

## **ASX Announcement: Calliden Group Limited (CIX)**

27 August 2014

### **Calliden delivers a 37% increase in profit and doubles interim dividend**

Calliden Group Limited ('Calliden') (ASX: CIX) today announced a \$2.8m net profit after tax (earnings per share of 1.2 cents) for the six months ended 30 June 2014. This represents a 37% increase on the \$2.0m profit recorded for the previous corresponding period.

#### **Highlights**

- **Agency result more than doubled from \$2.0m to \$4.4m reflecting the benefits of the transition to the MGA model.**
- **Insurance result of \$0.8m, reflecting the transition from insurer to agency and good catastrophe experience more than offset by run off claims experience.**
- **New venture, Famous Insurance Agency, established in March and 50% interest in Arena Underwriting sold for \$0.6m profit**
- **Capital adequacy multiples for both the Group and Insurer remain strong at 2.1 and 2.5.**
- **NTA maintained at 22cps.**
- **Interim dividend for HY14 doubled to 1.0cps fully franked.**

This result is the first for Calliden reporting under its fully implemented new business model, following a two year transition of the business from that of dedicated General Insurer to a strategy focused on the development of an Agency business based on the Managing General Agent model.

Nick Kirk, Calliden's CEO and Managing Director said, "The strong growth in Agency profit underscores our confidence that our strategy is delivering and supporting a more consistent and reliable pattern of earnings growth. Calliden Insurance is a more focussed underwriter accounting for a reduced but still important proportion of the Group's profitability over time".

#### **Interim Dividend Doubled**

In line with the new dividend policy announced by the board in 2013, a fully franked interim dividend of 1.0 cent per share has been declared for the period. This represents a 100% increase on the first interim dividend paid by the company in 2013 and represents a payout ratio at the top end of the 60-80% range set by the board.

#### **Scheme of Arrangement Announced with Steadfast Group**

As announced this morning Calliden has entered into a Scheme Implementation Deed ('SID') with Steadfast Group Ltd ('Steadfast') under which Steadfast would acquire 100% of the capital of Calliden in a transaction

worth \$105 million. A separate and detailed announcement has been released to the ASX regarding this transaction.

### Summary of HY2014 Financial Results

\$m (unless otherwise stated) 6 months ended 30 June	2014	2013
<b>Agency result*</b>	4.4	2.0
<b>Insurance result*</b>	0.8	2.9
<b>JV result</b>	0.5	0.1
<b>Other income and admin. expenses</b>	(0.7)	(0.8)
<b>EBITDA</b>	<b>5.0</b>	<b>4.2</b>
<b>Amortisation &amp; depreciation</b>	(2.0)	(2.2)
<b>Tax</b>	(0.2)	-
<b>Net profit after tax</b>	<b>2.8</b>	<b>2.0</b>
<b>Earnings per share (cents)</b>	<b>1.2</b>	<b>0.9</b>
<b>NTA per share (cents)</b>	22.0	22.0

\* result includes investment income on operational/shareholders' funds

### Agency

The result reported for the agency business over the six months to 30 June 2014 affirms the strategic change in direction made by the Calliden in 2012. Profit more than doubled in the 2014 half year from \$2.0m (HY13) to \$4.4m (HY14). As in prior years, the result was affected by the build-up of a provision for future administration and claims costs associated with those portfolios transferred to external insurers. This process is now effectively complete so future profitability will benefit from the reduction in this factor.

During HY14, significant progress was made on developing the IT infrastructure that will enable Calliden to connect to contestable platforms, the first of which is the Steadfast Virtual Underwriter. This project is on target for completion in the fourth quarter of 2014.

Calliden increased its GWP underwritten by third party insurers by 13% compared to HY13. Over half of Calliden Group's total GWP is now underwritten by three third party insurers: GLA – part of the Munich Re Group, SI Corp and ACE Insurance.

### Insurance

The insurance result for HY14 was \$0.8m, compared with a profit of \$2.9m in HY13, consistent with the shift away from underwriting risk through Calliden Insurance. Gross Written Premium (GWP) fell 8% to \$49.4m, reflecting the transfer of further scheme portfolios to an agency basis and the withdrawal from Victorian builders' warranty and the construction portfolio.

While natural catastrophe experience was very good in HY14 this was more than offset by continued poor experience in underwritten builders warranty, a one off claim dating back to 1996 from the old reinsurance book and a movement in the discount rate. The old reinsurance claim relates to a surprising outcome from a Canadian court case which could potentially affect a ReAC reinsurance policy. The decision is being appealed, but we will maintain our reserve until the matter is resolved.

The total of these positive and negative impacts amounted to a \$0.4m net negative for HY14.

## **Ventures**

During HY14 Calliden sold its 50% interest in Arena Underwriting for a profit of \$0.6m.

Over the past five years Calliden has demonstrated a strong track record in identifying opportunities and developing new businesses through the establishment of several joint ventures. In that time the overall contribution of such ventures to Calliden's result has totalled \$14.4m, delivering a return on capital of 28% annualised, based on Calliden's share of JV profits. The return on capital increases to 53% annualised when the capital gain from divestment of Arena Underwriting, CSA (December 2011) and Sports Underwriting Australia (June 2010) is included.

On 1 July 2014 Calliden launched 'Famous Insurance Agency', a joint venture focused on the specialist area of motorbike insurance. Establishment costs of \$0.3m were expensed during HY14 as part of its investment in the new JV.

## **Outlook**

Calliden maintains its February guidance of a net profit after tax of \$7.5-9.5m for the FY14, subject to catastrophe and claims experience.

Calliden is continuing to invest in future growth for its new business model by:

- Completing the build of the IT connection to the Steadfast Virtual Underwriter (SVU);
- Growing the new products launched in its agency business, Calliden Agency Services; and
- Promoting Famous Insurance Agency, its new joint venture agency, and looking to source new joint venture opportunities.

Calliden's post 2007 tax losses have now been used up and as a result our effective tax rate for the foreseeable future will be similar to that reported for HY14.

Mr Kirk commented, "The first half year results confirm that the new model is delivering on its aims of reducing the capital intensity of the business and providing a more predictable earnings stream to support the payment of fully franked dividends to shareholders."