2012 Interim Results

CPPGroup Plc Presentation 21 August 2012

INTRODUCTION & AGENDA

Paul Stobart, Group CEO

Today's presentation

- **Highlights & Business Review** — **Paul Stobart**
  - H1 2012 Highlights
  - FSA Update
  - Governance
  - Strategy

- **Financial & Regional Performance** — **Shaun Parker**
  - Financial Overview & Results
  - KPIs
  - Regional Performance
  - Outlook: H2 2012

- **Summary** — **Paul Stobart**
  - Business Priorities
  - Summary
  - Q&A

HIGHLIGHTS & BUSINESS REVIEW

Paul Stobart, Group CEO

H1 2012: Performance Highlights

Performance in line with expectations

- **Operating performance in line with expectations**
- **Modest year on year revenue decline as expected to £162.9 million**
- **Underlying operating profit reduced to £19.2 million**
- **Group renewal rate stable at 74.7%**
- **Positive net funds position of £8.0 million**
- **Progress achieved on key management priorities, strategic roadmap, governance and management re-structure**
- **Pleased to welcome Shaun Astley-Stone as Managing Director, UK & Ireland, on an interim basis, subject to regulatory approval**

H1 2012: Performance Highlights

UK

- Period of significant adjustment as a result of the impact of the FSA investigation
- Revenue declined 9% due to lower Card & Identity Protection sales, partially offset by growth in Packaged Account & wholesale activities
- Costs reduced with voluntary redundancy programme completed in the period
- Operational progress and good customer satisfaction scores

International

- Southern Europe remains challenging but good progress in Latin America
- Continued growth in North America
- Progress continues in Asia Pacific
- New Business Partner contracts signed in Germany, Turkey, Spain & Italy

FSA: Update

Investigation continues that commenced March 2011

Agreement announced 24th February 2012

- **Customer redress – CPP direct sales since 2005**
- **Changes agreed to renewals process**

Progress update

- **Continue to work closely and constructively with the FSA**
- **Detailed discussions have taken longer than planned**
- **Governance, risk management and compliance framework changes**
- **Further £7.5 million provided to meet latest expectations of customer redress and associated costs**

Next steps

- **Customer redress timings remain in discussion**
- **Further renewals process changes expected to be implemented Q312**

Governance

Objective:

Implement strong governance framework throughout Group

Actions:

- **Implementing independent recommendations from leading law firms and consultants, to be completed by end 2012**
- **Review in process of composition, remit and terms of reference of all Boards and committees**
- **Three lines of defence model deployed in UK; new Heads of Internal Audit, Risk and Compliance**
- **Business process review ongoing**
- **Issues identified being addressed**
- **Consumer detriment being investigated, with external help, and appropriate action being taken where found**

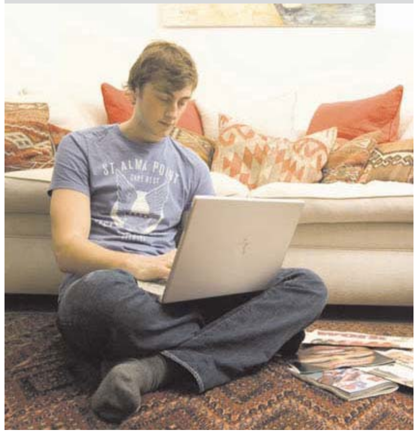
Execution of Strategy

Key pillars to our strategic roadmap for driving future success

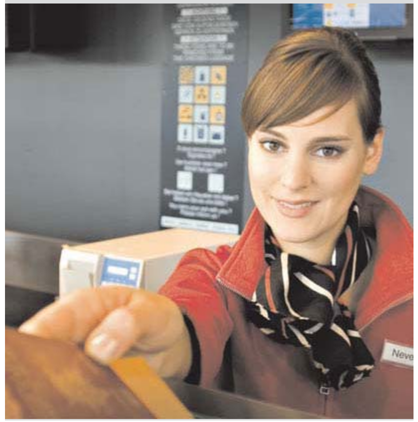
1. People

2. Customers

3. Products



4. Markets



1. People

Objective:

Shift culture to one that is centered on the customer, with high engagement

Actions:

- **Changes to senior leadership team**
- **Investment in leadership development, training and education**
- **Internal communication programmes**
- **Transformation programme in place with detailed work streams for people, customer, product and technology in progress**
- **Talent retention and recruitment**

2. Customers

Objective:

Excel in providing outstanding experience for customers at every touch point, instilling a customer focused way of thinking across the organisation

Actions:

- **Research to identify critical touch points for each customer segment**
- **Work in progress to improve all critical touch points, relevant to existing and new propositions**
- **Introduction of real time customer satisfaction, net promoter and experience data for agents**
- **Investment in workshops, training and education to roll out new experience ethos throughout Group**

3. Products

Objective:

Create and build innovative, compelling and affordable products, under the 'freedom' umbrella, that resonate deeply with customers

Actions:

- **Innovation team set up to generate customer-focused pipeline of new assistance propositions**
- **New Card, Identity and Mobile propositions**
  - **Card Rescue**
  - **Key Rescue**
  - **Card & Key Rescue**
  - **Identity Halo**
  - **Mobile Halo**

4. Markets

Objective:

Stabilise and refocus UK business; drive growth internationally, particularly in emerging markets

Actions:

- **UK**
  - **Resolve investigation and undertake redress exercise**
  - **Launch new products through existing and new channels**
  - **Enhance customer experience**

- **International**
  - **Leverage Group's multi-country footprint**
  - **Continue to invest in emerging markets: China, India, Mexico and Brazil**

FINANCIAL & REGIONAL PERFORMANCE

Shaun Parker, Group CFO

Financial Overview

- **Revenue**
  5% lower at £162.9m (H1 2011: £172.1m)

- **Underlying operating profit**
  21%[1] lower at £19.2m (H1 2011: £24.8m), underlying operating profit margin 11.8% (H1: 2011 14.4%); In line with expectations – impacted by UK issues

- **Operating margin**
  Lower due to UK renewal income decline and investment to drive international growth

- **Renewal rates**
  Stable at 74.7% (H1 2011: 75.0%; FY 2011 75.4%)

- **Further provision for customer redress & associated costs – £7.5m increase**

- **Dividend – the Board is not proposing an interim dividend**

- **Cash generation – net funds position of £8.0m (H1 2011: net debt £(7.2)m; 31 December 2011: £11.9 million net funds)**

1 Excluding impact of foreign exchange

Group Financial Highlights

£ millions	H1 2012	H1 2011	%
Revenue	162.9	172.1	(5)%
Underlying operating profit[1]	19.2	24.8	(23)%
Profit before tax			
Reported	6.8	23.1	(70)%
Underlying[1]	18.6	24.4	(24)%
Profit after tax			
Reported	4.4	15.9	(72)%
Underlying[1]	13.4	16.9	(21)%
Basic earnings per share (pence)			
Reported	2.65	9.34	(72)%
Underlying[1]	7.86	9.92	(21)%
Total dividend per share (pence)	-	2.42	n/a

1 Excluding legacy scheme share based payments, customer redress and associated costs and restructuring costs

Analysis of Reported Results

£ millions	H1 2012	H1 2011	%
Underlying operating profit[1]	19.2	24.8	(23)%
Customer redress & associated costs	(7.5)	(0.5)	(1,270)%
Restructuring costs	(4.1)	-	-
Legacy scheme shared based payments	(0.2)	(0.8)	(76)%
Reported operating profit[2]	**7.4**	**23.5**	**(68)%**
Other interest costs	(0.6)	(0.4)	(64)%
Profit before tax	**6.8**	**23.1**	**(70)%**
Tax	(2.4)	(7.1)	(61)%
- *Effective tax rate*	34.6%	31.0%	
Profit after tax	**4.4**	**15.9**	**(72)%**
Basic earnings per share (pence)	2.65	9.34	(72)%

1 Excluding legacy scheme share based payments, customer redress and associated costs and restructuring costs

2 After charging legacy scheme share based payments, customer redress and associated costs and restructuring costs

Group Revenue Breakdown

	H1 2012 £'m	H1 2011 £'m	%
Retail assistance policies	111.8	130.2	(14)%
Retail insurance policies	20.8	19.1	8%
Packaged and wholesale policies	26.7	19.8	35%
Non-policy revenue	3.7	3.0	23%
Total Revenue	**162.9**	**172.1**	**(5)%**

- Retail assistance decline due to reduction in new and renewal Card Protection and Identity Protection in the UK
- Continued growth in UK retail Mobile Phone Insurance
- Packaged Account business growth from Mobile Phone Insurance

Analysis of Operating Cash Flows

£ millions	H1 2012	H1 2011
Underlying operating profit[1]	19.2	24.8
Share of loss of JV	0.2	0.7
Customer redress and associated costs[2]	(1.9)	(0.5)
Restructuring costs	(4.1)	-
Depreciation, amortisation and other non cash items	6.1	6.6
Working capital	(15.8)	(15.0)
Cash generated by operations	**3.7**	**16.6**
Legacy scheme share option exercises	-	(0.2)
Tax	(2.3)	(4.7)
Operating cash flow[3]	**1.4**	**11.7**

1 Excluding legacy scheme share based payments, customer redress and associated costs and restructuring costs
2 Excluding provision for amounts not yet settled
3 Excluding repayment of loan notes

Working capital	H1 2012	H1 2011
Receivables	(6.4)	(10.0)
Insurance balances	(12.2)	(4.4)
Payables	2.8	(0.7)
Net Impact	(15.8)	(15.0)

- £15.8 million working capital outflow reflects the growth in UK Packaged and wholesale business
- Insurance balances impacted by timing of packaged accounts receipts which will reverse in H2

Cash Generation

£ millions	H1 2012	H1 2011
Operating cash flow[1]	**1.4**	**11.7**
Capital expenditure (including intangibles)	(3.5)	(7.6)
Investment in subsidiary/JV	(0.2)	-
Net finance costs	(0.4)	(0.2)
Dividends	-	(8.8)
Loan note repayments and share issues[2]	(0.9)	0.2
Net movement in cash[3]	**(3.6)**	**(4.7)**
Net funds/(debt)[4]	**8.0**	**(7.2)**

1 Excluding repayment of loan notes
2 Proceeds from the exercise of share options and repayment of loan notes
3 Excluding effect of exchange rates and movements in borrowings
4 Includes unamortised debt issue costs

- Continuing net funds position
- Group working towards renewing appropriate lending facilities in advance of March 2013 maturity, in addition to considering alternative financing and strategic options

Group KPIs

New assistance income (£m)

£35.7m

Annual renewal rate (%)

74.7%

Live policies (m)

10.9m

Cost/income ratio (%)

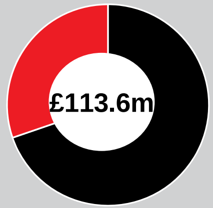
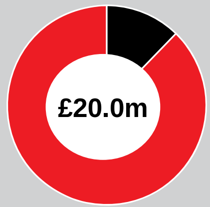
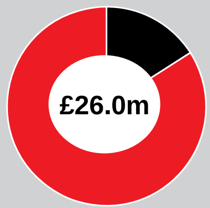
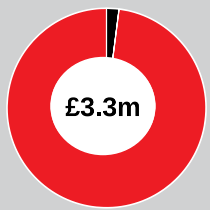
59%

Operating profit margin[1] (%)

11.8%

1 Underlying operating profit as a percentage of revenue

Regional Performance: Revenue

	Countries of operation	H1 2012 regional revenue	% revenue growth, constant currency
Northern Europe	United Kingdom Ireland Germany Turkey	 £113.6m	(9)%
Southern Europe and Latin America	Spain Portugal France Italy Mexico Brazil	 £20.0m	(6)%
North America	North America	 £26.0m	21%
Asia Pacific	Hong Kong Singapore Malaysia India China	 £3.3m	11%

Regional Performance

Northern Europe	H1 2012 £'m	H1 2011 £'m	Growth %	Constant Currency %
Revenue	**113.6**	125.1	(9)%	(9)%
UK Revenue Performance	**106.3**	116.9	(9)%	(9)%
Underlying operating profit	**10.4**	18.0	(42)%	(41)%
Regional margin	**9.2%**	14.4%		

Impacted by challenging circumstances partially offset by Packaged Account & wholesale performance

Southern Europe & Latin America	H1 2012 £'m	H1 2011 £'m	Growth %	Constant Currency %
Revenue	**20.0**	22.8	(12)%	(6)%
Spain Revenue Performance	**11.9**	14.4	(17)%	(12)%
Underlying operating profit	**4.6**	5.9	(22)%	(17)%
Regional margin	**22.8%**	25.7%		

Southern Europe challenging economic backdrop; Latin America continued progress

Regional Performance

North America	H1 2012 £'m	H1 2011 £'m	Growth %	Constant Currency %
Revenue	**26.0**	21.1	23%	21%
Underlying operating profit	**5.2**	2.9	78%	75%
Regional margin	**19.8%**	13.7%		

Revenue growth led by new and renewal performance. Short term operating profit growth positively impacted by reduced customer acquisitions.

Asia Pacific	H1 2012 £'m	H1 2011 £'m	Growth %	Constant Currency %
Revenue	**3.3**	3.1	6%	11%
Underlying operating loss	**(0.8)**	(1.2)	32%	34%
Regional margin	**(24.7)%**	(38.6) %		

Progress continues and we are encouraged by the sales pipeline

Continued Investment in Emerging Markets

- **Financial investment in emerging markets, comprising start up losses taken directly to the income statement has decreased year-on-year as India and Mexico move towards break-even**

- **China and Brazil are continuing to develop**

- **Our focus is to deliver new income and renewals growth while building our network of Business Partners**

2012 includes Hong Kong, China, India, Mexico, Brazil, share of Home 3
2011 includes Hong Kong, Singapore, China, India, Mexico, Brazil, share of Home 3
2010 includes Hong Kong, Singapore, China, India, Mexico, share of Home 3
2009 includes Turkey, Hong Kong, Singapore, China, India, Mexico, share of Home 3

Outlook: H2 2012

Group expected to perform profitably and generate operating cash flow

UK – expected material impact of customer redress exercise

- Continuing downward trend for new retail assistance income, revenue & profit expected to continue into 2013
- Mobile Phone Insurance revenue will be impacted by likely loss of T-Mobile contract and temporary suspension of voice channel sales; profit and cash flow maintained in short term
- Packaged Account and wholesale business to perform profitably, albeit lower growth
- Cost saving measures to mitigate some of the adverse revenue impact

International – longer-term potential remains significant

- Southern Europe reduced profit and lower margins
- Latin America revenue growth during 2013 as Mexico and Brazil start to deliver
- North America to increase revenue and profit, albeit growth rate expected to be lower than recently achieved
- Asia Pacific investment to continue and expect level of start up costs to reduce as we move towards profitability

Funding – working towards renewing appropriate lending facilities in advance of March 2013 maturity, as well as considering alternative financing and strategic options

SUMMARY

Paul Stobart, Group CEO

Key Priorities: Progress

Priority	Progress
FSA	***FSA agreement effected to the satisfaction of all stakeholders*** **Investigation continues, good progress made and much work is being done with regulator oversight to ensure actions necessary are undertaken**
Culture	***Greater customer focus, strengthened discipline & enhanced governance*** **Well advanced, we are implementing independent recommendations from leading law firms and consultants and launched a number of ‘change’ initiatives**
Product Marketing	***Develop product and service propositions that will drive future success*** **A number of consumer products that include card, identity and mobile propositions are on track for launch**
Emerging Markets	***Ensure investments take full advantage of significant growth opportunities*** **Investment in emerging markets continues and our focus is to deliver new income and renewals growth while building network of Business Partners**
People	***Retain & recruit the talent we need, at all levels, to deliver future success*** **Extensive review of composition and resource to clearly understand required structure as we move forward and as a result, we have made appropriate changes accordingly**

Summary

- Clear challenges and improvements to accomplish
- H2 will remain challenging; operating performance will continue to be impacted by UK performance
- Focus on on-going activity relating to FSA agreement
- Future performance underpinned by new strategy; build on strengths; focus on the customer
- Long-standing and exclusive relationships with over 200 Business Partners
- International presence across 16 geographical markets
- Confident actions we are taking coupled with pipeline of opportunities will ultimately allow the Group to perform profitably and make most of longer term prospects

QUESTIONS

APPENDICES

Managing Increased Risk

The Group's risk profile has increased - we aim to mitigate our risks as effectively as possible

Customer Redress	• Agreement with FSA; provision for customer redress and associated costs to date of £24.4m; customer redress exercise to provide assurance on probable outcome of the full review and likely redress rates
Regulation	• Compliance; intention to implement independent recommendations that will enhance and strengthen framework
Business Partners	• Maintain & attract new Business Partner relationships; develop new & enhance existing products, deliver high quality customer experience; diversify marketing & acquisition channels
Sales Channels	• Viable and alternative channels to market; investment in new and alternative sales channels to distribute products to end customers
Borrowing Facilities	• Renew facilities; negotiate appropriate lending facilities and consider other financing options well in advance of March 2013 maturity
Geographic Markets	• Macroeconomic performance; ongoing management of risk profile regularly reviewed and actions implemented if and when appropriate

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