

30 May 2016

**ASX CODE: ENA**

## Speculative Buy

### Analyst

Lindsay Grugeon B.E.

### Capital Structure

Sector	Financials
Share Price (A\$)	0.185
Shares on Issue (m)	56.9
Escrowed Shares (until 6/5/2017)(m)	28.8
Options (ex \$0.20, exp. 19/9/2016)(m)	1.0
Partly Paid (m)	8.0
Performance Rights (m)	7.0
Market Capitalisation (undil) (A\$m)	10.5
Market Capitalisation (dil) (A\$m)	13.5
Share Price Year H-L (A\$)	0.26 - 0.15
Approx. Cash (A\$m)	0.4

### Directors

Adam Davey	Chairman
Stefan Hicks	Managing Director
Brett Graves	Executive Director
Neil Pinner	Non-executive Director
Grant Priest	Non-executive Director

### Major Shareholders (as at February 2016)

Stefan Hicks	44.3%
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### Share Price Performance

source: [www.asx.com.au](http://www.asx.com.au)



# Ensurance

## *How to build an Insurance Broking business?*

### **STEP 1: Go and talk to the team at Ensurance!**

Ensurance is a licensed Insurance Broker and Underwriting Agency that has built the business and technology that drastically reduces the time taken match and sign up clients to insurance products. It now takes the broker and/or consumer only a matter of minutes!

Many companies have looked at increasing revenues by selling insurance to their existing customers. For example, it is a natural fit for mortgage brokers to sell home and contents insurance to their clients; removalists to sell transit insurance; real estate agents to sell landlord insurance and travel agents to sell travel insurance. Noting that there are over 21 different types of insurance already sold in Australia there are many potential applications of the platform. Previously, this has been limited by the time it takes for a salesperson to sign up a client to an insurance product.

### **Highlights**

- No referral process – bind and pay within 3 – 6 minutes.
- Ongoing revenue received annually throughout the life of the insurance policy – average life of a policy is 4.5 to 8 years depending on the type of policy— compounding revenue as the book grows.
- Attractive and sustainable model for whitelabel partners – upfront plus annual commission for the life of the policy paid to the whitelabel partner.
- Unique position within the insurance industry – providing the platform for others to build their insurance broking business upon.

### **Current traction**

Business model has been validated by recent strong growth in important metrics:

- Over 3000 policies sold online. Up from 340 sold in 6 months to Dec 14. (More than 20,000 policies, over 4 products, have been sold on the Ensurance software platform over the last 7 years. This is the result from over approximately 60,000 transactions including quotes and policies.)
- 140 insurance brokers registered on Ensurance platform (nearly tripled in 12 months)
- 21 products available on platform

Announced branded House and Contents insurance issued by Lloyds of London. The process of developing and the relationship with Lloyds of London should now be repeatable to add further branded products.

### **Outlook**

The business is well **positioned for growth** with a **scalable platform** and an **array of products** (including Ensurance branded products underwritten by Lloyds of London). This is leading to increasing number of white-label deals and increasing the number of brokers using the platform, and therefore increasing revenue.

### **Valuation**

We forecast free cash flow will be \$1.54m in 2020. Using an EV/FCF multiple of 30 and discount rate of 20% that gives a **present valuation of \$26.8m**. This is **99% above** the current diluted market capitalization.

**RM Research** recommends Ensurance as a **Speculative Buy** up to **36 cents**.

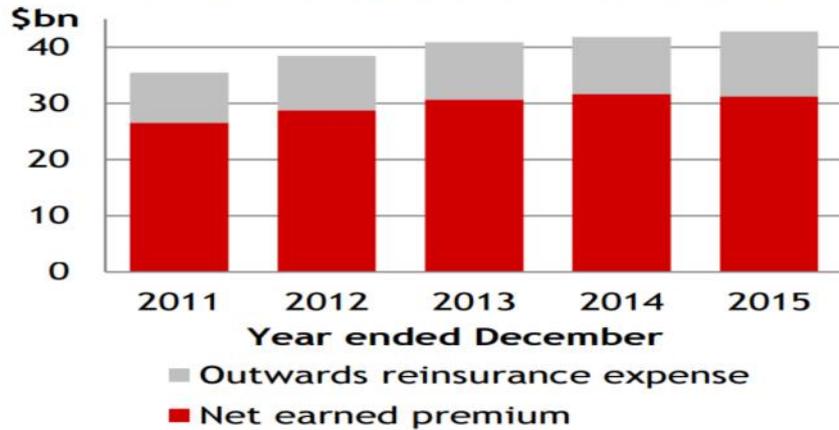
**Industry Overview**

**Insurance Market**

Net earned premium for the industry in the year ended 31 December 2015 was \$31.3 billion. Of this, direct insurers wrote \$29.8 billion (95.4%). The remaining \$1.4 billion (4.6%) was written by reinsurers.

Total industry net profit after tax in the year ended 31 December 2015 was \$2.4 billion, down from \$4.1 billion in the previous year.

**Chart 1: Premiums and reinsurance**



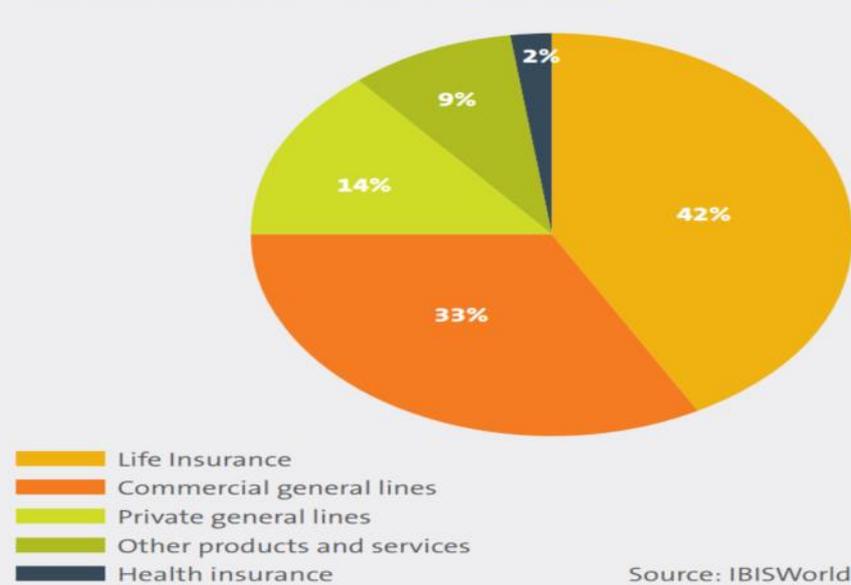
**Insurance Broking:**

**Industry Trends**

The amount consumers spend on insurance is set to increase due to the ageing population increases need for protecting assets and income. The amount of insurable items is also set to increase due to low interest rates and lower cost of good (e.g. cars at historical low).

The broking industry is facing some headwinds as insurers attempt to sell direct to consumers via the internet and comparison sites offer a way of purchasing bypassing the brokers.

**Product and services segmentation (2014-2015)**



The Insurance Brokerage industry is characterized by medium barriers to entry. To operate in the industry, new entrants must first comply with the regulatory requirements of licensing. New entrants also face a low income initially, even after building a sufficiently sized client base, as a large portion of industry revenue is derived from ongoing commissions. Barriers to entry for insurance agents, as opposed to brokers, are lower as agents are not generally subject to registration, but must maintain written agency agreements with insurers. (source: [www.ibisworld.com.au/industry/default.aspx?indid=1891](http://www.ibisworld.com.au/industry/default.aspx?indid=1891) )

Protecting against a new breed of emerging risks requires coordination across corporations, insurance companies and policymakers. Insurance brokers are ideally placed to lead this 'risk facilitation'. But as the pace of change within the marketplace accelerates, a major rethink of how they operate and compete is likely to be needed. (source: <http://www.pwc.com/gx/en/industries/financial-services/insurance/reinsurance-rendezvous/insurance-2020.html>)

Insurance brokers face a weak to moderate level of threat from substitutes because generally clients are most comfortable entrusting experts with their risk management, consulting, and procurement needs. However, disintermediation through technology and increased availability of alternative risk solutions are jeopardizing the broker's role. Currently, substitutes still pose little threat to the industry. If clients continue to underestimate the true value brokers provide, the threat of substitutes will strengthen and exert increased competitive pressure on the commercial brokerage industry. (source: *The Future of the Brokerage Model: The VIP Portal Solution*)

... Industry Overview continued

Ensurance has a unique position within the Australian market place and possibly unique within the global market.

There are a number of online comparison services. These sites refer products to refer customers to the insurers and do not act as the broker like Ensurance does. Some sites require customers to enter their details multiple times to get multiple quotes, which is significantly more time consuming for the customer than entering just once (as on the Ensurance platform).

There is potential for these services to leverage the Ensurance platform as it has the obvious advantage of allowing clients to sign up immediately, rather than referring customers to the insurers. In addition, integrating with Ensurance could increase the number of products listed on the comparison service. The revenue per policy for the comparison service could also be increased due to the annual rebates paid by Ensurance.

#### **Online insurers**

South African owned Youi.com.au is a dedicated online insurer. It differs from Ensurance as it doesn't offer products from a range of insurers, instead it purports to have more customized insurance products.

#### **Direct Marketing from insurers**

Most insurers in Australia have an online retail site, allowing clients to purchase products direct from the insurer.

Naturally, these websites are limited to only offering products from the one insurer.

#### **Insurance Brokers**

There is a large number of insurance brokers which vary greatly in size of operation. In recent years, there has been consolidation as several conglomerates have acquired smaller brokers.

These businesses directly compete with insurance brokers using the Ensurance platform. There are currently 140 brokers using the Ensurance platform.

The number of brokers and revenue from these brokers has been increasing, showing that these brokers are growing their business at healthy rates despite industry conditions.

#### **Listed Businesses**

		Half Year Revenue 1H FY16 (\$m)	Market Cap @ 22/4/16
<b>Ensurance</b>	ASX:ENA	\$1.4m	<b>\$10.8m</b>

#### **Listed Insurance Brokers**

<b>Austbrokers</b>	ASX:AUB	\$105.9m	<b>\$560.0m</b>
<b>Steadfast Group</b>	ASX:SDF	\$226.1m	<b>\$1360.8m</b>
<b>Author J Gallagher</b>	NYSE:ADJ	US\$ 2789.7	<b>US\$7.87b</b>

#### **Listed Comparison sites**

<b>iSelect</b>	ASX:ISU	\$66.2m	<b>\$280.0m</b>
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#### **Overseas Possibilities**

The global insurance and insurance broking industries are much larger than Australia's, \$US 2.49 trillion in 2014. Once the model has been proven in Australia, we'd expect management to look at overseas markets. This may be by expanding the Underwriting Agency and/or expanding the Insurance broking platform overseas. The global insurance broking sector is expected to generate total revenues of \$49.3bn [source: Broking 2020: Leading form the front in a new era of risk, PWC, 2014].

Country	Total Gross Premiums USD millions	
	2013	2014
Australia	87,544	97,004
United States	2,289,921	2,431,323
European (15 countries)	1,659,799	1,567,215

Insurance Indicators showing Total Gross Premiums for years 2013 and 2014 (Source OECD Stat.)





**Leveraging existing relationships**

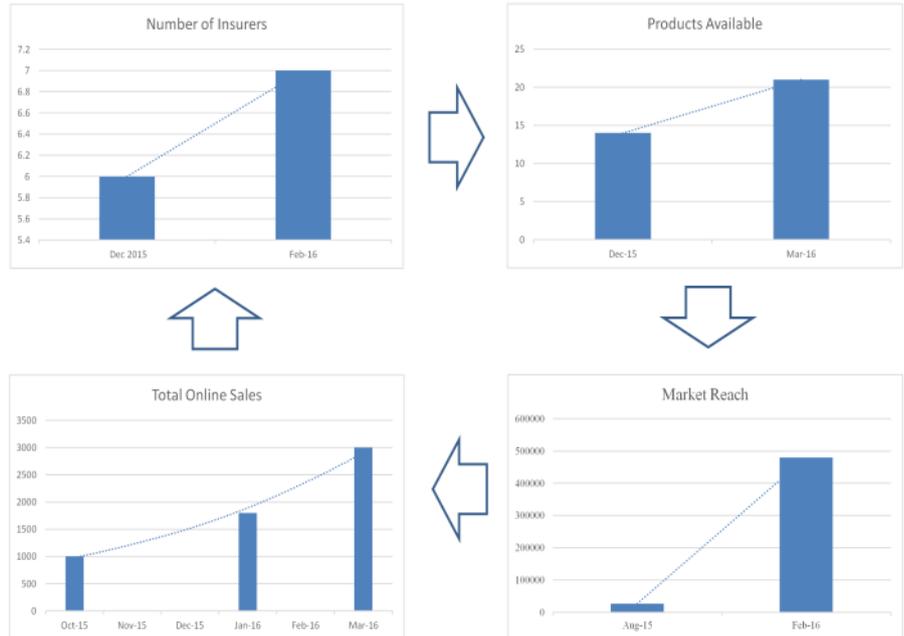
Ensurance subsidiary SHC has been broking insurance products the last 25 years. During this time it has been selling insurance products from the major brands such as QBE. These companies have allowed Ensurance, having a proven reputation as broker, to put their products on their online portal with confidence that their brand will not be adversely effected.



**History**

Ensurance was born out of the Savill Hicks Corporation (SHC) which has been successfully insurance broking for the past 25 years. During this time the management of SHC started building IT systems to reduce costs by automating the sales and back office processes. Recently this was extended with an online portal offering a white-labeled product. The business was renamed Ensurance in 2015 and listed on the ASX via a reverse takeover.

**Gaining Scale leads to exponential growth**



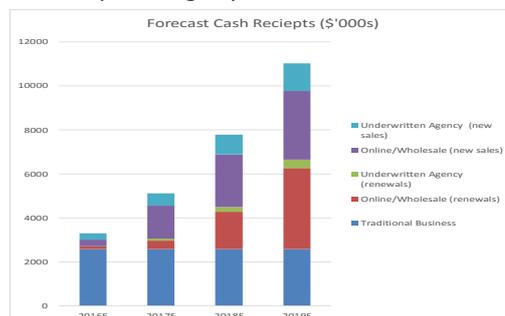
There are network effects to the Ensurance business.

- Increasing sales and market reach encourages insurers to list their products on the Ensurance platform
- Increasing the number of insurers leads directly to an increase in number of products available on the platform
- Increasing the number of products encourages white-label partners and brokers to the platform as they can offer their clients a large choice and optimum product.
- Increasing the number of partners and brokers using the platform increases the market reach of the policies on the platform.

Businesses with network effects tend to have exponential revenue growth. These effects also act as barriers to entry for competitors.

**Revenue Model**

- For each policy sold Ensurance receives an ongoing commission from the insurer. This commission is then shared with the agent and/or the whitelabel client (e.g. whitelabel client, comparison website, etc)
- Ensurance also sells Ensurance branded products. On these policies Ensurance keeps a larger portion of the insurance premium.

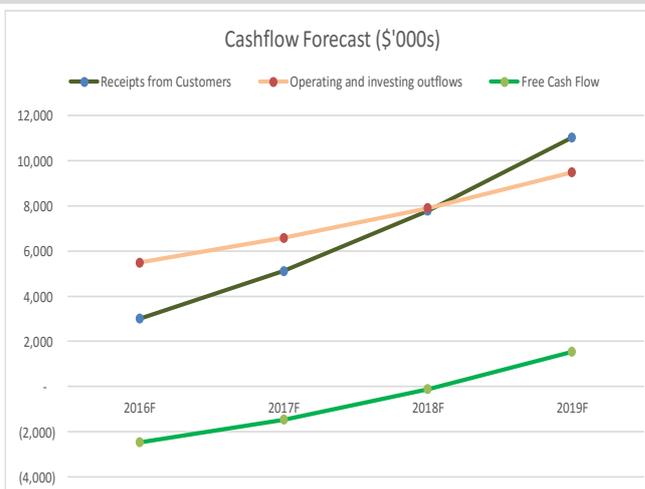
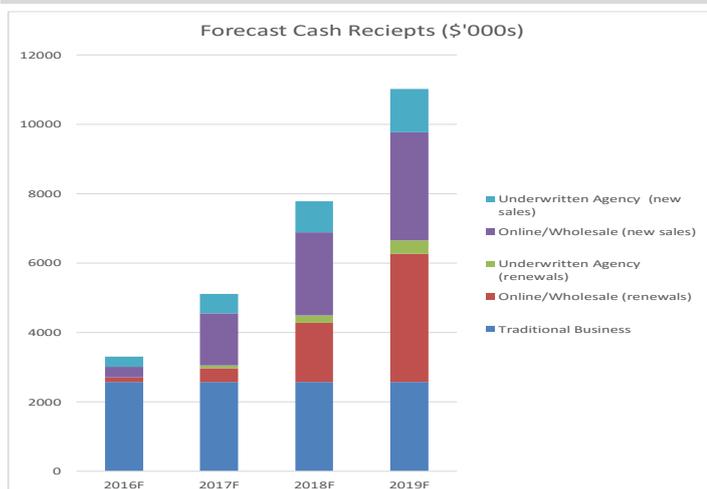


**Cumulative Effect of reoccurring revenue**

Both revenues are reoccurring over the life of the policy, which typically is renewed for a number of years. The average number of years of a policy varies depending on the type of the policy from approx. 4.5 to 8 years.

## Cash Flow Forecast and Valuation

Cash flow Model (A\$ '000s)	Notes	2016F	2017F	2018F	2019F
<b>Receipts from Customers</b>	1,2	<b>3,011</b>	<b>5,113</b>	<b>7,788</b>	<b>11,026</b>
Operating and investing outflows	3,4	5,488	6,586	7,903	9,483
<b>Free Cash Flow</b>		<b>-2,477</b>	<b>-1,473</b>	<b>-115</b>	<b>1,543</b>
Policies sold online	Notes	2016F	2017F	2018F	2019F
New policies sold online	5	2,000	10,000	16,000	20,800
Online policies renewed	6	900	2,610	11,349	24,614
Average cash receipt per new sale	7	150	150	150	150
Average cash receipt per renewal	7	150	150	150	150
Underwriting policies sold	Notes	2016F	2017F	2018F	2019F
New policies sold online	8	2,092	4,000	6,400	8,960
Online policies renewed	9	0	285	713	1,280
Average cash receipt per new sale	10	140	140	140	140
Average cash receipt per renewal	11	300	300	300	300
Float (millions)	Notes				
Current shares on issue		56.8			
Options, Partly Paid, Performance Options		16.0			
Dilution from expected capital raising	12	10.0			
		<b>82.8</b>			
Valuation (A\$ '000s)	Notes			per share (diluted)	
Estimated EV in 2019	13	<b>46,294</b>		<b>0.56</b>	
discount rate		20%			
Present Value		<b>26,791</b>		<b>0.32</b>	
Present Value of accumulated outflows		-1,307		<b>-0.02</b>	
Cash (approximate)		410		<b>0.00</b>	
Cash from expected Capital raising	12	4,000		<b>0.05</b>	
Debt		0		<b>0.00</b>	
<b>Net Value</b>		<b>29,893.97</b>		<b>0.36</b>	



## Cash Flow Forecast and Valuation

### Notes

1. Receipts from customers for FY2016 extrapolated from Ensurance Quarterly report for quarter ended 31 Mar 2015. Assumes minimal growth in the last quarter.
2. Receipts from customer figures for FY2017 onwards are derived from forecast of online policy sales and renewal, and Underwritten policy sales and renewals. Assumes traditional broking business receipts remain constant.
3. 2016 figure extrapolated from Ensurance Quarterly report for quarter ended 31 Mar 2015. Assumes no growth in last quarter.
4. Outflows costs for financial years 2017 onwards assumes compounded yearly growth of 20%.
5. FY2017 'policies sold online' assumes 10,000 policies which we believe is an attainable figure assuming at least one major white-label partner is secured in the next 3 months. FY2018 and FY2019 figures assumes new online policies grow by 60% and 30% per annum respectively. In our opinion this is reasonable and achievable.
6. Figures for online policies renewed assumes 10% of policies are not renewed. This implies an average policy life 5 years.
7. We've assumed an average cash receipt for new online policies to be \$150. This is an approximation and is difficult to forecast as it will vary on a number of future conditions including mix of classes of policies sold, agreements with insurers and agreements on rebate amounts with channel partners and brokers. Similarly average cash receipts for each renewal is also assumed to be \$150.
8. FY2017 'Underwritten policies sold' assumes 4,000 policies in line with management targets and which we believe is an attainable figure FY2018 and FY2019 figures assumes new online policies grow by 60% and 40% per annum respectively. In our opinion this is reasonable and achievable.
9. Figures for Underwritten policies renewed assumes 7% of these policies are renewable, of which 90% are renewed. This implies an average policy life 5 years.
10. We've assumed an average cash receipt for underwritten policy to be \$140. This is an approximation and is difficult to forecast as it will vary on a number of future conditions including mix of classes of policies sold and contract amounts agreed with the Insurers. Similarly average cash receipts for each renewal is also assumed to be \$140.
11. We've assumed an average cash receipt for underwritten policy renewal to be \$300. This is an estimate which is difficult to forecast as it will vary on a number of future conditions including mix of classes of policies sold and agreements with insurers. In general, policies that get renewed annually typically have significantly higher premiums than single use policy.
12. A capital raising is expected in the short term. No details have been indicated by the company. For valuation purposes we've assumed \$2m is raised at 20c per share. Small variations to the size or price of the capital raising is unlikely to have a significant impact to the valuation. \$2m will also be raised assuming 1 million options already issued are exercised at the strike price of 20c.
13. Assuming this company will still be considered in 'growth phase' in 2020 we've used a valuation multiple of 30 times free cash flow.

## BOARD OF DIRECTORS



**Adam Davey**  
Chairman

Mr Adam Davey is a Director, Private Clients and Institutional at Patersons Securities.

Adam's expertise spans over 25 years and includes capital raising (both private and public), mergers and acquisition, ASX listings, asset sales and purchases, transaction due diligence and director duties.



**Stefan Hicks**  
Managing Director

Mr. Stefan Hicks is the Managing Director and Founder of Ensurance Ltd (ENA) and its companies.

Commencing in Perth as Savill Hicks & Associates in 1990, the company has grown to a national presence over 22 years, now head quartered in Sydney, NSW.



**Brett Graves**  
Director & CEO of SHC

Mr Brett Graves is a Director, and CEO of subsidiary Savill Hicks Corp Pty Ltd.

Brett's expertise includes implementation of growth strategies, oversight and management of National Online Solutions and Partner Program (Whitelabelling), managing relationships with insurers, advising



**Niel Pinner**  
Non - Executive Director

Mr Pinner has spent the past 43 years in the banking and finance industry.

After 18 years with the Commonwealth Bank, Mr Pinner co-founded Mortgage Force Australia which later became Smartline Personal Mortgage Advisers. and is now one of Australia's leading mortgage broking firms.



**Grant Priest**  
Non- Executive Director

Mr Priest is a director of the Perth Chartered Accounting firm Sothertons.

He has been with Sothertons since 1982 and was appointed a director in 1988. He was a director of the Board of the National Sothertons Group from 1994 to 2001 and was Chairman of the board from 1998 to 2000.

## Registered Offices

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<b>Buy</b>	Companies with 'Buy' recommendations have been cash flow positive for some time and have a moderate to low risk profile. We expect these to outperform the broader market.
<b>Speculative Buy</b>	We forecast strong earnings growth or value creation that may achieve a return well above that of the broader market. These companies also carry a higher than normal level of risk.
<b>Hold</b>	A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.
<b>Sell</b>	Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.

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