

ASX RELEASE

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STREAM GROUP LIMITED (ASX:SGO): DELIVERS MARKET UPDATE

H1 FY15 GUIDANCE

SGO today announced a trading update for the six months ending 31 December 2014 (1H FY15).

Stream Group Limited is expecting a loss before tax within the range of -\$3.8 - \$4.1 million and EBITDA in the order of -\$2.8 - \$3.1 million. This result is prior to any impairment/provision review which will be done as part of the half year audit review.

Whilst first half profit is traditionally lower than second half profit due to normal weather patterns, the performance has been primarily impacted by;

- Continued benign claims environment in Australia up to late November
- Additional costs brought forward to resource the Brisbane hail storm which occurred on 28 November 2014
- Expansion costs in the UK (-\$2.0 million)
- Expansion costs in relation to software services (-\$0.75 million)

Stream expects that H2 FY15 financial performance to be a significant improvement to H1 primarily due to the increased claim volumes for the Australian operation, continued growth in revenue from the UK operation and software services revenue.

Stream Group Ltd forecasts EBITDA of between \$3.0 - \$4.0 million for H2 FY15.

Australian operations

Conditions remained benign in Australia up until late November which contributed to an operating loss for the Australia operation. Whilst the environment was benign, Stream has continued to expand its operations and client base organically through H1. In addition to organic growth, an increase in claims numbers has been received due to the storm event which hit the Brisbane region on the 28th of November.

To date Stream has received over 3,500 claims across all parts to the group. Claims continue to be received in line with historical patterns for similar events. Due to the scale and intensity of the event, a high proportion of these claims are larger losses compared to BAU (Business as Usual) claims generally received. As fees are generally based on the size of the claim, larger losses lead to higher average fees per claim and greater overall revenue.

Expansion combined with the Brisbane event will result in Stream returning to profitability in H2 FY15.

In addition to the hail storm on 28 November 2014, a number of other weather events have occurred in QLD and NSW, and whilst not significant; signal a potential return to a more normalised operating environment.

Organic growth coupled with the Brisbane event has impacted working capital due to the cash flow timing between expenses such as overtime, temporary staff, travel, accommodation and contractor costs. Most of these costs are recoverable from clients at time of event finalisation which will occur during H2.

Stream has put in place temporary working capital facilities to assist with this event which will result in increased debt levels as at 31 December 2014. Stream has also received conditional approval from the Export Finance and Insurance Corporation, an Australian Government agency, for the provision of a \$1.5 million debt guarantee. This guarantee can be used to support future expansion in the UK operation.

Stream will review its working capital requirements during H2 to ensure it has sufficient working capital to capitalise on all growth opportunities.

UK operational ramp up

Stream's UK business achieved significant growth in claim volumes off a low base during H1 FY15. However Stream UK incurred a loss of -\$2.0 million for the half, due to expansion costs and timing in receiving claims from new clients; who required Stream to put resources in place before allocating claims.

Stream maintains its forecast annualised revenue of approximately \$7 million, however FY15 will be lower than \$4.5 million previously indicated due to timing in receiving claims from new clients. The board now expects FY15 revenue of between \$3.0 – 3.8 million with the operation generating a profit for H2 FY15.

Stream is also pleased to announce that the UK business has commenced a trial agreement with one of the UK's largest general insurers. The first claims have been received and will continue into H2 FY15. Volumes will be low initially to allow Stream to demonstrate our value proposition. Should the trial be successful, Stream will provide updated annualised revenue forecasts to take this client into account.

With the addition of this new major insurer, Stream UK is now receiving claims from eight insurers in the UK market further validating Stream's investment into the UK market.

New Zealand operations

The New Zealand operations are performing within expectation and previous guidance.

The Tower Insurance agreement is in the final stages of completion and is expected to be signed prior to Jan 31st 2015. The existing agreement has been extended to cover this period.

Reduced capital expenditure

Stream's subsidiary, Insurtech Systems (Insurtech) has entered a strategic partnership that will reduce software expenditure by approximately \$1.3 million on an annualised basis. When compared to FY14 expenditure, this equates to a reduction of approximately 40%.

Whilst Insurtech has been able to significantly reduce expenditure, the partnership enhances the core functionality and accelerates the future development time table.

In addition to reduced capital expenditure for Insurtech, the partnership will target new revenue opportunities globally for both entities. This will allow Insurtech's partner to leverage existing IP and resources to expand their income beyond their current market.

Cerno Limited (Cerno) update

Cerno's financial performance has continued to be below expectations and the business did not reach breakeven in November due to lower claim volumes than expected.

Cerno has received an increase in claim allocations in December due to the Brisbane storms. However, it is too early to forecast the revenue impact of this event on Cerno due to the nature of the claims Cerno generally receives.

An additional \$1.9 million has been provided in loan funding since 30 June 2014, which increases the total funds advanced by Stream to Cerno to \$3.9 million as at 31 December 2014. In addition to the funds advanced by Stream, Director related entities of Stream have previously advanced \$2 million to Cerno Limited.

Since investing in Cerno in April 2013, Stream has also provided services to Cerno which have been invoiced on a cost recovery basis. At June 30 2014 this totalled \$3.6m which has increased to \$5.1m and is currently outstanding.

The offer to acquire the remaining 61% of Cerno that Stream does not own was made to Cerno shareholders on the 10th of December. The consideration for the equity holders (Class A Performance Share Prospectus) is dependent on the future performance of Cerno with nil consideration upfront. Consideration for debt holders (Class B offer) is for 25% of the debt value in SGO shares, escrowed for 12 months. The quantum of the Class B offer is approximately \$500,000 in SGO shares (at \$0.225 per Stream share share).

Stream advises that it has received sufficient acceptances under the Class A Performance Share Prospectus to invoke the "Drag Along" rights under the Cerno Ltd constitution, thereby satisfying one of the two conditions for the offer of Class A Performance Shares. The second condition, being the acquisition of all of the Third Party Cerno Shareholders' Debt, has not been satisfied.

Stream will advise of any material developments regarding the satisfaction or waiver of the conditions and intends to finalise the two offers before 28 February 2015.

Software Services

Stream's diversification strategy through software services continues to expand with a solid pipeline of client interest in Australia and New Zealand.

Progress has been made with sales and marketing efforts with revenues forecast to increase in H2.

Further communication to the market

Streams Appendix 4D for 1H FY15 will be released on 27 February 2015

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