australia, US and Europe for his clients across a diverse range of industries including consumer electronics, food packaging and sports products.

Mark Schwartz – PDT Chief Executive Officer

Mr Schwartz is the founder and current CEO of Product Development Technologies, Inc. The business was established in 1995 has grown over the past 15 years to become one of the largest and fastest-growing product development services company in the US.

Mr Schwartz began his career at Zenith Electronics where he helped pioneer Zenith's conversion to computer-aided technologies. He worked for eight years at Motorola during which he developed many of the cutting-edge cellular products that helped establish Motorola as the leading cell phone maker in the world. His experience at Motorola fostered a passion for product development and a deep understanding of the development process that became the inspiration for founding PDT.

History

Background

TZ Limited is a US-focused IP and technology development company providing commercialisation of its own products as well as product design and development for third parties. The company's operations are divided into Telezygology, Inc. (TZI) and Product Development Technologies, Inc. (PDT). PDT was established in 1995 and is today a global award winning product development firm.

TZI was formed in 1999 by Dickory Rudduck and John Wilson and has developed an IP portfolio and enabling technologies around intelligent devices which utilise SMA actuation, integrated electronics, networking and communication, and software control. The division focused on providing a new class of intelligent fastening devices which can be operated remotely under software control with full audit trail capability.

TZI formed a commercialisation agreement with US-based Textron Fastening Systems prior to floating on the ASX in April 2004. Textron, Inc. (parent of Textron Fastening Systems) was a global multi-industry company with market leading businesses such as Bell Helicopter, Cessna Aircraft and Textron Fastening Systems. As part of the license agreement, Textron Fastening Systems assumed commercialisation obligations for TZ's Intelligent Fastening Technology and marketed it under the Intevia brand name.

In June 2006, US-based private equity firm Platinum Equity acquired Textron's Fastening Systems division and the associated global exclusive license for TZ's Intelligent Fastening Technology. In November 2006, Platinum Equity renamed Textron Fastening Systems to Acument Global Technologies (AGT) to reflect its new beginning and strategic direction as a stand-alone company.

In January 2007, TZ reacquired the licensing rights to its intelligent fastening IP, additional patents and products, and the established customer base and inventory of demonstration fastening kits from AGT for \$24.6 million in scrip. The transaction was intended to accelerate product commercialisation and a NASDAQ listing. However, both immediately stalled with the onset of the US subprime crisis in early 2007 and the Global Finance Crisis which followed.

Events Leading to Restructuring

TZ has undergone major operational and financial restructuring in the past 12 months following a stagnant period of substantial uncertainty. Current Board members Mark Bouris (Executive Chairman) and Kenneth Ting (Executive Director) were appointed in June 2009. TZ's shares were then placed in suspension pending investigation by the current Board into the current cash position and non-payment of 2008 convertible note interest to QVT.

The company's shares remained suspended until March 2010 as the current Board renegotiated the Convertible Note terms with QVT and assisted with the engagement of forensic accountants and lawyers to investigate TZ's financial position. Trading was reinstated following clarification of the company's financial position and the release of its FY09 report in January 2010 and 1H10 report in March 2010. Key events leading to TZ's restructuring are illustrated in Figure 17.

Figure 17: Key events leading to restructuring

Date	Event
December 2007	<ul style="list-style-type: none"> ▪ Previous Board borrowed \$24.0 million from QVT (US hedge fund) via a convertible note
June 2009	<ul style="list-style-type: none"> ▪ Notice of default issued by QVT for non-payment of interest for 2008 ▪ Interest and principal becomes immediately payable
June 2009	<ul style="list-style-type: none"> ▪ Previous Board resigns and is replaced by current Board ▪ Current Board obtains a moratorium on interest payment from QVT while it negotiates a workout plan with QVT ▪ Material discrepancies found in reported cash reserves of TZ and actual cash reserves
June 2009	<ul style="list-style-type: none"> ▪ TZ voluntarily suspends shares from trading ▪ Ernst & Young appointed to investigate material discrepancies in financial accounts
September 2009	<ul style="list-style-type: none"> ▪ Report by Ernst and Young reveals TZ's reported cash balance of \$7.9 million as at 31 March 2009 was actually \$1.1 million
September 2009	<ul style="list-style-type: none"> ▪ TZ signs Binding Term Sheet with QVT to convert half of principal (\$12.0 million) into equity ▪ Interest due for year ending 2008 and 2009 (\$4.8 million) is also converted into equity ▪ Approximately \$1.5 million in legal and accounting fees that was paid by QVT in the case against the previous Board will also be converted into equity ▪ All issued shares outlined above are subject to 12 month escrow period from date of issue

Source: Company and PSL

Operational Restructuring

Since 2006, TZ has had four CEOs and its growth profile has been adversely impacted by the lack of consistent leadership and focus. Each CEO has had a differing view on business strategy, execution focus, technology development and areas for participation. In addition, the company has undergone a significant change in business direction from the original technology licensing approach to becoming a device manufacturer.

PDT is a mature and autonomous division of TZ which has a solid track record of growth since its formation in 1995. However, TZI has lacked the required technical and marketing capability at the management level to successfully commercialise its technology. Consequently, TZI has had a device level focus without a clear strategy defined by target markets, customer needs and value proposition.

Following a strategic review by the current Board during 1H10, TZI's business model was restructured to provide a greater commercial focus targeting three key market segments:

- Infrastructure Protection is focused on customers in the data centre market and offers new levels of physical security, protection and remote control over global IT assets.
- Packaged Asset Delivery provides secure storage and enclosure systems which ensure a secure exchange and full audit trail to corporate mail rooms and high density residential buildings.
- Aerospace Asset Maintainability offers aerospace industry suppliers cost effective and lightweight latching and actuation technologies through partnerships with OEM suppliers.

Financial Restructuring

TZ's financial position has been substantially strengthened under the current Board. QVT's convertible notes have been reduced by \$12 million (\$12 million remaining) through a debt to equity swap as well as additional investment by QVT and existing shareholders. Key financial events during the restructuring process are illustrated in Figure 18.

Figure 18: Key financial events during restructuring

Date	Event
June 2009	<ul style="list-style-type: none"> Failure to pay 2008 interest makes TZ immediately liable for QVT convertible note principal (\$24.0 million) and 2008 interest (\$2.2 million) compounded at the default rate of 12% pa
June 2009	<ul style="list-style-type: none"> TZ's current Board negotiates an agreement with QVT for a moratorium on the above payment to allow a workout plan to be established for the repayment
September 2009	<ul style="list-style-type: none"> TZ enters binding term sheet with QVT with agreement on a workout plan for the repayment QVT waives its right to claim further interest from TZ at the default interest rate of 12% pa QVT converts \$12.0 million of convertible notes into equity The remaining \$12.0 million of convertible notes will remain on issue Issues QVT with additional shares to fund the 2008 and 2009 interest payments, QVT's legal fees from the issue of default notices and the workout plan, and QVT's payments for the engagement of forensic accountants and lawyers to investigate TZ's financial position and assist in the recovery of moneys payable to TZ All issued shares outlined above are subject to 12 month escrow period from date of issue
June 2010	<ul style="list-style-type: none"> Negotiates a secured loan facility with QVT for US\$4.1 million for working capital and to expand the company's current operations and to new business initiatives
June 2010	<ul style="list-style-type: none"> Enters agreement with investment group Sydcomp to convert \$4.7 million of convertible notes and the accrued interest into equity (notes were issued from July 2009 to March 2010)

Source: Company and PSL

The conversion of QVT's \$12 million of convertible notes, 2008 and 2009 interest payments, and default interest was equivalent to a capital injection of \$18 million. An Independent Experts Report was prepared to determine if the deal was fair and reasonable for both the minority shareholders and shareholders as a whole. The report concluded that the workout plan was in the best interests of all shareholders as TZ would have been forced into administration if QVT had instead exercised its right to enforce payment.

It is also worth noting that the recently secured US\$4.1 million loan facility with QVT and \$4.7 million note conversion by Sydcomp have further strengthened TZ's financial position. This has allowed the company to provide the market with guidance on its FY11 performance targets and start to implement its strategic plans.

TZ Limited					\$0.41	Year End June 30				
Profit and Loss (A\$m)						Valuation Data				
	2010A	2011F	2012F	2013F		2010A	2011F	2012F	2013F	
Sales Revenue	17.6	25.4	41.5	56.4	Net profit adj (\$m)	-13.0	-8.3	-4.1	0.5	
EBITDA	-10.1	-4.8	-0.2	4.4	EPS (c)	-24.3	-9.3	-3.7	0.3	
D&A	-1.3	-1.6	-1.7	-1.7	P/E ratio (x)	n/a	n/a	n/a	n/a	
EBIT	-11.4	-6.4	-1.8	2.8	FCF per share (c)	-17.3	-10.4	n/a	n/a	
Net Interest Expense	-5.2	-1.9	-2.2	-2.3	Price/FCF (x)	n/a	n/a	n/a	n/a	
Pre-tax profit	-16.5	-8.3	-4.1	0.5	DPS (c) ordinary	0.0	0.0	0.0	0.0	
Tax	3.5	0.0	0.0	0.0	Franking (%)	n/a	n/a	n/a	n/a	
FX Translation Differences	0.1	0.0	0.0	0.0	Yield (%)	n/a	n/a	n/a	n/a	
Adj net profit	-13.0	-8.3	-4.1	0.5	EV/EBITDA (x)	n/a	n/a	-268.0	7.4	
Abnormals	-8.2	0.0	0.0	0.0	EV/EBIT (x)	n/a	n/a	n/a	11.8	
Reported Profit After Tax	-21.2	-8.3	-4.1	0.5	Net Debt/Equity (%)	819.0	799.5	222.9	12.2	
					Tax Rate (%)	21.1	0.0	0.0	0.0	
Adjusted NPAT from continuing operations and excludes abnormals										
Cashflow (A\$m)						Profitability Ratios				
	2010A	2011F	2012F	2013F		2010A	2011F	2012F	2013F	
EBIT	-11.4	-6.4	-1.8	2.8	EBITDA/Sales (%)	-57.4	-18.8	-0.4	7.9	
Depn and amortisation	1.3	1.6	1.7	1.7	EBIT/Sales (%)	-64.7	-25.3	-4.4	4.9	
Net Interest	-5.2	-1.9	-2.2	-2.3	Return on assets (%)	-25.0	-14.6	-5.7	0.6	
Tax paid	3.5	0.0	0.0	0.0	Return on equity (%)	-183.9	-353.4	-90.5	3.7	
(inc)/dec in wk'g cap	2.6	-2.6	-1.3	-0.7						
Other	3.3	0.0	0.0	0.0	Company Overview					
Operating cashflow	-5.9	-9.3	-3.7	1.4	TZ is a US-focused intellectual property and technology development company providing commercialisation of its own products as well as design and development for third parties.					
Capex	-0.3	-1.0	-1.0	-1.0	The company's operations are divided into Telezygology, Inc. (TZI) and Product Development Technologies, Inc. (PDT). TZI leverages its IP creation and technology development to commercialise products which that help global enterprises protect, deliver and maintain critical assets. PDT uses its extensive design and engineering capabilities to deliver turn-key product development for third party products.					
Acquisitions/investments	0.0	0.0	0.0	0.0	TZ's major financial and operational restructuring in the past 12 months has been driven by current Board members Mark Bouris (Executive Chairman) and Kenneth Ting (Executive Director) who were appointed in June 2009. They have been instrumental in recapitalising the company and forming a clear strategy for the TZI division defined by target markets, customer needs and value proposition.					
Other	0.0	0.0	0.0	0.0	Divisional Revenue (\$A)					
Investing cashflow	-0.3	-1.0	-1.0	-1.0	Telezygology, Inc.					
Equity raised	0.1	9.5	9.5	12.0	Infrastructure Protection	n/a	4.4	15.9	25.4	
Dividends paid	0.0	0.0	0.0	0.0	Packaged Asset Delivery	n/a	3.5	6.4	9.8	
Net change in borrowings	-0.5	5.6	4.7	-10.6	Total TZI Revenue	n/a	7.9	22.2	35.2	
Other	6.4	0.0	0.0	0.0	Total TZI EBITDA	n/a	-3.8	0.7	5.1	
Financing cashflow	6.0	15.0	14.2	1.4	Product Development Technologies, Inc.					
FX adjustments	-0.2	0.0	0.0	0.0	Total PDT Revenue	n/a	17.5	19.3	21.2	
Net change in cash	-0.3	4.8	9.5	1.8	Total PDT EBITDA	n/a	2.0	2.3	2.7	
					Corporate	n/a	-3.0	-3.2	-3.3	
					Total EBITDA	-10.1	-4.8	-0.2	4.4	
Balance Sheet (A\$m)						Valuation (\$A)				
	2010A	2011F	2012F	2013F		2010A	2011F	2012F	2013F	
Cash	0.2	5.0	14.5	16.3	TZI	0.88				
Receivables	4.5	5.1	6.2	6.8	PDT	0.24				
Inventories - WIP	0.0	1.3	2.9	3.9	Corporate & Other	-0.27				
Other	0.0	0.0	0.0	0.0	FY13 Net Debt*	-0.02				
Current assets	4.8	11.3	23.6	27.0	Valuation	0.84				
Receivables	0.0	0.0	0.0	0.0						
Property Plant & Equipment	2.0	2.1	2.1	2.2						
Intangibles	25.0	23.9	22.8	21.8						
Deferred Tax Assets	2.4	2.4	2.4	2.4						
Other	0.0	0.0	0.0	0.0						
Non-current assets	29.4	28.4	27.4	26.4						
Total assets	34.2	39.7	51.0	53.4						
Accounts Payable	9.7	8.9	10.4	11.3						
Interest Bearing Liabilities	18.8	24.4	29.1	18.5						
Provisions	0.2	0.5	0.8	1.1						
Other	0.0	0.0	0.0	0.0						
Total current liabilities	28.7	33.8	40.3	30.9						
Interest Bearing Liabilities	0.0	0.0	0.0	0.0						
Provisions	0.6	1.0	1.7	2.3						
Deferred Tax Liabilities	2.5	2.5	2.5	2.5						
Other	0.0	0.0	0.0	0.0						
Total n.c. liabilities	3.2	3.5	4.2	4.8						
Total liabilities	31.9	37.3	44.5	35.6						
Shareholders funds	2.3	2.4	6.5	17.8						

* Following convertible note conversion in FY13

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
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Stock recommendations: Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.

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