



## 2017 Operating Review

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## Business Overview – SIMPLE, CONVENIENT, AFFORDABLE LIFE INSURANCE



Freedom was established to provide straightforward, affordable life insurance products to a broad range of Australians in the most convenient way possible.

### FREEDOM INSURANCE PRODUCTS

- Easy to understand
- Convenient to obtain
- Represent value for money
- Designed to suit the channel/customer need

### FREEDOM INSURANCE OPERATIONAL DRIVERS

- Availability of leads, costs and conversion rates
- Overheads
- Retention rates

Freedom has the infrastructure and capability established to support a broad range of services and significant business volume.

### FREEDOM BUSINESS ACTIVITIES

- Product design and manufacture\*
- Marketing and lead generation
- Distribution
- Ongoing policy administration

\* Freedom is not a registered life insurance company and bears no claims risk. The product issuer for the core Freedom products from 7 February 2017 is Swiss Re Life and Health Australia (previously AIA Australia and NobleOak Life).

## Pro Forma Profit and Loss – STRONG GROWTH



- Strong FY17 growth while undertaking major projects to build capability for next phase of growth
- FY17 EBITDA materially above prospectus forecast
- FY17 growth supported by:
  - expanding sales and service capability
  - lower lead generation costs
  - continued focus on customer retention
- Revenue up 81% on FY16 on strong growth in New Business and In Force premium
- EBITDA and NPAT growth reflecting margin benefits of increasing business scale
- Projects completed to support continued growth:
  - IPO and capital raising
  - migration to new insurer, Swiss Re, completed in second half
  - new products pilot phase from May 2017

FULL YEAR TO 30 JUNE (\$MILLION)	2017	2016	% CHANGE
Commission - Upfront	34.2	17.9	90%
Commission - Trail/Admin	5.4	2.9	82%
Trail asset movement	20.1	11.7	72%
Clawback provision movement	(7.6)	(4.3)	76%
Spectrum net revenue	1.5	1.3	21%
<b>Net Revenue</b>	<b>53.5</b>	<b>29.5</b>	<b>81%</b>
Marketing/lead generation	6.7	6.5	3%
Sales staff expenses	9.4	6.0	57%
Other staff expenses	7.7	5.3	45%
Other expenses	7.4	4.2	77%
<b>Total Expenses</b>	<b>31.2</b>	<b>22.0</b>	<b>42%</b>
<b>Pro forma EBITDA</b>	<b>22.3</b>	<b>7.6</b>	<b>195%</b>
Net interest	(0.7)	(0.3)	136%
Profit before tax	21.6	7.2	199%
Tax expense	6.6	2.7	141%
<b>Pro forma NPAT</b>	<b>15.0</b>	<b>4.5</b>	<b>234%</b>

## Balance Sheet & Capital – CAPITALISED FOR GROWTH

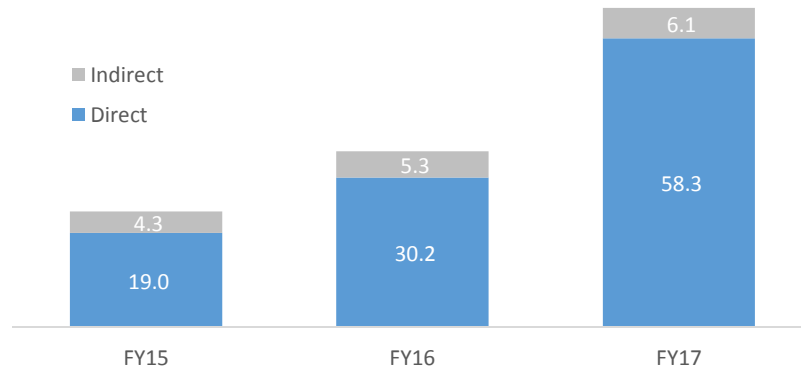


AT PERIOD END (\$ MILLION)	30 Jun 17	30 Jun 16
Cash	26.9	7.1
Current Assets	4.8	4.7
Trail Asset	43.8	23.7
Goodwill	5.8	5.8
Investment Assets (NobleOak)	3.7	3.5
<b>Assets</b>	<b>84.9</b>	<b>44.8</b>
Payables	3.5	4.1
Clawback Provision	16.6	7.8
Income tax liability	1.9	0.0
Deferred tax liability	8.4	4.5
Notes and debt	–	11.6
<b>Liabilities</b>	<b>30.4</b>	<b>27.9</b>
<b>Net assets</b>	<b>54.5</b>	<b>16.9</b>
Issued Shares	33.4	8.4
Other	(0.8)	0.7
Accumulated Profit	21.9	7.8
<b>Total Equity</b>	<b>54.5</b>	<b>16.9</b>

- December 2016 IPO raised \$15 million
- Debt free following repayment with portion of IPO funds
- Strong cash balances to support expansion and growth into new products and channels
- Well capitalised for investment in growth
- Constantly focused on capital requirements and efficient capital management to maximise shareholder value
- The 'Investment Asset' is Freedom's shareholding in NobleOak at book value
  - Disposed in September 2017 for approximately \$7.0 million
  - Profit on sale of \$3.3m, before tax, to be recognised in 2018 accounts

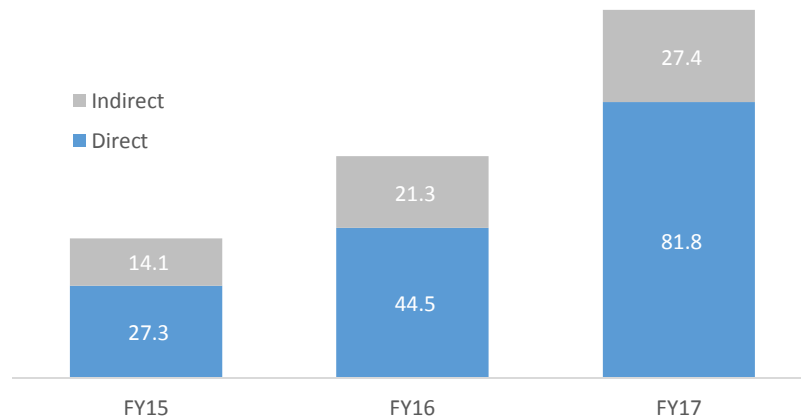
## New Business and In Force Premiums

New Business Sales (\$million)



- New Business sales grew 81% to \$64.4 million
- Direct sales increased 93% on prior year to \$58.3million due to higher volume of leads after a reduction in lead costs
- Indirect sales grew 15% due to growth in Spectrum adviser numbers
- Total In Force premium grew 66% on FY16 to \$109.3million
- Direct In Force premium up \$37.3million on FY16 to \$81.8million
- Indirect In-Force premium up 29% on prior year

In Force Premium period end (\$million)



*Indirect (Spectrum) sales and in force estimated from insurer commissions paid*

## Freedom Staff and Customer Growth

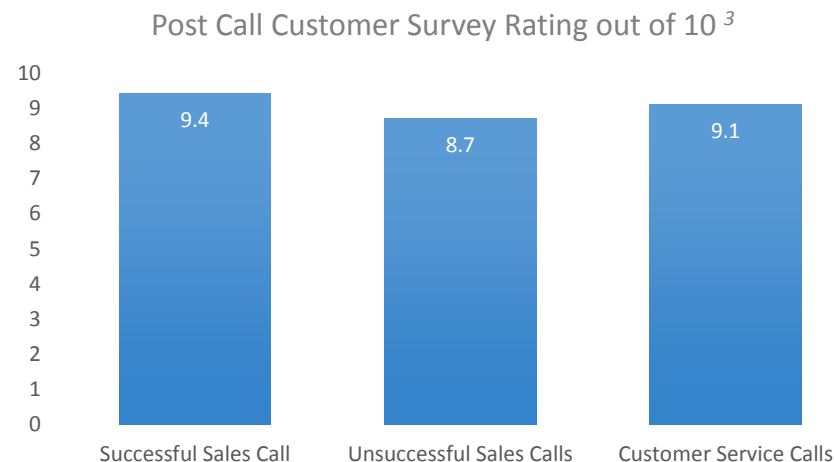
	30 Jun 17	30 Jun 16
<b>People (FTE):</b>		
Call Centre Sales	111	90
Lead Generation <sup>1</sup>	–	11
Customer Service/Retention	50	27
Admin & Quality Assurance	18	17
Management/Other	39	26
	<b>218</b>	<b>171</b>
<b>Spectrum Advisers:</b>		
Mortgage Brokers	174	71
Other Advisers	232	202
	<b>406</b>	<b>273</b>
<b>Customers:<sup>2</sup></b>		
Freedom – Direct	280,000	167,000
Spectrum – Indirect	9,000	7,000
	<b>289,000</b>	<b>174,000</b>

1. Internal lead generation staff were transferred to sales during 1H17

2. The number of individual lives insured

3. Results for July to September 2017 (over 8,000 participants)

- 66% increase in number of customers
- Consistently high customer survey ratings



## 1H18 Guidance

\$ million	1H18 guidance	2H17	1H17
Net Revenue	26.5 to 28.5	27.8	25.7
Operating costs	19.0 to 20.0	16.7	14.6
<b>EBITDA<sup>1</sup> pre-NobleOak share sale</b>	<b>7.5 to 9.0</b>	<b>11.1</b>	<b>11.1</b>
NobleOak share sale	3.3	-	-
<b>EBITDA<sup>1</sup></b>	<b>10.8 to 12.3</b>	<b>11.1</b>	<b>11.1</b>
Total Sales	27.0 to 29.0	32.6	31.8

- 1H18 Net Revenue expected to be in line with 2H17. Higher trail commissions on growing in force book and favourable retention experience, offset by impact of lower sales
- Increase in 1H expenses to support ramp up of sales in new life products and increased maintenance expenses on larger in force book
- Net impact of above is a lower expected 1H18 EBITDA (excluding NobleOak share sale)
- The lower sales expectation is due to lead performance issues and disruption to sales momentum

1. EBITDA was Pro-forma in 1H17 as it excluded certain December 2016 IPO costs and other adjustments.

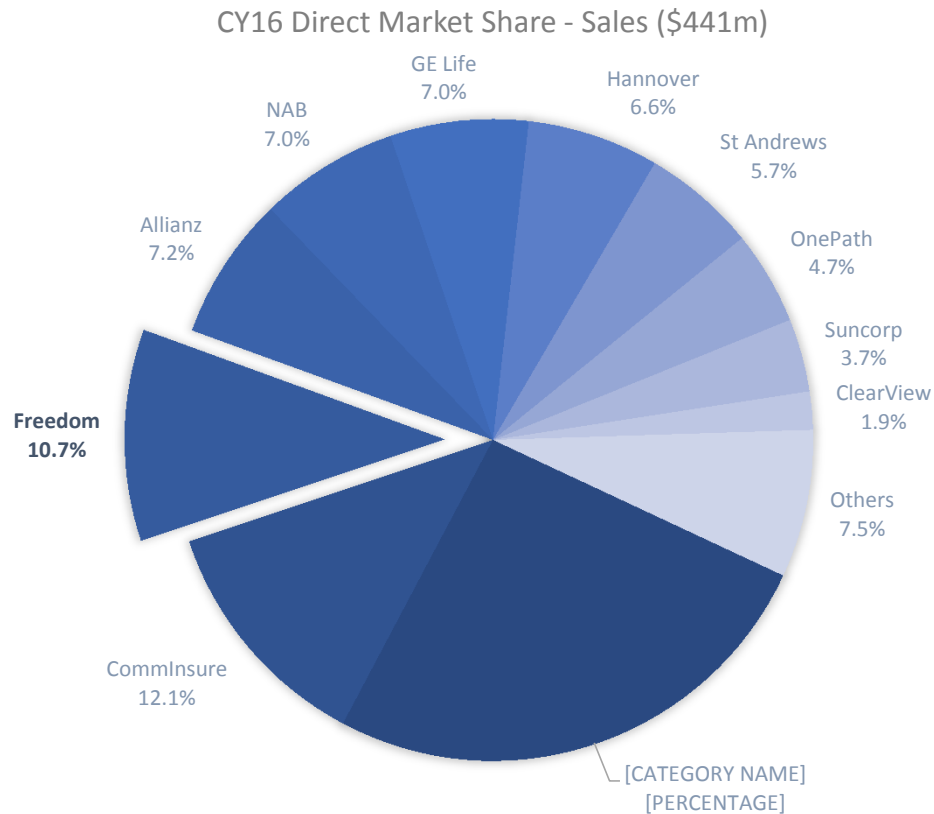
## First Half 2018 Trading – Final Expenses Product

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- Freedom continually seeks to improve lead outcomes through identifying a broader range of lead sources and optimising the quality, cost and value of leads
- An investigation during October 2017 into lower final expenses sales volumes and conversion rates combined with increased lead volumes identified quality issues with a material number of recent leads
- The lower quality leads triggered complications with the software used to process and optimise the utilisation of leads (the 'dialer'). This has had a broader impact on the sales team productivity
- The complexity of the issue meant it took some time to fully identify the sources of the problem and take steps to address it
- Steps that were taken in October included:
  1. rectifying quality problems with lead providers
  2. purging the dialer software of poorly performing leads
  3. improving the effectiveness of reporting, analysis and lead management tools
  4. recovering sales team productivity
  5. acquiring additional leads to support the recovery
  6. reviewing and fortifying resourcing
- In early November it became evident that the recovery would take longer than expected
- The sales run rate is trending back to normal and is expected to fully recover by the end of the half
- It is anticipated that 1H18 sales will be between \$2.8 million and \$4.8 million lower than 1H17



## Direct Life Insurance – Market Share



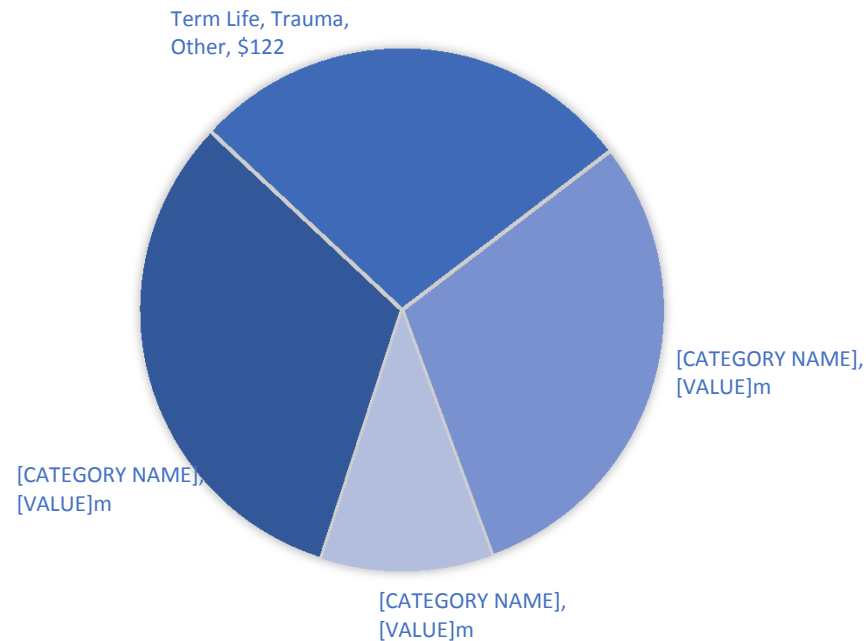
- Life insurance market remains attractive to execute our business model. High levels of underinsurance support strong market growth potential in the medium term
- Freedom has a medium term goal of becoming the second largest participant in the direct life insurance market for sales and a contender for market leadership
- Life insurance industry sales of \$441 million in the year ending 31 December 2016 (CY16) were in line with the previous year
- This reflected a general decline in direct new sales volumes for the bank owned life insurers and 10% increase for other participants
- Freedom's share of both Direct Sales and In Force premiums increased during CY16
- Freedom's sales in CY16 grew 106% on CY15, increasing its share of life insurance New Business from 5.3% to 10.7% and its share of In Force premium from 2.4% to 4.3%

Source: Strategic Insight – Direct Life Insurance Report – May 2017

# Direct Life Insurance Market – SALES BY PRODUCT



CY16 Direct Market Product Breakdown – Sales (\$million)



Source: Strategic Insight – Direct Life Insurance Report – May 2017

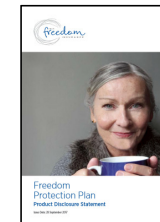
## Freedom Direct Product Range

### Freedom Protection Plan

Initial launch: **October 2010**

Relaunched: **February 2017**

- Final Expenses Cover
- Accidental Death Cover
- Accidental Injury Cover

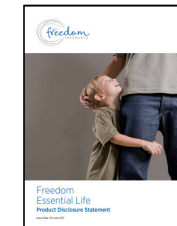
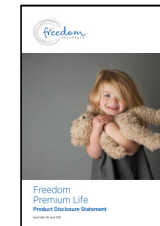


### Freedom Premium Life

### Freedom Essential Life

Launched: **June 2017**

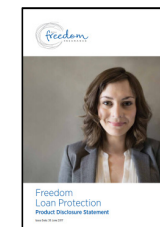
- Life Cover
- Trauma Cover



### Freedom Loan Protection

Launched: **May 2017**

- Life Cover
- Trauma Cover



## First Half 2018 Trading – New Products

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### Encouraging results

- The pilot of the new life insurance products, Premium Life and Essential Life, has completed with encouraging outcomes including an anticipated 1H18 contribution to sales exceeding \$1 million
- During the pilot a significant investment was made in training a small team and establishing new lead sources to seed growth and support the product rollout. This investment will continue in the second half
- The initial performance of the new life products has met expectations and the focus will shift to efficiency and scaling to provide a platform for a stronger sales contribution in the second half
- The loan protection product rollout is anticipated to commence this half

### Call centre arrangements

- To support sales of the new products in the second half, Freedom has entered into an agreement with Peakbound Holdings, a leading provider of contact centre services to the Australian financial services industry
- This initially provides resourcing and infrastructure for up to 15 sales agents in Sydney's CBD with capacity to expand to 250 sales agents over time, as required by Freedom
- This arrangement compares favourably in terms of implementation time, access to qualified agents, flexibility and the costs associated with expanding in-house capability at an additional Freedom office

## Medium term goal: Number 2 in direct life insurance for new business and contender for market leadership

### Industry

- Life insurance market remains attractive to execute our business model
- Australians remain underinsured
- Agile specialist players expected to continue to grow the market by delivering:
  - Simple;
  - Convenient; and
  - Good value insurance products

### Freedom

- Product expansion and diversification
- Further enhancements to distribution capability
- Investment in marketing and lead generation to drive sales of new products
- Freedom continues to expect 2H18 sales and earnings to grow compared to the previous corresponding period, supported by the larger in-force book and diversification initiatives
- Strong balance sheet and well capitalised to realise medium term growth objectives