



Cover-More Group

Macquarie Conference

May 2016

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 pcg) in line with H1 FY16 growth
 - Asia gross sales +12.1% and net sales +21.9% vs pcg. 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 pcg) 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

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
Note: Jan-Apr 16 +6.9% gross sales growth vs pcg in line with +7.1% growth in H1 FY16
- 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
- Australian net sales growth of +8.0% vs pcg compared to H1 decline of -15.2% vs pcg, 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 pcg as cost of sales contained and ongoing price increases restoring margins over time
- My Cover-More platform build concluding with launch expected H1 FY17

India

- Strong sales growth of +31.3% compared to pcg. While lower than H1 FY16 (+60.4%), H1 benefited from tailwinds of Schengen visa issues in the prior corresponding period
- Gross profit growth of +49.5% as scale benefits of growth are realised
- Strong intermediary channel success with:
 - 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).
 - Initial conversion rates have improved several times over since partnering with Cover-More
- Expansion to new intermediary channels reflects successful deployment of Cover-More international market strategy

NZ/UK/ SE Asia

- Sales declined vs pcg 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
- UK gross insurance sales growth rate flat vs pcg; acquisitive opportunities still under review
- 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 pcip (+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

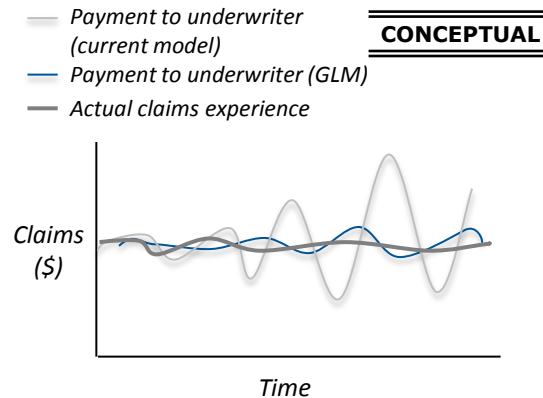
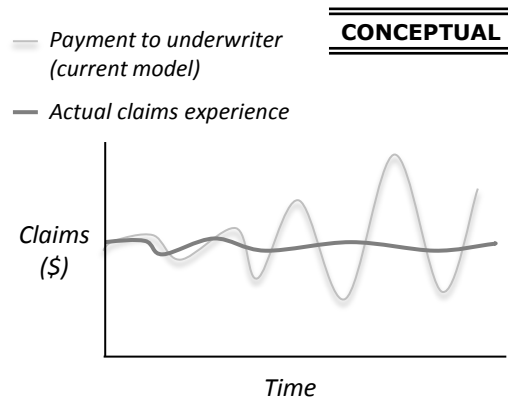
- Underwriting arrangement provides for a calculation of the amount payable to the underwriter each quarter in advance of claims being incurred
- Arrangement is a unique element of our business model and provides certainty of underwriting premium payable for CVO in advance of claims incurred
- Actual 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

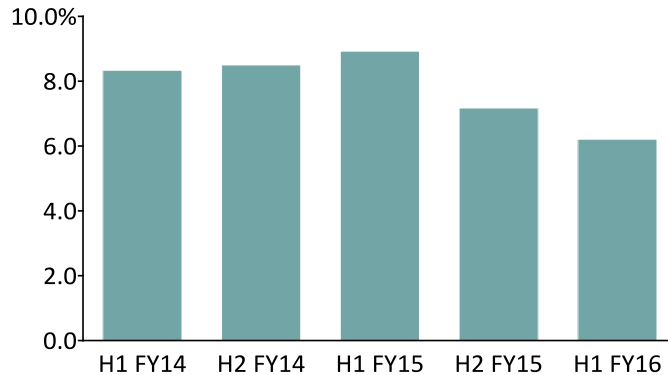


Update: Insurance margin outlook

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

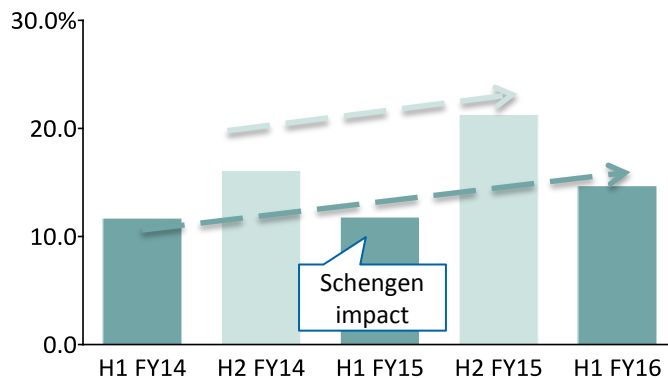
IAU EBITDA % of gross sales



- 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:

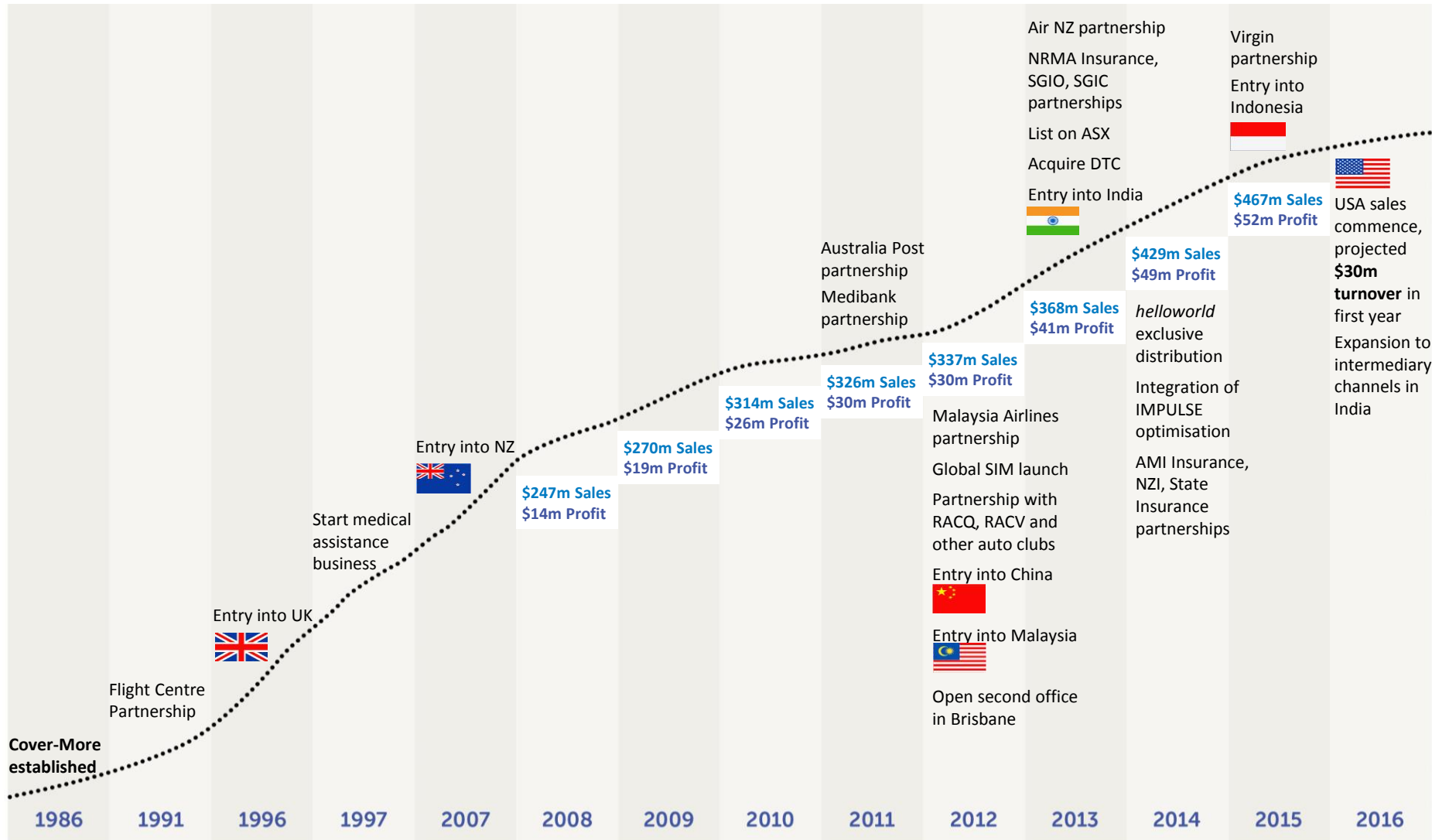
- **Customer-led innovation**
- **Robust distribution partnerships built on aligned economic interest models**
- **Operational excellence delivering lowest costs-to-operate**
- **Considered geographic expansion**

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

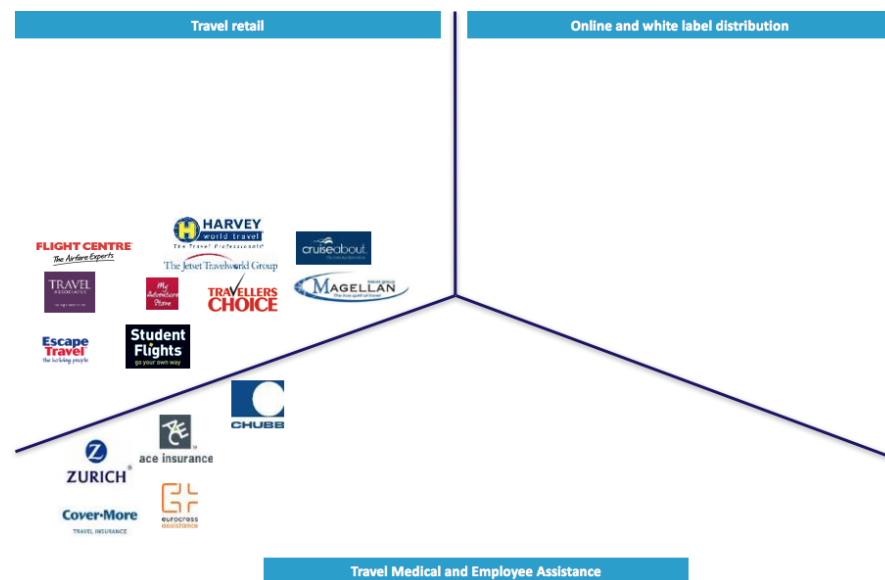
The evolution of Cover-More: execution of strategy

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 ¹	\$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



Cover-More Group Strategy: progress



myCover•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

A young couple is shown from the chest up, smiling and looking upwards. The woman on the left has long dark hair and is wearing a green and blue patterned top. The man on the right has short dark hair and is wearing a light blue patterned shirt. In the background, the dome of St. Paul's Cathedral is visible against a bright sky. A dark blue rectangular box is in the top right corner.

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	Employee Assistance

Locations

- | | | | |
|---|---|---|--|
| <ul style="list-style-type: none"> • Australia • New Zealand • United Kingdom • India | <ul style="list-style-type: none"> • Malaysia • China | <ul style="list-style-type: none"> • Australia (Sydney + Brisbane) • Malaysia • China • India (in FY16) | <ul style="list-style-type: none"> • Australia • Singapore |
|---|---|---|--|

Distribution

- | | | |
|--|--|---|
| <ul style="list-style-type: none"> • Agency • Intermediary • Direct | <ul style="list-style-type: none"> • Corporate • Large international travel insurers | <ul style="list-style-type: none"> • Seven of the 10 largest companies (by revenue) in Australia • Access to employee base of ~1.4m |
|--|--|---|

Key Financials (AUD millions)

Segments FY15 (A\$m)	Travel Insurance	Medical Assistance	Total	Geographic Split FY15	Australia, NZ, UK	Asia	Total
Gross Sales	\$400.8	\$66.0	\$466.8	Gross Sales	\$422.4	\$44.4	\$466.8
Pro Forma EBITDA	\$32.7	\$19.3	\$52.0	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)
<i>% of Gross Travel Insurance Sales</i>	<i>35.3%</i>	<i>42.2%</i>	
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)
<i>% of Net Revenue</i>	<i>38.8%</i>	<i>39.2%</i>	
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)
<i>% of Net Revenue</i>	<i>19.5%</i>	<i>21.7%</i>	
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)
<i>% of Net Revenue</i>	<i>16.2%</i>	<i>19.5%</i>	
Amortisation of acquired intangibles	(3.7)	(3.8)	(2.6)
EBIT	13.2	18.2	(27.5)
<i>% of Net Revenue</i>	<i>12.6%</i>	<i>16.1%</i>	
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)
<i>% of Net Revenue</i>	<i>7.9%</i>	<i>10.6%</i>	
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

		yoy growth			Comments
Operating		H1 FY16	H1 FY15	(%)	
Gross sales	A\$ in Millions				
	Travel insurance	202.8	187.3	8.3	<ul style="list-style-type: none"> 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
	Medical assistance	32.8	33.7	(2.7)	
		235.6	221.0	6.6	
Net revenue	Travel insurance	71.6	79.0	(9.4)	<ul style="list-style-type: none"> Australia, NZ, UK: <ul style="list-style-type: none"> gross sales +4.7% with net revenue -10.9% (vs pcp) due to underwriting premium impact primarily in Australia. UK sales +28.9% Asia: <ul style="list-style-type: none"> 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)
	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)	

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
<i>% of EBITDA</i>	<i>92.2%</i>	<i>99.2%</i>
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
<i>% of EBITDA</i>	<i>70.1%</i>	<i>92.2%</i>

Comments
<ul style="list-style-type: none"> Operating free cash flow before capital expenditure declined from \$24.2m to \$18.8m, reflecting the decline in EBITDA Operating free cash conversion of: <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> 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
<i>Insurance Gross Written Premium (A\$m)</i>	<i>400.8</i>
<i>GWP Growth (%)</i>	<i>10.1%</i>
<i>Net Insurance Sales (% of GWP)</i>	<i>39.1%</i>
<i>GM (% of Net Revenue)</i>	<i>40.9%</i>
<i>EBITDA (% of Net Revenue)</i>	<i>23.3%</i>
<i>EBITA (% of Net Revenue)</i>	<i>21.1%</i>

- **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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