



# iSelect FY20 1<sup>st</sup> Half Results

**INVESTOR BRIEFING** | 25 FEBRUARY 2020

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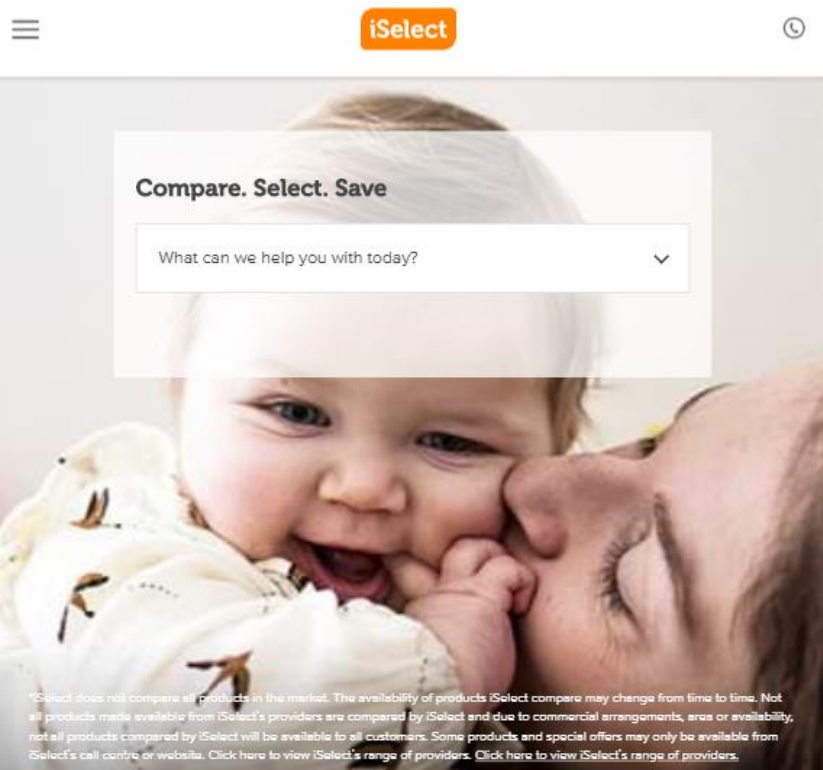
# Business Update

**Brodie Arnhold** Chief Executive Officer

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# Despite market headwinds in this half, Energy is recovering and our long term strategy remains on track

- FY20 H1 was very challenging from a market perspective, however **our belief in the opportunity ahead of us remains strong**
- **In line with our update at our AGM**, we have posted a small loss in FY20 H1: -\$2.5m Underlying EBIT
- Some key call outs on this result:
  - Energy - Significant **regulatory change impacted the Energy market**. We saw improvement over H1, and with prominent new partners, more competitive offers, and solar product expansion we are seeing this continue in H2
  - Health - **Good top line growth** reflecting strong operational performance. H1 profitability impacted by Energy led Cross-Serve and SEO. H2 to date: showing **strong top line growth**
  - Life & GI - **GI performed strongly**. Our Life business **encountered a difficult market environment**
- The evolution of our **technology and customer experience** continued in line with our outlined plan and we have delivered on important projects: Genesys telephony platform, B2B Platform, Bill Upload, Marketing Automation and Customer Account
- We maintained a **disciplined focus** on costs in our core business
- We are progressing with our **intention of selling our stake in iMoney**. At this point, we have received non-binding indicative offers in relation to the sale and we continue with this process



HELPING AUSTRALIANS GET SORTED

### What our customers are saying about us



iSelect were able to find me a cheaper and just as suitable health insurance from the one that they found me the previous year. So obviously...

CHRISTOPHER

## Our Why

We exist to save consumers **time, effort and money** on their household bills. Over our 20 years serving the Australian community, these three remain key 'pain points' for consumers

## OUR STRENGTH

- Demand for comparison is on the rise
- We offer a breadth of services across: Utilities, Financial Services, General Insurance and Health
- We have over 4.4m Unique Visitors and 2.1m comparisons per year.

## LOOKING AHEAD

We are evolving our model, strengthening our relationships with partners and making the comparison journey easier for our customers

## FY20 H1 iSelect Headlines

-\$2.5m

UNDERLYING EBIT

1.79m

LEADS  
-10% YOY

8.1%

CONVERSION  
-1.8pp YOY

27%

GROSS PROFIT  
MARGIN  
-10pp YOY

144k

SALES  
-27% YOY

11.3%

X-SERVE % of  
REVENUE  
-3.3pp YOY

-4%

EBIT MARGIN  
-12pp YOY

### KEY COMMENTS (v FY19 H1):

- **Leads** result impacted by:  
Energy (-15%), Life (-27%)
- **Sales decline** driven largely by  
Energy (-49%)
- **Overall conversion** impact reflects  
the impact of Energy regulatory  
change on our Cross-Serve  
business. Conversion in our other  
key channels remained stable

# Underlying EBIT reflecting a challenging half

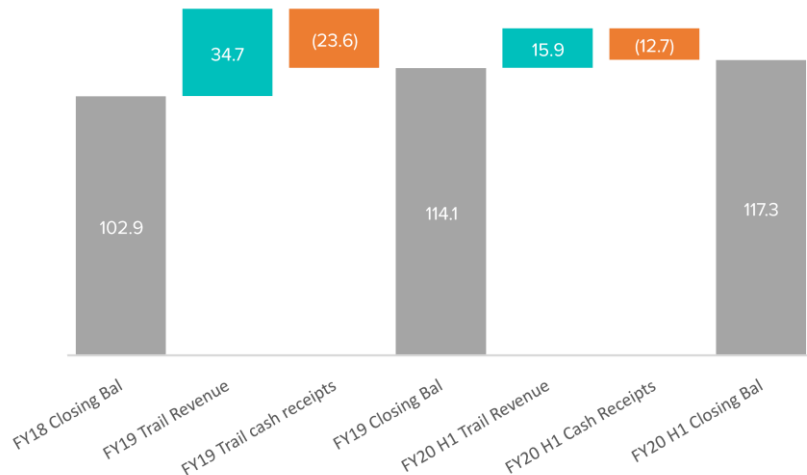
INCOME STATEMENT UNDERLYING (Excl. iMoney) (\$m)	FY20 H1	FY19 H1*	CHANGE
REVENUE	58.6	72.1	-19%
Gross Profit	15.6	26.4	-41%
<i>GP Margin</i>	27%	37%	-10.0p.p
Overheads	-14.0	-16.8	-16%
EBITDA	1.6	9.7	-83%
Depn. and Amort.	-4.1	-4.0	2%
EBIT	-2.5	5.7	n.m
<i>EBIT Margin</i>	-4%	8%	-12.0p.p
Net Interest Income	-0.2	-0.2	n.m
Income tax expense	0.7	-1.2	n.m
NPAT	-2.0	4.2	n.m
Reported EBITDA (Excl. iMoney)	-0.3	-1.0	n.m
Reported EBIT (Excl. iMoney)	-4.4	-5.0	n.m

- Revenue decline primarily impacted by:
  - Energy market reforms (Energy & Telco: -44%)
  - Ongoing changes occurring in the Life market (Life Insurance: -55%)
  - Impact of these in our Cross-Serve business (X-Serve Revenue: -38%)
  - Health performed strongly, Revenue up 5%
- Gross Profit was also impacted by:
  - A challenging SEO environment, increase investment in Brand
  - Increase in Direct Costs per sale due to the lower conversion rates
- Disciplined management of costs in our core business reflected in the Overheads reduction
- Full Reported Earnings breakdown in Appendix
- A segment breakdown will follow in this presentation
  - Note: iSelect's Other segment includes Home Loans and InfoChoice (FY19).

\* FY19: Adjusted for adoption of AASB15, reflecting a like-for-like comparison with H1 FY20

# Cash flow and Working Capital

## Significant Intrinsic Value in iSelect



### WORKING CAPITAL AND CASH FLOW

1. At \$117m, our Trail Asset represents a value of almost 54c per share
2. Trail Asset cash collection performing in line with expectation
3. Our Trail mix has continued to grow in H1 FY20, due to:
  - Product mix within Health Insurance
  - Decline in Energy as a % of Group Revenue

Upfront / Trail Mix	H1 FY18	H2 FY18	H1 FY19	H2 FY19	H1 FY20
Upfront	80.1%	79.4%	77.0%	75.4%	72.9%
Trail	19.9%	20.6%	23.0%	24.6%	27.1%
Trail Revenue (\$m)	16.5	19.9	16.1	18.6	15.9

# Working Capital Outlook

## ISU TRAIL WORKING CAPITAL (WC) TREND

	FY18	FY19	FY20	FY21	FY22
Trail WC impact	(12.7)	(11.1)	Negative	Neutral	Positive

## HEALTH TRAIL CASH FLOW PROFILE: PER FINANCIAL YEAR

	Trail Asset: Cash flow profile (x1 New Health Customer)						
	FY18	FY19	FY20	FY21	FY22	FY23	FY24
FY18 Sales	1	2	3	4			
FY19 Sales		1	2	3	4		
FY20 Sales			1	2	3	4	
FY21 Sales				1	2	3	4

- 84% of Health Trail Revenue is collected within 4 Years
- In FY21 we reach a WC 'equilibrium'

1. Since FY18, we have seen higher levels of **Trail Revenue**. This is due to the product sales mix, in Health in particular
2. At current levels of growth in Health, the Working Capital outflow reduces and **will become positive in the second half of FY21**
3. Any product mix changes that see our Trail Revenue reduce, **will improve working capital further**



## FY20 H1 iMoney Headlines

**\$3.3m**

REVENUE  
+52% YOY

**1.1m**

LEADS  
+39% YOY

**32%**

LEAD GEN  
CONVERSION  
+9pp YOY

**\$7**

RPS  
-30% YOY

**357k**

SALES  
+90% YOY

**30%**

GROSS PROFIT  
MARGIN  
+6.9pp YOY

**-\$2.5m**

EBIT  
n.m

### SALE OF IMONEY BUSINESS - UPDATE

- We are progressing with the iMoney disposal as we have stated. We have indicative and non-binding offers including:
  - For the sale of the whole business
  - Sale of part of the business
- We will keep the market updated on progress

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# Operational Update & Outlook

**Brodie Arnhold** Chief Executive Officer

# Energy Regulatory reforms

## CHALLENGING H1

- Energy reforms were introduced on July 1, 2019. The most significant reform was the introduction of a 'price ceiling'
  - Default Market Offer (DMO) in NSW, SA, QLD
  - Victorian Default Offer (VDO)
- The VDO/DMO impacted margins for electricity retailers. To offset this, retailers adjusted their pricing on their more competitive offers
- The market impact: For customers who had switched their Electricity (pre July 1), many plans available in the market post July 1 were less competitive

## IMPACT ON ISELECT

- iSelect saw conversion drop from 1<sup>st</sup> July 2019. H1 conversion recovered to 75% of historical levels. This metric across H1 would have delivered an additional +\$2m EBIT in Energy
- Because Energy is a 'high volume' business for iSelect, the reforms have had an impact on our Cross-Serve business, affecting revenue and margins in our other segments

## H2 OUTLOOK

- During H1, we saw the market begin to adjust:
  - Retailers adapted to new compliance requirements
  - More competitive plans began to emerge
- Whilst the Energy business' conversion rate initially halved in July 2019, it has improved month-on-month since then
- We expect our conversion rate to continue to improve in H2:
  - With prominent new partners, more competitive offers, and solar product expansion to be introduced into our marketplace in H2

# FY20 H1 Operational overview



## OPERATIONS

- Improved consultant capability, with the number of multi-product trained consultants increasing **+28% in this half**
- **Conversion rates in key channels** increased in Car Insurance and Life Insurance, whilst remained steady in Health Insurance<sup>1</sup>, compared to H1 FY19



## PARTNERSHIPS

- Retaining strong partner relationships across our segments and establishing new relationships with:
  - **ING (General Insurance)**
  - **BizCover (SME Insurance)**
  - **Lumo (Energy)**
- Focus on operational improvements saw a reduction in sales leakage, including a **1.4pp reduction in Health YOY**



## CUSTOMERS

- Net Promoter Score (NPS) uplift of **+13.1%** (vs H1 FY19) reflecting a focus on customer impact and minimising response times
- As conversion and NPS metrics skew higher in our longer serving team members, pleasingly we have seen another **+2pp improvement** in staff retention vs H1 FY19

1. Key Channels: Conversion of a phone call to a sale in our Outbound & Inbound call channels

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# Technology Update

**Slade Sherman** Chief Experience Officer

# Our evolution into a tech-driven customer relationship business is well underway

## DELIVERED IN FY20

- ✓ New Genesys telephony platform rolled out with Salesforce integration
- ✓ Upgrade of our Cross-Serve capability
- ✓ B2B Platform: with AFG our first partner to go live
- ✓ Customer Account: Phase 1 now live
- ✓ Bill Upload
- ✓ Marketing Automation

## NEXT PHASE

- Improved recommendations and propensity models for Cross-Serve
- Leveraging Marketing Automation: personalised user journeys
- Ongoing rollout of Customer Account
- Continued investment in our Data to enable Customer 360 and machine learning data feedback loops

## FUTURE VISION

- Leveraging our data to serve customers as a 'one stop shop' when their needs change
- End to End services that make comparisons and connections seamless for our customers
- Automation of comparisons and recommendations based on the relationship with the customer
- New B2B Partnerships and white-labelling to diversify leads and customer mix

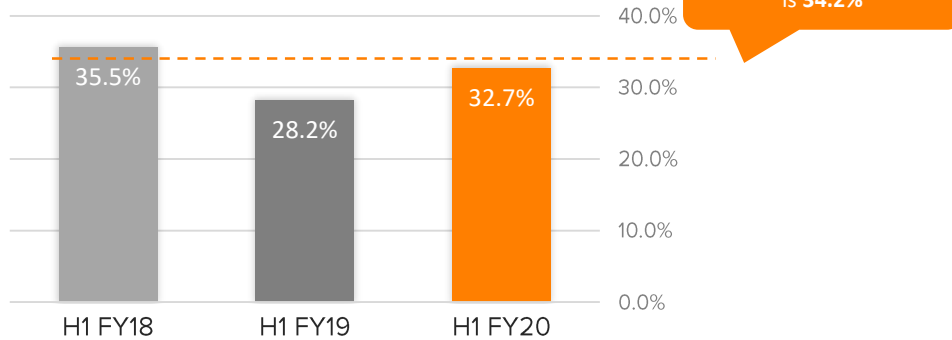
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# Marketing Update

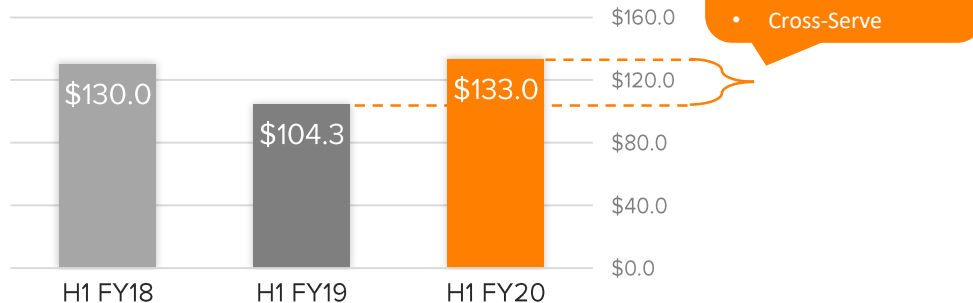
**Warren Hebard** Chief Marketing Officer

# H1 Marketing Update

## MARKETING % OF REVENUE



## MARKETING COST PER ACQUISITION (CPA)



## MARKETING COST CONTROL REMAINS A FOCUS WHILE REGULATORY CHANGE IS UNDERWAY

- Marketing spend as a % of Revenue has increased, however remains below the longer term average
- Health sales have a higher CPA, Energy sales have a lower CPA (vs Group Average). Refer appendix for further detail
- The Energy sales decline combined with increase in Health volumes drove a change in CPA for the group
- Increased YoY investment in “Brand” as planned

## TECHNOLOGY INITIATIVES TO IMPROVE MARKETING ROI DELIVERED

- Digital Marketing automation of bid strategy
- Bidding from click to revenue (actuals) campaign execution completed
- Salesforce Marketing Cloud implementation
- Promo Engine MVP development to be completed in H2



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# Financial Results

**Vicki Pafumi** Chief Financial Officer

# Health Insurance

REPORTED (\$m)

HEALTH INSURANCE	FY20 H1	FY19 H1	CHANGE
Revenue	35.8	34.0	5%
EBITDA	2.9	4.6	-37%
Customer Leads (000s)	450	410	10%
Sales Units (000s)	40	40	1%
RPS \$	960	975	-1%
Conversion	8.9%	9.7%	-0.8 pp

## HEADLINES

Leads up vs H1 FY19 with mix more diversified

Revenue result reflecting strong operational performance across our key channels

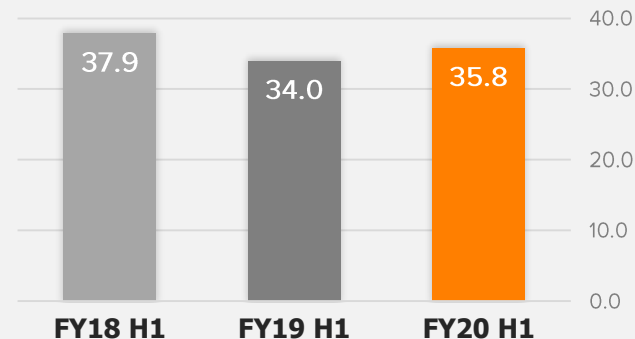
Conversion rate impacted by a lower volume of cross-served leads, which will improve as Energy returns

EBITDA H1 impacted by:

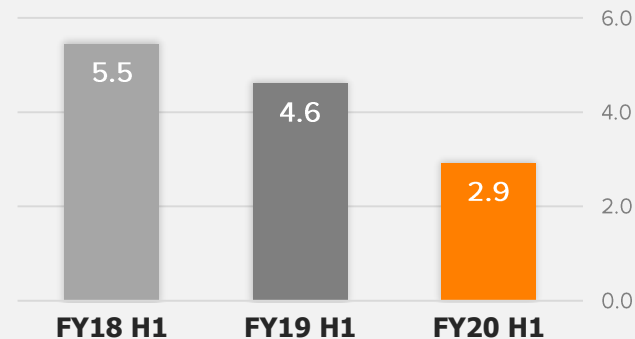
- Cross-Serve decline from Energy
- SEO performance
- Increased Opex spend in Brand and Technology

In H2 to date, we have seen revenue growth of +11% and are expecting the above impacts to improve

## REVENUE (\$m)



## EBITDA (\$m)



# Energy & Telco



REPORTED (\$m)

ENERGY & TELCO	FY20 H1	FY19 H1	CHANGE
Revenue	13.1	23.3	-44%
EBITDA	-0.6	3.6	-116%
Customer Leads (000s)	860	927	-7%
Sales Units (000s)	69	111	-38%
RPS \$	219	250	-12%
Conversion	8.0%	12.0%	-4.0 pp

## HEADLINES

FY20 H1 was a challenging half due to Regulatory changes introduced July 1, 2019

Changes impacted all retailers and affected product ranges, pricing and RPS

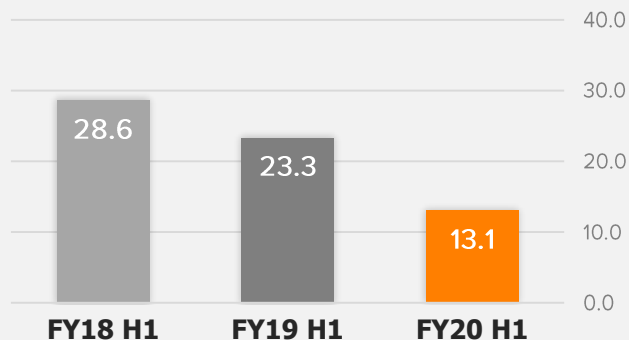
These changes impacted our Cross-Serve business

Conversion rates and RPS have returned to 75% of historical levels and we expect this improvement to continue

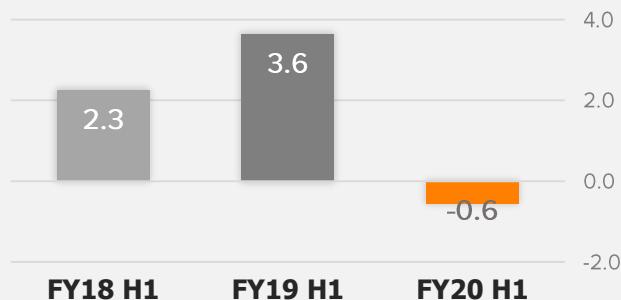
Early signs in H2 are that the market continues to recover

ACCC: Proceedings are ongoing

## REVENUE (\$m)



## EBITDA (\$m)



# Life and General Insurance



REPORTED (\$m)

LIFE & GENERAL INSURANCE	FY20 H1	FY19 H1	CHANGE
Revenue	8.8	13.2	-33%
EBITDA	0.4	3.2	-89%
Customer Leads (000s)	437	587	-26%
Sales Units (000s)	35	46	-23%
RPS \$	291	299	-3%
Conversion	8.1%	7.8%	+0.3 pp

## HEADLINES

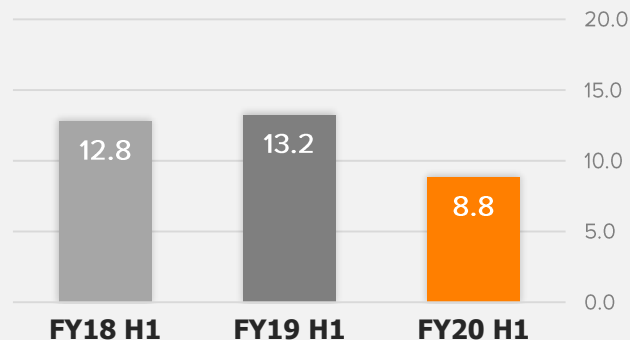
Lead result impacted by declines in demand and period of change in the Life Insurance market

RPS and Revenue decline due to a change in sales mix and Life Insurance market reforms; with the GI business representing a higher % of Revenue

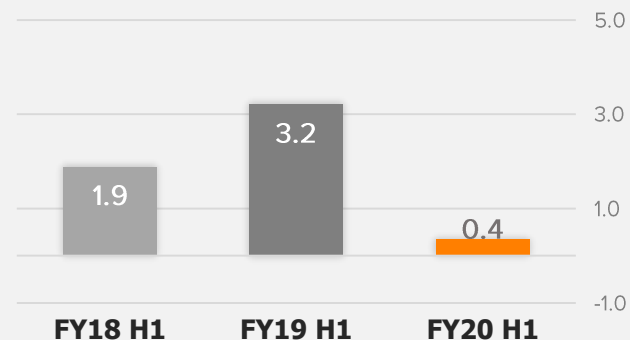
GI business performed in line with expectation, with Inbound and Outbound conversion improving YoY

EBITDA impacted by decline in Cross-Serve from Energy

## REVENUE (\$m)



## EBITDA (\$m)



# Balance Sheet

31 DEC 2019 CASH FLOW STATEMENT – REPORTED (\$m)	H1 FY20	H1 FY19
Operating Cash flow	0.0	1.4
Capital Expenditure	-5.1	-3.4
Free Cash	-5.1	-2.0
Investing/Financing cash flow	-1.5	-1.8
Net movement in cash	-6.6	-3.8
Cash at beginning	22.0	33.0
Cash at end	15.4	29.2

31 DEC 2019 BALANCE SHEET – REPORTED (\$m)	H1 FY20	H1 FY19
Cash	15.4	29.2
Receivables	15.4	18.7
Trail Commission Asset	117.3	108.0
Other	65.6	59.5
Total assets	213.7	215.4
Total liabilities	61.5	57.8
Net assets	152.2	157.6

- Operating cash flow at net \$0.0m:
  - +\$2.1m: Australian business
  - -\$2.1m: iMoney business
- Capital Expenditure driven by our technology roadmap focus areas: Partners, Customers and Data.
- Trail Commission Asset balance includes the conservatism required by AASB15. Cash collection tracking in line with expectation of this asset
- Working Capital to neutralise in FY21 and turn positive from H2 FY21
- iMoney: Further loans of US\$0.5m (H1) and US\$0.5m (Jan-20), taking total loans to US\$5.0m

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# FY20 Outlook

**Brodie Arnhold** Chief Executive Officer

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# FY20 Outlook

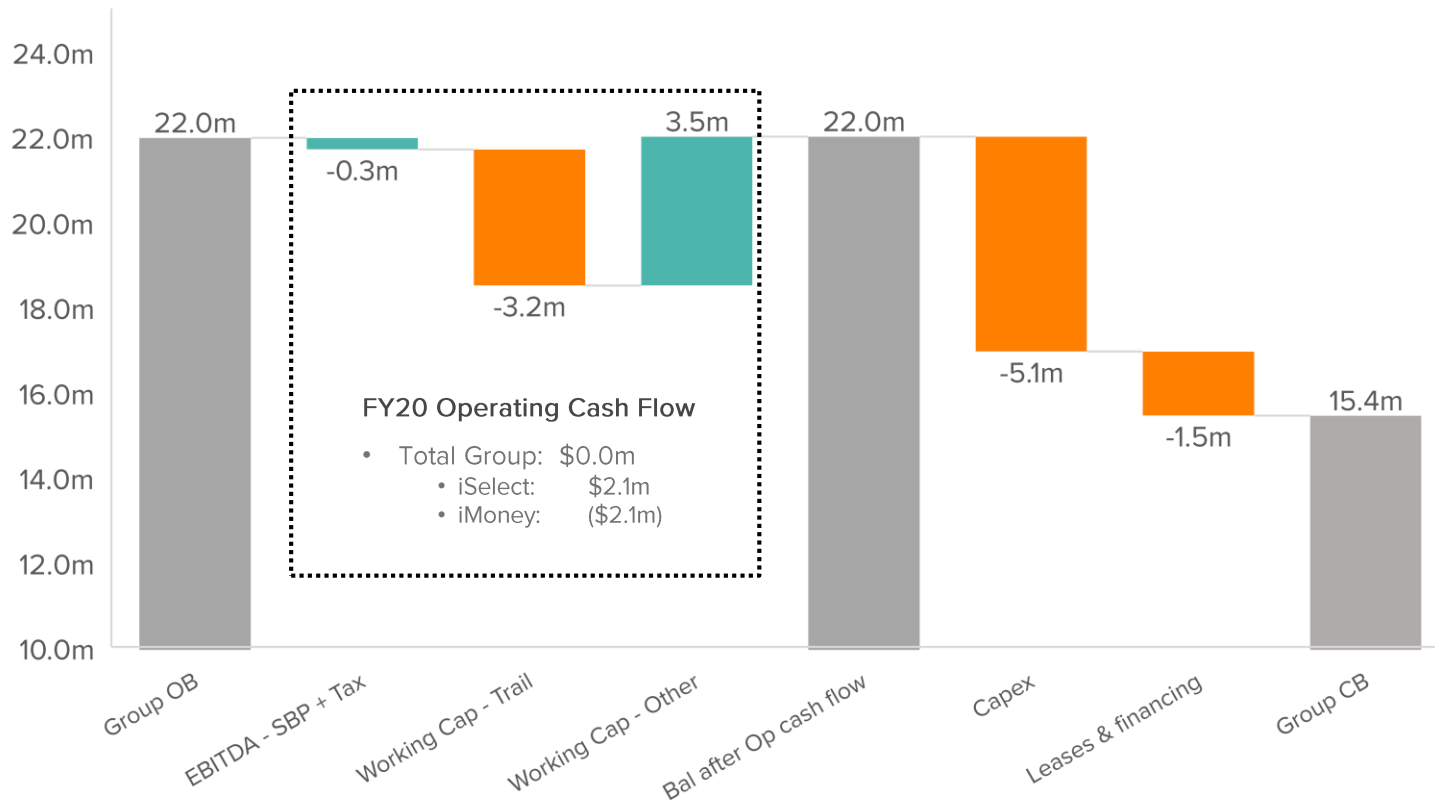
- After a tough Energy market in H1, we expect H2 performance to improve as we begin to realise the benefits of our investments and as the Energy market adjusts to the new regulatory environment:
  - Already in H2 to date, we have seen revenue growth in Health: +11%
  - In Energy, we will be broadening our marketplace in H2: Prominent new partners, more competitive offers and Solar expansion
  - Our strategic investments in our Brand and Technology will continue in H2 FY20
- From a cash perspective, we have seen an adverse Working Capital trend since FY18. We expect Working Capital will normalise in FY21 and turn to a positive position from H2 FY21
- Looking ahead to the Full Year, we are currently tracking in line with FY19 H2, however we note our peak months of March and June as well as the Energy market recovery as key factors in this remaining financial year

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# Appendix



# FY20 Cash flow breakdown



# Trail Book Assumptions

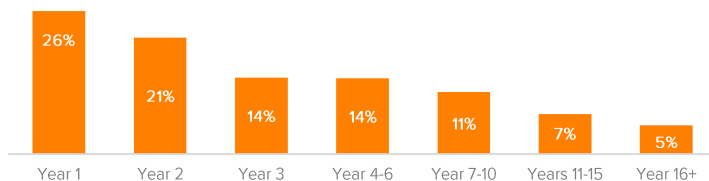
	KEY VARIABLES	CUSTOMER: Blended Attrition/ Lapse Rates	INDUSTRY: Premium Increases	PRESENT VALUE: Discount Rate
 Health	Principle	Historic trends +1 p.p conservatism	Historic trends +1 p.p conservatism	Locked at point of recognition. Doesn't impact Trail Asset
	Assumption	7.1% - 26.5% (Industry Avg = 15.0%)	3%-4% (Industry Avg = 3.3%)	2.8%
	1% Movement	\$2.5m Rev	\$2.2m Rev	n/a
 Life Insurance	Principle	Historic trends + additional 3p.p conservatism	Historic trends + additional 1-2p.p conservatism	Locked at point of recognition. Doesn't impact Trail Asset
	Assumption	13.6% - 20.7% (Industry Avg = 13.9%)	8.0% (Industry Avg = 10.0%)	3.1%
	1% Movement	\$2.6m Rev	\$2.1m Rev	n/a
 Home Loans	Principle	Market driven data	Current variable interest rates	Locked at point of recognition. Doesn't impact Trail Asset
	Assumption	10% - 24% (Industry Avg = 22.0%)	4.7% (Industry Avg = 4.6%)	3.1%
	1% Movement	\$0.2m Rev	\$0.2m Rev	n/a

# Trail Asset: Cash flow profiles

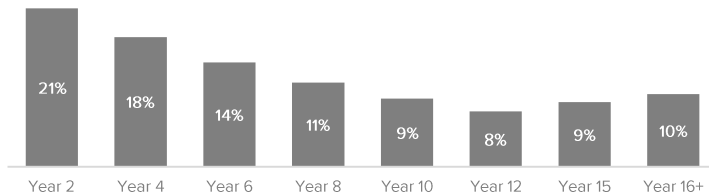
In previous Investor Presentations, we have provided a blended cash profile for each of our Trail Assets. In H1 FY20 for purposes of added transparency, we have separated out: (A) the cash flow profile relating to our existing Trail Asset (per Balance Sheet 31 Dec 2019); and (B) the average cash flow profile we expect for new business written.

## (A) CASH PROFILE: EXISTING TRAIL ASSET

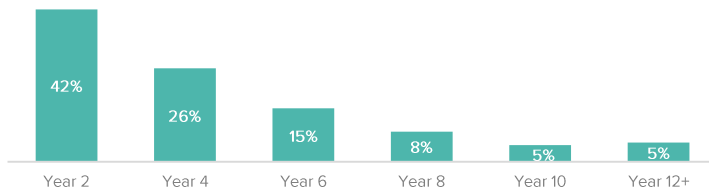
### Health Insurance



### Life Insurance

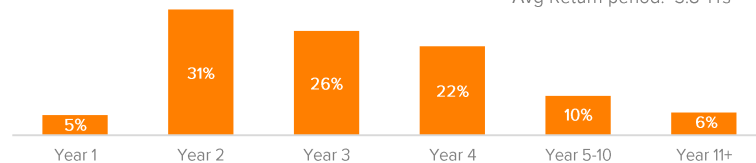


### Home Loans

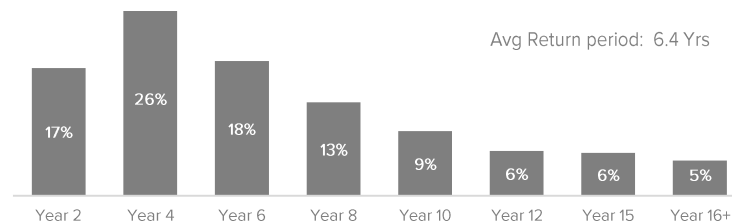


## (B) AVERAGE CASH PROFILE: x1 NEW CUSTOMER

Avg Return period: 3.8 Yrs

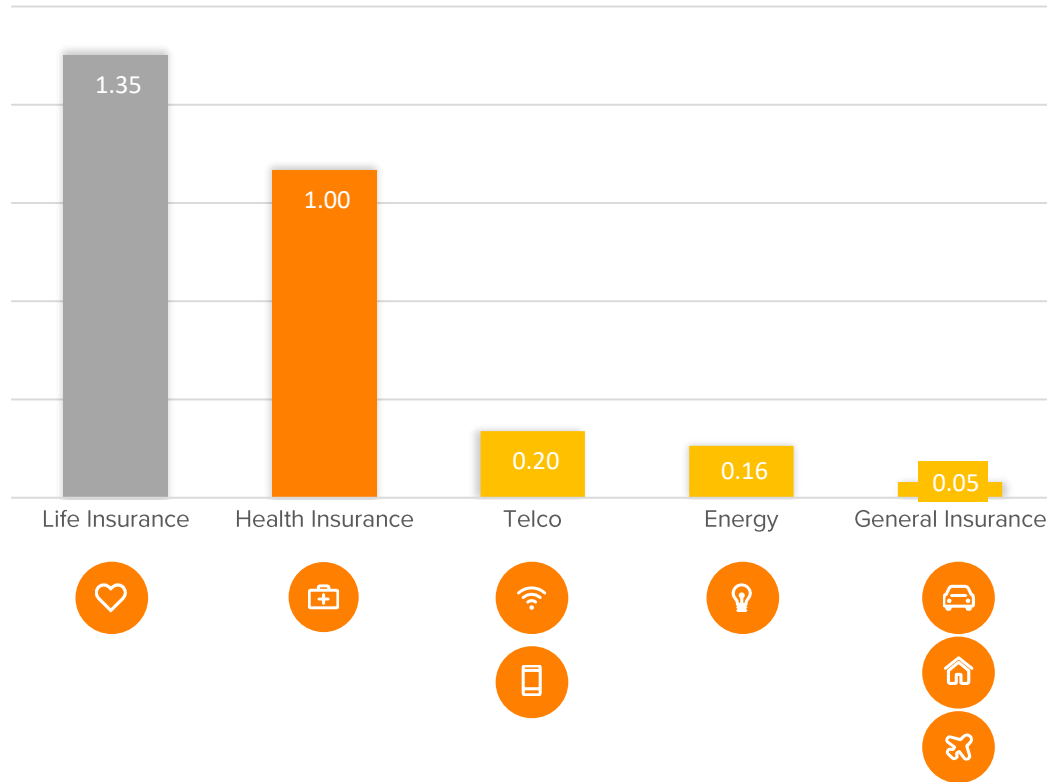


Avg Return period: 6.4 Yrs



Not Applicable: post Joint Operation agreement with AFG (Apr 2019)

# Marketing Cost Per Acquisition (CPA) relativities



# Reconciliation: Reported to Underlying results

	REPORTED	ADJUSTMENTS			UNDERLYING
	HY20 \$'000	CORPORATE RESTRUCTURE	ACCC	IMONEY PERFORMANCE	HY20 \$'000
EBITDA	(2,182)	377	1,500	1,897	1,592
Depreciation and amortisation	(4,427)	-	-	353	(4,074)
EBIT	(6,609)	377	1,500	2,250	(2,482)
Net finance costs	(298)	-	-	145	(153)
Profit/(loss) before income tax expense	(6,907)	377	1,500	2,395	(2,635)
Income tax benefit	1,296	(113)	(450)	(8)	725
Profit for the period	(5,611)	264	1,050	2,387	(1,910)
EPS (cents)	(2.4)	0.1	0.5	0.9	(0.9)

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**Thank you**