

## 1Q11 Revenue Exceeds Expectations

TZ has provided an update of its 1Q11 trading results and current sales opportunities which are emerging. The company reported 1Q11 sales of US\$4.8 million, exceeding internal expectations by c16%, and that underlying operating costs were less than expected.

The PDT division (design and engineering outsourcing) continued its solid performance with sales exceeding expectations by 21% and margins steady. The strong 1Q11 result was predominantly driven by customers in the medical sector. TZ expects the robust demand to continue as a result of continued targeted sales and marketing efforts to customers in the healthcare, defence and consumer goods sectors.

The TZI division (commercialising TZ's IP) only achieved 79% of its revenue target due to delays in long lead-time electronic components deferring several booked order shipments into 2Q11. TZ indicated that the inventory stockouts were indicative of general low inventory levels globally and not specific to its components. It is worth noting that if orders booked during 1Q11 were able to be processed and delivered, the division would have exceeded its revenue target by 20%.

TZI's strong sales orders were driven by demand for Infrastructure Protection products substantially exceeding expectations. These products provide data centres with micro-security and audit capability at a data cabinet level. This helped to offset order delays in Packaged Asset Delivery (PAD) with several project timelines pushing out into late 2Q11. However, the company indicated that a substantially strong pipeline had emerged in PAD with one proposal under consideration having the potential to exceed the FY11 PAD revenue target on its own.

TZI has also started to increase its sales force with the addition of four new sales resources this month to substantially increase its US sales coverage and support sales generation in 2H11. The Infrastructure Protection business unit has also been actively engaged with Anixter sales resources in Latin America, Europe, Asia and Australia to drive a coordinated sales approach into these 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 is unchanged at \$0.84 per share which implies a market capitalisation of c\$60 million. 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 73% and maintain our Speculative Buy recommendation.

Year End June 30	2009A	2010A	2011F	2012F	2013F
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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)	(2.4)	(4.4)	(13.1)	(399.6)	15.1
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

### 1 November 2010

12mth Rating	SPECULATIVE BUY	
Price	A\$	0.485
Target Price	A\$	0.84
12m Total Return	%	73.1

RIC: TZL.AX	BBG: TZL AU	
Shares o/s	m	74.9
Free Float	%	80.0
Market Cap.	A\$m	36.3
Net Debt (Cash)	A\$m	18.6
Net Debt/Equity	%	819.0
3m Av. D. T'over	A\$m	0.03
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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### 12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	55.0	72.2	-35.4
Rel. S&P/ASX 300	53.3	74.0	-29.7

TZ Limited					Year End June 30				
\$0.485									
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	-301.3	8.7
Abnormals	-8.2	0.0	0.0	0.0	EV/EBIT (x)	n/a	n/a	n/a	13.8
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	<b>Company Overview</b>				
Other	3.3	0.0	0.0	0.0	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.				
Operating cashflow	-5.9	-9.3	-3.7	1.4	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.				
Capex	-0.3	-1.0	-1.0	-1.0	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.				
Acquisitions/investments	0.0	0.0	0.0	0.0	<b>Divisional Revenue (\$A)</b>				
Other	0.0	0.0	0.0	0.0					
Investing cashflow	-0.3	-1.0	-1.0	-1.0	<b>Telezygology, Inc.</b>				
Equity raised	0.1	9.5	9.5	12.0	Infrastructure Protection				
Dividends paid	0.0	0.0	0.0	0.0	Packaged Asset Delivery				
Net change in borrowings	-0.5	5.6	4.7	-10.6	Total TZI Revenue				
Other	6.4	0.0	0.0	0.0	Total TZI EBITDA				
Financing cashflow	6.0	15.0	14.2	1.4	<b>Product Development Technologies, Inc.</b>				
FX adjustments	-0.2	0.0	0.0	0.0	Total PDT Revenue				
Net change in cash	-0.3	4.8	9.5	1.8	Total PDT EBITDA				
					Corporate				
					Total EBITDA				
					<b>Valuation (\$A)</b>				
					TZI				
					PDT				
					Corporate & Other				
					FY13 Net Debt*				
					Valuation				
					* Following convertible note conversion in FY13				
Balance Sheet (A\$m)									
	2010A	2011F	2012F	2013F					
Cash	0.2	5.0	14.5	16.3					
Receivables	4.5	5.1	6.2	6.8					
Inventories - WIP	0.0	1.3	2.9	3.9					
Other	0.0	0.0	0.0	0.0					
Current assets	4.8	11.3	23.6	27.0					
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					

### Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
06 Sep 10	Research Note	0.84	0.41	SB	
	Current Share Price		0.49		18.3%

**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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