



## Freedom Insurance Group

### Full Year 2018 Results

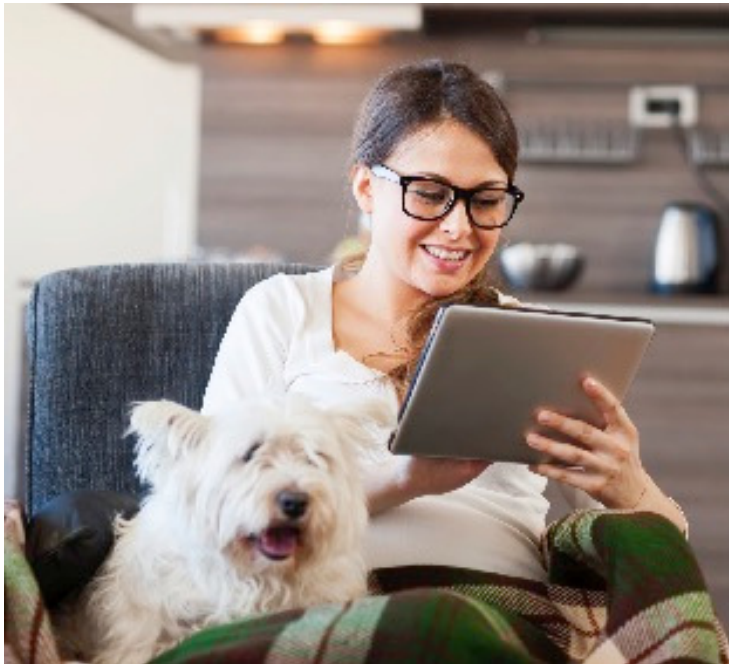
Keith Cohen, CEO and Managing Director

Craig Orton, COO

Jenny Andrews, CFO

29 August 2018





Freedom was established to provide life insurance to a broad range of Australians in the most convenient way possible

## Agenda

FY18 review

Outlook

Q&A

Supplementary information

## Full Year 2018 – OVERVIEW



- Earnings in line with guidance
- Recovery in sales in 2H18
- St Andrew's acquisition will accelerate Freedom's growth strategy
- Increased focus on risk management and controls
- Regulatory environment challenging but expected to lead to better outcomes
- Focus on customer outcomes, with the evolution of direct model providing opportunity to improve service and relationships

### Total Sales

↓ **5%**  
to \$61.1 million

### Net Revenue

↑ **20%**  
to \$64.1 million

### Customers

↑ **24%**  
to 357,000

### In Force Premiums

↑ **14%**  
to \$124.5 million

## Full Year 2018 – FINANCIAL SUMMARY



- EBITDA remains key measure for business performance
- FY18 EBITDA declined 11% to \$18.7 million, compared to FY17
- FY18 EBITDA includes \$3.3 million profit on sale of NobleOak stake and \$1.7 million in transaction related costs
- Excluding NobleOak and transaction costs, FY18 EBITDA declined 24% to \$17.0 million
- FY18 Net Revenue impacted by:
  - ↓ short term lead quality issue impacting sales and upfront commissions
  - ↓ short term retention experience
  - ↑ growth in trail income & trail asset
  - ↑ profit on sale of NobleOak shares
- FY18 Total Expenses impacted by:
  - ↑ spend on leads and sales staff
  - ↑ adding support staff
  - ↑ investment in new life products
  - ↑ expenses related to St Andrew's acquisition
- Customer numbers up 24% to 357,000
- In-force premium up 14% to \$124.6 million

\$ MILLION	2018	2017	% CHANGE
Net Revenue <sup>1</sup>	64.1	53.5	20%
Total Expenses	45.4	32.5	40%
<b>EBITDA</b>	<b>18.7</b>	<b>21.0</b>	<b>(11%)</b>
NPAT	13.2	14.1	(6%)
Basic EPS (cents)	5.5	6.7	(19%)
Total Sales <sup>2</sup>	61.1	64.4	(5%)
Total In Force Premium <sup>3</sup>	124.6	109.3	14%

	2018	2017	% CHANGE
Customers <sup>4</sup>	357,000	289,000	24%

1. Total revenue less commissions paid to Spectrum advisers
2. New Business Annual Premium during the year.  
Indirect (Spectrum) sales estimated from insurer commissions paid
3. In Force Annual Premium at the end of the period.  
Indirect (Spectrum) In Force estimated from insurer commissions paid
4. Customer numbers represent the number of individual lives insured

## Profit and Loss – OPERATIONAL PERFORMANCE

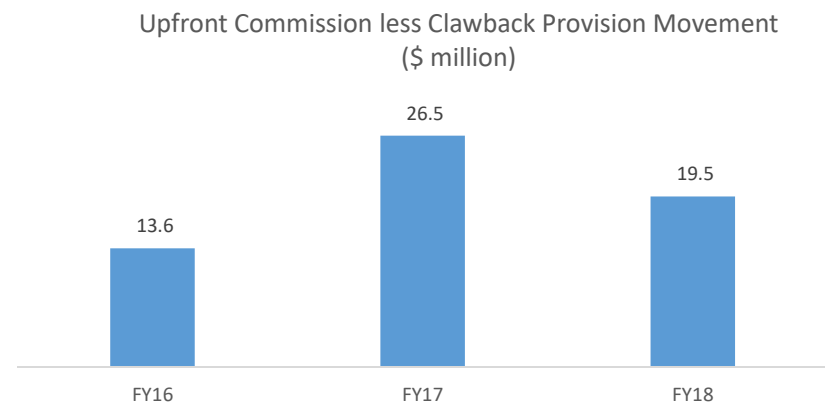
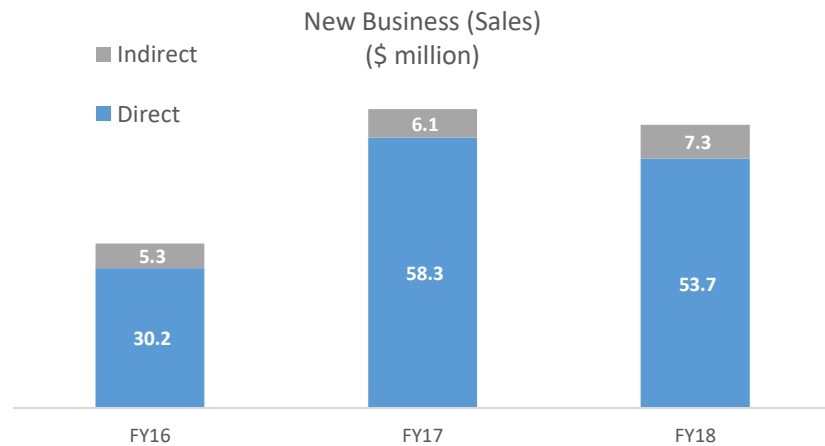


- Upfront commission less clawback provision movement declined 27% on FY17 to \$19.6 million in FY18, impacted by lower sales and short term retention resulting in higher cash clawback payments
- Small change in clawback provision over the year, reflecting the stabilisation of sales volumes year on year; provision allows for the portion of policies that are expected to cancel in the first 2 years
- Healthy growth in ongoing trail/admin revenue and trail asset, reflecting increase in value of trail revenue
- Other Revenue includes profit on the sale of the NobleOak shareholding
- Increased lead spend to support new product roll-out and address lead performance issues in 2Q18
- Increase in other expenses to support growth initiatives and growing in-force book and \$1.7 million of expenses in relation to acquisition of St Andrew's; FY17 included IPO related costs of \$2.1 million

\$ MILLION	2018	2017	% CHANGE
Commission - Upfront	20.5	34.2	(40%)
Clawback provision movement	(0.9)	(7.6)	(88%)
Commission - Trail/Admin	9.4	5.4	75%
Trail asset movement	30.2	20.1	50%
Spectrum net revenue	1.7	1.5	11%
Other Revenue	3.3	-	n/a
<b>Net Revenue</b>	<b>64.1</b>	<b>53.5</b>	<b>20%</b>
Marketing/lead generation	12.4	6.7	86%
Sales staff expenses	12.1	9.4	28%
Other staff expenses	10.6	7.7	38%
Other expenses	10.3	8.7	19%
<b>Total Expenses</b>	<b>45.4</b>	<b>32.5</b>	<b>40%</b>
<b>EBITDA</b>	<b>18.7</b>	<b>21.0</b>	<b>(11%)</b>
Net interest	0.6	(0.7)	(174%)
Profit before tax	19.2	20.3	(5%)
Tax expense	6.1	6.2	(2%)
<b>NPAT</b>	<b>13.2</b>	<b>14.1</b>	<b>(6%)</b>

Note: Differences in totals due to rounding.

## Key Metrics – SALES AND UPFRONT REVENUE



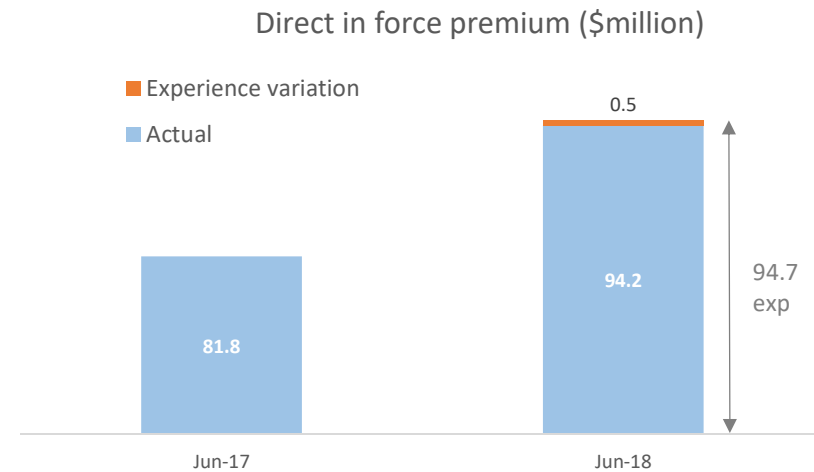
- FY18 new business (sales) declined by 5% compared to the prior year, due principally to sales performance in the first half of the year.
- Indirect sales grew 20% from FY17
- FY18 direct sales affected by lead/sales performance issues in 1H18 which have now been rectified in response to improvement measures, as anticipated
- FY18 sales benefitted from launch of new products, with sales of \$3.1 million:
  - \$1.1 million in 1H18; and
  - \$2.0 million in 2H18
- Upfront revenue, net of movement in clawback provision, reduced compared with sales performance due to the increase in cash clawback as a result of short term retention experience

*Indirect (Spectrum) sales and In-Force estimated from insurer commissions paid*

## Key Metrics – RETENTION

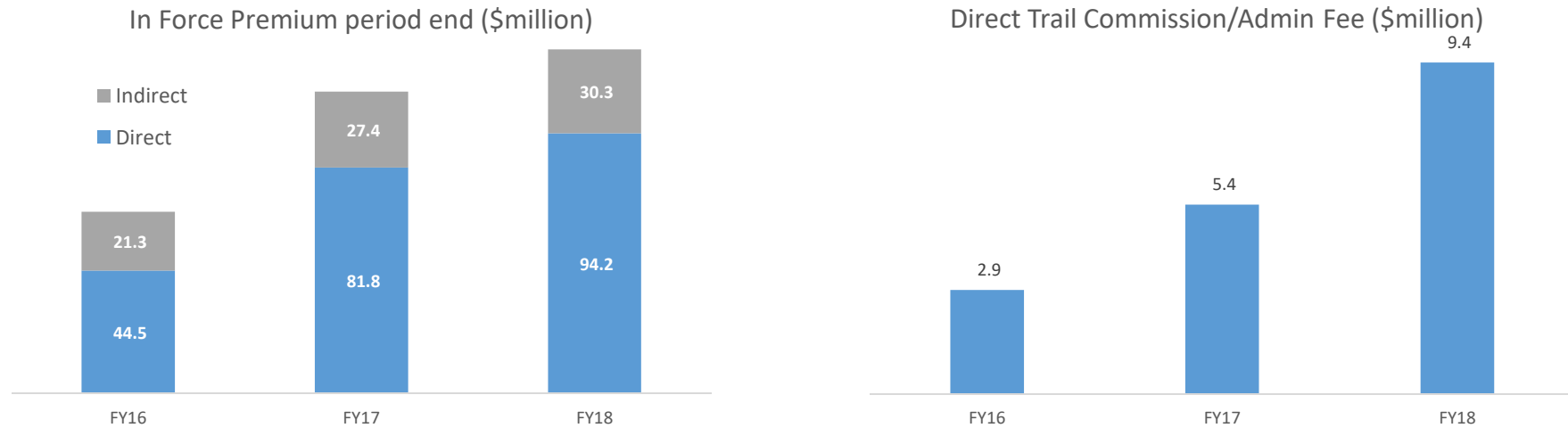


- Overall retention experience broadly in line with underlying assumptions, with a negative \$0.5 million (or 0.5%) variance in direct in force premium for the period
- Negative experience in early durations offset by improved longer term retention experience
- Represents a bringing forward of policy cancellations, resulting in higher clawback and an increase in the trail asset
- Net \$1.0 million positive impact on revenue, made up of:
  - +\$5.8 million increase in trail asset
  - -\$4.8 million negative cash impact from short term retention experience



Expected In force premium based on June 2017,  
expected run-off and actual sales for FY18

## Key Metrics – IN FORCE PREMIUM AND ONGOING REVENUE

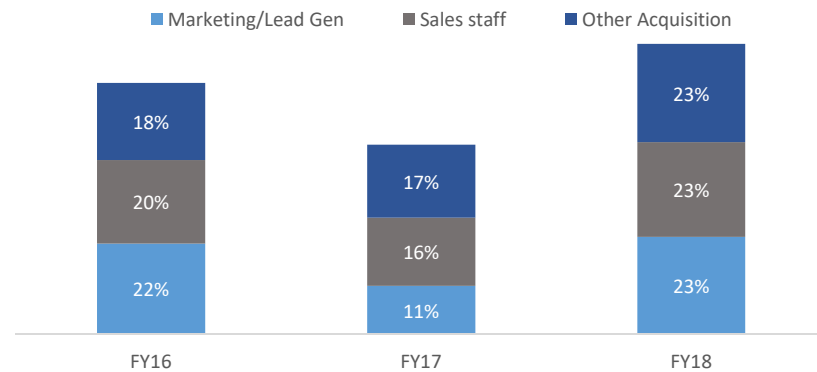


- Net impact of sales and retention resulting in 14% increase in total in force premium to \$124.6 million
- Growth in Direct in-force premium leading to 75% growth in ongoing trail income on FY17
- 11% growth in indirect net income

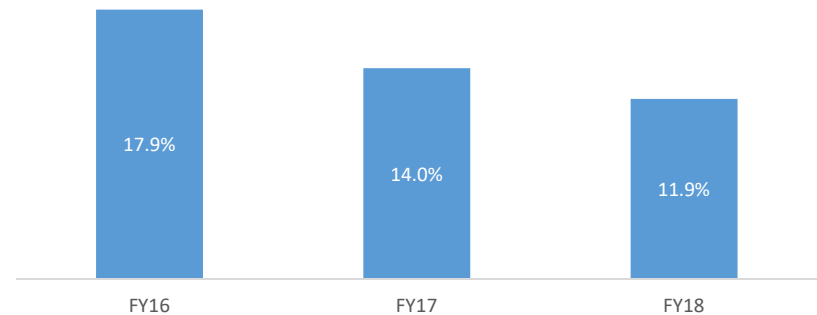


## Key Metrics – DIRECT ACQUISITION AND MAINTENANCE COSTS

Acquisition costs as % new business premium



Maintenance costs as % In Force premium



- Lead generation costs increased to 23% of New Business premium, as a result of the additional spend to support the new products & recovery activity combined with lower sales volumes for the period
- Excluding the new products, FY18 costs were:
  - 13% for marketing/lead gen; and
  - 19% for sales staff
- Sales staff and 'Other acquisition' ratios were also impacted by the lower sales volumes
- Maintenance cost ratios<sup>1</sup> generally continue to decline as a result of scale efficiencies in customer service, administration and retention
- Significant capacity in existing infrastructure for further growth from new and existing products
- Further investment in marketing and lead generation to support new products
- Investing to ensure appropriate resources to support next phase of growth

1. The ratio of the ongoing expenses incurred to service the In Force business, to the amount of the average In Force premium over the period

## Key Metrics – CASH MARGINS

- Charts illustrate the upfront and ongoing cash profiles for the direct business and exclude the trail asset, clawback provision and Spectrum
- The increase in the ongoing cash surplus is desirable and reflects the realisation of scale economies in the ongoing In Force Book
- The upfront margin in FY18 (new business strain) reflects the additional expenditure combined with lower sales during this period
- This was further impacted by short term retention experience (cash clawback) and higher costs associated with the new products
- Strategy is to maximise profitable growth and shareholder returns with primary focus on increasing the recurring ongoing margin

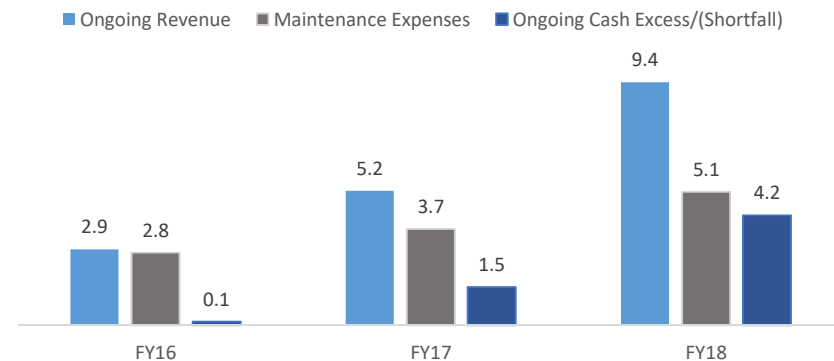
### Revenue:

- upfront commission and fees, as a % of New Business premium
- ongoing commission and fees as a % of In Force premium

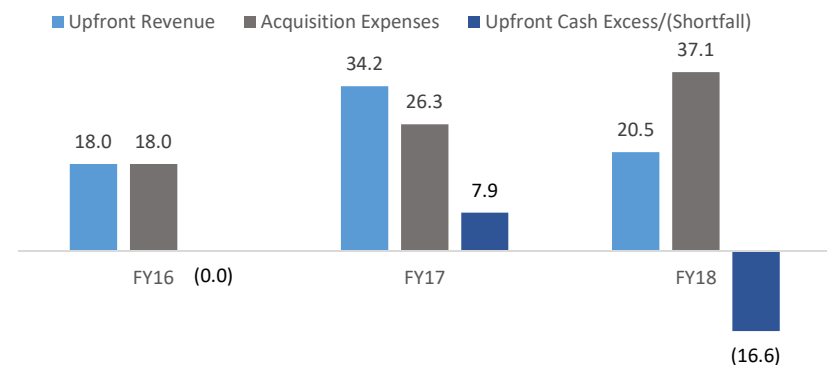
### Operating expenses:

- upfront customer acquisition (around 88% of total costs): marketing, generation, sales
- ongoing policy administration: customer service, retention, claims administration

Ongoing cash margin (\$ million)



Upfront cash margin (\$ million)

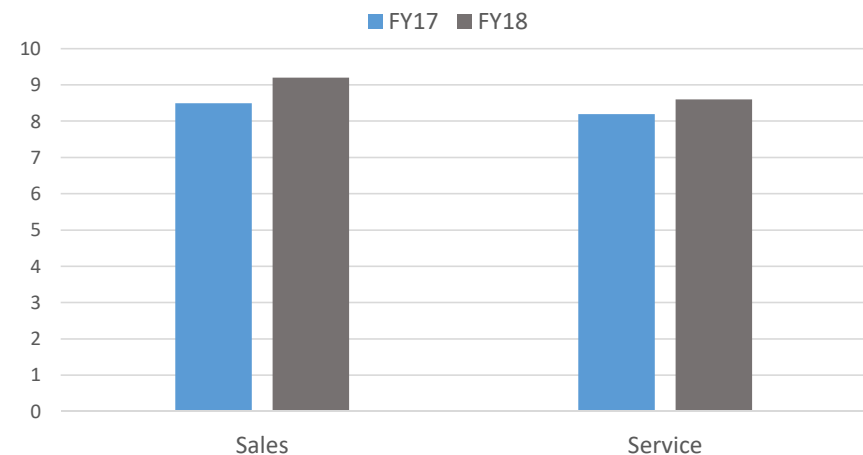


## Key Metrics – CUSTOMER

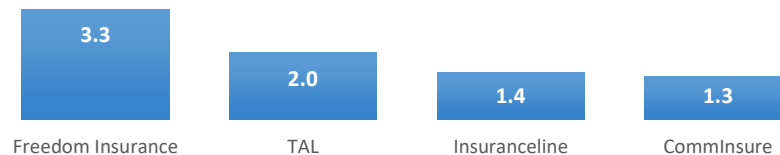


- In November 2016, Freedom introduced new metric to monitor customer satisfaction
- Customers are asked to rate their experience on Sales and Service calls from 1-10
- Positive uplift from FY17 to FY18, however we continue to focus on improving customer experience further
- Freedom performs well against its peers in online reviews
- Product Review is an independent review platform that is widely used by consumers to review products and services
- Google Business collates reviews on businesses

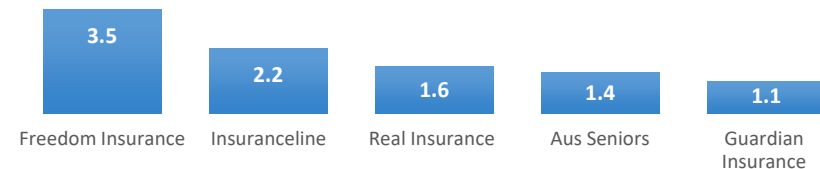
Average Customer Ratings



Google Business Star Rating - June 2018



Product Review Star Rating - June 2018



## Balance Sheet & Capital – DEBT FREE



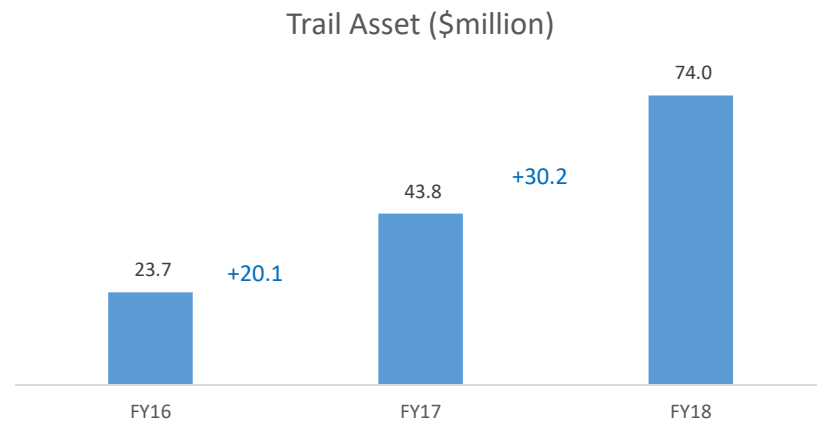
At period end (\$ million)	Jun-18	Jun-17
Cash	18.4	26.9
Current Assets	5.8	5.6
Trail Asset	74.0	43.8
Goodwill	5.8	5.8
Investment Assets (NobleOak)	-	3.7
<b>Assets</b>	<b>103.9</b>	<b>85.7</b>
Payables	5.4	5.5
Clawback Provision	16.3	15.4
Income tax liability	- 3.1	1.9
Deferred tax liability	17.7	8.4
<b>Liabilities</b>	<b>36.3</b>	<b>31.2</b>
<b>Net assets</b>	<b>67.6</b>	<b>54.5</b>
Issued Shares	33.4	33.4
Other	-0.8	-0.8
Accumulated Profit	35.0	21.9
<b>Total Equity</b>	<b>67.6</b>	<b>54.5</b>

- Strong balance sheet supports St Andrew's acquisition and growth into new products and channels
- Freedom's shareholding in NobleOak (previously held at book value) sold in September 2017 for \$7.0 million realising a gain of \$3.3 million before tax
- Strong growth in trail asset over the year of 69%, driven by ongoing sales performance and growth in in-force premium
- Reduced cash balance impacted by short term retention experience, new business strain and St Andrew's transaction costs
- Stable clawback provision reflecting stable sales volumes
- Continue to monitor capital requirements to ensure efficient capital management to maximise shareholder value

## Trail Asset



Trail asset represents the net present value of future trail commission and hence a growing and valuable component of shareholder value



The trail asset increased by \$30.2 million during FY18 to \$74.0 million. The sources of this increase are:

SOURCE	\$ MILLION
Current period sales	23.0
Discount rate release	3.6
Benefit Increase take-up	1.4
Net unwind	2.3
Total change	30.2

- The majority of the increase in the trail asset arises from new sales
- At 30 June 2018 a number of enhancements were made to the methodology to determine the value of this asset:
  - detailed policy-by-policy projections rather than the previous use of monthly tranches
  - more granular assumptions, allowing for policyholder age, policy expiry, specific product features impacting expected customer behaviour, additional mortality decrements
- Assumptions reviewed to reflect the most up to date experience and to utilise the more detailed modelling
- Deloitte remains engaged to perform these detailed calculations and comment on analysis methodology and underlying assumptions

## Industry dynamics – RISKS AND OPPORTUNITIES

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- Life insurance market remains attractive to execute our business model
- Opportunity to grow the market by delivering:
  - simple;
  - convenient; and
  - good value insurance products
- Industry facing unprecedented regulatory scrutiny across all channels
  - ASIC Direct Life Review
- Industry wide reputational damage
- Potential short term pressures as direct market continues to evolve
- Direct market expected to evolve, with greater focus on:
  - enhanced internal practices to meet evolving consumer needs and community expectations;
  - maintaining and leveraging customer relationships directly and through business partnerships; and
  - new product development and differentiation

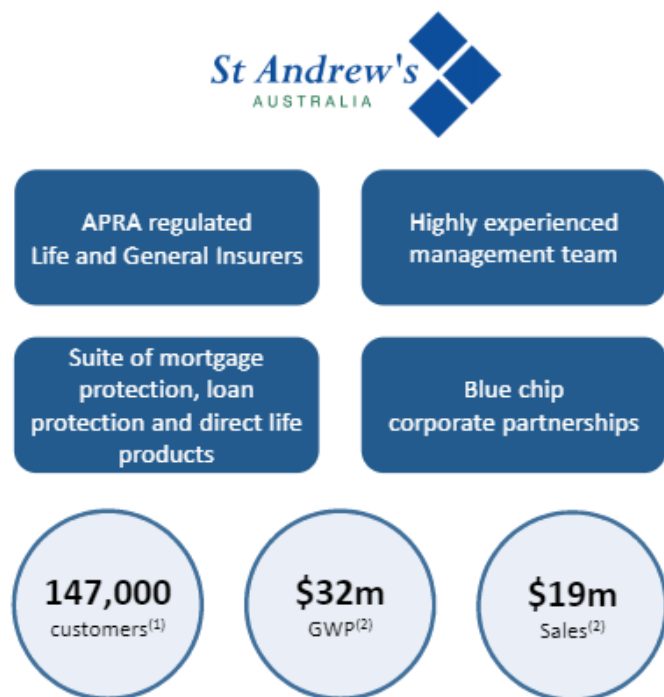
## Outlook – GROWTH STRATEGY

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- Ambition to reach #2 in the direct life insurance market and become a contender for market leadership
- Complete St Andrew's acquisition in FY19
- Continued investment to enhance sales, claims, policy management, risk management, controls and compliance capabilities
- Committed to addressing any issues emerging from Royal Commission
- Continued investment to realise growth aspirations, including product/channel expansion – higher costs in near term ahead of revenue growth
- Development of new products
- Building enhanced customer relationships and outcomes
- Identifying and securing new lead sources and new referral alliances
- Partnering with corporates to support the distribution of complementary products

## St Andrew's Acquisition – PROGRESS UPDATE



- Freedom to acquire St Andrew's for approximately \$65 million
- Funded through a reinsurance arrangement of St Andrew's' existing life insurance in-force book, cash and funding facilities. Most efficient funding mix and operating structure under consideration.
- Transaction provides:
  - acquisition of APRA licensed (general and life) insurers
  - access to experienced and complementary management team
  - platform for complementary enhanced growth through expanded distribution and broader product suite value accretion for FIG shareholders
- BOQ and St Andrew's have agreed to enter into a new 3 year distribution agreement for St Andrew's products – with the option for a two year extension
- Acquisition expected to complete during FY19
  - Actively working with regulators to progress approval process
  - Preference to complete in 1H19, but approval process may extend into 2H19

Notes: (1) As at 28 February 2018. (2) 12 months ended 31 August 2017. Excludes contribution from selected Corporate Partners with renewals yet to be completed where Distribution Agreements are due to expire in the current calendar year.





**Q & A**



## Supplementary Information

## 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).

## Freedom Insurance Products – DIVERSIFICATION AND EXPANSION

### Freedom Protection Plan

Launched: February 2017

#### Final Expenses Cover

- Death by any cause
- \$4 – 15K benefit
- No underwriting (guaranteed issue)
- First year free

#### Accidental Death Cover

- Death by Accident cover
- \$50 – 500K benefit
- No underwriting (guaranteed issue)

#### Accidental Injury Cover

- Cover for 10 serious injuries (including broken bones)
- \$50 – 200K
- No underwriting (guaranteed issue)

### Freedom Premium Life

Launched: June 2017

#### Premium Life Cover

- Death by any cause and terminal illness cover
- \$50 – 750K benefit
- Short form underwriting
- One month free every year

#### Premium Trauma Cover

- Cover for 17 serious injuries and illnesses (including broken bones)
- \$15 – 225K benefit
- Short form underwriting
- One month free every year

### Freedom Essential Life

Launched Date: June 2017

#### Essential Life Cover

- Death by any cause and terminal illness cover
- \$50 – 200K benefit
- No underwriting (guaranteed issue)
- First month free

### Freedom Loan Protection

Launched: May 2017

Roll out commenced:  
February 2018

#### Life Cover

- Death by any cause and terminal illness cover
- \$50 – 750K benefit
- No underwriting (guaranteed issue)
- First month free

#### Trauma Cover

- Cover for 15 serious injuries and illnesses
- \$15 – 225K benefit
- No underwriting (guaranteed issue)
- First month free

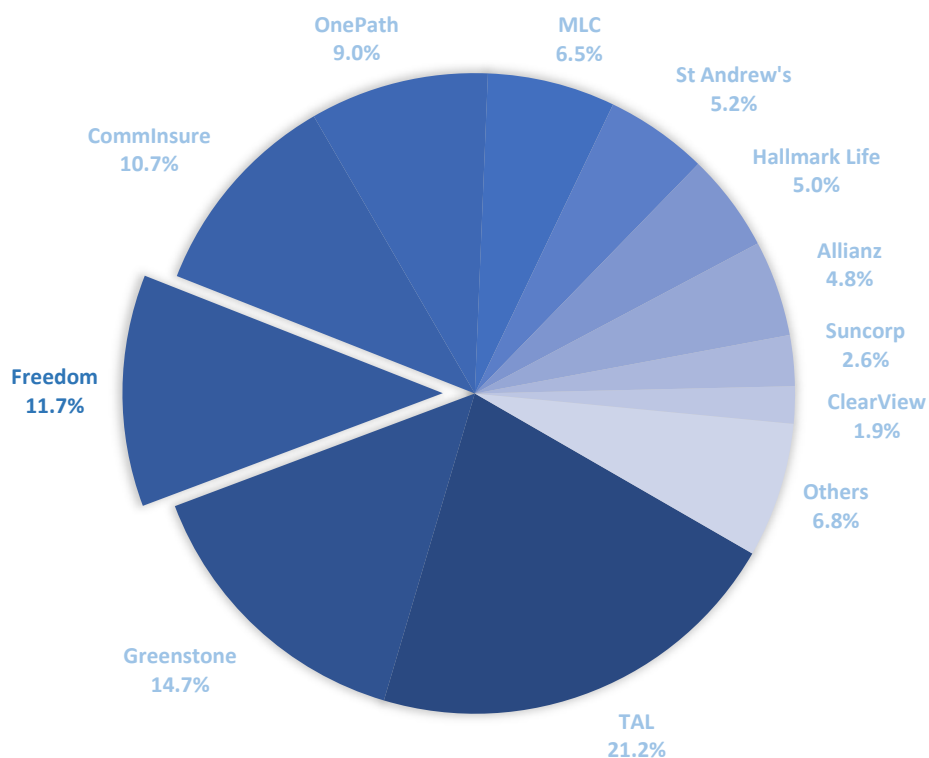
*Note: Freedom is not a registered life insurance company and bears no claims risk*

*The product issuer for the core Freedom products from February 2017 is Swiss Re Life and Health Australia*

## Direct Life Insurance Market



CY17 DIRECT MARKET SHARE - SALES (\$467M)

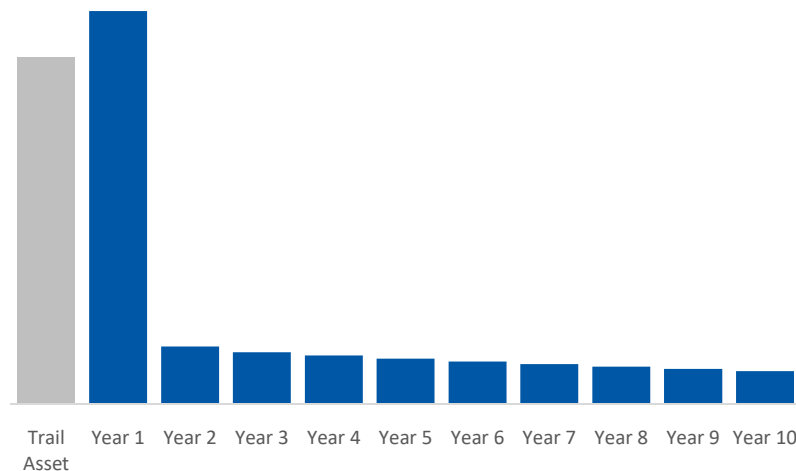


- Life insurance market remains attractive to execute our business model
- Freedom has a medium term goal of becoming the second largest participant in the direct life insurance market for sales and a contender for market leadership
- Life insurance industry sales of \$467 million in the year ending 31 December 2017 (CY17) were in line with the previous year
- Greenstone (Real Insurance) has been identified explicitly this year
- Freedom Insurance's share of both Direct Sales and In Force premiums expanded during CY17
- Freedom's sales in CY17 grew 16% on CY16, increasing its share of life insurance New Business from 10.7% to 11.7% and its share of In Force premium from 4.3% to 5.4%
- Freedom's expanded share of the direct life insurance market is consistent with expectations based on reported sales and premiums

Source: Strategic Insight – Direct Life Insurance Report – June 2018

## Trail Asset and Clawback Provision

Typical Revenue Profile



- Significant upfront costs fully expensed
- Activity to earn revenue has been completed (no ongoing obligation)
- Timing of revenue and expense recognition in line

The **Trail Asset** is calculated as the present value of future trail commissions using a discounted cashflow approach.

The significant upfront costs associated with acquiring a new policy are fully expensed. It is therefore appropriate to recognise the ongoing income associated with the sale of a policy, at the point of sale and at the same time as the associated expenses are recognised. The activity to earn this income has been completed, with no ongoing obligations.

The **Clawback Provision** is also calculated using a discounted cashflow approach. It is held to allow for the future clawback of upfront commission paid by the insurer.

## Freedom Staff and Customer Growth

	Jun-18	Jun-17
<b>People (FTE):</b>		
Call Centre Sales	91	111
Customer Service/Retention	65	50
Admin & Quality Assurance	31	18
Management/Other	43	39
	<b>229</b>	<b>218</b>
<b>Spectrum Advisers:</b>		
Mortgage Brokers	225	174
Other Advisers	261	232
	<b>486</b>	<b>406</b>
<b>Customers: <sup>1</sup></b>		
Direct	347,000	280,000
Indirect	10,000	9,000
	<b>357,000</b>	<b>289,000</b>

1. The number of individual lives insured

# Freedom Board and Management

## Board of Directors



**DAVID HANCOCK**  
CHAIRMAN

More than 30 years experience in financial services. Director of Afterpay Holdings. Former CEO of listed insurer TOWER Insurance Limited and Executive General Manager at Commonwealth Bank.



**KEITH COHEN**  
MD / CEO

Qualified actuary and the founder and MD of Freedom Insurance. After running Westpac Life, Keith went on to found Australian Life Insurance.



**STEPHEN MENZIES**

Experienced lawyer and business consultant specialising in securities issues, funds management and corporate finance.



**ANDREW JENSEN**

Accomplished CFO with more than 15 years' experience in senior finance and management roles.



**KATRINA GLENDINNING**

Experienced financial services executive, with more than 25 years experience in diverse products, investments and regulatory regimes.

## Senior Management



**CRAIG ORTON**  
CHIEF OPERATING OFFICER

Senior insurance executive with over 28 years experience across Australia and Asia in Life, General and Health insurance. Extensive direct distribution experience.



**JENNY ANDREWS**  
CHIEF FINANCIAL OFFICER

Senior finance executive and qualified actuary with extensive experience in Financial management across Life Insurance, Superannuation and Wealth.



**MALCOLM MCCOOL**

GROUP GENERAL COUNSEL  
A senior lawyer with over 30 years' experience in a range of corporate legal and management positions in the financial services industry.



**HARVEY LIGHT**  
FOUNDING DIRECTOR

Founding member of Freedom and was Head of Operations since the company was established in 2009 until February 2017.



**YOLANDE DE TORRES**

HEAD OF MARKETING  
Held senior roles in Compliance and Marketing. Responsibility for the strategic planning and execution of marketing and media activity.



**ADRIAN TURNER**  
HEAD OF SALES

More than 10 years management experience in the Contact Centre industry and responsibility for the performance, quality and culture of a high performing sales team.



**MARK SCHROEDER**

MD SPECTRUM WEALTH  
Founding member and director of Spectrum Wealth Advisers, an independent boutique Dealer Group established in 2010.



## Glossary of Key Terms



Term	Meaning
<b>AP</b>	Annual premium. It is the annualised dollar amount expected to be paid by a customer to maintain the policy.
<b>Clawback</b>	A commission or benefit that is paid to an adviser that is recovered, or 'clawed back', by the insurer if the policy lapses or the premium decreases within a certain period.
<b>Clawback Provision</b>	The total net present value of expected Clawback amounts on all outstanding policies calculated using a discounted cashflow approach.
<b>Direct Channel</b>	A channel for the distribution of life insurance products directly to customers, usually by telephone and web services.
<b>Final expenses</b>	Expenses incurred at the time of a person's death for funeral costs.
<b>IF API</b>	Total annualised dollar amount expected to be paid by customers for all current policies that have not lapsed or matured.
<b>Indirect Channel</b>	A channel for the distribution of insurance products via intermediaries, such as financial advisers.
<b>In Force</b>	A policy that is current and has not lapsed or matured.
<b>In Force Book</b>	Total group of policies that is current and has not lapsed or matured.
<b>NB AP</b>	Total annualised dollar amount expected to be paid by customers for all new policies that have been issued in the relevant period.
<b>New Business</b>	The total of new API and single (non-recurring) premiums sold for the period.
<b>Spectrum</b>	Freedom's wholly owned adviser dealer group, Spectrum Wealth Advisers Pty Ltd
<b>Swiss Re</b>	Freedom's Insurer, Swiss Re Life & Health Australia Limited
<b>Trail Asset</b>	The present value of future Trail Commissions, calculated using a discounted cashflow approach.
<b>Trail Commission</b>	The ongoing commissions and fees receivable for the duration of an insurance policy that include deferred income related to customer acquisition activity.
<b>Upfront Commission</b>	The initial commission and fees receivable on the sale of an insurance policy in the form of a percentage of the annualised premium

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