# Cover-More Group

## Macquarie Conference

May 2016

# Executive summary



## Australian travel insurance gross sales growth (Jan-Apr) in line with H1 FY16. Strong growth in India and China. Distribution commenced in US with initial contract expected to deliver ~A$30m in gross sales. Good progress made in negotiations with GLA on underwriting arrangement

- **Q3 update: Group gross sales +4.8%; Insurance segment gross revenue growth +4.8%; Assistance segment sales growth +5.1%**
  - Insurance Australia Q3 gross sales +6.0%, net sales +8.0% and gross profit +11.7% reflecting reduced underwriting premium paid in Q3. Jan-Apr 16 gross sales growth +6.9% (vs pcp) in line with H1 FY16 growth
  - Asia gross sales +12.1% and net sales +21.9% vs pcp. India gross sales healthy at +31.3%. More difficult revenue performance in UK, NZ (due to Air NZ booking path changes) and SE Asia (due to Malaysian Airlines trading difficulties)
  - Medical Assistance business returning to growth (+5.1% vs pcp) as employee assistance business gains traction from recent contract wins, offsetting decline in external case revenue for travel assistance
  - Q3 Insurance Australia EBITDA margin up +0.4 ppt compared to H1 FY16
- **Negotiations with GLA well progressed:**
  - Expectation of a pricing mechanism which reduces volatility to be in effect from July 2016
  - Negotiations focused on achieving outcome which provides for the best long-term outcome for the business
- **Trading has commenced in US$2.5bn US market – now the Group's 3rd largest travel insurance business**
  - Flight Centre US distribution underway in partnership with Aon Affinity Travel Practice using lower-risk, capital-light model. Initial contract expected to deliver ~A$30m gross sales with advanced pipeline opportunities representing a further ~A$50m+ of gross sales
- **Global Direct initiative on track:**
  - Consistent Direct approaches now complete in AU, China, UK and NZ. Launch across further four countries expected by Q1 FY17. Deployment of Direct model with Zurich providing access to international markets in a lower-risk, capital light manner
- **Management transition:**
  - Peter Edwards, Group CEO, to retire after nearly five years with Cover-More. To be succeeded by Mike Emmett, former Group Executive, Operations for QBE, from July 2016

# Trading update: Q3 FY16

## Sales momentum continues in Insurance Australia and India, offsetting underperformance in NZ, UK and SE Asia



| | |
|---|---|
| Australia | • Gross travel insurance sales growth +6.0% continues to exceed outbound leisure travel growth.[1] March trading impacted by Easter timing with April trading benefiting accordingly<br>Note: Jan-Apr 16 +6.9% gross sales growth vs pcp in line with +7.1% growth in H1 FY16<br>• Strong results despite slower rates of outbound travel sales across some partners. Conversion rates stable or improved across most partners. Strong performance from key white-label partners that have outsourced online optimisation to Cover-More<br>• Australian net sales growth of +8.0% vs pcp compared to H1 decline of -15.2% vs pcp, reflecting reduced underwriting premium paid in Q3. Net sales as % of gross sales slightly ahead of Q3 FY15. Gross profit improved in the Insurance Australia business by +11.7% vs pcp as cost of sales contained and ongoing price increases restoring margins over time<br>• My Cover-More platform build concluding with launch expected H1 FY17 |
| India | • Strong sales growth of +31.3% compared to pcp. While lower than H1 FY16 (+60.4%), H1 benefited from tailwinds of Schengen visa issues in the prior corresponding period<br>• Gross profit growth of +49.5% as scale benefits of growth are realised<br>• Strong intermediary channel success with:<br>  • GoAir (India's 5th largest airline), Goibibo (India's 3rd largest OTA) and Yatra (India's 2nd largest OTA) commencing distribution (Yatra go-live 5 May 2016).<br>  • Initial conversion rates have improved several times over since partnering with Cover-More<br>• Expansion to new intermediary channels reflects successful deployment of Cover-More international market strategy |
| NZ/UK/ SE Asia | • Sales declined vs pcp as Air NZ booking path shift to opt-out continues to impact sales. However, Q3 showed improvement compared to Q2 as Air NZ optimisation initiatives deliver positive impact. Outside of Air NZ, sales growth across other NZ partners grew by double-digits<br>• UK gross insurance sales growth rate flat vs pcp; acquisitive opportunities still under review<br>• Southeast Asia sales remain adversely impacted as major partner emerges from restructure. Sales expected to recover as Malaysia Airlines business stabilises |

[1] Based on Australian Bureau of Statistics data available through to February 2016 relating to leisure travel - incorporating Holiday, Visiting Friends/Family and Other categories as of May 2016

# Trading update: Q3 FY16

## DTC generates +9.5% sales growth. Group CEO retiring with transition to commence in July 2016. Good progress made with GLA



**China**

- China sales volumes in medical assistance business significantly ahead of pcp (+96.8%), with gross margins improving by +26.2 ppt. Travel insurance distribution commenced through:
  - Palm You (platform to 1,400+ travel agents in China)
  - HK Express in partnership with Zurich using Impulse technology. Expected impact to China gross sales +50%

**Travel Medical**

- Sales weaker with -6.6% sales decline (H1 -2.1%) due to lower case volumes from external clients. Normalised for one-off revenue benefits in Q3 FY15, Q3 FY16 sales declined -1.2%. Gross margin declined as caseload per FTE reduced to ensure quality service levels
- Internal case volumes in line with Cover-More travel insurance business performance. H1 experienced increased case volumes due to external events including Bali Ash cloud impact
- Continue to pursue acquisitive opportunities to facilitate 'follow the sun' (~$2m run-rate benefits) and migration into provision of global corporate travel medical assistance and security services

**DTC**

- Solid sales growth of +9.5% driven by scope extensions with CBA, the Department of Immigration and Border Patrol and new business wins. This compares to -5.5% growth in H1 caused by contract losses from the prior year, with revenue adversely affected in Q1, stabilising in Q2 and now returning to growth in Q3.
- External advisor (former healthcare business CEO) appointed to assist management team in building out stronger wellness proposition and to provide for differentiated EAP services
- New industry-leading operational platforms being scoped with implementation timeframe of Q3 FY17

**Group**

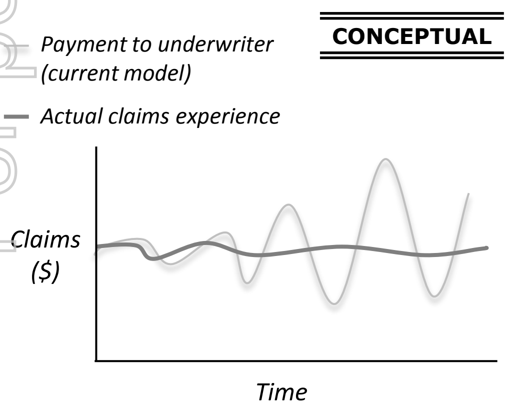
- Peter Edwards has advised that he will retire from Cover-More and will be succeeded by Mike Emmett, former Group Executive, Operations for QBE with extensive insurance and financial services experience. Transition to commence from July 2016 and will continue until later in H2 FY16
- Leadership team aligned to execution of 'Cover-More 2021 Strategy' with clear road maps for each business
- Cover-More is well advanced on agreement on a new underwriting model with underwriter Munich Re that will remove significant volatility in claims cost in the Australia business. Agreement expected to be finalised in the coming weeks
- Continued investment in growth, technology platforms and build out of North American activities

# Update: GLA negotiations

## Migration to revised underwriting payment mechanism expected in near-term. Will reduce volatility and provide greater alignment and certainty to distribution and underwriting partners

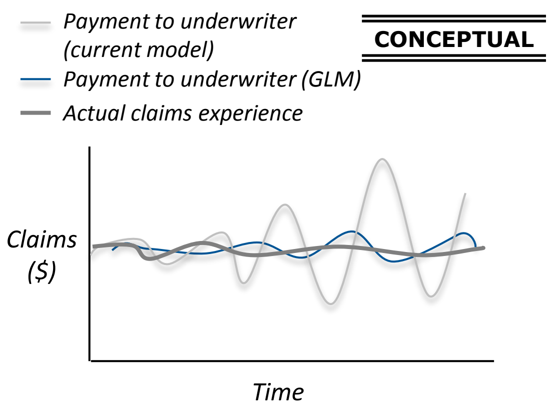
### Context

- Underwriting arrangement provides for a calculation of the amount payable to the underwriter each quarter in advance of claims being incurred
- Arrangement is a unique element of our business model and provides certainty of underwriting premium payable for CVO in advance of claims incurred
- Actual claims experience may differ from the premium paid to underwriter. In any given quarter, the underwriter may benefit or be negatively impacted by this




### Generalised Linear Model

- A Generalised Linear Model (GLM) utilises sophisticated statistical techniques with multiple rating factors at an individual risk cell level to predict underwriting premium. Along with our market leadership and volume of historical data, this would reinforce our industry-leading risk pricing capabilities
- Moving to an underwriting premium model based on a GLM is expected to reduce the volatility we have experienced
- It also better aligns our economic interests with our underwriter and distribution partners, while ensuring underwriting premiums are closely aligned with pricing and improves accuracy in predicting margins




### Solution

- Discussions with our underwriter on a new arrangement are well progressed
- This new arrangement is expected to incorporate a GLM-based approach to calculating underwriting premium which will significantly reduce volatility
- The negotiations have been focused on achieving an outcome which provides for the best long-term outcome for the business

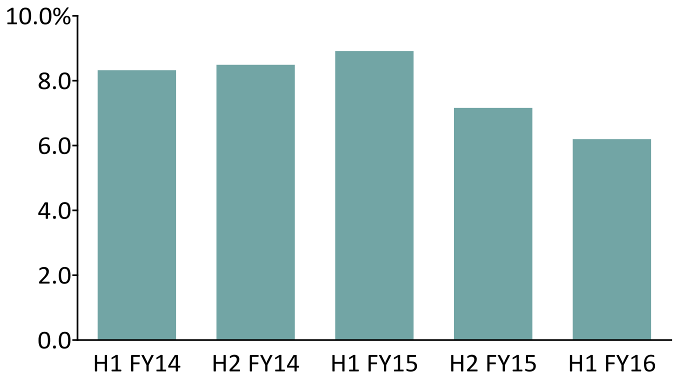
# Update: Insurance margin outlook

## Key measure in insurance activities is EBITDA / gross sales. Historic results in Australian insurance activities range between 6.2% and 8.9%. Asia results materially higher.



### Insurance Australia

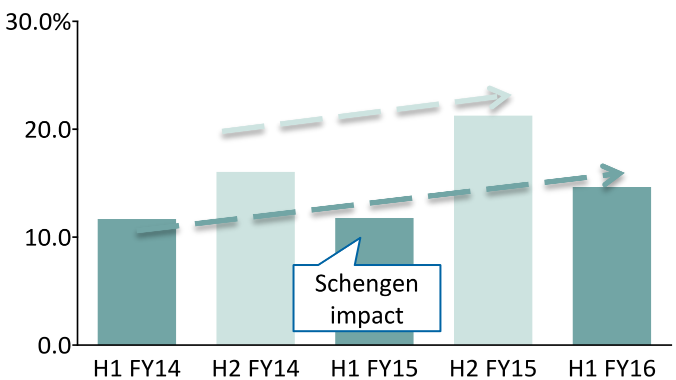
IAU EBITDA % of gross sales




- EBITDA / gross sales is a measure that accounts for the benefits from our aligned economic partnerships and ability to drive down overheads through scale – the Cover-More model
- Insurance Australia EBITDA (as % of gross sales) have ranged in recent years between highs of 8.9% and lows of 6.2% (in H1 FY16), impacted by FX, changes in underlying demographic trends and travel behaviour and underwriting premium volatility. In Q3 FY16, results reflected 6.6%
- Pending resolution of the underwriting arrangement, Insurance Australia margins expected to settle in this historical range. Removing volatility through GLMs implies that we are less likely to be towards the low end or high end of this range. The mid-term goal is to return to ~7.5 to 8% Insurance Australia EBITDA margins

### Asia

Asia EBITDA % of gross sales (ex-allocations) [1]




- EBITDA margins (% of gross sales) in Asian insurance activities are materially higher than Australia
- Taking H1/H2 seasonality and H1 FY15 Schengen issues into account, growing Asia segment EBITDA margins reflect the benefits of economies of scale as our Asia business expands to intermediary/white-label channels and reinforce that the compelling advantages of the Cover-More model also apply in offshore markets
- In FY14, 10% of our Group EBITDA (adjusted)[1] came from Asia. At H1 FY16, this contribution is 17%. As investments in Asia begin to scale, Group margins should be favourably impacted

[1] Adjusted on like-for-like basis to account for change in FY15 accounting treatments relating to reallocation of shared services overheads and Group Corporate costs to Asia business

# Cover-More: 2011 - 2016

**The Cover-More commitment centres around:**

- **Customer-led innovation**
- **Robust distribution partnerships built on aligned economic interest models**
- **Operational excellence delivering lowest costs-to-operate**
- **Considered geographic expansion**

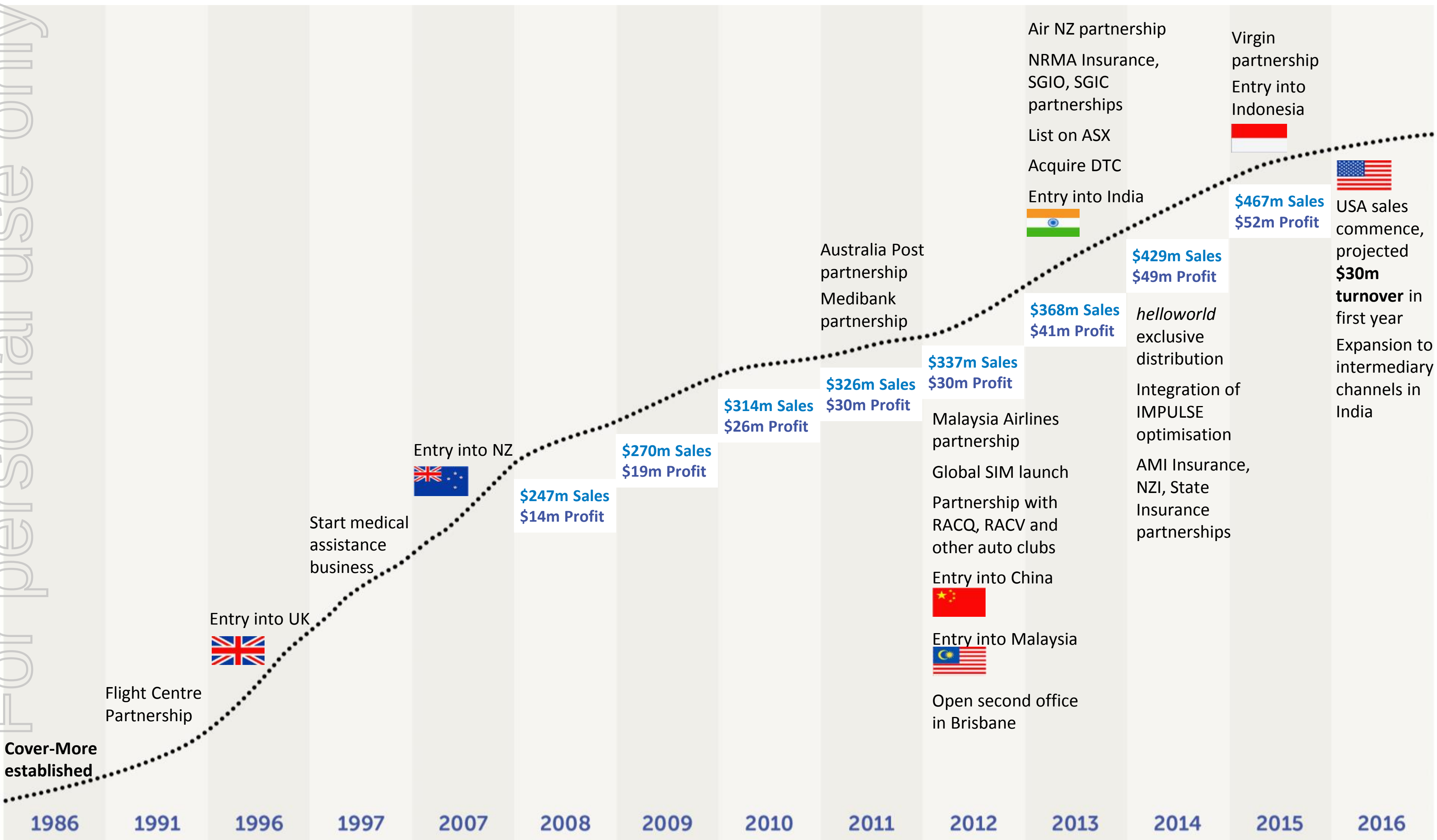
**This will continue to underpin our performance and future growth aspirations.**

Cover-More

# CVO turns 30 in June 2016

## 30 years of history and CVO continues to be a fast growing, capital light business with a unique and innovative business model






Note: Sales = Gross revenue, profit = EBITDA

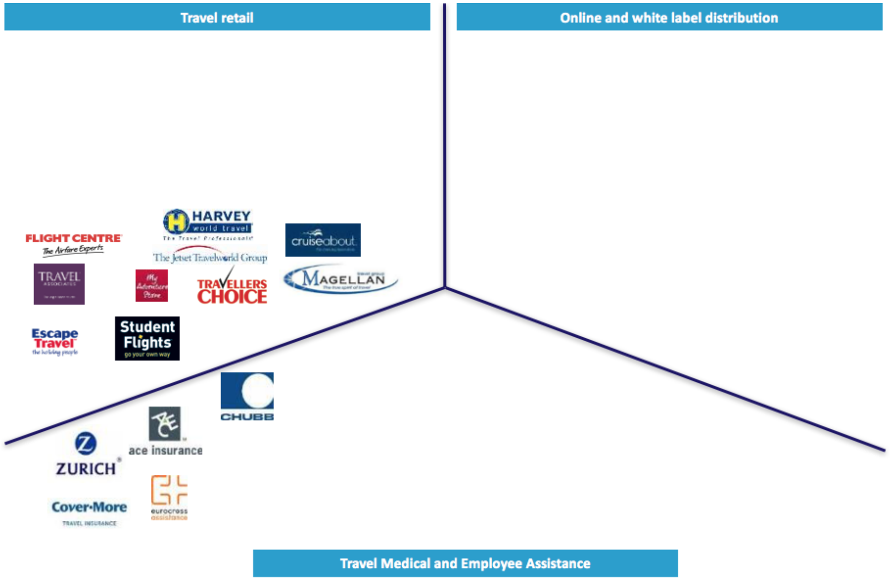
# The evolution of Cover-More: execution of strategy

## We said we would expand CVO global footprint and we have

| 2010 | | Build operating platform | Secure underwriting partner | Establish distribution | Embed technology | Drive scale and optimise | Expand distribution |
|---|---|---|---|---|---|---|---|
| Description | FY10 GWP (US$) | Deploy scalable operating platform | Underwriting relationship with scale player | Establish foundation distribution strategy | Embed IMPULSE with key partners | Grow volume, refine operations and optimise | Secure new distribution partners |
| Australia | $523m | | | | | | |
| NZ | $81m | | | | | | |
| India | $204m | | | | | | |
| China | $279m | | | | | | |
| Southeast Asia[2] | $310m | | | | | | |
| UK | $571m | | | | | | |
| US | $1,950m | | | | | | |
| Canada | $1,234m | | | | | | |
| Europe[3] | $1,350m | | | | | | |
| Description | | Set up capital-light operating platform | Underwriting relationship with global insurer | Establish digital distribution (SEO, SEM, Social Media) | Embed IMPULSE in Direct channel | Grow volumes, refine operations and optimise | Expand digital distribution |
| Global Direct | $9.0b | | | | | | |

2010 - purely Australian-focused with sub-scale entities in New Zealand and UK

## We said we would diversify CVO distribution channels and we have




Concentration in retail travel

# The evolution of Cover-More: execution of strategy

## We said we would expand CVO global footprint and we have

| 2016 | | Build operating platform | Secure underwriting partner | Establish distribution | Embed technology | Drive scale and optimise | Expand distribution |
|---|---|---|---|---|---|---|---|
| Description | FY16 GWP (US$)[1] | Deploy scalable operating platform | Underwriting relationship with scale player | Establish foundation distribution strategy | Embed IMPULSE with key partners | Grow volume, refine operations and optimise | Secure new distribution partners |
| Australia | $926m | ● | ● | ● | ◑ | ◕ | ◑ |
| NZ | $122m | ● | ● | ● | ◔ | ◑ | ◑ |
| India | $630m | ● | ● | ● | ◔ | ◑ | ◑ |
| China | $1.0b | ● | ● | ◔ | ◔ | ○ | ○ |
| Southeast Asia[2] | $674m | ● | ● | ● | ◔ | ◑ | ◔ |
| UK | $941m | ● | ● | ◑ | ◔ | ◔ | ◔ |
| US | $2.5b | ● | ● | ● | ◔ | ○ | ○ |
| Canada | $2.3b | ◔ | ◔ | ◔ | ○ | ○ | ○ |
| Europe[3] | $2.2b | ○ | ○ | ○ | ○ | ○ | ○ |
| Description | FY16 GWP (US$)[4] | Set up capital-light operating platform | Underwriting relationship with global insurer | Establish digital distribution (SEO, SEM, Social Media) | Embed IMPULSE in Direct channel | Grow volumes, refine operations and optimise | Expand digital distribution |
| Global Direct | $11.3b | ● | ● | ● | ◔ | ◔ | ◔ |

- 2014 – expansion into India, China, Malaysia, Singapore
- UK and New Zealand businesses developed
- H1 FY16 - 17% of our EBITDA generated from Asia
- 2016 – commenced in the US

## We said we would diversify CVO distribution channels and we have

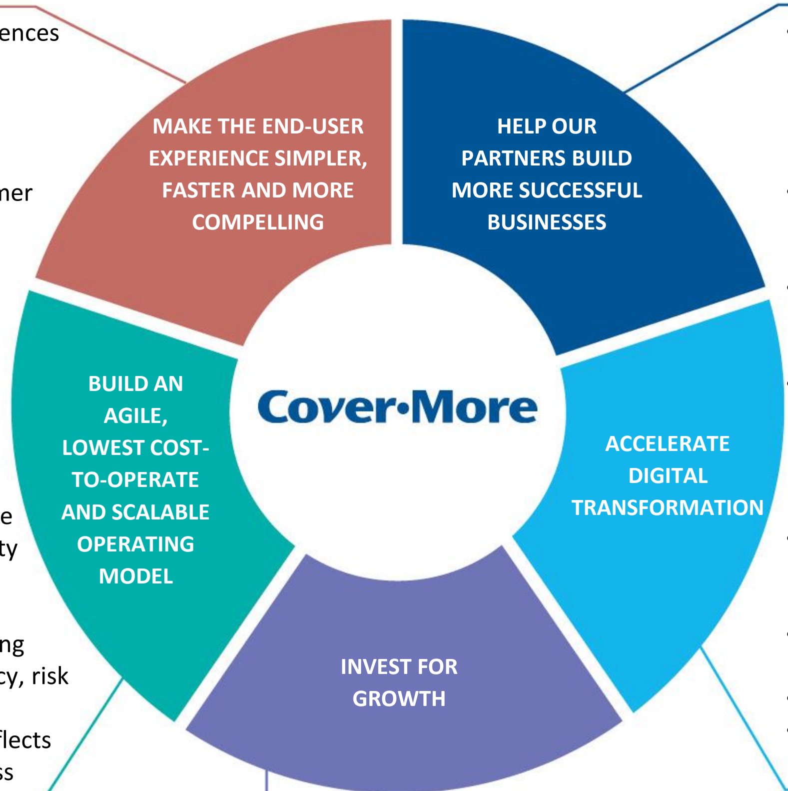

- 2014 – diversified into intermediated and online distribution channels
- 2016 – momentum continues:
  - Virgin Australia and their Velocity program
  - Entered intermediated channel in India – Goibibo (3rd largest OTA), GoAir (5th largest airline) and Yatra (2nd largest OTA)
  - Global Direct alliance with Zurich Insurance Group
  - Westpac in NZ
  - PT Asuransi Simas Net in Indonesia

# Cover-More: Group strategy

# Cover-More Group Strategy: overview

## Cover-More's strategic priorities will deliver continued growth in sales and profitability while building a sustainable foundation for Cover-More's future






- Redefine the expectations and experiences of our customers in travel and health
- Create innovative products (including ancillary) to deepen the customer relationship
- Increase engagement with our customer base of 1.4m employees + 2.2m travellers
- Fully leverage our data capabilities to improve customer experience

- Create valued strategic partner relationships by delivering enhanced profit solutions and more enduring customer relationships for our partners through an aligned economic partnership model
- Leverage our specialist expertise to provide best practice travel and medical solutions for our partners' customers
- Help our corporate partners build healthier, happier, more engaged and secure workforces
- Optimise the distribution potential of our end user networks

- Strengthen the underlying infrastructure to support our ambitions including delivery of a single view of customer, organisational agility and a seamless customer experience for our travel and health businesses
- Continue to evolve our global operating platform to drive operational efficiency, risk mitigation and lowest cost to operate
- Ensure the underwriting construct reflects the agility and flexibility needed across our multiple geographies while reducing volatility

- Invest in technology platforms that facilitate innovative distribution and meet the needs of the digital consumer of the future
- Deliver optimised e-Commerce outcomes for our partners
- Strengthen our direct e-Commerce business
- Leverage customer data from relationships and drive commercialised data outcomes

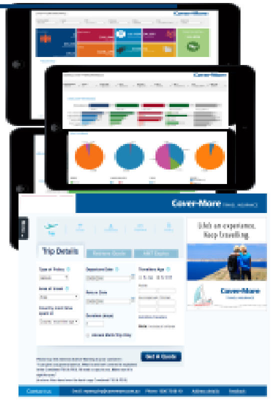
- Invest in the capability to support our growth aspirations
- Grow Cover-More's presence in global markets
- Secure strategic distribution partners across key growth markets

# Cover-More Group Strategy: progress

*my*Cover•More provides personalised customer engagement with *rich data* on demographics and behaviour

Unique Travel GP service launched

Real-time data, specialised tools and integration with clients increasing sales conversion with partners




Continual improvements to enhance operating model agility and efficiency:

- New geographies (incl. US) on global operating platform
- Claims outsourcing to India
- DTC operating platform
- Common GL platform
- Follow-the-sun operations in travel medical assistance (in play)

IMPULSE optimisation engine driving higher conversion rates and increased returns for partners

Global 'B2C direct' launch with Zurich Insurance on track, targeting 4 new geographies

Use of IMPULSE technology in joint tenders

Launched in US with Flight Centre's 9 brands, 275 stores. Targeting sales of ~$A30m p.a. Now 3rd largest insurance business in Group

FLIGHT CENTRE TRAVEL GROUP

LIBERTY TRAVEL America's Vacation Experts

GOGO VACATIONS

# Outlook

# Outlook

- **FY16 outlook:**
  - **FY16 gross sales growth** rate expected to be ahead of H1 FY16 due to strong performance in Australia, India, China and DTC, with benefit of North America sales commencement
- **Australia:**
  - **Sales growth expected to continue at rates at or exceeding Q3 FY16 growth rates** with contributions from Virgin Australia, optimisation of existing partnerships and ongoing portfolio repricing
  - While **underwriting negotiations are still incomplete**, expectations are that EBITDA margins will stabilise from Q1 FY17 and more accurately reflect COGS as a result of a move to a revised underwriter payment method
  - **Re-pricing initiatives** continue to have no discernible impact on conversion ratios
- **Asia:**
  - **India** growth expected to continue at strong double-digit levels benefiting from market growth, CVO outperformance and strong intermediary business wins (GoAir, Goibibo, Yatra)
  - **China** growth expected to continue at strong double-digit levels benefiting from travel medical assistance organic growth and commencement of travel insurance distribution through agency, intermediary and direct channels
  - **New CEO appointment for SE Asia** imminent with expectations of broadening distribution across Singapore, Malaysia and Indonesia
- **US:**
  - **Sales commenced in US** with expectation of ~A$30m sales p.a.
  - Good visibility of **A$80m+ of pipeline opportunities**
  - **CEO appointed** with responsibility for US and Canada and business development staff operational
  - Further expand **Aon Cover-More relationship**
- **Global Direct:**
  - Continue deployment of **Global Direct into four new markets** by Q1 FY17. India Direct operational by Q1 FY17
- **Management transition:**
  - **Handover** from Peter Edwards **to Mike Emmett** commencing 4 July 2016

# Appendix

# Who we are

## Cover-More is a leading integrated travel insurance and medical assistance business



| WHO WE ARE | OUR MODEL | OUR CAPABILITIES | GROWTH LEVERS |
|---|---|---|---|
| Australia's largest travel insurance company with 29 years' experience and 2.2m+ customers | Aligned economics and commercially collaborative models with partners | Best-in-class proprietary systems |  |
| Australia, China, India, Malaysia, New Zealand, Singapore, UK | Symbiotic relationship between travel insurance and medical assistance |  | Strong growth through e-commerce, customer-focused innovation and Asian expansion |
|  | Australia's leading employee assistance provider covering 1.4m+ employees | 'Capital light', strong free cash flow | Deep specialist expertise and scalable global operating platform |
| Presence in high-growth India and China markets | Market resilient to economic, FX, geopolitical shocks | More than 35,000 medical assistance cases per annum |  |

# Who we are

## Cover-More is a leading integrated travel insurance and medical assistance business

| | Travel Insurance | Medical Assistance: Travel Medical Assistance | Medical Assistance: Employee Assistance |
|---|---|---|---|
| **Locations** | • Australia<br>• New Zealand<br>• United Kingdom<br>• India<br>• Malaysia<br>• China | • Australia (Sydney + Brisbane)<br>• Malaysia<br>• China<br>• India (in FY16) | • Australia<br>• Singapore |
| **Distribution** | • Agency<br>• Intermediary<br>• Direct | • Corporate<br>• Large international travel insurers | • Seven of the 10 largest companies (by revenue) in Australia<br>• Access to employee base of ~1.4m |

**Key Financials (AUD millions)**

| Segments FY15 (A$m) | Travel Insurance | Medical Assistance | Total |
|---|---|---|---|
| Gross Sales | $400.8 | $66.0 | $466.8 |
| Pro Forma EBITDA | $32.7 | $19.3 | $52.0 |

| Geographic Split FY15 | Australia, NZ, UK | Asia | Total |
|---|---|---|---|
| Gross Sales | $422.4 | $44.4 | $466.8 |
| Pro Forma EBITDA | $47.3 | $4.7 | $52.0 |

**Competitors**

- Key competitors are typically large domestic and international general insurers
- As a specialist in Australia, Cover-More has successfully outperformed against significantly larger organisations through customer-led innovation, technology, intelligent control of the value chain, specialised management and commercially aligned relationships with partners.

# Financial performance: H1 FY16 income statement

## H1 FY16 recap: Travel insurance gross sales up +8.3%; increased underwriting premium led to net sales and earnings decline



| A$ in Millions | H1 FY16 | H1 FY15 | yoy growth (%) |
|---|---|---|---|
| Gross Travel Insurance Sales | 202.8 | 187.3 | 8.3 |
| Gross Medical Assistance Sales | 32.8 | 33.7 | (2.7) |
| **Total - Gross Sales** | **235.6** | **221.0** | **6.6** |
| | | | |
| Net Travel Insurance Sales | 71.6 | 79.0 | (9.4) |
| *% of Gross Travel Insurance Sales* | *35.3%* | *42.2%* | |
| Net Medical Assistance Sales | 32.8 | 33.7 | (2.7) |
| **Total Net Revenue** | **104.4** | **112.7** | **(7.4)** |
| Cost of Sales | (63.9) | (68.5) | (6.7) |
| **Gross margin** | **40.5** | **44.2** | **(8.4)** |
| *% of Net Revenue* | *38.8%* | *39.2%* | |
| Employment overheads | (10.5) | (11.6) | (9.5) |
| Other overheads | (9.6) | (8.2) | 17.1 |
| **Total overheads** | **(20.1)** | **(19.8)** | **1.5** |
| **EBITDA** | **20.4** | **24.4** | **(16.4)** |
| *% of Net Revenue* | *19.5%* | *21.7%* | |
| Depreciation | (1.9) | (1.2) | 58.3 |
| Amortisation of capitalised IT and software | (1.6) | (1.2) | 33.3 |
| **EBITA** | **16.9** | **22.0** | **(23.2)** |
| *% of Net Revenue* | *16.2%* | *19.5%* | |
| Amortisation of acquired intangibles | (3.7) | (3.8) | (2.6) |
| **EBIT** | **13.2** | **18.2** | **(27.5)** |
| *% of Net Revenue* | *12.6%* | *16.1%* | |
| Net interest expense | (1.6) | (1.3) | 23.1 |
| Forex gains/ losses | - | 0.3 | n/a |
| Income tax expense | (3.4) | (5.3) | (35.8) |
| **NPAT** | **8.2** | **11.9** | **(31.1)** |
| *% of Net Revenue* | *7.9%* | *10.6%* | |
| **NPATA** | **10.7** | **14.6** | **(26.7)** |

**Comments**

- Total Gross Sales up +6.6%
  - +8.3% growth in travel insurance
  - -2.7% growth in assistance; lower growth due to loss of DTC contract and decline in external case volumes in travel medical
- Net travel insurance sales decline -9.4% reflecting impact of increased underwriting premium
- Gross margin as % of net sales declined marginally by 0.4ppt due mainly to a lower rate of profit share as a % of net revenue as a result of the growth of non profit share business (most notably in Asia)
- Overheads grew at 1.5%. Employment overheads improved due to realignment of incentives to current Group performance and ongoing focus on achieving efficiencies across the Group. Excluding impact of one-off costs (including a legal settlement), total overheads were reduced by -2.5%
- Depreciation including make good acceleration relating to lease premises
- Amortisation has increased in line with increased capital expenditure on projects (including My Cover-More and new client on-boarding)

# Financial performance: H1 FY16 segment view

## H1 FY16 recap: Travel insurance sales remained robust; Asia sales up by +27.6% and Asia EBITDA now accounts for ~17%[1] of Group earnings. Margins impacted by increased underwriting premium and assistance

| Operating | A$ in Millions | H1 FY16 | H1 FY15 | yoy growth (%) |
|---|---|---|---|---|
| **Gross sales** | Travel insurance | 202.8 | 187.3 | 8.3 |
| | Medical assistance | 32.8 | 33.7 | (2.7) |
| | | **235.6** | **221.0** | **6.6** |
| **Net revenue** | Travel insurance | 71.6 | 79.0 | (9.4) |
| | Medical assistance | 32.8 | 33.7 | (2.7) |
| | | **104.4** | **112.7** | **(7.4)** |
| **Gross margin** | Travel insurance | 27.3 | 29.7 | (8.1) |
| | Medical assistance | 13.2 | 14.5 | (9.0) |
| | | **40.5** | **44.2** | **(8.4)** |
| **EBITDA** | Travel insurance | 12.3 | 15.4 | (20.1) |
| | Medical assistance | 8.1 | 9.0 | (10.0) |
| | Corporate | - | - | n/a |
| | | **20.4** | **24.4** | **(16.4)** |
| **Geographic** | | | | |
| **Gross sales** | Australia, NZ, UK | 212.3 | 202.8 | 4.7 |
| | Asia | 23.3 | 18.3 | 27.6 |
| | | **235.6** | **221.1** | **6.6** |
| **Net revenue** | Australia, NZ, UK | 93.6 | 105.1 | (10.9) |
| | Asia | 10.8 | 7.6 | 42.1 |
| | | **104.4** | **112.7** | **(7.4)** |
| **Gross margin** | Australia, NZ, UK | 35.8 | 41.3 | (13.3) |
| | Asia | 4.7 | 2.9 | 62.1 |
| | | **40.5** | **44.2** | **(8.4)** |
| **EBITDA** | Australia, NZ, UK | 19.0 | 23.6 | (19.5) |
| | Asia | 1.4 | 0.8 | 75.0 |
| | Corporate | - | - | n/a |
| | | **20.4** | **24.4** | **(16.4)** |

### Comments

- Gross Travel Insurance Sales +8.3% (vs pcp)
- Net sales impacted by increased underwriting premium due to FX impact and portfolio mix shift
- Travel insurance EBITDA declined -$3.1m. Excluding one-off impacts (-$0.7m) and international expansion costs ($-0.6m), adjusted travel insurance EBITDA declined -$1.8m
- Medical Assistance gross margin impacted by Bali ash cloud and decline in DTC margins. Excluding impact of Bali (-$0.3m), CustomerCare (travel medical) gross margin remained relatively stable and underlying Assistance EBITDA declined -$0.6m

- Australia, NZ, UK:
  - gross sales +4.7% with net revenue -10.9% (vs pcp) due to underwriting premium impact primarily in Australia. UK sales +28.9%
- Asia:
  - gross sales +27.6% and net revenue +42.1% (vs pcp). Strong growth in India +60.4% and China +23.0%
  - gross margin +62.1% and EBITDA +75.0% (vs pcp)
  - Asia now contributes ~17%[1] of Group profit compared to ~15%[1] in FY15 (on a like-for-like basis with corporate allocations excluded)

[1] Adjusted on like-for-like basis to be consistent with previously reported figures and account for change in FY15 accounting treatments relating to reallocation of shared services overheads and Group Corporate costs to Asia business

# Financial performance: H1 FY16 cash flow

## H1 FY16 recap: Business continues to generate strong cashflow and high rates of cash conversion. Increase in capex as Cover-More invests for next phase of growth



| A$ in Millions | H1 FY16 | H1 FY15 |
|---|---|---|
| **EBITDA** | **20.4** | **24.4** |
| Non-cash items in EBITDA | (0.5) | 0.3 |
| Change in Working Capital | (1.1) | (0.5) |
| **Operating free cash flow before capital expenditure** | **18.8** | **24.2** |
| *% of EBITDA* | *92.2%* | *99.2%* |
| | | |
| **Capital Expenditure** | | |
| Investment in software | (3.6) | (1.2) |
| Net payments for property, plant and equipment | (0.9) | (0.5) |
| Total capital expenditure | (4.5) | (1.7) |
| **Operating free cash flow after capital expenditure** | **14.3** | **22.5** |
| *% of EBITDA* | *70.1%* | *92.2%* |

**Comments**

- Operating free cash flow before capital expenditure declined from $24.2m to $18.8m, reflecting the decline in EBITDA
- Operating free cash conversion of:
  - 92% before capex
  - 70% after capex
- Outflows from capital expenditure increased from $1.7m to $4.5m. H1 FY15 capital expenditure was atypically low (H2 FY15 expenditure of $4.7m)
- Capital expenditure related to investments for next phase of growth, notably:
  - Build of My Cover-More technology platform (due for release in Q3 FY16)
  - On-boarding of new distribution partners including Virgin Australia and Westpac NZ

# Financial performance: H1 FY16 balance sheet compared to FY15

## H1 FY16 recap: Balance sheet remains healthy with low levels of gearing

| A$ in Millions | 31 Dec 2015 $m | 30 Jun 2015 $m |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | 23.8 | 24.0 |
| Trade and other receivables | 33.2 | 31.3 |
| Total current assets | 57.0 | 55.3 |
| | | |
| **Non-current assets** | | |
| Plant and equipment | 4.8 | 4.7 |
| Intangible assets | 247.6 | 248.8 |
| Other | 0.6 | 0.5 |
| Total non-current assets | 253.0 | 254.0 |
| | | |
| **Total assets** | 310.0 | 309.3 |
| | | |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Trade and other payables | 34.5 | 34.5 |
| Current tax provisions | 0.3 | 4.5 |
| Borrowings | - | - |
| Other | 4.5 | 4.4 |
| Total current liabilities | 39.3 | 43.4 |
| | | |
| **Non-current liabilities** | | |
| Borrowings | 64.2 | 56.1 |
| Deferred tax liabilities | 7.7 | 7.2 |
| Other | 2.3 | 1.3 |
| Total non-current liabilities | 74.2 | 64.6 |
| | | |
| **Total liabilities** | 113.5 | 108.0 |
| | | |
| **Net assets** | 196.5 | 201.3 |
| | | |
| **EQUITY** | | |
| Contributed equity | 220.1 | 220.1 |
| Other reserves | 6.9 | 6.9 |
| Retained earnings | (30.5) | (25.7) |
| **Total Equity** | 196.5 | 201.3 |

### Comments

- CVO's balance sheet reflects simplicity of the financial business model
- Shape of December 2015 balance sheet similar to June 2015 balance sheet
- Negative working capital – current liabilities continue to exceed non-cash current assets
- Gearing remains conservative with all metrics well within bank covenants. Capacity exists within the borrowing facility
- Debt facility extended in December 2015 on improved terms and to provide additional capacity, including a $100m debt accordion facility for the purposes of major transactions

# Financial characteristics: Cover-More's P&L structure

Net travel insurance sales comprise of premium sales, ancillary income, other revenue less claims costs. Cost of sales comprise employment and other expenses and JV profit share



## Management accounts (example)

| June year end (A$m) | FY15A |
|---|---|
| Premium | XX |
| Assistance | XX |
| Ancillary income | XX |
| Other revenue | XX |
| **Sales** | XX |
| Commissions | XX |
| **Net sales** | XX |
| Acquisition costs | XX |
| Claims costs | XX |
| Employment expenses | XX |
| Other expenses | XX |
| **Total direct costs** | XX |
| **Contribution to overheads** | XX |
| Employment expenses | XX |
| Other expenses | XX |
| Depreciation | XX |
| Amortisation | XX |
| **Total overheads** | XX |
| **Net result** | XX |
| **JV profit share** | XX |
| **EBIT** | XX |
| Interest | XX |
| Income tax | XX |
| **Profit after tax** | XX |

## Cover-More profit and loss statement

| June year end (A$m) | FY15A |
|---|---|
| Net Travel Insurance Sales | 156.9 |
| Net Medical Assistance Sales | 66.0 |
| **Total Net Revenue** | **222.9** |
| Cost of Sales | (131.8) |
| **Gross margin** | **91.1** |
| Employment overheads | (23.4) |
| Occupancy costs | (6.7) |
| Other overheads | (9.0) |
| **Total overheads** | **(39.1)** |
| **EBITDA** | **52.0** |
| Depreciation | (2.3) |
| Amort. of capitalised IT & software | (2.6) |
| **EBITA** | **47.1** |
| Amort. of acquired intangibles | (7.6) |
| **EBIT** | **39.5** |
| Net interest expense | (2.6) |
| Income tax expense | (11.1) |
| **NPAT** | **25.8** |
| **NPATA** | **31.1** |
| | |
| *Insurance Gross Written Premium (A$m)* | *400.8* |
| *GWP Growth (%)* | *10.1%* |
| *Net Insurance Sales (% of GWP)* | *39.1%* |
| *GM (% of Net Revenue)* | *40.9%* |
| *EBITDA (% of Net Revenue)* | *23.3%* |
| *EBITA (% of Net Revenue)* | *21.1%* |

# Key risks and sensitivities



- **Demand** for travel insurance may decline in Cover-More's key markets
- **Key distribution agreements** may be terminated, not renewed or renewed on less favourable terms
- **Increased competition** from existing or new competitors which may reduce growth, market share and or margins
- Inability to secure **favourable underwriting terms**
- Earnings impacted by fluctuations in **foreign exchange** rates
- Loss of **identified key personnel** across the business
- Change in **local laws and government regulations**

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