



Freedom Insurance Group

Acquisition of St Andrew's Insurance

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Acquisition Overview



APRA regulated
Life and General Insurers

Highly experienced
management team

Suite of mortgage
protection, loan
protection and direct life
products

Blue chip
corporate partnerships

147,000
customers⁽¹⁾

\$32m
GWP⁽²⁾

\$19m
Sales⁽²⁾

Transaction summary





- Acquisition of St Andrew's Insurance from Bank of Queensland for \$65 million
- Reinsurance agreement with a leading global reinsurer to provide \$35 million of funding
- Balance funded through \$10 million of cash in hand and \$20 million in new debt
- Conditional upon reinsurance agreement and regulatory approvals

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

Acquisition Highlights

Freedom has agreed to acquire St Andrew's Insurance ("St Andrew's"), a leading Australian issuer of mortgage/loan protection and simple life products, from Bank of Queensland Limited (BOQ.ASX) ("BOQ") (collectively, the "Acquisition")

- Unique opportunity to expand manufacturing and distribution and establish underwriting capability while accelerating diversification into a broader range of life products
- Combines Freedom's expertise in product design and direct sales with St Andrew's leading position in corporate distribution and underwriting

	Acquisition of APRA licensed insurers	<ul style="list-style-type: none"> ▪ Unique opportunity to acquire one of the few businesses that holds both a life insurance and a general insurance licence ▪ Ability to capture greater share of the overall insurance value chain ▪ Increased speed to market for new products
	High quality management team	<ul style="list-style-type: none"> ▪ Highly experienced management team with an average tenure of 10 years+ ▪ Complementary expertise and strong resourcing for accelerated implementation of growth strategy
	Value accretive transaction	<ul style="list-style-type: none"> ▪ Acquisition price in line with embedded value of the current in-force book ▪ Additional benefit of business infrastructure and new business capabilities ▪ Acquisition expected to be EPS neutral in year 1 and accretive thereafter
	Platform for complementary enhanced growth	<ul style="list-style-type: none"> ▪ Existing distribution arrangements with blue chip Corporate Partners complementing Freedom's direct distribution capabilities ▪ The combined Freedom and St Andrew's business will have enhanced product design, manufacturing, distribution and underwriting capabilities ▪ Intention to leverage St Andrew's' existing panel of reinsurers to appropriately manage underwriting risk

Key Terms of the Acquisition

Key Terms of the executed Share Sale Agreement

- **Consideration:** Freedom to acquire St Andrew's for approximately \$65 million⁽¹⁾. The consideration will be composed of a combination of:
 - approximately \$35 million from a leading global reinsurer through a reinsurance arrangement across St Andrew's' existing life insurance in-force book;
 - \$20 million from an acquisition financing facility; and
 - the balance of around \$10 million from existing cash reserves
- **Management Team:** the acquisition provides access to an experienced and complementary management team
- **Distribution:** BOQ and St Andrew's have agreed to enter into a new 3 year distribution agreement for St Andrew's products – with the option for a two year extension
- **Conditions Precedent:** The Acquisition will be subject to a number of conditions precedent, including but not limited to:
 - St Andrew's completing a reinsurance agreement over its existing in-force book
 - Regulatory approvals
- **Timing:** The Acquisition is expected to complete during the second half of CY18

Notes: (1) Does not include transaction costs of approximately \$2m.

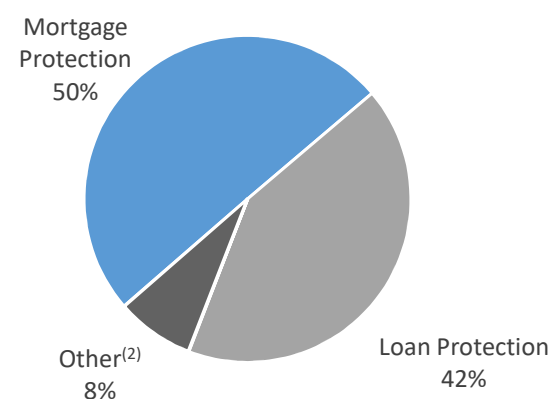
St Andrew's – Overview

- Leading issuer of mortgage/loan protection and simple direct life products and one of only a few Australian insurers to hold both a general insurance and life insurance licence
- St Andrew's offers a range of white-labelled and own-branded insurance products via long-term distribution partnerships with some of Australia's leading financial services institutions
- Highly experienced management team across product manufacturing, product distribution and underwriting with an average tenure of 10 years+
- 64 employees located across Perth, Sydney, Melbourne and Brisbane
- St Andrew's has been a wholly-owned insurance subsidiary of BOQ since 2010

Highlights

- **FY17 sales of \$19.4m⁽¹⁾** excluding contribution from selected Corporate Partners
- Strength in **mortgage and loan protection**
- Strength in **corporate partnerships with blue chip financial institutions**

FY17 Product Mix (as % of Sales)⁽¹⁾



Notes: (1) 12 months ended 31 August 2017. Excludes contribution from selected Corporate Partners with renewals yet to be completed where Distribution Agreements are due to expire in the current calendar year. (2) Includes other CCI and non-CCI products including Accident and Sickness and Involuntary Unemployment.

St Andrew's – Competitive Position

Dedicated focus on the Corporate Partner channel	<ul style="list-style-type: none"> ▪ Key focus on financial institution Corporate Partners with long term partnerships in place ▪ Delivers highly competitive and flexible insurance product solutions for Corporate Partners ▪ No exposure to group insurance market
Differentiated product capabilities	<ul style="list-style-type: none"> ▪ One of a small number of insurers with both life and general insurance licences ▪ Offer differentiated product solutions to Corporate Partners
Nimble and agile	<ul style="list-style-type: none"> ▪ Scale and specialist knowledge ▪ Efficient and rapid product development and deployment ▪ Tailored system solutions supporting the product set
Best-in-class partner support	<ul style="list-style-type: none"> ▪ Comprehensive relationship management, distribution and administration services ▪ Outstanding weighted average Net Promoter Score of 60%⁽¹⁾

Notes: (1) Net Promoter Score based on results of 2017 survey.

Strategic Rationale for Acquisition

- Freedom's strategy has been to pursue growth by providing straightforward, affordable insurance products to a broad range of Australians in the most convenient way possible
- Since launch in 2009 Freedom has pursued a strategy primarily based on organic growth, expanding business infrastructure and capability to support strong sales growth in the key final expenses product as well as entering the broader life and mortgage protection market
- Consistent with this strategy, the Acquisition will materially expand and diversify Freedom's operations across the full-spectrum of life insurance to include:
 - **Stronger product and distribution capability** with established corporate distribution relationships
 - **Access to a highly experienced and complementary management team**
 - **Expanded suite of products** that will include St Andrew's mortgage protection
 - **Life and General Insurance licences**
 - **Panel of aligned reinsurers**

Products	<ul style="list-style-type: none"> ▪ Expanded product set ▪ Enhanced product manufacturing capabilities ▪ Ability to remain nimble and innovative 	Mortgage protection	Term life	Accident & Sickness	Unemployment
		Loan protection	Funeral	Accidental death & injury	Credit Card Protection
Distribution	<ul style="list-style-type: none"> ▪ Well established, blue chip corporate relationships that complement existing direct distribution 	Corporate Partners 5+ Corporate Partners including new 3 year distribution agreement with BOQ	Direct Channel (Freedom-owned) 100+ member sales call centre	Indirect (Spectrum) 200+ mortgage brokers 200+ other advisers	Indirect (3rd party) 1400+ mortgage brokers (exclusive arrangement with Finsure)
Licenses	<ul style="list-style-type: none"> ▪ General and Life Insurance licenses allows Freedom to explore unique product manufacturing opportunities ▪ Opportunity to capture additional revenue margin on existing direct products ▪ Intend to continue to utilise reinsurance to manage capital requirements 				

Financial Impact – Pro-forma Balance Sheet

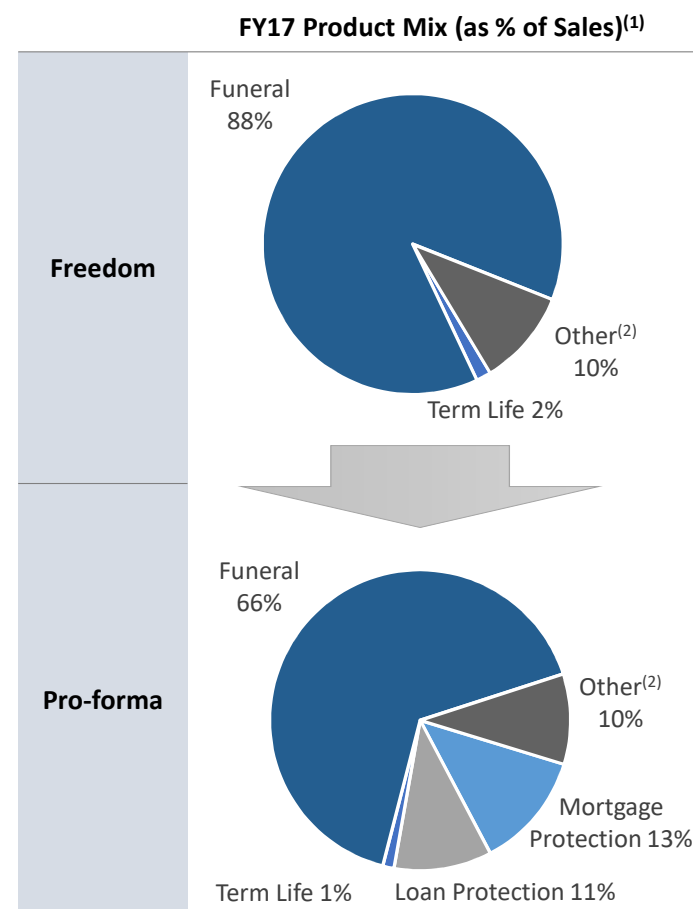
\$m	Freedom 31 Dec 2017	St Andrew's ⁽¹⁾ 28 Feb 2018	Transaction Adjustment ⁽²⁾	Pro-forma
Cash and cash equivalents	27.9	7.3	(10.0)	25.2
Receivables	5.5	1.9		7.4
Trail Asset	55.8	-		55.8
Investments - Term Deposits	-	57.5		57.5
Goodwill	5.8	-	15.9	21.7
Other	0.4	8.4		8.8
Total Assets	95.4	75.1	5.9	176.4
Payables	3.4	6.2		9.6
Clawback Provision	15.7	-		15.7
Deferred Tax Liability	11.6	-		11.6
Life Insurance Claims Provisions	-	4.9		4.9
Life Insurance Contract Liabilities	-	43.4		43.4
General Insurance Unearned Premium	-	4.7		4.7
Borrowings	-	-	20.0	20.0
Other	2.4	1.8		4.2
Total Liabilities	33.1	61.0	20.0	114.1
Total Net Assets	62.3	14.1	(14.1)	62.3
Contributed Equity	32.6	18.0	(18.0)	32.6
Retained Profits	29.6	-	-	29.6
Other	0.0	(3.9)	3.9	0.0
Total Equity	62.3	14.1	(14.1)	62.3

- Purchase price of \$65 million in line with embedded value
- Freedom contribution of \$30 million in line with embedded value post reinsurance arrangement
- St Andrew's has a long history of profitability
- Post reinsurance arrangement and standalone costs, St Andrew's expected to moderately contribute to profit in Year 1 and continue to grow over time
- No impact on new business margins from reinsurance transaction

Notes: (1) Includes Intangibles. (2) The purchase price accounting for the acquisition has been shown on an illustrative basis by allocating the difference between the purchase consideration and the carrying value of St Andrew's assets and liabilities at 28 February 2018 to Goodwill. The pro-forma adjustments to reflect the estimated financial effect of the accounting for the business combination are illustrative only. Australian Accounting Standards require an allocation of fair value of assets and liabilities acquired. Freedom will undertake a formal allocation of its acquisition subsequent to the date when the transaction completes.

Medium Term Outlook Incorporating St Andrew's

- Freedom provides the following update on operating performance:
 - Sales recovered from the lead quality issues experienced in 1H FY18 and are expected to be greater than \$63 million in FY18
 - Lead quality and sales conversions remain within expectations
 - On new products, Life sales in Q3 were more than sales in the entire first half of FY18, with reducing new business strain as efficiencies improve
 - Loan Protection rollout has been on hold given the possible transaction
 - Full year 2018 EBITDA expected to be approximately \$16 million (excluding the \$3.3 million pre-tax profit on Noble Oak share sale), with lower than expected policy retention in Q3 offsetting improved sales performance
 - Medium term outlook remains strong supported by sales growth and accelerating new product sales
- The Acquisition provides a platform to **accelerate growth** aspirations:
 - Highly complementary management team, valuable new platforms and a well established corporate distribution platform
 - Platform for rapid expansion into the mortgage/loan protection market
 - Flexibility in product manufacturing and underwriting capability allowing us to maximise returns for shareholders
 - Diversifies product mix



Notes: (1) 12 months ended 30 June 2017 for Freedom and 12 months ended 31 August 2017 for St Andrew's. Excludes contribution from selected Corporate Partners with renewals yet to be completed where Distribution Agreements are due to expire in the current calendar year. (2) Includes Accidental Death, Accidental Injury and other product contributions to Sales by Freedom Insurance.

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