

# iSelect FY22 Results

INVESTOR BRIEFING | 31 AUGUST 2022



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# Business Update

**Warren Hebard** Chief Executive Officer



## FY22 RESULT: UNDERLYING EBITDA \$9.9M

- Revenue impacted by market headwinds:
  - Consumer demand suppressed<sup>1</sup> during the first half of FY22. In Energy, prices reached an 8-year low in 2021<sup>2</sup> which saw consumer demand continue to decline in H1FY22, before rapidly increasing in Q4FY22 due to the media attention surrounding the energy market.
  - Health Insurance: Many private health insurers - including four of the top five funds by market share – deferred their annual premium rate rises (normally in April).

## STRONG OPERATING CASH FLOWS

- Cash flow was positive: Cash balance increased +\$1.9m YOY, despite the outflows on ACCC and CIMET transaction costs
- Trail related Working Capital returning to an 'inflow' in FY22

## CIMET PERFORMANCE

- CIMET's growth trajectory continued, delivering revenue of \$11.4m (+124% YOY) for the full FY22 year

## ISELECT HAS ENTERED INTO A SCHEME OF ARRANGEMENT WITH IHA

- Scheme was announced to the market on 10<sup>th</sup> August 2022
- IHA: 'Innovation Holdings Australia' is an investment of Reef Investment Consortium (Reef Group). The Reef Group also own Auto & General and Compare The Market.
- Cash Price of \$0.30 per share.
- Implementation of the Scheme remains subject to the satisfaction of the Conditions Precedent, which include ACCC approval
- Implementation of the Scheme is expected between Dec 2022 and Mar 2023
- Scheme has been unanimously recommended by the Board, in the absence of a superior proposal and subject to an Independent Expert concluding (and continuing) to conclude the Scheme is in the best interests of shareholders.

# FY22 Results

	FY22	YOY
Revenue	93.1	-16%
EBITDA <sup>1</sup>	9.9	-52%
Leads (millions)	2.0	-4%
Conversion	9.6%	-0.8pp
Sales Units (000's)	196	-12%
X-Serve	11.0%	+0.1pp
Marketing ROI	2.9	-12%
NPS	57	+2%

## MARKET CONTEXT

### Consumer demand levels creating a challenging environment, most notably:

- Health: Switcher demand was impacted by the absence of a Health Rate Rise for many health funds during FY22<sup>2</sup>
- Energy: Suppressed demand continued in energy for the first half<sup>2</sup>, before rapidly increasing in Q4 in response to media focus on the energy crisis

### Competition in the category remained high:

- Increased competition in both digital and 'Above the line' channels
- New players utilising 'lighter' cost models enabling a greater % of revenue to be invested in customer acquisition

## HEADLINES

### → Operating performance was resilient despite the challenges:

- Conversion declining 0.9pp, due to the market conditions as well as higher than normal absenteeism (due to COVID-19) in the contact centre team
- This impacted Marketing ROI
- Our cross-serve business remained solid
- NPS increased slightly again in FY22, up to 57

1. Results shown above represent Underlying results

2. FY22 - Google Industry Demand Index, year on year comparison of average demand queries

# FY22 CIMET Results



## Financial summary

(\$m)	FY22	FY21	CHANGE
REVENUE	11.4	5.1	+124%
Gross Profit	1.9	1.5	+27%
GP Margin	17%	29%	-12pp
Overheads	-3.1	-1.4	+129%
EBITDA	-1.2	0.1	n.m
EBITDA Margin	-11%	2%	-13pp
Depn. and Amort.	-0.0	-0.0	0%
Income tax	0.3	-0.0	n.m
NPAT*	-0.9	0.1	n.m

\* Note: this is for CIMET's Full Year FY22 results

## HEADLINES

- CIMET's results highlight the scalability and potential of their B2B model with 124% Revenue growth on FY21
- Leads increased from 262k in FY21 to 691k in FY22, representing a 164% YoY increase
- Growth has been realized through: Expansion of their B2B-partner network, improving commercial terms and broadening of their product range
- Key B2B-partners added in FY22 include: Priceline Pharmacy, Shopback among others
- Currently providing "comparison as a service" across Energy, Internet and Mobile, CIMET aims to diversify into multiple products in FY23
- Operationally, CIMET is focused on scaling the team, product offering and unlocking its potential by enhancing the cross-sell opportunities and providing better customer engagement.
- Post transaction, strategic partnership between the two businesses has started well and the teams are aligned to deliver the results

# Financial Results

**Vicki Pafumi** Executive – Finance & Strategy



# FY22

## Performance

### INCOME STATEMENT

UNDERLYING (\$m)	FY22	FY21	CHANGE
REVENUE	93.1	111.0	-16%
Gross Profit	32.0	43.5	-26%
GP Margin	34%	39%	-5p.p
Overheads	-22.1	-26.1	-15%
JobKeeper	0.0	3.4	-100%
EBITDA	9.9	20.8	-52%
EBITDA Margin	11%	19%	-8p.p
Depn. and Amort.	-9.8	-10.5	-7%
EBIT	0.1	10.3	-99%
Net Interest Expense	-0.5	-0.4	25%
Income tax expense	2.2	-2.8	-128%
NPAT	1.8	7.1	-94%
Reported EBITDA (continuing operations)	5.0	8.5	-41%
Reported EBIT (continuing operations)	-15.7	-2.0	n.m

### KEY COMMENTS:

Although down on FY22, Gross Profit of \$32.0m represents a solid result:

- Underpinned by resilient operational performance across conversion and cross-serve
- Marketing ROI slightly down due to the lower consumer demand across the Board

EBITDA of \$9.9m:

- Continued focus on fixed costs saw a 15% reduction in Overheads
- Noting that FY21 included Jobkeeper

ISU's Reported Earnings include: Due diligence costs of \$2.1m (CIMET investment), \$1.56m write off (legacy Trail Sale) and \$10.8m (accelerated amortisation of capitalised development costs). A breakdown is outlined in Appendix



# Segment Performance

iSelect

## UNDERLYING (\$m)



FY22 Segment Results	Health Insurance		Energy & Telco		Life & General Insurance	
Revenue	61.8	-18%	15.0	-19%	15.7	-7%
EBITDA	5.1	-58%	-2.2	-144%	9.1	+7%
Customer Leads (000s)	748	-1%	679	-14%	475	+10%
Sales Units (000s)	61.2	-15%	73	-20%	61	+6%
RPS \$	1,049	-1%	228	-1%	152	-17%
Conversion	8.2%	-1.4 pp	10.8%	-0.9 pp	13.0%	-0.4 pp

## HEALTH:

→ FY22 saw many health funds - including four of the top five funds by market share - defer their 2022 premium rise from 1 April until H1FY23, compared with FY21 when two rate rises occurred. This saw the average lead cost increase and YOY conversion decline

## ENERGY & TELCO:

→ The Energy switcher market remained challenging through H1. (due to lower electricity prices<sup>1</sup> and increased competition<sup>2</sup>)

→ Q4 saw a surge in demand with the media's focus on rising energy prices, however the current market conditions have seen energy retailers elect to withdraw their most competitive plans from the market, and opt for plans at, or close to, the default market offer price

## LIFE & GI:

→ Across our General Insurance verticals, improved efficiency and increasing online sales mix delivered improved EBITDA outcome, while in Life Insurance, our Trail book collections remained strong, due to our retention program

1. Source: <https://www.accc.gov.au/media-release/cost-of-supplying-electricity-to-households-at-an-eight-year-low>  
 2. Source: Google Search Industry Landscape for Power and Electricity Services and Gas Utilities Feb 2021 – Feb 2022

# Balance Sheet and Cash Flow

## BALANCE SHEET

(\$m)	JUN-22	JUN-21
Cash	11.3	9.4
Receivables	10.8	14.9
Trail Commission Asset	118.0	124.8
Investment in Associate	22.5	0.0
Other	6.9	23.2
Total assets	169.5	172.3
Total liabilities	65.5	61.6
Net assets	104.0	110.7

## CASH FLOW STATEMENT

(\$m)	FY22	FY21
Operating Cash flow	9.4	10.2
Capital Expenditure	-3.7	-5.3
Free Cash	5.7	4.9
Investing/Financing cash flow	-3.8	-3.0
Dividend Paid	0.0	-2.2
Cash disposed of as part of discontinued operation	0.0	-1.6
Net movement in cash	<b>1.9</b>	<b>-1.9</b>
Cash at beginning	9.4	11.3
Cash at end	11.3	9.4

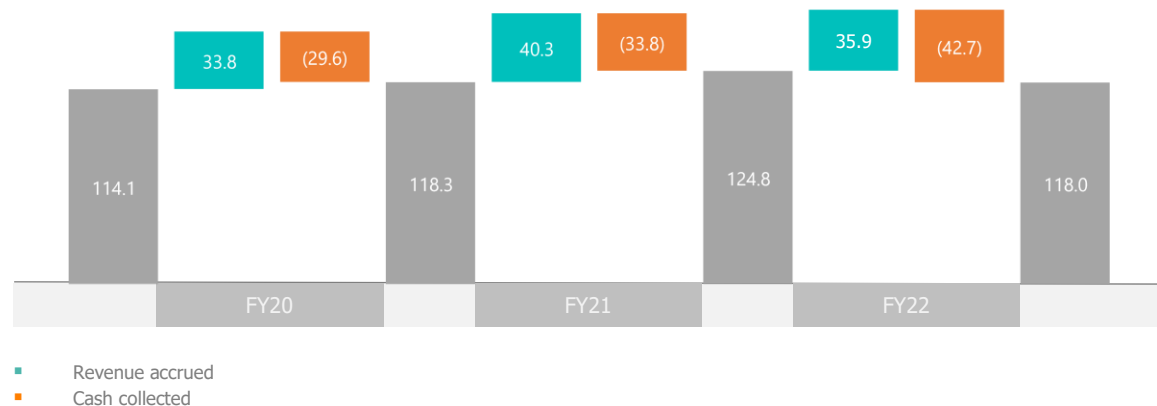
## KEY COMMENTS:

Operating cash flow was +\$9.4m:

- Capital Expenditure reduced to \$3.7m with strategic focus on our key elements for i26 priorities
- We now expect ISU's Capital expenditure for FY23 to be approximately \$5.0m
- ACCC cash payment of \$2.0m in November 2021. (Note: Two further payments remaining: Nov-22: \$2.0m, Nov-23: \$2.6m)
- Other Assets: Year on year decline relates to an accelerated amortisation applied to iSelect's capitalised software & development costs, following the investment made in CIMET
- Trail Commission Asset and Working Capital discussed on the next page

# Trail Cash flows turning positive

## TRAIL RELATED WORKING CAPITAL TREND



REVENUE MIX: UPFRONT / TRAIL	H2 FY20	H1 FY21	H2 FY21	H1 FY22	H2 FY22
Upfront Revenue	72.2%	66.0%	63.7%	62.2%	60.9%
Trail Revenue	27.8%	34.0%	36.3%	37.8%	39.1%

## CASH FLOW AND WORKING CAPITAL

- Trail cash collections continue to perform ahead of expectation, providing ongoing validation of the Trail Asset
- After several years in 'outflow', we saw Trail Working Capital turn positive and become an 'inflow' in FY22
- We expect Trail related Working Capital to remain an 'inflow' in FY23

# Outlook

**Warren Hebard** Chief Executive Officer



# Outlook



## MARKET OUTLOOK

During FY23, we expect cost of living pressures will continue to impact consumers.

Key market trends for iSelect in FY23:

- **Health Insurance:** Premium rate rises deferred from in FY22 expected to occur across H1 FY23, however being 'out of cycle' in nature, there is uncertainty as to what level of customer demand to expect.
- **Energy:** In response to higher wholesale costs, the market has seen energy retailers withdraw their competitive offers, with most retailers now offering consumers at, or close to, the default market price. Without competitive energy plans, it is not compelling for consumers to switch. This market dynamic is similar to what occurred in FY20, a period which saw iSelect's conversion levels adversely impacted.



## FY23 TRADING OUTLOOK

Our key initiatives in FY23:

- Continue to invest in the CIMET partnership, targeting launches of both new and existing verticals
- Increased investment in our brand, leveraging brand assets developed in FY22
- FY23 H1 focus will be on implementation of the SIA with IHA

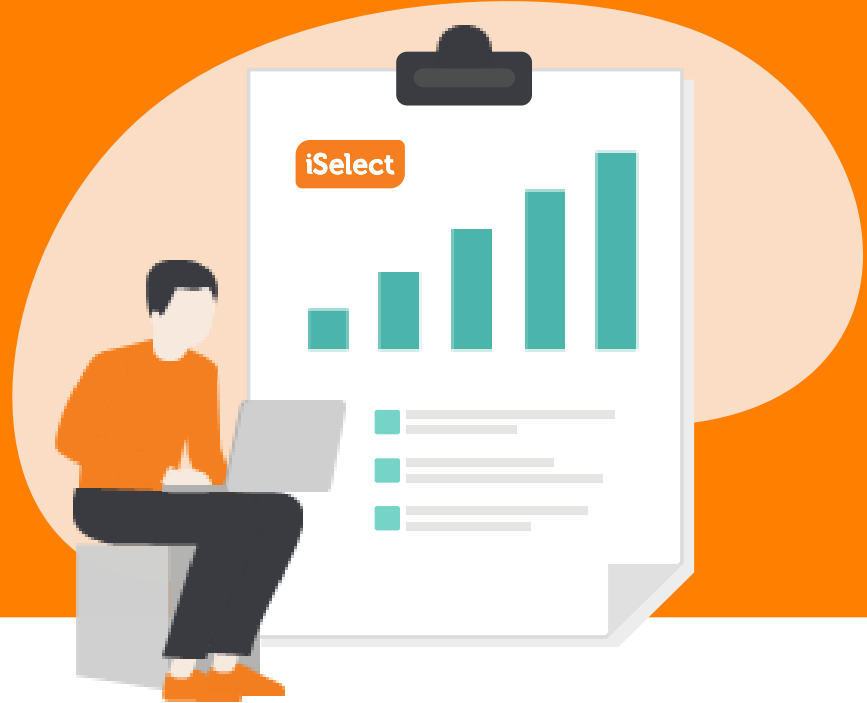
### Outlook:

- **Given 'out of cycle' nature of upcoming Health rate rise, there is uncertainty around the level of consumer demand to expect in Health in FY23. Considering the ongoing change occurring in the energy market, outlook for performance in the Energy & Telco segment is also uncertain**
- **Performance FY23 YTD: Revenue: -17% decline YoY, a key driver being Energy & Telco segment: ~40% decline YoY**
- **Given these conditions, the company expects overall financial performance in FY23 to be significantly impacted (when compared to FY22)**

# Thank you



# Appendix



# Trail Book Assumptions



Health

KEY VARIABLES	CUSTOMER: Blended Attrition/ Lapse Rates	INDUSTRY: Premium Increases	PRESENT VALUE: Discount Rate
<b>Principle</b>	Historic trends + 1.1 - 8.1 p.p conservatism	Historic trends + 0.8 - 1.0 p.p conservatism	Locked at point of recognition. Doesn't impact Trail Asset
<b>Assumption</b>	7.5% - 26.5% (Blended Avg = 18.8%)	3.0% - 3.5% (Industry Avg = 3.0%)	3.6%
<b>+1% Movement</b>	\$3.0m Rev	\$2.1m Rev	n/a



Life Insurance

<b>Principle</b>	Historic trends + 1.0 - 6.1pp conservatism	Historic trends + 2.0 p.p conservatism	Locked at point of recognition. Doesn't impact Trail Asset
<b>Assumption</b>	11.7% - 19.1% (Industry Avg = 12.3%)	8% (Industry Avg = 10.0%)	2.6%
<b>+1% Movement</b>	\$2.9m Rev	\$2.2m Rev	n/a



Home Loans

<b>Principle</b>	Market driven data	Current variable interest rates	Locked at point of recognition. Doesn't impact Trail Asset
<b>Assumption</b>	10% - 24% (Industry Avg = 22.0%)	4.7% (Industry Avg = 5.8%)	1.7%
<b>+1% Movement</b>	\$0.1m Rev	n/a	n/a



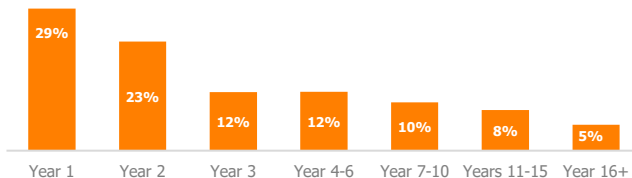
# Trail Asset: Cash flow profiles

(A) CASH PROFILE: EXISTING TRAIL ASSET

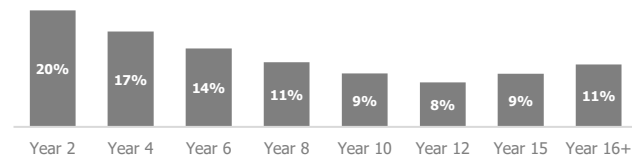
(B) AVERAGE CASH PROFILE: x1 NEW CUSTOMER



Health



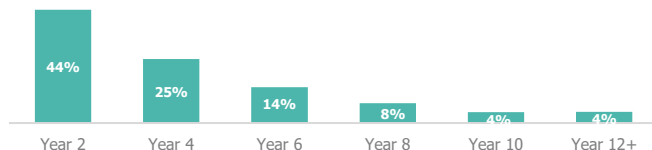
Life Insurance



**No longer Applicable: Future Operating Model for Life will not attract accrual of Trail Revenue going forward**



Home Loans

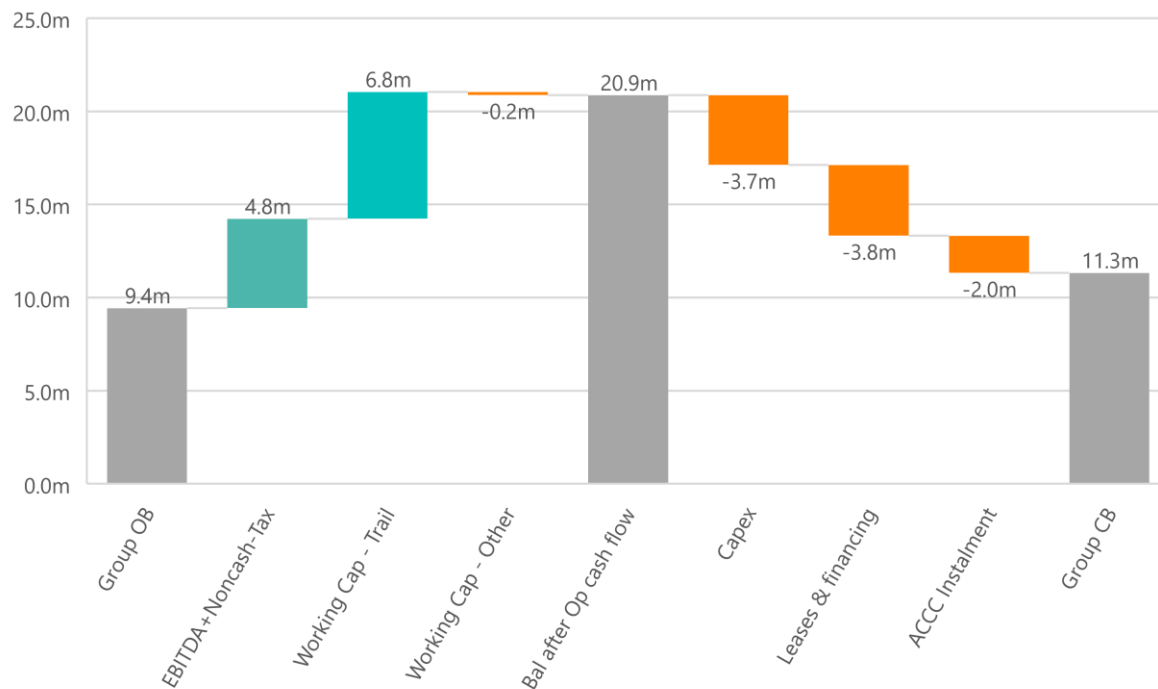


**No longer Applicable: Future Operating Model for Home Loans will not attract accrual of Trail Revenue going forward**

# FY22

## Group Cash flow

### CASH FLOW BREAKDOWN (\$m)



#### Leases & Financing breakdown

Loans	14.0m
CIMET investment	-14.0m
Lease - interest	-0.1m
Lease - repayment	-2.7m
Loan - interest	-0.4m
Loan - repayment	-0.6m
<b>Total</b>	<b>-3.8m</b>

# Reconciliation: Reported to Underlying results

	Reported FY22 \$'000	Legacy trail book sale	Amortisation of Capitalised software development cost	CIMET - transaction cost	CIMET - Performance	Underlying FY22 \$'000
<b>EBITDA</b>	<b>5,034</b>	1,556	1,185	2,100	-	<b>9,874</b>
<b>Share of loss in associates</b>	(119)	-	-	-	119	-
Depreciation and amortisation	(20,605)	-	10,788	-	-	(9,816)
<b>EBIT</b>	<b>(15,690)</b>	1,556	11,973	2,100	119	<b>58</b>
Net finance income	(460)	-	-	-	-	(460)
<b>Profit/(loss) before income tax expense</b>	<b>(16,150)</b>	1,556	11,973	2,100	119	<b>(402)</b>
Income tax expense	4,331	1,380	(3,527)	-	-	2,184
<b>Profit for the period</b>	<b>(11,819)</b>	2,936	8,446	2,100	119	<b>1,782</b>