Cover•More

GROUP LIMITED

# ASX announcement

**Friday 19 August 2016**

## Cover-More Group delivers strong revenue growth across travel insurance operations. EBITDA impacted by higher underwriter premium and overheads.

### Overview

- Strong revenue growth across Group travel insurance operations
  - gross Group sales of $502.1m grew by +7.6% vs pcp
  - gross travel insurance sales in Australia grew by +7.2% vs pcp
- International growth and profitability continuing
  - gross sales in Asia grew at +20.9% vs pcp
  - EBITDA in Asia +30.1% vs prior year, now represents 22%[1] of Group profit
  - continued strong growth in India with gross sales +38%[2]
- Group EBITDA decline of -14.2% to $44.6m
  - increased underwriting premium in H1, stabilising in H2
  - direct and overhead costs of $2.1m for international expansion, higher-than-usual levels of advisory fees and further investment in management capability
  - net provision of $0.6m for impact of interim underwriting agreement
- Interim underwriting arrangement reached with progress on alternative underwriting partner
- NPATA of $24.1m, -22.5% vs pcp
- NPAT of $18.7m, - 27.5% vs pcp
- > 82% conversion of EBITDA into cash flow before CAPEX; 64% conversion of EBITDA into cash flow after capex

Cover-More Group Limited (ASX:CVO), a specialist, integrated travel insurance, medical assistance and employee assistance provider, today released trading results for the twelve months to 30 June 2016.

Group Chief Executive Officer, Mike Emmett, who joined Cover-More on 4 July 2016 said: "Given the challenges we faced in the first half, it was pleasing that year-on-year gross sales grew by 7.6%.

"As signposted to the market in February, Cover-More's first-half results have negatively impacted our full year outcomes, with EBITDA declining by 14.2% on FY2015."

"While our second-half results improved on the first half, particularly when taking into account the impact of the underwriting provision, we will continue to take actions to improve profitability," he said.

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[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

[2] In Australian dollar terms

Cover•More

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**FY2016 performance call-outs**

- Cover-More Group achieved strong revenue growth across travel Insurance operations, which helped drive Group sales 7.6% higher than prior corresponding period.
- The insurance segment performed well with growth of +8.5%. Despite growth in outbound leisure travel volumes remaining low, the Australian business recorded +7.2% growth, better than the +6.3% growth in FY2015.
- The Assistance segment delivered top-line growth at +1.7% for the full-year, with H2 growth of 6.4% as our DTC business recovered from a decline in the first half.
- There was continued acceleration of Group international business, with Asia up +20.9% at a gross sales level and +30.1% in EBITDA compared to the prior corresponding period. Excluding allocations, Asia is now 22% of the Group earnings on a like for like basis, up from 15% in FY15.
- Although momentum has continued in both Australian and international travel insurance businesses, the EBITDA result was impacted by:
  - increased underwriter premium paid in Australia, particularly in the first half. H2 FY2016 stabilised as net sales recovered +8.5%
  - higher than usual direct and overhead costs as well as establishment costs to grow international business, totalling $2.1m
  - a decline in the Assistance business margins arising from higher volumes and adjustments in the labour mix to meet evolving business needs.
- In North America, Cover-More commenced travel insurance distribution in May 2016 with key Flight Centre USA brands, supported by Aon Affinity Travel Practice. Additionally, Cover-More entered into a partnership with Berkshire Hathaway Travel Protection to distribute travel insurance direct in the United States. Distribution went live in July 2016.
- The India business demonstrated continued momentum as distribution began through Yatra and Goibibo, two of India's largest online travel agencies, as well as GoAir, the fifth largest domestic airline. In Greater China, Cover-More began supplying travel insurance in partnership with Zurich through Hong Kong Express, Hong Kong's only low-cost airline.
- The MyCover-More platform will launch for the direct to consumer business in August 2016 to drive greater sales conversion, offer optimisation and ancillary revenue.

**Outlook for FY2017**

Looking to the year ahead, new Group CEO Mike Emmett said that Cover-More's relationships with major partners are strong and good opportunities exist to grow within the Australian travel insurance and medical assistance markets, as well as internationally.

"There is also significant interest from a number of participants in the market to become our underwriting partner and sufficient indication that this will be on a satisfactory commercial basis."

He said that while Cover-More has more to do in maturing activities overseas, there are existing partner relationships that can be used as a foundation for growth.

"It's clear that Cover-More has a very strong value proposition for customers and for joint venture business partners. We have unique capabilities, particularly our digital solutions and our medical and health assistance competency, and we are confident these will enable us to deliver customised and optimised solutions to corporate and individual customers."

"Cover-More has demonstrated ability to deploy these capabilities with our partners especially major airlines, travel agency networks, banks and insurers and we have shown that these capabilities are transferable across the globe."

“Over the coming year we anticipate continued growth in Australia and overseas as we focus on building new partnerships and extending the success of our existing joint ventures. We know that we cannot be complacent about our partnership relationships and are proud of the depth and tenure of many of these,” Mike Emmett said.

**FY2016 final dividend**

The Board declared a final dividend of 2.6 cents per share fully franked. This represents a total cash return to investors of 4.7 cents and a yield of 2.7% on the volume-weighted average share price for the last 12 months of trading.

Appendix 1 follows which summarises financial results for FY2016 and Appendix 2 has key dates including dividend payment.

## Appendix 1: Results overview

| A$ in millions | FY2016 | FY2015 | *Growth* |
|---|---|---|---|
| Travel Insurance Gross Written Premium | 435.0 | 400.8 | *8.5%* |
| Net Travel Insurance Sales | 155.9 | 156.9 | *(0.6%)* |
| *Net Travel Insurance Sales (%GWP)* | *35.8%* | *39.1%* | |
| Net Medical Assistance Sales | 66.7 | 66.0 | *1.1%* |
| **Total Net Revenue** | **222.6** | **222.9** | ***(0.1%)*** |
| | | | |
| **Gross margin** | **88.2** | **91.1** | ***(3.2%)*** |
| *Gross margin (% of Net Revenue)* | *39.6%* | *40.9%* | |
| **EBITDA** | **44.6** | **52.0** | ***(14.2%)*** |
| *EBITDA (% of Net Revenue)* | *20.0%* | *23.3%* | |
| **EBITA** | **38.0** | **47.1** | ***(19.3%)*** |
| *EBITA (% of Net Revenue)* | *17.1%* | *21.1%* | |

## Appendix 2: Key dates

| **Key event** | **Date** |
|---|---|
| Announcement of FY2016 results and dividend | 19 August 2016 |
| Trading of Cover-More shares on an ex-entitlement basis | 25 August 2016 |
| Record date | 26 August 2016 |
| Payment of the final dividend | 14 October 2016 |

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## About Cover-More

Cover‑More Group is a specialist and integrated travel insurance, medical assistance and employee assistance provider. Cover-More has the leading market position in Australia—with an approximate 40% share of the national travel insurance market—and operations in India, China, Malaysia, Singapore, New Zealand, the United Kingdom and most recently, the United States.

**Disclaimer***:* Please note that this statement has been prepared by Cover-More Group Limited (Cover-More) and is not financial product advice and has been prepared without taking into account the objectives, financial situation or needs of any particular person. This statement does not purport to contain all of the information that may be required to evaluate Cover-More and the recipient should conduct their own independent review, investigations and analysis of Cover-More and of the information contained or referred to in this statement.

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# Cover-More Group

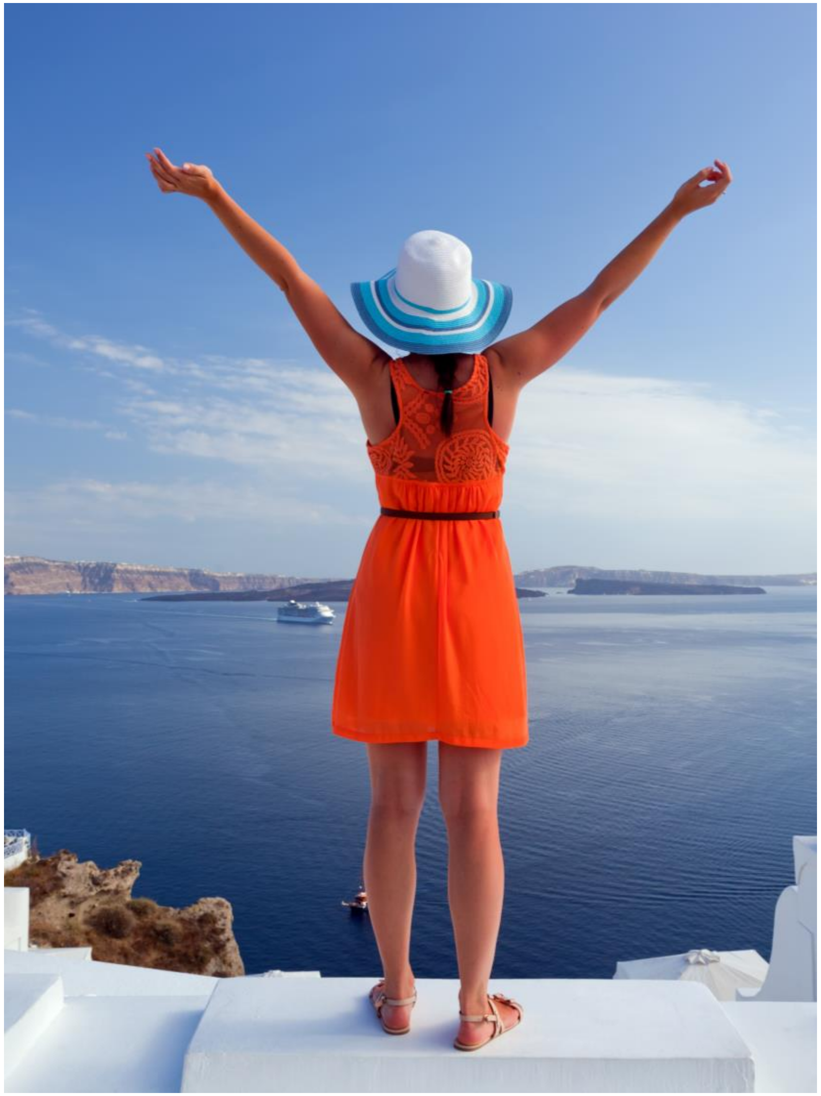
## 2016 Full year results presentation

19 August 2016

Cover•More

# Agenda

| | |
|---|---|
| 1 | **Observations from incoming CEO** |
| 2 | **Results overview** |
| 3 | **Financial performance** |
| 4 | **Summary and outlook** |



# Observations from incoming CEO

# Initial CEO observations (1 of 2)

| | Questions coming into the role | Emerging observations |
|---|---|---|
| **Market** | • Is there room to grow existing and new partners in Australia?<br>• Or is growth most likely coming from overseas? | • Several existing partners with good growth prospects as well as new Australian partnership prospects<br>• Future growth from global focus on Aviation, Travel and Financial Services rather than a focus on specific geographies |
| **Underwriting** | • How difficult will it be to replicate the underwriting agreement on similar terms with a new underwriter? | • Numerous interested parties<br>• Initial indicative guidance and interest suggest same or similar underwriting terms |
| **Claims cost** | • Is AUD depreciation the key driver for claims inflation? Is there more to it? | • AUD depreciation has been significant, along with an increase in claims frequency and severity<br>• Recent review of processes<br>• Early signs of improvement |
| **Overheads** | • Why have overheads increased and is this easily repaired? | • Opportunities exist to reduce overheads during the year ahead |
| **Management bandwidth** | • Does Cover-More management have bandwidth to manage growth opportunities?<br>• How robust are operations in foreign markets? | • Management capacity stretched to cater for breadth of expansion activity<br>• Plans to optimise focus and operating model to remove this constraint |
| **Technology** | • Is digital capability as good as everyone says? | • Digital capability very strong in our proposition and customer optimisation tools<br>• Opportunity to be more aggressive with speed and extent of implementation |

# Initial CEO observations (2 of 2)

| | Questions coming into the role | Emerging observations |
|---|---|---|
| **JV partner relationships** | • What impact have rising prices and claims costs had on JV relationships? | • Steps taken to scrutinise claims cost and minimise leakage whilst maintaining our superior customer claims experience<br>• Continue to work closely with partners to ensure impact on customer from pricing increases is managed |
| **DTC** | • Does DTC fit within the travel and medical assistance scope? | • DTC is a well-regarded partner in employee assistance and wellness programs<br>• Many skillsets are the same across travel medical and employee assistance and there are opportunities to leverage our specialist skills in these areas |
| **Shareholder returns** | • Does the share price adequately reflect the value of Cover-More's business? | • Deliver on full potential of business for share price to better reflect business fundamentals and strategic value<br>    • Complete negotiations with new underwriting partner<br>    • Deliver on continued opportunities for profitable, sustainable growth |
| **Differentiated business model** | • What is the 'secret sauce' that will lead to future success at Cover-More? | • Our major differentiator that matters to travellers and partners alike is our global footprint and specialist medical skills<br>• Bespoke technology enables partners to target customised insurance propositions to their customers<br>• JV construct means we're joined at the hip with our partners to ensure mutual success |

# Results overview

# Executive summary

## Continued growth in Australian travel insurance business; Asia EBITDA +30% and global growth initiatives on track. EBITDA impacted by increased underwriting premiums and overheads

- **FY16 Gross Sales** of **$502.1m (+7.6%)**
  - Insurance segment revenue growth +8.5%: Insurance Australia sales +7.2% (FY15: +6.3%)
  - Assistance segment revenue growth +1.7% (H2 FY16 +6.4% vs pcp); DTC sales growth of +0.4% (+7.0% in H2 vs pcp)
- **International growth and profitability continuing**
  - Asia gross sales +20.9% and EBITDA +30.1%[1] vs prior year; 22%[1] of Group profit (15%[1] FY15; 10%[1] FY14)
  - Continued strong growth in India +38.0%[2] (+30.6% in local currency)
- **Group EBITDA of $44.6m (-14.2%)**
  - Increased underwriting premium, although stabilising in H2
  - Direct and overhead costs include legal settlement, higher than usual levels of advisory fees + international expansion totalling $2.1m
  - Assistance segment decline due to higher volumes and balance of labour mix to meet evolving business needs
- **Interim underwriting arrangement reached; progress being made on alternative arrangements**
- **Key highlights:**
  - Flight Centre USA live with Aon Affinity as of May 2016
  - Berkshire Hathaway partnership to distribute travel insurance direct in United States live in July 2016
  - India e-Commerce partners now live (GoAir, Goibibo, Yatra) with conversion materially improving
  - MyCover-More launching in August 2016

[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
[2]In AUD terms

# Results overview: summary

## Total gross sales grew by +7.6% with net sales declining by -0.1% due to the impact of H1 underwriting premium payments. EBITDA decline of -14.2%. Cash conversion lower

| | FY16 $m | FY15 $m | yoy growth (%) |
|---|---|---|---|
| Gross Travel Insurance Sales | 435.0 | 400.8 | 8.5 |
| Gross Medical Assistance Sales | 67.1 | 66.0 | 1.7 |
| **Total - Gross Sales** | **502.1** | **466.8** | **7.6** |
| Net Travel Insurance Sales | 155.9 | 156.9 | (0.6) |
| Net Medical Assistance Sales | 66.7 | 66.0 | 1.1 |
| **Total - Net Sales** | **222.6** | **222.9** | **(0.1)** |
| Gross margin | 88.2 | 91.1 | (3.2) |
| **EBITDA** | **44.6** | **52.0** | **(14.2)** |
| EBITA | 38.0 | 47.1 | (19.3) |
| EBIT | 30.5 | 39.5 | (22.8) |
| NPAT | 18.7 | 25.8 | (27.5) |
| NPATA | 24.1 | 31.1 | (22.5) |
| Earnings per share (cents)[1] | 7.6 | 9.8 | (22.4) |
| Final dividend per share (cents) | 2.6 | 4.1 | (36.6) |
| Full-year dividend per share excluding special dividend (cents) | 4.7 | 7.3 | (35.6) |
| Full-year dividend per share including special dividend (cents) | 4.7 | 9.1 | (48.4) |
| Net borrowings | 39.8 | 32.1 | 24.0 |
| Operating free cash flow before capital expenditure | 36.7 | 54.8 | (33.0) |
| Operating free cash flow after capital expenditure | 28.5 | 48.4 | (41.1) |
| Cash conversion ratio (before capex) | 82.3% | 105.4% | |
| Cash conversion ratio (after capex) | 63.9% | 93.1% | |

[1]Earnings per share calculated on the basis of NPATA

# Results overview: Travel Insurance and Assistance segments

## Insurance sales growth +8.5%, driven by Insurance Australia, India and USA expansion; growth in Assistance sales returned in H2 with DTC growth accelerating while travel medical sales declined

### Travel insurance

**Mature markets**

*(Australia, NZ, UK, North America)*

- **Australia**: insurance sales growth **+7.2%** vs 6.3% in FY15 despite outbound airline load factors declining. AUD stabilising in H2 FY16
- **NZ**: NZD gross sales decline stabilised (**-2.1%** for FY16; -0.1% in H2 FY16 vs pcp). Q4 grew +7.4% vs pcp
- **UK**: GBP gross sales **+4.2%**; H2 (-1.2% vs pcp) impacted by Brexit, terrorism attacks in popular UK travel destinations (France, Tunisia, Turkey and Egypt) and weaker economy
- **USA**: live in May 16 with Flight Centre USA partnership

**Emerging markets**

*(India, China, SE Asia)*

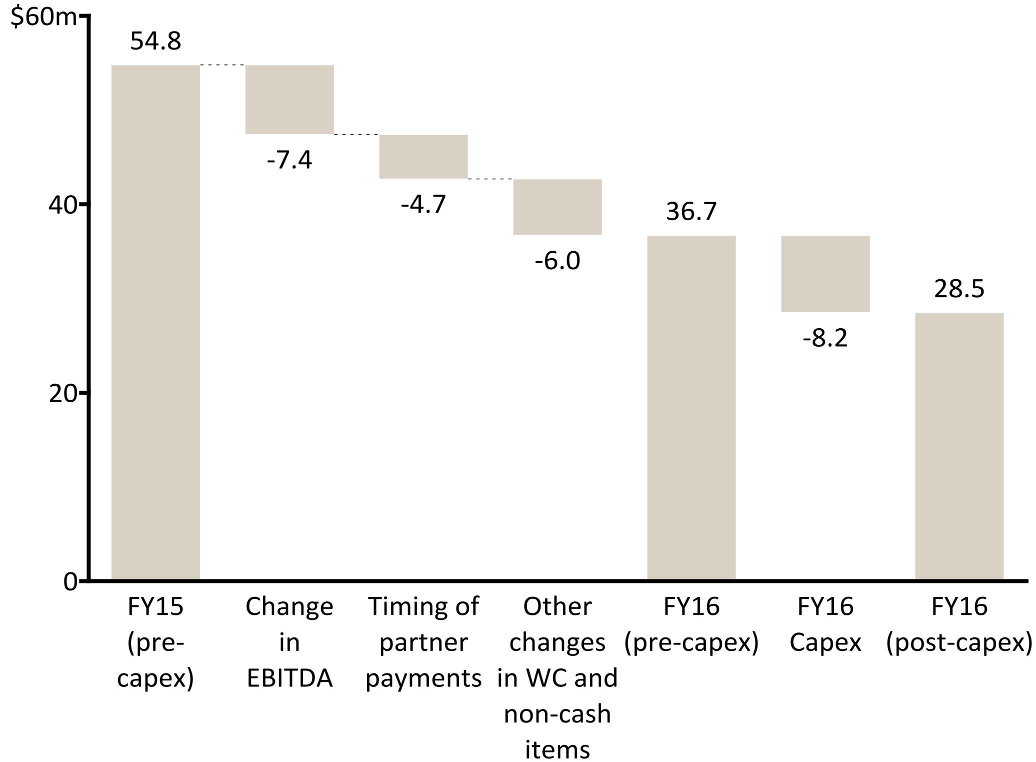
- **India:** INR gross sales **+30.6%**. New e-Commerce partnerships signed in H2 commenced
- **SE Asia:** MYR sales **-20.7%** due to ongoing trading difficulties faced by major trading partner
- **China:** China travel insurance sales commenced with HK Express and China Direct website

### Medical Assistance

- DTC sales **growth of +0.4% (H2 +7.0% vs pcp)** as business recovered from impact of contract losses. Travel medical sales **decline of -2.2% vs pcp**, although business began to recover in Q4 (+3.0% vs pcp)
  - Strong H2 results in DTC with retention and expansion of major contracts
  - Travel medical impacted by loss of major client
- **Gross profit impacted** due to labour increases and H2 one-off accounting treatments
  - Labour mix revisited to meet evolving business needs

## Cashflow impacted by timing of payments in respect of new distribution arrangements and FY15 partner payments

Operating cashflow conversion




**Comments**

- Timing of payments to new partners impacting cash conversion as they transition from previous suppliers
- Timing of recurring payments under existing distribution arrangements also impacted cashflow with a favourable impact in FY15 compared to FY16
- India cash conversion healthy but historically lower than Australia due to different partnership model; continuing India growth impacts upon Group cash conversion
- Increase in capex (from $6.4m in FY15 to $8.2m in FY16) due to investment in technology, particularly MyCover-More, and client on-boarding (Virgin Australia, Goibibo, GoAir, Yatra and USA entry)

# Results overview: underwriting agreement

## Interim arrangement reached with Great Lakes Australia with effect to 30 September 2017

- Interim arrangement reached with Great Lakes Australia in July 2016. Notable features include:
  - Agreement runs to 30 September 2017; Cover-More able to give notice to terminate sooner
  - Target loss ratio (TLR) remains unchanged
  - New pricing mechanism in effect from 1 July 2017
  - Profit share mechanism for claims performance favourable to TLR remains
  - Limited and capped participation in non-catastrophe claims performance adverse to TLR
- $0.6m provided for at 30 June 2016 to reflect current estimate of impact of any adjustments to Cover-More EBITDA relating to policies sold in H2 FY16 under interim arrangement with GLA
- Progress being made on alternative underwriting arrangements and in discussions with several interested parties. Initial indicative guidance and interest suggest same or similar underwriting terms as current agreement

# Financial performance

# Financial performance: income statement

## Travel insurance gross sales up +8.5%; increased underwriting premium led to net sales and earnings decline

| A$ in Millions | FY16 | FY15 | yoy growth (%) |
|---|---|---|---|
| Gross Travel Insurance Sales | 435.0 | 400.8 | 8.5 |
| Gross Medical Assistance Sales | 67.1 | 66.0 | 1.7 |
| **Total - Gross Sales** | **502.1** | **466.8** | **7.6** |
| | | | |
| Net Travel Insurance Sales | 155.9 | 156.9 | (0.6) |
| *% of Gross Travel Insurance Sales* | *35.8%* | *39.1%* | |
| Net Medical Assistance Sales | 66.7 | 66.0 | 1.1 |
| **Total Net Revenue** | **222.6** | **222.9** | **(0.1)** |
| Cost of Sales | (134.4) | (131.8) | 2.0 |
| **Gross margin** | **88.2** | **91.1** | **(3.2)** |
| *% of Net Revenue* | *39.6%* | *40.9%* | |
| Employment overheads | (23.6) | (23.4) | 0.9 |
| Other overheads | (20.0) | (15.7) | 27.4 |
| **Total overheads** | **(43.6)** | **(39.1)** | **11.5** |
| **EBITDA** | **44.6** | **52.0** | **(14.2)** |
| *% of Net Revenue* | *20.0%* | *23.3%* | |
| Depreciation | (3.1) | (2.3) | 34.8 |
| Amortisation of capitalised IT and software | (3.5) | (2.6) | 34.6 |
| **EBITA** | **38.0** | **47.1** | **(19.3)** |
| *% of Net Revenue* | *17.1%* | *21.1%* | |
| Amortisation of acquired intangibles | (7.5) | (7.6) | (1.3) |
| **EBIT** | **30.5** | **39.5** | **(22.8)** |
| *% of Net Revenue* | *13.7%* | *17.7%* | |
| Net interest expense | (2.8) | (2.6) | 7.7 |
| Forex gains/ losses | (0.2) | - | n/a |
| Income tax expense | (8.8) | (11.1) | (20.7) |
| **NPAT** | **18.7** | **25.8** | **(27.5)** |
| *% of Net Revenue* | *8.4%* | *11.6%* | |
| **NPATA** | **24.1** | **31.1** | **(22.5)** |

### Comments

- Total Gross Sales up +7.6%
  - +8.5% growth in Travel Insurance
  - +1.7% growth in Assistance
- Net travel insurance sales decline of -0.6% reflecting mix shift, FX depreciation and underwriting payments model volatility in H1 (-9.4%). H2 saw a recovery with +9.9% growth
- Gross margin as % of net sales declined by 1.3ppt due mainly to volume and labour mix in Medical Assistance
- Overheads grew at 11.5% and include a legal settlement, higher than usual levels of advisory fees and management change and build-out to support business growth. Excluding these one-off fees (totalling $2.1m), total overheads grew by 6.1%
- Depreciation including make good acceleration expense relating to lease premises
- Amortisation has increased in line with increased capital expenditure on projects (including MyCover-More and new client on-boarding)

# Financial performance: segment view

## Travel insurance sales remained robust; Asia sales up by +21% and Asia EBITDA now accounts for ~22%[1] of Group earnings. Margins impacted by increased underwriting premium and assistance

| Operating | A$ in Millions | FY16 | FY15 | yoy growth (%) |
|---|---|---|---|---|
| **Gross sales** | Travel insurance | 435.0 | 400.8 | 8.5 |
| | Medical assistance | 67.1 | 66.0 | 1.7 |
| | | **502.1** | **466.8** | **7.6** |
| **Net revenue** | Travel insurance | 155.9 | 156.9 | (0.6) |
| | Medical assistance | 66.7 | 66.0 | 1.1 |
| | | **222.6** | **222.9** | **(0.1)** |
| **Gross margin** | Travel insurance | 60.9 | 61.2 | (0.5) |
| | Medical assistance | 27.3 | 29.9 | (8.7) |
| | | **88.2** | **91.1** | **(3.2)** |
| **EBITDA** | Travel insurance | 28.4 | 32.7 | (13.1) |
| | Medical assistance | 16.2 | 19.3 | (16.1) |
| | Corporate | - | - | n/a |
| | | **44.6** | **52.0** | **(14.2)** |
| **Geographic** | | | | |
| **Gross sales** | Australia, NZ, UK, USA | 448.4 | 422.4 | 6.2 |
| | Asia | 53.7 | 44.4 | 20.9 |
| | | **502.1** | **466.8** | **7.6** |
| **Net revenue** | Australia, NZ, UK, USA | 198.6 | 204.3 | (2.8) |
| | Asia | 24.0 | 18.6 | 29.0 |
| | | **222.6** | **222.9** | **(0.1)** |
| **Gross margin** | Australia, NZ, UK, USA | 76.7 | 82.1 | (6.6) |
| | Asia | 11.5 | 9.0 | 27.8 |
| | | **88.2** | **91.1** | **(3.2)** |
| **EBITDA** | Australia, NZ, UK, USA | 39.4 | 47.3 | (16.7) |
| | Asia | 5.2 | 4.7 | 10.6 |
| | Corporate | - | - | n/a |
| | | **44.6** | **52.0** | **(14.2)** |

### Comments

- Gross Travel Insurance Sales +8.5% (vs pcp), with H2 growth +8.8% (vs pcp)
- Net sales declined -0.1%; H2 growth +7.3% vs pcp offset poor H1
- Travel insurance gross margins declined -0.5% and EBITDA -13.1% due to impact of one-off costs relating to legal settlement and higher levels of advisory fees in travel insurance segment
- Medical Assistance gross margin impacted by Bali ash cloud, terrorism events and adjustment of labour mix across both assistance businesses to meet evolving business needs

- Australia, NZ, UK, USA:
  - gross sales +6.2% with net revenue -2.8% (vs pcp) due to underwriting premium impact primarily in Australia
- Asia:
  - gross sales +20.9% and net revenue +29.0% (vs pcp). Strong growth in India +38.0% (AUD)
  - gross margin +27.8% and EBITDA +30.1%[1] (vs pcp, on a like-for-like basis with corporate allocations excluded)
  - Asia now contributes ~22%[1] of Group profit compared to ~15%[1] in FY15 (ex-allocations)

[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: cash flow

## Lower EBITDA and timing of payments reduces cashflow and rate of cash conversion. Increase in capex as Cover-More invests for next phase of growth

| **A$ in Millions** | **FY16** | **FY15** |
|---|---|---|
| **EBITDA** | **44.6** | **52.0** |
| Non-cash items in EBITDA | (1.0) | 0.7 |
| Change in Working Capital | (6.9) | 2.1 |
| **Operating free cash flow before capital expenditure** | **36.7** | **54.8** |
| *% of EBITDA* | *82.3%* | *105.4%* |
| **Capital Expenditure** | | |
| Investment in software | (6.8) | (4.6) |
| Net payments for property, plant and equipment | (1.4) | (1.8) |
| Total capital expenditure | (8.2) | (6.4) |
| **Operating free cash flow after capital expenditure** | **28.5** | **48.4** |
| *% of EBITDA* | *63.9%* | *93.1%* |

**Comments**

- Operating free cash flow before capital expenditure declined from $54.8m to $36.7m, reflecting the decline in EBITDA and timing of payments made in respect of certain distribution arrangements
- Operating free cash conversion of:
  - 82% before capex
  - 64% after capex
- Outflows from capital expenditure increased from $6.4m to $8.2m, reflecting capital expenditure related to investments for next phase of growth, notably:
  - Build of MyCover-More technology platform
  - On-boarding of new distribution partners including Flight Centre North America and India e-Commerce partners

# Financial performance: FY16 balance sheet compared to FY15

## Balance sheet remains healthy with low levels of gearing

| A$ in Millions | 30 Jun 2016 $m | 30 Jun 2015 $m |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | 24.0 | 24.0 |
| Trade and other receivables | 39.9 | 31.3 |
| Total current assets | 63.9 | 55.3 |
| **Non-current assets** | | |
| Plant and equipment | 4.1 | 4.7 |
| Intangible assets | 243.6 | 248.8 |
| Other | 2.6 | 0.5 |
| Total non-current assets | 250.3 | 254.0 |
| **Total assets** | 314.2 | 309.3 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Trade and other payables | 37.6 | 34.5 |
| Current tax provisions | 1.3 | 4.5 |
| Borrowings | - | - |
| Other | 5.5 | 4.4 |
| Total current liabilities | 44.4 | 43.4 |
| **Non-current liabilities** | | |
| Borrowings | 63.8 | 56.1 |
| Deferred tax liabilities | 5.9 | 7.2 |
| Other | 1.5 | 1.3 |
| Total non-current liabilities | 71.2 | 64.6 |
| **Total liabilities** | 115.6 | 108.0 |
| **Net assets** | 198.6 | 201.3 |
| **EQUITY** | | |
| Contributed equity | 220.1 | 220.1 |
| Other reserves | 5.2 | 6.9 |
| Retained earnings | (26.7) | (25.7) |
| **Total Equity** | 198.6 | 201.3 |

**Comments**

- CVO's balance sheet reflects simplicity of the financial business model
- Receivables impacted by timing of payments to new distribution partners
- 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

# Summary and outlook

# FY16 Execution Scorecard

| | | |
|---|---|---|
| **Underwriting arrangement resolved by July 2016** | ✗ | *Interim agreement signed 4 July 2016; advanced negotiations for final agreement* |
| **EBITDA margins restored to prior levels** | ✗ | *Underwriting premium volatility reduced with GLM; Repricing efforts ongoing* |
| **Live in USA with Flight Centre** | ✓ | *USA distribution live in May* |
| **Global Direct initiative live and in market** | ✓ | *USA now live including Berkshire Hathaway partnership* |
| **Expansion into India white-label and e-Commerce channel** | ✓ | *GoAir, Goibibo and Yatra live in Q4 FY16* |
| **Innovative MyCover-More solution ready for deployment** | ✓ | *MyCover-More launching in Aug 2016* |
| **Extension of partnership with Flight Centre** | ✓ | *Flight Centre agreement extended to 2024* |

# Summary and outlook

- **CEO Review:** Business with unique digital and medical capabilities and strong partner relationships
- **FY16 summary:** FY16 results solid with momentum in offshore businesses but adversely affected by underwriting agreement and increased overheads
- **FY17 outlook and priorities:**
    - Continued growth in Australia and overseas
    - Contract with a new underwriting partner
    - Reduce overhead costs
    - Realign the strategy and operating model
    - Focus on positioning to win new aviation and travel clients (and retain existing key partners)
    - Deliver on commitments to existing partners
    - Deliver on growth opportunities in North America
    - Embed technology capabilities more broadly in partners

# Appendix

# 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 | • Malaysia<br>• China<br>• USA | • Australia (Sydney + Brisbane)<br>• Malaysia<br>• China<br>• India (to commence 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 FY16 | Travel Insurance | Medical Assistance | Total |
|---|---|---|---|
| **Gross Sales** | $435.0 | $67.1 | $502.1 |
| **EBITDA** | $28.4 | $16.2 | $44.6 |

| Geographic Split FY16 | Australia, NZ, UK, USA | Asia | Total |
|---|---|---|---|
| **Gross Sales** | $448.4 | $53.7 | $502.1 |
| **EBITDA** | $39.4 | $5.2 | $44.6 |

**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

# Cover-More's differentiated model: aligned, diversified distribution

## TRAVEL RETAIL

## ONLINE AND WHITE LABEL DISTRIBUTION

## TRAVEL MEDICAL AND EMPLOYEE ASSISTANCE

## 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) | FY16A |
|---|---|
| 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$m) | FY16A |
|---|---|
| Net Travel Insurance Sales | 155.9 |
| Net Medical Assistance Sales | 66.7 |
| **Total Net Revenue** | **222.6** |
| Cost of Sales | (134.4) |
| **Gross margin** | **88.2** |
| Employment overheads | (23.6) |
| Occupancy costs | (7.4) |
| Other overheads | (12.6) |
| **Total overheads** | **(43.6)** |
| **EBITDA** | **44.6** |
| Depreciation | (3.1) |
| Amort. of capitalised IT & software | (3.5) |
| **EBITA** | **38.0** |
| Amort. of acquired intangibles | (7.5) |
| **EBIT** | **30.5** |
| Net interest expense | (2.8) |
| Forex gains/ losses | (0.2) |
| Income tax expense | (8.8) |
| **NPAT** | **18.7** |
| **NPATA** | **24.1** |
| | |
| *Insurance Gross Written Premium (A$m)* | *435.0* |
| *GWP Growth (%)* | *8.5%* |
| *Net Insurance Sales (% of GWP)* | *35.8%* |
| *GM (% of Net Revenue)* | *39.6%* |
| *EBITDA (% of Net Revenue)* | *20.0%* |
| *EBITA (% of Net Revenue)* | *17.1%* |

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