ClearView

Market Release

29 August 2019

ClearView reports underlying NPAT of $25.1 million, navigating tough operating conditions

ClearView Wealth Limited (ClearView ASX: CVW) has reported an underlying Net Profit After Tax (**NPAT**) of $25.1 million, down 22% on 2018, and reported NPAT of $4 million for the year to 30 June 2019, reflecting extremely challenging market conditions and higher-than-expected life insurance claims and lapse rates.

The disappointing result includes the adverse impact of changes to income protection (**IP**) claims assumptions, Royal Commission and remediation program costs, and the impairment of software and financial advice client books, following a material cost transformation program, IT strategy review and resetting of the business in 2H FY19.

The Company also confirmed it will suspend the final FY19 dividend and re-commence its share buy-back program.

The Group's subdued result does not reflect the positive benefits which will be derived from the key actions completed in 2H FY19 including a reset of the business strategy to position it to take advantage of structural changes in the market. These actions are expected to have a positive effect on the emergence of sustainable long-term profit growth from the material increase in the life insurance in-force premium.

Ongoing investment in technology, alongside the expansion of the Group's distribution footprint, is likely to support medium- to long-term growth, notwithstanding short-term headwinds.

In the shorter term, the business is focused on effective cost management, lifting the quality of business to improve lapse and claims performance, and executing its reinvigorated IT strategy and road map.

Results summary

- FY19 result was adversely impacted by poor claims and lapse performance (-$10.8 million (FY18 -$7.6 million)) which is holding it back from translating solid growth of in-force premium into corresponding profit growth.
- Life Insurance remains ClearView's key profit driver with the segment's in-force portfolio up 12% to $252.6 million.
- Expense, claims, lapse and discount rate assumptions reset in 2H FY19 based on recently observed experience.
- Embedded Value of $672.7 million or $0.99 per share (including ESP loans and franking credits), impacted by assumptions and discount rate changes and the write-off of technology, Financial Advice books and costs considered unusual to the ordinary activities.
- The flagship ClearView LifeSolutions product is currently on 532 Approved Product Lists (**APLs**), representing an increase of 27% on FY18.
- Focus on quality advice relationships and the termination of underperforming distribution relationships are expected to reduce short-term headline sales but improve business quality and profitability over time.
- Implemented and largely completed remediation programs, which have been transitioned to business as usual functions.

Outlook

Challenging market and economic conditions are expected to persist in the short- to medium-term, which is likely to impact on overall industry sales volumes, lapse rates and performance.

The Group's strategy and focus has been reset, positioning ClearView to take advantage of structural changes in the market.

Shorter term profit growth will be achieved by effective cost management, improving lapse and claims performance, and execution of the distribution strategy.

ClearView is likely to be the beneficiary of industry disruption and the subsequent opening up of life insurance APLs, which will see previously aligned financial advice businesses gain access to its suite of products and services. Additional distribution relationships, combined with the maturation of our existing life insurance APLs, will lead to a material increase of in-force premium, noting the shorter term focus on business quality.

Key areas of focus for FY20 include:

- Upgrading major elements of the core Life Insurance and desktop technology.
- Repositioning the Financial Advice segment and rolling out LaVista.
- Completing a strategic review of Wealth Management platforms and technology with a focus on the simplification of key back-office systems. A project related to its superfund[1] (part of a broader wealth strategy review) has commenced.
- Additional work on the pricing, positioning and retention strategies for Life Insurance and Wealth Management products.
- Further investment in the Group risk and compliance functions including the appointment of a Chief Risk Officer.

Dividend and share buyback

The net capital position above the internal benchmarks at 30 June 2019 was $5.0m across the Group. This included $15 million drawn down under the debt funding facility.

ClearView generates positive cash flows each year from its in-force portfolios which is subsequently reinvested into new business generation. The underlying business is now approaching self-funding capability in FY20, with the debt funding facility likely to be replaced by a longer term capital solution. Certain capital initiatives are currently under consideration.

In light of the current share price, effective Friday 30 August 2019, the Board has approved the recommencement of the current 10/12 limit on market buy-back program that was extended on 19 December 2018. ClearView's appointed broker for the buy-back is Blue Ocean Equities Pty Limited.

As such the Board has suspended the FY19 year-end dividend as a buy-back is considered to be a better use of capital and in the interests of shareholders. In the interim, and until such time as a more permanent capital solution is implemented, the debt funding facility will be utilised to fund the on-market buy-back program (subject to caps under the terms of the debt facility).

1. ClearView Retirement Plan

Results overview

The ClearView Group achieved the following results for year ended 30 June 2019:

After tax profit by segment, $M	FY19 $M	FY18 $M	% change[1]
Life Insurance	22.0	26.1	(16%)
Wealth Management	3.6	5.2	(30%)
Financial Advice	1.0	1.8	(44%)
Listed entity and other	(1.5)	(0.7)	(98%)
Underlying NPAT[2]	**25.1**	**32.4**	**(22%)**
Policy liability discount rate effect	6.6	(0.9)	Large
Cost out program implementation costs	(3.8)	-	Large
Impairments	(18.9)	-	Large
Amortisation of acquired intangibles	(1.2)	(4.0)	Large
Direct Remediation Program and Royal Commission costs	(2.4)	-	Large
Other costs[6]	(1.4)	(0.8)	Large
Reported NPAT[4]	**4.0**	**26.6**	**(85%)**
Embedded Value[3]	672.7	670.4	0%
Net asset value[4]	439.1	444.3	(1%)
Reported diluted EPS (cps)[5]	0.62	4.14	(85%)
Underlying diluted EPS (cps)[5]	3.94	5.03	(22%)

1. % movement, FY18 to FY19 unless otherwise stated.
2. Underlying NPAT consists of consolidated profit after tax adjusted for amortisation (not including capitalised software), the effect of changing discount rates on insurance policy liabilities and costs considered unusual to the Group's ordinary activities.
3. Embedded Value at 4% discount rate margin, including a value for future franking credits, accrued franking credits and Employee Share Plan (ESP) loans. Embedded Value as at 30 June 2018 restated to remove Financial Advice client book including franking credits. Embedded Value at 30 June 2019 includes various assumption changes from 30 June 2018 calculations.
4. Net Asset Value as at 30 June 2019 excluding ESP Loans.
5. Impacted by the dilutive effect of shares issued under the DRP, ESP shares vested/forfeited during the period and changes to the number of ESP shares 'in the money' given the changes in ClearView's share price period on period.
6. Considered unusual to the ordinary activities of the business.

Segment results

Life Insurance underlying NPAT down 16% to $22.0 million, reported NPAT down 14% to $19.2 million; in-force premium up 12% to $252.6 million

Life Insurance remains the key profit driver. ClearView's expanding distribution footprint and new business volumes led to a 12% increase in in-force premiums, which underpins the growth profile.

However, the segment's result was adversely impacted by:

- Poor claims experience (relative to claims assumptions in the life insurance policy liability determined at 30 June 2018) resulting in an experience loss of $5.2 million in FY19 (FY18: -$5.5 million).
- Elevated lapses (relative to lapse assumptions in the life insurance policy liability determined at 30 June 2018) resulting in an experience loss of $5.6 million in FY19 (FY18: -$2.1 million).
- New business down 8% to $39.2 million (FY18: $42.4 million).

In response, ClearView has adjusted its expense, claims and lapse assumptions for valuations and business management based on recently observed experience; terminated underperforming distribution relationships; and implemented a revised pricing structure.

Pleasingly, ClearView entered distribution agreements with an additional 113 Australian Financial Services Licensees (**AFSLs**) in FY19, pushing the number of AFSLs that the group does business with up 27% to 532 (FY18: 419).

Investment in technology, actions to improve retention and repositioning of the flagship ClearView LifeSolutions product is likely to support medium- to long-term growth.

Wealth Management underlying NPAT down 30% to $3.6 million, reported NPAT down 63% to $1.8 million

The Group's structure positions it to capture opportunities arising from the convergence of life insurance and wealth management.

In FY19, the segment's result was adversely impacted by materially reduced inflows, investment performance and pricing changes. This led to a 5% reduction in fees to $34.4 million (FY18: $36.2 million).

During the year, ClearView repositioned and repriced its wrap platform, introduced a number of new model portfolios and commenced a strategic review of its wrap platform and wealth technology.

A review of its approach to product development is also underway to ensure differentiated solutions with broader market appeal.

These initiatives will be a core part of the business' focus in FY20.

Financial Advice underlying NPAT down 44% to $1.0 million, reported loss of $13.7 million

ClearView's aligned dealer groups Matrix Planning Solutions (**Matrix**) and ClearView Financial Advice (**CFA**) have 227 financial advisers.

In 2019, Matrix was named CoreData's Licensee of the Year for the third consecutive year, reinforcing the Group's commitment to providing quality licensing and dealer services to financial advisers.

Key issues in the segment include rising compliance costs, risks managing advice sector exposure and the gradual reduction, and ultimate removal, of grandfathered revenue streams.

The financial advice industry is experiencing unprecedented change including heightened regulation, greater scrutiny and vertical disintegration with some institutions voluntarily selling or closing their dealer groups.

To support disenfranchised advisers, ClearView launched LaVista Licensee Solutions in November 2018. LaVista is an outsourced B2B licensee services offer, designed to meet the needs of the growing number of self-licensed financial advisers and third party AFSLs.

As part of the LaVista roll out and repositioning of the dealer groups, the intention is to replace grandfathered revenue streams and remove the cross subsidies that exist in the business and develop a sustainable Financial Advice revenue base.

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CVM_0965 08/19