



Freedom Insurance Group

Half Year 2018 Results

Keith Cohen, CEO and Managing Director

Jenny Andrews, CFO

Craig Orton, COO

21 February 2018

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



Agenda

1H18 review

Outlook

Q&A

Supplementary information

Half Year 2018 – INVESTMENT FOR GROWTH



- Ambition to reach #2 in the direct life insurance market and become a contender for market leadership
- Continued investment in marketing, lead generation and new product sales initiatives to drive future growth
- New life products introduced in 1H18 with promising early results – further investment to generate growth in second half
- Strengthened loan protection model with Finsure distribution in preparation for staged launch in second half
- Peakbound external sales infrastructure tested with improving results – will look to ramp up with the new products to provide capital efficient and flexible growth capacity
- Encouraging response to sales performance recovery measures and core products back on track
- Improved systems and processes and enhanced resourcing to better manage operational challenges of growth
- Fluctuations in new business sales for direct (higher or lower) normal course of business – Q2 events were unusual



Half Year 2018 – INVESTMENT FOR GROWTH



- EBITDA remains key measure for business performance
- EBITDA up 7% in 1H18 to \$10.5 million, including \$3.3 million profit on sale of NobleOak stake
- Excluding NobleOak, EBITDA declined 7% to \$7.2 million
- 1H18 Net Revenue impacted by:
 - ↓ short term lead quality issue impacting sales and upfront commissions
 - ↑ growth in trail income & trail asset
 - ↑ profit on sale of NobleOak shares
- 1H18 Total Expenses impacted by:
 - ↑ new product expansion
 - ↑ spend on leads and sales staff
 - ↑ adding support staff
- Customer numbers up 28% to 309,000
- In-force premium up 33% to \$119.4 million

\$ MILLION	1H18	1H17	% CHANGE
Net Revenue ¹	31.3	25.7	22%
Total Expenses	20.8	15.8	31%
EBITDA	10.5	9.8	7%
NPAT	7.8	6.2	26%
Basic EPS (cents)	3.2	3.5	-6%
Total Sales ²	28.3	31.8	-11%
Total In Force Premium ³	119.4	89.7	33%

	1H18	1H17	% CHANGE
Customers ⁴	309,000	241,000	22%

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 Income 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 – TRAIL ASSET GROWTH INCREASING SHAREHOLDER VALUE



- Upfront commission less clawback provision movement declined 16% on 1H17 to \$11.2 million in 1H18, reflecting lower sales
- Minimal change in clawback provision over the half; provision allows for the portion of policies that are cancelled early
- Healthy growth in ongoing trail/admin revenue and trail asset, reflecting increase in value of trail revenue
- Other Revenue reflects 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; 1H17 included IPO related costs of \$2.1m

\$ MILLION	1H18	1H17	% CHANGE
Commission – Upfront	11.5	18.1	-37%
Clawback provision movement	(0.3)	(4.7)	-94%
Commission – Trail/Admin	4.0	2.4	72%
Trail asset movement	12.0	9.1	32%
Spectrum net revenue	0.8	0.8	-9%
Other revenue	3.3	–	
Net Revenue	31.3	25.7	22%
Marketing/lead generation	5.7	3.1	85%
Sales staff expenses	5.7	4.7	21%
Other staff expenses	5.2	3.7	41%
Other expenses	4.2	4.3	-3%
Total Expenses	20.8	15.8	31%
EBITDA	10.5	9.8	7%
Net interest	0.3	(0.9)	-137%
Profit before tax	10.8	9.2	20%
Tax expense	3.0	2.8	8%
NPAT	7.8	6.2	26%

Recent Business Performance – SALES MOMENTUM RECOVERED

- In 2Q18, lead quality and sales conversion issues were identified that were expected to result in sales in 1H18 being 9-15% lower than 1H17; actual sales for 1H18 were 11% lower than 1H17
- Sales recovered to normal run rate by end of 1H18, as expected, which included December 2018:
 - sales 5.4% higher than December 2017
 - lead cost of 12% of new business annualised premium income (NB API); in line with business plan
 - sales staff cost of 20% of NB API; in line with business plan
- During the recovery period, there was approximately \$800,000 additional spend on supplementing lead volumes and \$150,000 on enhanced sales initiatives
- Launch of new products in 1H18 included investment of \$2.3 million in leads and \$1.3 million in sales and other direct costs
- New products achieved \$1.1 million sales in 1H18, which despite not yet recouping costs, is consistent with the early stages of product launch and an encouraging start

- Comparison to 3 November 2017 guidance for 1H18:

\$ MILLION	GUIDANCE	ACTUAL
Total Sales	27.0 to 29.0	28.3
Net Revenue	29.8 to 31.8	31.3
Operating Costs	19.0 to 20.0	20.8
EBITDA	10.8 to 12.3	10.5

- Higher than anticipated spend on leads in the recovery period and investment in sales capability to support new product sales were key factors in the 1H18 results

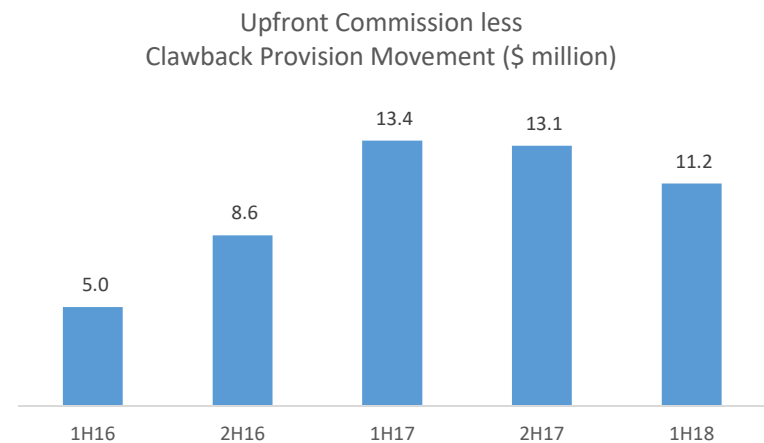
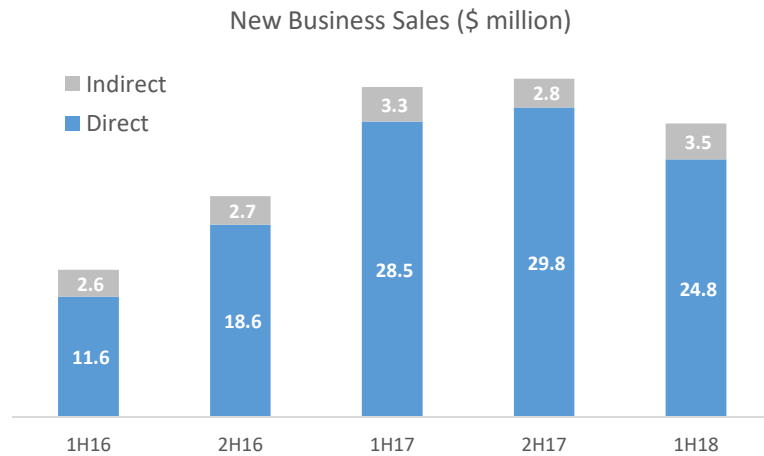
Balance Sheet & Capital – CAPITALISED FOR GROWTH



AT PERIOD END (\$ MILLION)	30 DEC 17	30 JUN 17
Cash	27.9	26.9
Current Assets	6.9	5.6
Trail Asset	55.8	43.8
Goodwill	5.8	5.8
Investment Assets (NobleOak)	–	3.7
Assets	96.3	85.7
Payables	5.0	3.5
Clawback Provision	15.7	15.4
Income tax liability	1.7	1.9
Deferred tax liability	11.6	8.4
Liabilities	34.1	31.2
Net assets	62.3	54.5
Issued Shares	33.4	33.4
Other	(0.8)	(0.8)
Accumulated Profit	29.6	21.9
Total Equity	62.3	54.5

- Debt free with strong cash balance to support expansion 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 half (27%) driven by ongoing sales performance and growth in in-force premium
- Stable clawback provision as expected without sales growth in the half
- Continue to monitor capital requirements to ensure efficient capital management to maximise shareholder value

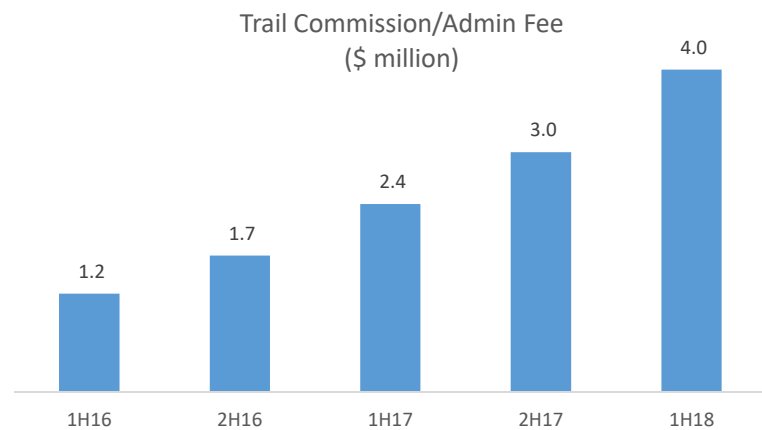
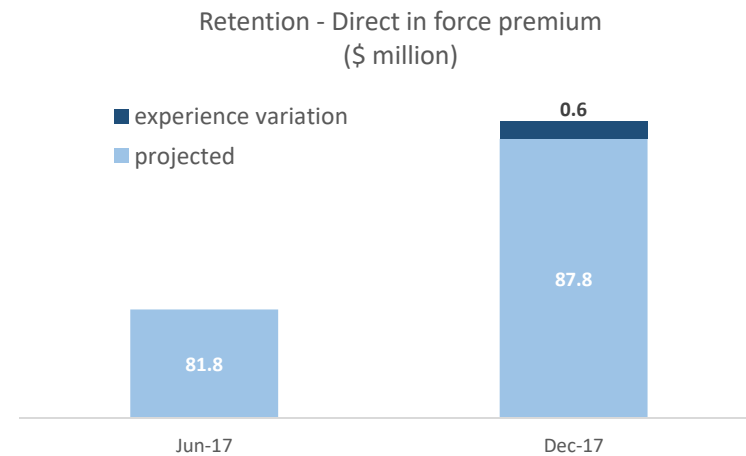
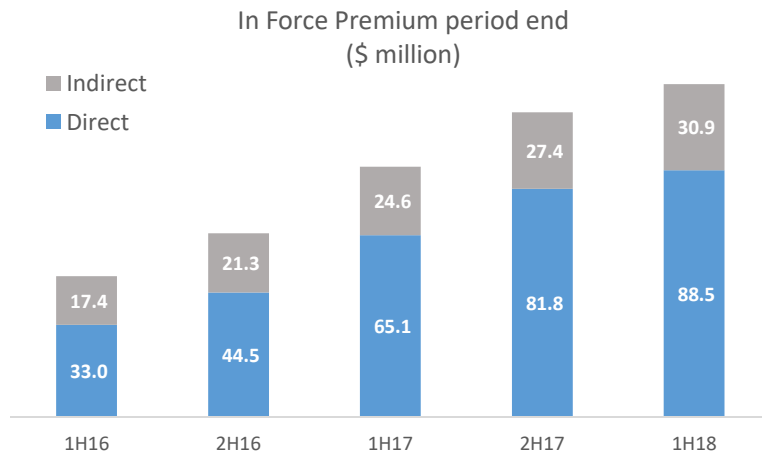
Key Metrics – SALES AND UPFRONT REVENUE



- While down from 1H17, 1H18 sales were almost double 1H16, reflecting the significant step up in scale over the last 2 years
- 1H18 sales 11% below 1H17 and 13% below 2H17 but still supported further attractive growth in trail asset
- Indirect sales grew 4% from 1H17
- Growth in direct business affected by lead/sales performance issues while indirect sales continued encouraging growth on previous corresponding period
- Sales momentum recovery by December 2017 suggests direct business responded to improvement measures, largely as anticipated
- Upfront revenue, net of movement in clawback provision, in line with sales performance; no adverse movements in clawback provision, product performance and retention

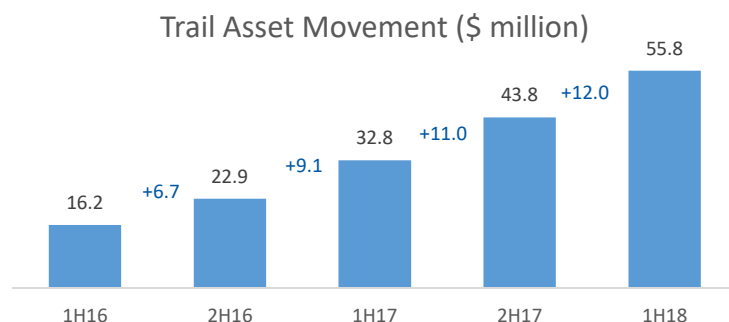
Indirect (Spectrum) sales and In-Force estimated from insurer commissions paid

Key Metrics – IN FORCE PREMIUM AND ONGOING REVENUE



- Growth in in-force premium leading to 33% growth in ongoing trail income on 1H17; more than double 1H16
- Strong growth in both direct and indirect trail income
- Retention experience broadly in line with underlying assumptions, with a positive \$0.6 million variance for the period

Key Metrics – GROWING TRAIL ASSET



- The trail asset increased by \$12.0 million during 1H18 to \$55.8 million
- The sources of this increase are:

SOURCE	\$ MILLION
Current period sales	10.3
Benefit increase take-up	1.4
Net unwind	0.3
	12.0

- The majority of the increase arises from new sales
- \$1.4 million allocated to the take-up of future benefit (and hence premium) increases has resulted from using data in the actual policy records rather than a broad allowance

Fair value of the trail asset:

- Trail asset represents the net present value of future trail commission and hence a growing and valuable component of shareholder value
- As the trail asset grows, Freedom has been working on the following enhancements to apply on each balance date from 30 June 2018:
 - detailed policy-by-policy projections rather than the current use of monthly tranches
 - the ability to set more granular assumptions
 - external (Deloitte's) review and advice
- Based on the work completed to date:
 - the Deloitte valuation was within 0.04% of the internal calculation, providing comfort with the current modelling
 - the methodology used to allow for the take-up of benefit increases was enhanced during the current period
- Deloitte continue to be engaged to provide advice on the method and underlying assumptions in preparation of the 30 June 2018 accounts

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 in 1H18 is desirable and reflects the realisation of scale economies in the ongoing In Force Book
- The upfront margin in 1H18 (new business strain) reflects the additional expenditure combined with lower sales during this period
- Strategy is to maximise profitable growth and shareholder returns with primary focus on increasing the recurring ongoing margin

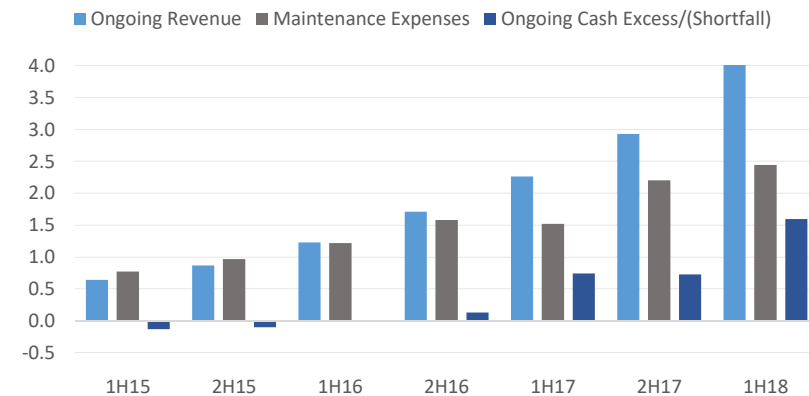
Revenue:

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

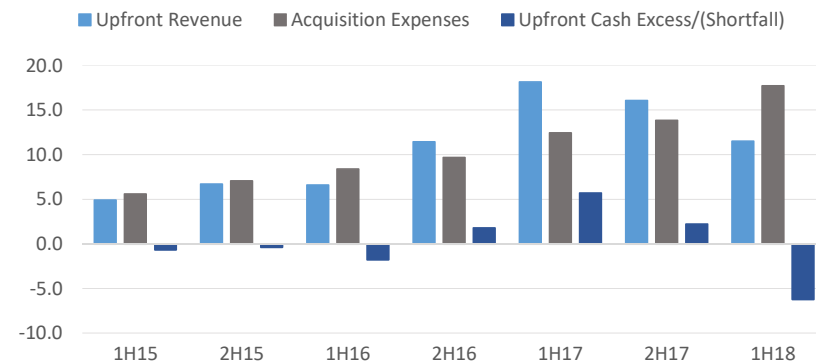
Operating expenses:

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

Ongoing cash margin (\$ million)



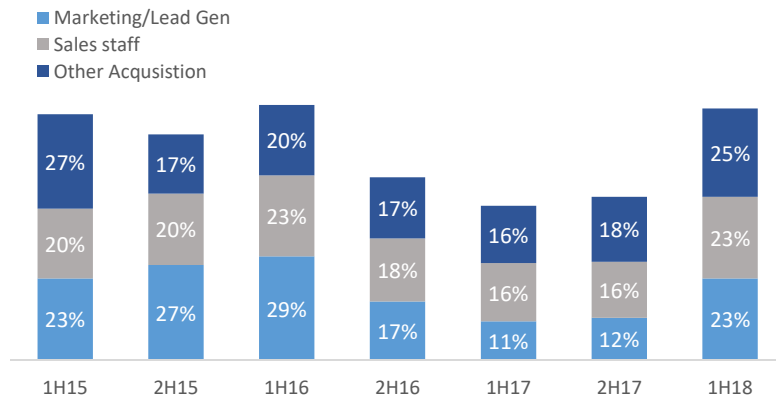
Upfront cash margin (\$ million)



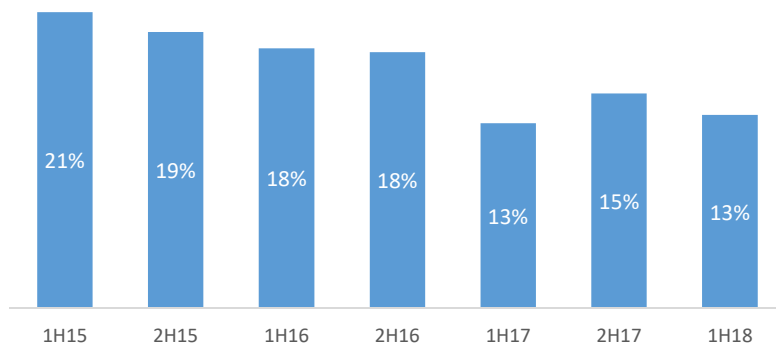
Key Metrics – DIRECT ACQUISITION AND MAINTENANCE COSTS



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
- Sales staff and 'Other acquisition' ratios were also impacted by the lower sales volumes
- Maintenance cost ratios¹ 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 In Force premium

Key Priorities – NEW PRODUCTS FOR NEXT PHASE OF GROWTH



Product expansion and diversification to support further growth

DRIVER OF SHAREHOLDER VALUE	KEY PRIORITY
Products, marketing & sales	<ul style="list-style-type: none"> ▪ New life products launched in 1H18 with initial sales exceeding \$1 million ▪ Sales and marketing activity for new products to further ramp up in 1H18 ▪ Spectrum and Finsure to support mortgage protection products introduced Feb'18
Operational excellence	<ul style="list-style-type: none"> ▪ Chief Operating Officer and enhanced resourcing to support next phase of growth ▪ Excellence in customer service, claims management and retention activity ▪ Increasing scale underpins competitive position
Financial performance & growth	<ul style="list-style-type: none"> ▪ Primary focus remains investment in organic growth ▪ Investment in marketing and lead generation ▪ Benefits from Spectrum adviser growth ▪ Consider selective acquisition opportunities that support strategy
Capital & risk management	<ul style="list-style-type: none"> ▪ Strong risk management and controls ▪ Strong balance sheet for future growth ▪ No claims risk borne by Freedom
Infrastructure & governance	<ul style="list-style-type: none"> ▪ Infrastructure in place to support new product launches ▪ Build on insurer relationship

Industry

- Life insurance market remains attractive to execute our business model
- Australians remain underinsured
- Opportunity to continue to grow the market by delivering:
 - simple;
 - convenient; and
 - good value insurance products
- Bank Insurers likely to remain less aggressive in growing the market than in recent years due to potential conflicts, although market remains highly competitive
- Industry facing greater regulatory scrutiny which presents both opportunities and risks

Freedom

- Ambition to reach #2 in the direct life insurance market and become a contender for market leadership
- Continued investment to realise growth aspirations, including product/channel expansion – higher costs in near term ahead of revenue growth
- New life products – Expect to continue to grow with reducing new business strains
- Loan Protection:
 - roll out with Finsure (1,300+ mortgage brokers) during 2H18
 - delayed to February 2018 for automated referral/quote build within Finsure broker system
 - expected to drive higher take-up
- Fluctuations in new business sales for direct (higher or lower) normal course of business
- Continued investment in marketing and lead generation and new product sales initiatives to drive future growth
- Consideration of selective acquisition opportunities



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

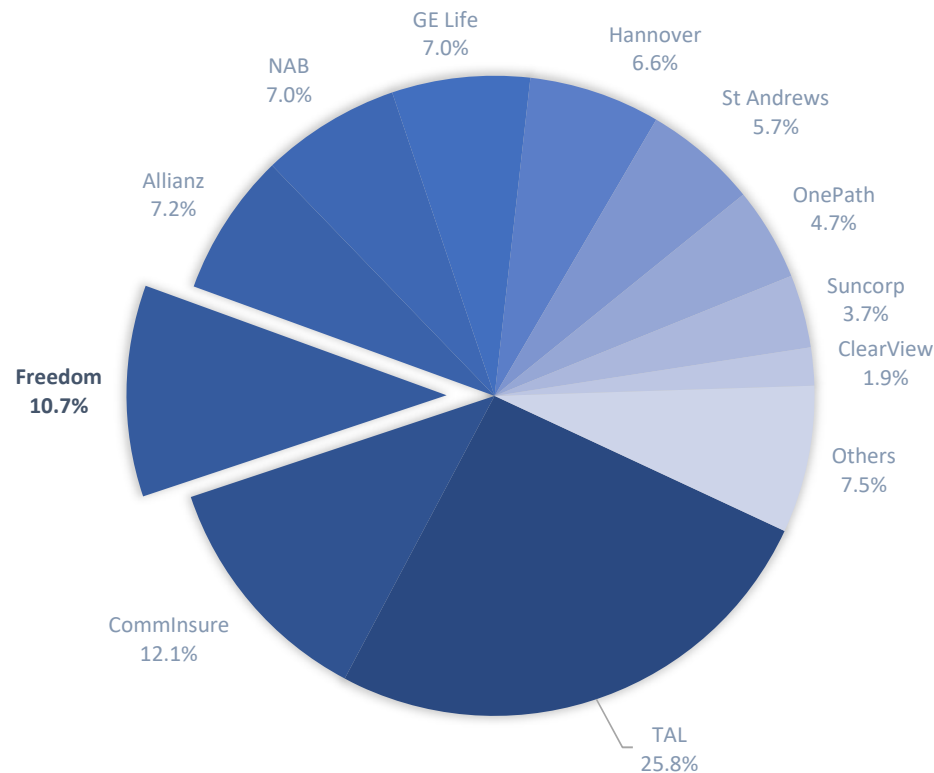
Note: Freedom is not a registered life insurance company and bears no claims risk

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

Direct Life Insurance Market



CY16 Direct Market Share - Sales (\$441m)

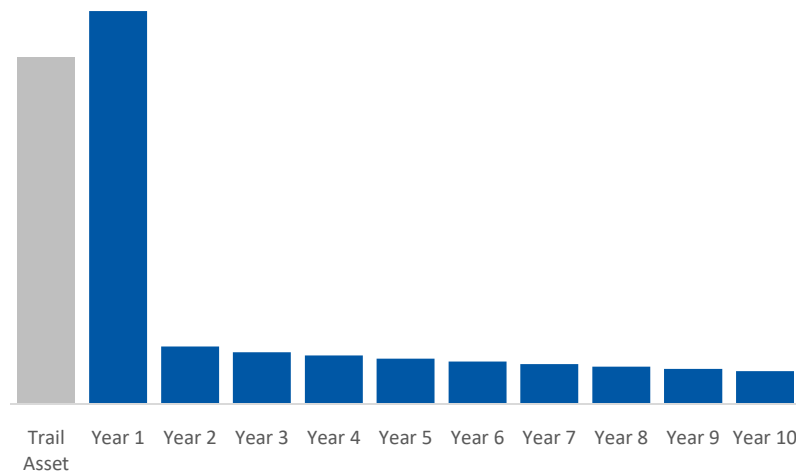


- Life insurance market remains attractive to execute our business model
- Freedom has a medium term goal of becoming the second largest participant in the direct life insurance market for sales and a contender for market leadership
- Life insurance industry sales of \$441 million in the year ending 31 December 2016 (CY16) were in line with the previous year
- This reflected a general decline in direct new sales volumes for the bank owned life insurers and 10% increase for other participants
- Freedom Insurance's share of both Direct Sales and In Force premiums expanded during CY16
- Freedom's sales in CY16 grew 106% on CY15, increasing its share of life insurance New Business from 5.3% to 10.7% and its share of In Force premium from 2.4% to 4.3%
- 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 – May 2017

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

	Dec 17	Dec 16
People (FTE):		
Call Centre Sales	106	107
Customer Service/Retention	54	35
Admin & Quality Assurance	26	18
Management/Other	39	29
	225	189
Spectrum Advisers:		
Mortgage Brokers	225	85
Other Advisers	195	240
	420	325
Customers:¹		
Freedom – Direct	299,000	233,000
Spectrum – Indirect	10,000	8,000
	309,000	241,000

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



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.



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.



MARK SCHROEDER

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



MARK WEINSTEIN

HEAD OF OPERATIONS
Over 17 years experience in Business Development and Account Management. Responsible for overseeing operations, infrastructure and vendor management.



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.

Glossary of Key Terms



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