

Encouraging signs emerging

TZ reported in a company update that it has had a strong start to CY11. The company indicated that there had been a significant uplift in selling effort in 3Q11 due to increased sales resources, greater geographic coverage and several key selling initiatives gaining traction.

TZ's sales pipeline is continuing to develop with unaudited management accounts showing that sales of US\$0.3m were invoiced in 3Q11 with a pipeline of US\$0.2m pending manufacture and delivery. In addition, the company has identified \$15.7m of addressable sales opportunities of which \$4.5m is currently outstanding as quoted projects. While there is no guarantee that the sales opportunities or quotes will lead to sales, the signs are certainly encouraging. We also note that the sales pipeline has largely been generated since the new sales team was appointed in late CY10.

The Infrastructure Protection (IXP) business has completed successful sales and technical training with distribution partner Anixter across the US, Canada, Europe and the Middle East, Latin America and Asia Pacific. In addition, IXP has been successful in securing a number of strategic sales to Government Institutions and Financial Services providers on the back of a major promotional push around security and industry specific compliance requirements.

The Packaged Asset Delivery (PAD) business has started to deliver on its potential with an anticipated US\$0.3m of locker systems scheduled for delivery in May/June 2011 to Pitney Bowes accounts in the US. In addition, the exclusive PAD distribution agreement with IOPC has been restructured to enable a direct supply relationship with Pitney Bowes. This is expected to significantly improve both revenue and earnings.

PDT sales momentum has continued in 4Q11 with year-to-date revenue currently at 138% of budget and continued growth from the military and medical sectors. In addition, preliminary discussions have commenced with a number of venture capital firms to gauge interest in participating in the incubator fund as outlined with the 1H11 result.

Our 12-month price target is largely unchanged at \$0.64 per share (from \$0.65 per share) following TZ's progress update and QVT's interest-to-equity conversion. The company is now well funded (\$8.5m cash at 31 March 2011) and has established both a sales force and geographic structures for controlled expansion with global partners. We expect positive sales updates to be the key catalyst for gaining market recognition and maintain our Speculative Buy recommendation.

Year End June 30	2009A	2010A	2011F	2012F	2013F
Reported NPAT (\$m)	(25.7)	(21.2)	(11.2)	(4.0)	(0.5)
Recurrent NPAT (\$m)	(22.7)	(13.0)	(11.3)	(4.0)	(0.5)
Recurrent EPS (cents)	(46.8)	(24.5)	(9.6)	(3.4)	(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)	(7.3)	(1.0)	3.1
EV/EBITDA (x)	(1.8)	(3.6)	(5.9)	(47.5)	14.2
Free Cashflow	(14.8)	(6.2)	(10.7)	(5.1)	(0.4)
FCFPS (cents)	(30.5)	(11.6)	(9.0)	(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

28 April 2011

12mth Rating	SPECULATIVE BUY	
Price	A\$	0.30
Target Price	A\$	0.64
12m Total Return	%	113.3

RIC: TZL.AX	BBG: TZL AU	
Shares o/s	m	118.1
Free Float	%	80.0
Market Cap.	A\$m	35.4
Net Debt (Cash)	A\$m	5.3
Net Debt/Equity	%	33.3
3m Av. D. T'over	A\$m	0.02
52wk High/Low	A\$	0.72/0.23
2yr adj. beta		na

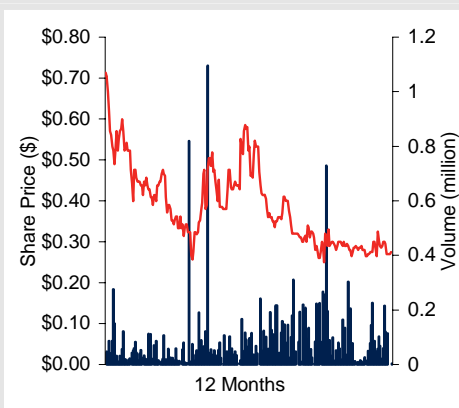
Valuation:

Methodology		DCF
Value per share	A\$	0.64

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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.

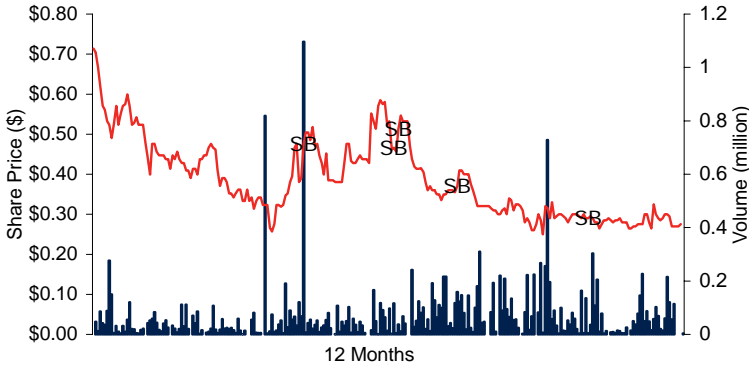
12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	-1.7	-12.3	-62.3
Rel. S&P/ASX 300	-0.2	-0.2	-51.1

TZ Limited					\$0.30				
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	-4.0	-0.5
EBITDA	-10.1	-7.3	-1.0	3.1	EPS (c)	-24.3	-12.9	-3.4	-0.3
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	-8.2	n/a	n/a
Net Interest Expense	-5.2	-2.1	-1.2	-1.7	Price/FCF (x)	n/a	n/a	n/a	n/a
Pre-tax profit	-16.5	-11.3	-4.0	-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
Adj net profit	-13.0	-11.3	-4.0	-0.5	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	-47.5	11.9
NPAT inc FX Translation	-13.0	-15.2	-4.0	-0.5	EV/EBIT (x)	n/a	n/a	n/a	29.6
Abnormals	-8.2	4.1	0.0	0.0	Net Debt/Equity (%)	423.9	52.5	133.0	4.1
Reported Profit After Tax	-21.2	-11.2	-4.0	-0.5	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	-1.2	-1.7	Return on assets (%)	-25.9	-26.7	-6.4	-0.7
Tax paid	3.5	0.0	0.0	0.0	Return on equity (%)	-155.2	-162.0	-34.8	-3.2
(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	-4.1	0.6	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	18.5	0.0	12.0	Infrastructure Protection	n/a	1.8	10.8	20.7
Dividends paid	0.0	0.0	0.0	0.0	Packaged Asset Delivery	n/a	0.3	5.4	9.4
Net change in borrowings	-0.5	-2.1	5.1	-11.6	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	16.4	5.1	0.4	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	5.7	0.0	0.0	Total PDT EBITDA	n/a	2.1	2.4	3.0
Balance Sheet (A\$m)					Corporate				
2010A 2011F 2012F 2013F					Total EBITDA				
Cash (and Term Deposits)	0.2	11.4	11.4	11.4	-10.1 -7.3 -1.0 3.1				
Receivables	4.7	5.5	7.6	9.7	Valuation (\$A)				
Inventories - WIP	0.2	1.1	2.7	3.8	TZI				
Other	0.0	0.0	0.0	0.0	0.73				
Current assets	5.1	18.0	21.7	24.9	PDT				
Receivables	0.0	0.0	0.0	0.0	0.23				
Investments	0.0	0.3	0.3	0.3	Corporate & Other				
Property Plant & Equipment	2.0	2.2	2.3	2.4	-0.31				
Intangibles	24.5	19.5	18.1	16.7	FY13 Net Debt*				
Deferred Tax Assets	0.6	0.7	0.7	0.7	-0.01				
Other	0.1	0.1	0.1	0.1	Valuation				
Non-current assets	27.3	22.8	21.4	20.2	0.64				
Total assets	32.4	40.8	43.2	45.1	* Following convertible note conversion in FY13				
Accounts Payable	5.2	6.6	8.4	10.8					
Interest Bearing Liabilities	6.7	0.8	0.8	0.8					
Provisions	0.1	0.1	0.2	0.3					
Other	0.0	0.0	0.0	0.0					
Total current liabilities	12.0	7.5	9.4	11.8					
Interest Bearing Liabilities	14.2	18.0	23.1	11.5					
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	19.4	24.5	12.9					
Total liabilities	27.6	26.9	33.9	24.7					
Shareholders funds	4.9	13.9	9.3	20.4					

Recommendation History



Date	Type	Target Price	Share 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	
01 Mar 11	Research Note	0.65	0.29	SB	
	Current Share Price		0.30		

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