

Positioning for growth

TZ reported an underlying 1H11 loss of \$7.5m on revenue of \$10.3m (up 22%). Revenue growth was underpinned by a stronger than expected performance from the PDT division (design and engineering outsourcing) which increased revenue by 44% and exceeded internal targets by 30%. However, the TZI division (commercialising TZ's IP) was impacted by inventory shortages accentuated by delays in long-lead components as previously flagged. TZ does not expect a repeat of these supply issues with substantially improved visibility on channel sales and production processes. In addition, the company has strengthened its ability to fund growth with a \$3m placement and \$10m rights issue in November 2010.

PDT reported a strong 1H11 result with revenue of \$9.9m. TZ indicated that the division has a current backlog of \$5.0m and is expected to sustain its strong performance in 2H11. PDT also achieved its earnings targets despite a significant uplift in operating costs due to the need for short-term contract labour to meet the higher than anticipated demand. We also note that TZ has proposed establishing an incubator fund to better leverage the value of PDT and the world-class products it is involved with. This would allow PDT to invest in selected products it is contracted to design through cash, scrip or royalties. PDT maintains a strategic focus on the consumer electronics, military and healthcare sectors with demand from healthcare proving particularly strong.

As flagged by the company in November 2010, TZI was impacted by inventory shortages during 2Q11 accentuated by delays in long-lead components. The company indicated that there is currently a strong pipeline of interest for TZI's products and a much improved sales performance is expected in 2H11. In addition, the division has now established a sales force with eight sales representatives appointed across North America, Europe and Australia. This has helped to revitalise current channel partnerships with Anixter and Pitney Bowes and assisted expansion of these distribution relationships globally.

Our previous forecasts were based on TZ's July 2010 divisional guidance. Following the 1H11 result, we have increased our forecasts for PDT and reduced our forecasts for TZI. It is also worth noting that the July 2010 guidance was denominated in USD and the stronger AUD has resulted in a negative impact of 18% over this period.

Our 12-month price target has reduced to \$0.65 per share (from \$0.79 per share). TZ is now well funded and has established both a sales force for TZI and geographic structures for controlled expansion with global partners. We maintain our Speculative Buy recommendation.

Year End June 30	2009A	2010A	2011F	2012F	2013F
Reported NPAT (\$m)	(25.7)	(21.2)	(11.2)	(4.2)	(0.6)
Recurrent NPAT (\$m)	(22.7)	(13.0)	(11.3)	(4.2)	(0.6)
Recurrent EPS (cents)	(46.8)	(24.5)	(9.9)	(3.7)	(0.4)
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)	(7.3)	(1.0)	3.1
EV/EBITDA (x)	(1.8)	(3.6)	(5.8)	(46.7)	13.9
Free Cashflow	(14.8)	(6.2)	(10.7)	(5.2)	(0.6)
FCFPS (cents)	(30.5)	(11.6)	(9.3)	(4.6)	(0.4)
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 March 2011

12mth Rating	SPECULATIVE BUY	
Price	A\$	0.29
Target Price	A\$	0.65
12m Total Return	%	122.7

RIC: TZL.AX	BBG: TZL AU	
Shares o/s	m	114.3
Free Float	%	80.0
Market Cap.	A\$m	33.2
Net Debt (Cash)	A\$m	5.3
Net Debt/Equity	%	33.3
3m Av. D. T'over	A\$m	0.03
52wk High/Low	A\$	0.93/0.23
2yr adj. beta		na

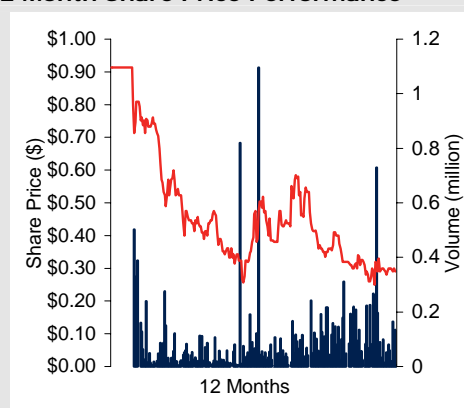
Valuation:

Methodology		DCF
Value per share	A\$	0.65

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Disclaimer: Patersons Securities Limited acted as Lead Manager and underwriter to the placement that raised \$2.8m and Rights Issue that raised \$9.8m for TZ Limited in November 2010. It received a fee for this service.

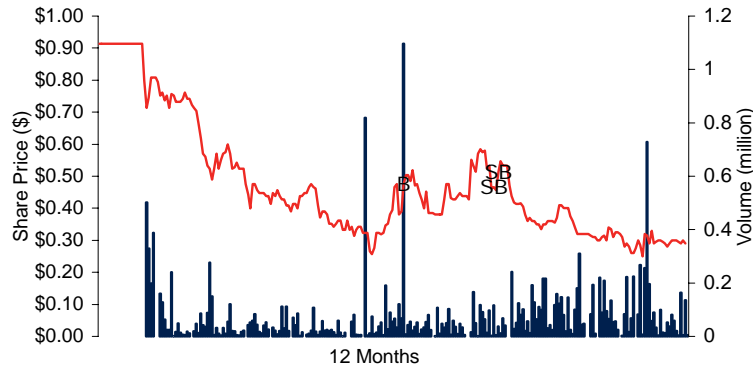
12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	1.7	-20.3	-67.7
Rel. S&P/ASX 300	7.7	-17.7	-61.5

TZ Limited					\$0.29				
Profit and Loss (A\$m)					Valuation Data				
	2010A	2011F	2012F	2013F		2010A	2011F	2012F	2013F
Sales Revenue	17.6	22.0	38.2	53.8	Net profit adj (\$m)	-13.0	-15.2	-4.2	-0.6
EBITDA	-10.1	-7.3	-1.0	3.1	EPS (c)	-24.3	-13.3	-3.7	-0.4
D&A	-1.3	-2.0	-1.8	-1.8	P/E ratio (x)	n/a	n/a	n/a	n/a
EBIT	-11.4	-9.3	-2.9	1.2	FCF per share (c)	-26.3	-8.5	n/a	n/a
Net Interest Expense	-5.2	-2.1	-1.3	-1.8	Price/FCF (x)	n/a	n/a	n/a	n/a
Pre-tax profit	-16.5	-11.3	-4.2	-0.6	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
Adj net profit	-13.0	-11.3	-4.2	-0.6	Yield (%)	n/a	n/a	n/a	n/a
FX Translation Differences	0.1	-3.9	0.0	0.0	EV/EBITDA (x)	n/a	n/a	-46.7	11.7
NPAT inc FX Translation	-13.0	-15.2	-4.2	-0.6	EV/EBIT (x)	n/a	n/a	n/a	29.0
Abnormals	-8.2	4.1	0.0	0.0	Net Debt/Equity (%)	423.9	68.6	176.2	13.0
Reported Profit After Tax	-21.2	-11.2	-4.2	-0.6	Tax Rate (%)	21.1	0.0	0.0	0.0
Adjusted NPAT from continuing operations and excludes abnormals					Profitability Ratios				
Cashflow (A\$m)					2010A 2011F 2012F 2013F				
EBIT	-11.4	-9.3	-2.9	1.2	EBITDA/Sales (%)	-57.4	-33.0	-2.6	5.7
Depn and amortisation	1.3	2.0	1.8	1.8	EBIT/Sales (%)	-64.7	-42.1	-7.5	2.3
Net Interest	-5.2	-2.1	-1.3	-1.8	Return on assets (%)	-25.9	-26.7	-6.6	-0.9
Tax paid	3.5	0.0	0.0	0.0	Return on equity (%)	-155.2	-174.3	-40.8	-4.6
(inc)/dec in wk'g cap	-2.3	-0.3	-1.9	-0.8	Company Overview				
Other	8.1	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	-9.7	-4.2	0.4	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	Divisional Revenue (\$A)				
Other	0.0	0.0	0.0	0.0	2010A 2011F 2012F 2013F				
Investing cashflow	-0.3	-1.0	-1.0	-1.0	Telezygology, Inc.				
Equity raised	0.1	16.7	0.0	12.0	Infrastructure Protection	n/a	2.0	10.8	20.7
Dividends paid	0.0	0.0	0.0	0.0	Packaged Asset Delivery	n/a	0.0	5.4	9.4
Net change in borrowings	-0.5	-0.8	5.2	-11.4	Total TZI Revenue	n/a	2.0	16.2	30.1
Other	6.4	0.0	0.0	0.0	Total TZI EBITDA	n/a	-4.4	0.5	4.2
Financing cashflow	6.0	15.9	5.2	0.6	Product Development Technologies, Inc.				
FX adjustments	-0.2	0.0	0.0	0.0	Total PDT Revenue	n/a	20.0	22.0	23.7
Net change in cash	-0.3	5.2	0.0	0.0	Total PDT EBITDA	n/a	2.1	2.4	3.0
Balance Sheet (A\$m)					2010A 2011F 2012F 2013F				
Cash (and Term Deposits)	0.2	11.4	11.4	11.4	Valuation (\$A)				
Receivables	4.7	5.5	7.6	9.7	TZI				
Inventories - WIP	0.2	1.1	2.7	3.8	PDT				
Other	0.0	0.0	0.0	0.0	Corporate & Other				
Current assets	5.1	18.0	21.7	24.9	FY13 Net Debt*				
Receivables	0.0	0.0	0.0	0.0	Valuation				
Investments	0.0	0.3	0.3	0.3	0.65				
Property Plant & Equipment	2.0	2.2	2.3	2.4	* Following convertible note conversion in FY13				
Intangibles	24.5	19.5	18.1	16.7					
Deferred Tax Assets	0.6	0.7	0.7	0.7					
Other	0.1	0.1	0.1	0.1					
Non-current assets	27.3	22.8	21.4	20.2					
Total assets	32.4	40.8	43.2	45.1					
Accounts Payable	5.2	6.6	8.4	10.8					
Interest Bearing Liabilities	6.7	4.1	9.3	9.9					
Provisions	0.1	0.1	0.2	0.3					
Other	0.0	0.0	0.0	0.0					
Total current liabilities	12.0	10.8	17.9	20.9					
Interest Bearing Liabilities	14.2	16.0	16.0	4.0					
Provisions	0.0	0.0	0.0	0.0					
Deferred Tax Liabilities	0.8	0.9	0.9	0.9					
Other	0.5	0.5	0.5	0.5					
Total n.c. liabilities	15.6	17.4	17.4	5.4					
Total liabilities	27.6	28.2	35.3	26.3					
Shareholders funds	4.9	12.6	7.9	18.7					

Recommendation History



Date	Type	Target Price	Share Price	Price Recommendation	Return
06 Sep 10	Research Note	0.84	0.41	SB	
01 Nov 10	Research Note	0.84	0.49	SB	
03 Nov 10	Research Note	0.84	0.54	SB	
09 Dec 10	Research Note	0.79	0.37	SB	
	Current Share Price		0.29		

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