

19 October 2022

CPPGroup Plc
 (“CPP”; “CPP Group”; “the Group”; or “the Company”)
Strategy and Change Management Programme

CPP Group (AIM: CPP), a provider of real-time assistance products and resolution services which reduce disruptions to everyday life for millions of customers across the world, provided an undertaking in its Half Year Report, published on the 26 September 2022, that the Board would share with the market the key outputs from the Group’s strategy review. We are today formally launching the strategy and Change Management Programme and detailed below are the key outputs from the review along with our plans on how to take the business forward and improve outcomes for all our shareholders.

BACKGROUND

Since 2016, funded by the cash generated from the Legacy Business comprising the back book of European and UK Card Protection policies, the strategy pursued was principally one of geographic expansion. In addition, the Group made a number of acquisitions and investments in the expectation that one or more would become a platform for growth and generate profitable returns.

The strategy, as implemented, failed to meet its objectives. This is best illustrated by two facts: firstly, that for the financial year 2021, despite continued double digit revenue growth, the Group’s EBITDA from continuing operations was lower in absolute and percentage terms than that reported in 2017; and secondly, the substantial reduction in shareholder value (market capitalisation of the Group) over the same period. Fundamentally the strategy failed because the business did not appreciate where it operated within its Industry Value Chain and, as importantly, how and on what basis it would compete in the markets it was or wanted to operate in.

Stay Put or Change Course?

CPP operates within the product and claims management segments of the Insurance Industry Chain, two segments in which CPP’s Legacy Business successfully operated in the past. Save for Blink, which is the Group’s sole global product opportunity, CPP designs at a local market level products and services which augment the offering of third-party Distributors (businesses which own the end customer relationship). CPP does not underwrite or price consumer products or have direct access to end customers. Consequently, to compete successfully, we need to provide products and services which increase the real or perceived value for Distributors. In truth the Group does not as yet have either the scale, skills or capacity to compete elsewhere in the chain.

Strategic Purists or Strategic Pragmatists?

With CPP India, CPP Turkey and Globiva we have three successful businesses, each with unique challenges, issues and opportunities, and none of which require a strategy which fundamentally changes the nature of their business. The Legacy Business is in terminal decline and will soon become unprofitable, whilst Blink is not yet a fully scalable proposition. The Group could look to acquire growth, but acquisition multiples in India and for InsurTech businesses are excessive. So, what to do.....?

STRATEGY

A Simple Strategy We Can Execute: Group

The over-arching strategy is to exit the Legacy Business and to migrate CPP to an InsurTech business led by Blink and supported by CPP India and CPP Turkey. InsurTech businesses generally have attractive economics, they generate high levels of repeat business, they operate with high margins and are commonly valued more highly than their traditional insurance counterparts. The strategy, if executed correctly, will simplify the business and its operations and, moreover, will set out a clear purpose for the Group, one that leverages the global nature of Blink’s parametric propositions.

- **Where we will compete:** The Group will focus on designing innovative assistance products and services which augment and create value (customer satisfaction, customer loyalty and new business) for its growing distribution partner base.
- **Base of competitive advantage:** Differentiation, with a focus on new product development, product innovation, and quality of service to our current and future business partners.
- **Strategic direction:** Market penetration and development for Blink, CPP India and CPP Turkey.
- **Method of Implementation:** Internal development with product acquisitions which enrich or enhance our proposition. We will, at the same time, withdraw from our Legacy Business and dispose of non-core business investments.
- **Constraints:** Management bandwidth as we are going through a period of substantial change. Finding suitable acquisitions at an appropriate price. Moving from an informal approach to a formal approach and structure, with a set of processes for continuous production, innovation, and development.

Whilst this is a relatively simple strategy, simple does not equate to easy. The strategy will take three years to fully implement, and, once completed, the Group will still need to address that on or around December 2024, the contract with our largest Distributor based in India will be subject to renewal. This is not of immediate concern but is, at the appropriate time, a matter to be aware of and attend to.

A SIMPLE STRATEGY WE CAN EXECUTE: BY BUSINESS UNIT

Blink

A differentiated suite of products with a focus on technology and innovation providing the basis for competitive advantage, particularly in the Travel Disruption (flight delay and lost luggage) market over the near to medium term. With regard to Blink’s strategic direction, there are opportunities to introduce the suite of Travel Disruption products to new geographies including North and South America, India, and Asia.

Product development, either organic or through small “bolt on” acquisitions, will focus on identifying innovative digital solutions for our Distributors and end customers.

The business today is not fully scalable and the ability to execute the strategy is somewhat constrained as there has, since acquisition in 2017, been insufficient investment in people, processes, and structures to facilitate growth. This lack of investment is being addressed as part of the Change Management Programme.

We have set out what we believe to be an achievable strategy; one which, post the Change Management Programme, we can execute at pace.

CPP India

The business will continue with its successful local market strategy, which is focused on providing low-cost innovative product and service solutions to a growing Distributor base. The strategic direction for CPP India is one of increasing its Distributor footprint and, where appropriate, developing a broader range of online and mobile app products and services, particularly within the Lifestyle and Healthcare markets. Acquisition multiples in India remain beyond our reach, consequently both market and new product development will have to be internally led.

The strategy as set is an achievable one, though it is highly dependent upon the retention and incentivisation of the CPP India management team and the implementation of the new Indian IT platform scheduled for 2023.

From a risk perspective the majority of CPP India’s revenues are currently generated from two long-standing Distributor relationships, one of which is due for renewal around the end of 2024. Whilst we are confident that these arrangements will be renewed, our strategy, even if successfully implemented, will not materially rebalance this “concentration risk” in the foreseeable future.

CPP Turkey

Similar to CPP India, the business will continue with its successful local market strategy, which is focused on providing innovative products and services to a broad and diversified Distributor base. CPP Turkey has an enviable track record of developing products which increase both the perceived and real value of those products offered by its Distributors to the end consumer.

New product development is a critical part of the strategic process for CPP Turkey and this will continue, albeit via a more formalised process which focuses on shared-learning and best practice.

The strategy is in many respects “more of the same” though, similar to CPP India, it is highly dependent upon the retention and incentivisation of the local management team.

From an execution and delivery perspective, the strategy is an achievable one. The key risk, in terms of outcomes, is continued economic turbulence in Turkey, which may either reduce demand for our products or services, or further weaken exchange rates, or both.

The Centre

Where the business units develop their own strategies (CPP India and CPP Turkey) and control many of the resources to execute those plans, the Centre will pressure-test the businesses’ targets and strategies, will actively promote the sharing of best practices, and will, where appropriate, provide select expertise or shared services. In general, the business unit heads own their profit and loss and make appropriate investment trade-offs. The Centre provides services only where it has better expertise or a lower cost than the businesses can provide on their own.

Legacy Business

The legacy UK and European Card Protection business has, since 2012, been in decline and will, if not addressed, become both unprofitable and a significant drain on the Group’s resources. Our intention is through the Change Management Programme to withdraw from these products and markets.

Withdrawal from the Legacy Business will be a long and complex process, one with many regulatory and operational inter-dependencies and is very much dependent upon the goodwill of both our partners and employees. As we progress, each decision we make and each action we implement will have due regard to the best interests and well-being of our partners and employees.

CHANGE MANAGEMENT PROGRAMME (“CMP”)

The business has not prepared itself for the inevitable. The terminal decline of the Legacy Business is an established fact and one well understood, though never addressed. Consequently, the Group is now, belatedly, implementing a Change Management Programme (“CMP”), one which should have been implemented several years ago, to efficiently manage the exit from our Legacy Business. The CMP is a complex, inter-dependent set of seven projects which will take until 2026 to conclude.

The CMP projects are summarised as:

1. Legacy IT Platform and new Indian IT Platform Development

The development of a new customer service platform for CPP India, which will be delivered in two phases (Phase 1 – non-Card products; and Phase 2 - Card products). The new platform will ensure all customer data resides fully in India and that India has an independently managed customer IT infrastructure (which enables the decommissioning of the Group’s legacy IT platform and improved efficiency to India’s operational model).

2. Cessation of UK & European Legacy Books

A complex multi workstream programme which will accelerate the natural cessation of the UK & European back books enabling the decommissioning of the Group’s expensive legacy IT platform, removal of management focus on legacy/run off books and will remove the drag of the Legacy Business on the Group’s valuation.

3. **Blink Scalability**

Currently a sub-scale business which is at an early stage of development, Blink requires a programme of activity to ensure that its operational processes are adequately robust to manage a substantially larger volume of transactions and to become the Group's third business of strategic growth alongside CPP India and CPP Turkey.

Each project is supervised by the Executive Management Committee and implemented by the Operational Board but, due to size and complexity, there will be some execution risks, namely:

Key Risks associated with the CMP:

1. **People Risk**

Work is ongoing in respect of key person dependencies with supporting plans developed in the event key team members leave the business before the CMP is concluded. Capacity risk is also considerable in many areas, with several colleagues or team members involved in multiple projects. People risk is likely to remain high for the duration of the CMP.

2. **Financial Risk**

The complexity and duration of the CMP may lead to cost over runs particularly if key team members exit ahead of programme delivery.

3. **Complex Interdependencies**

There are many interdependencies between the projects, with the risk of financial and people impacts disrupting multiple projects. Additionally, the interdependencies have the potential to delay the decommissioning of the legacy IT platform.

4. **Third Party Dependencies**

Legacy contracts often involve multiple parties and the agreements with them cannot be dissolved unilaterally by the Group. The pace of change is often adversely impacted by third parties not operating to CPP's timelines.

Financial implications of the CMP:

1. **Dual Running Costs**

As we build out the IT Platform for CPP India and migrate from the legacy systems, the Group will have a period of dual running costs for both platforms. We expect to suffer these dual running costs until the first quarter of 2025, after which we should be able to realise material cost savings.

2. **Restructure and Retention Costs**

Costs associated with the CMP will be substantial, as will the redundancy and retention packages which we will need to introduce. We will provide guidance on these costs as we progress.

3. **Impact on Group's cash resources**

The dual running costs and costs associated with the restructure are material, however we expect to be able to service these costs from existing and forecast resources.

4. **Dividend**

Due to the costs and uncertainties associated with the CMP, as previously announced in the Half Year Report in September 2022, the Board has taken the decision to suspend dividend payments until further notice. If circumstances change the Board will review and update shareholders when appropriate to do so.

PEOPLE

We are going through a period of substantial change which can only be implemented by the continued goodwill and hard work of our colleagues. From a people perspective the next three years will be the most challenging - my promise to all colleagues is that we will keep their interests and wellbeing front and centre of every decision made as we look to build a Group with a more ambitious, exciting and profitable future.

OUTLOOK

We are confident about the Group's outlook and growth prospects for the remainder of this financial year. The overall results of future periods will be increasingly influenced by how well we execute upon our strategy and how efficiently we implement the Change Management Programme.

There is much to do but I am confident we have set ourselves an appropriate course and speed of travel.

Simon Pyper
Chief Executive Officer

Enquiries:

CPPGroup Plc
Simon Pyper, Chief Executive Officer
David Bowling, Chief Financial Officer

Tel: via Alma PR

Liberum Capital Limited
(Nominated Adviser and Sole Broker)
Richard Lindley
Lauren Kettle

Tel: +44 (0)20 3100 2000

Alma PR
(Financial PR Adviser)
Josh Royston
David Ison
Kieran Breheny

Tel: +44 (0)20 3405 0205

About CPP Group:

CPP Group is a technology-driven assistance company that creates embedded and ancillary real-time assistance products and resolution services that reduce disruption to everyday life for millions of people across the world, at the time and place they are needed, CPP Group is listed on AIM, operated by the London Stock Exchange.

For more information on CPP visit <https://international.cppgroup.com/>

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation (EU) No. 596/2014 as amended by The Market Abuse (Amendment) (EU Exit) Regulations 2019. Upon the publication of this announcement via the Regulatory Information Service, this inside information is now considered to be in the public domain.