



25<sup>th</sup> February 2015

The Manager  
Company Announcements  
Australian Securities Exchange  
Level 6, Exchange Centre,  
20 Bridge Street  
Sydney, NSW 2000

Dear Sir / Madam,

**Re: Market Announcement on Results for the Half Year Ended  
31<sup>st</sup> December 2014**

Attached for immediate release is Austbrokers Holdings Limited (AUB)  
Market Announcement in relation to the results for the Half Year ended 31<sup>st</sup>  
December 2014.

Yours faithfully,

Stephen Rouvray  
**Company Secretary**  
Austbrokers Holdings Limited

For further information, contact Steve Rouvray Tel: (02) 9935 2201  
Mobile: 0412 259 158

# ASX release



25<sup>th</sup> February 2015

## Austbrokers' 1HY2015 Results

### Summary:

- 8.3% increase in reported consolidated Net Profit After Tax for 1HY2015 to \$13.9 million (1HY2014: \$12.8 million).
- 14.8% decrease in Adjusted NPAT to \$12.4 million (1HY2014 \$14.6 million).
- The 1HY2015 Reported NPAT and Adjusted NPAT are within the range indicated in Austbrokers' 23<sup>rd</sup> January market update.
- Fully franked interim dividend of 12 cents per share in line with last year.

Austbrokers Holdings Limited (ASX: AUB) announced a consolidated Net Profit After Tax (Reported NPAT) of \$13.9 million up 8.3% on the prior year.

The Reported NPAT Tax of \$13.9 million includes adjustments to the carrying value of associates of \$3.5 million (1HY2014 \$nil). If the above, together with the amortisation of intangibles are excluded (as shown in Table 2 below), the net profit (Adjusted NPAT<sup>1</sup>) was \$12.4 million in 1HY2015 (1HY2014: \$14.6 million), a decrease of 14.8%.

The half year results were within the range indicated in Austbrokers' 23<sup>rd</sup> January 2015 market update with Reported NPAT of \$13.9 million (relative to the \$13.5 to \$14 million range) and Adjusted NPAT \$12.4 million (relative to the \$12 to \$12.5 million range).

The interim dividend has been maintained at the same level as last year at 12 cents per share fully franked. The dividend is payable on 30<sup>th</sup> April 2015.

On a Reported NPAT basis, earnings per share increased by 4% over the prior year. On an underlying basis it decreased by 18% based on Adjusted NPAT.

The Group's results were impacted by reducing insurance premium rates in the insurance broking sector which reduced brokers' commission income on renewal of business. This was offset by other income and new business growth with the supporting expense increasing slightly. There was also some deferral of broking income from the first half to the second as a result of changes to renewal dates.

As foreshadowed at our AGM, we will continue to build on the strength of our businesses to diversify our income generation, remain focused on our core 'owner-driver' business model and to continue with the programme to build our Group management and systems. As our products and services mix and systems capability continue to expand, this will underpin growth across our business divisions building value for our partners and for our clients across Australia and New Zealand.

<sup>1</sup>NPAT excluding adjustments to carrying values of associates, after tax losses on sale of portfolios, interests in associates and controlled entities and amortization of intangibles.

<sup>2</sup> All comparisons are 1HY 2015 compared to 1HY 2014 unless otherwise stated.

The Group has increased acquisition activity across the respective market segments where such acquisitions conform to Group strategy and can immediately add value for shareholders. Financial year to date the Group committed to over \$45m of acquisition spend (FY2014 \$24.4 million). Acquisition expenses incurred have been charged against the results for 1HY 2015. These acquisitions are expected to contribute to the second half year results.

## **Insurance Broking**

Despite a falling premium environment, our Broking Partners compensated for the reductions in commission income by leveraging alternative income sources including Premium Funding and focusing on acquiring new business. This resulted in client numbers increasing by over 4.3% over the previous corresponding period. As a result of these activities broking income, excluding acquisitions, was only marginally down by 0.7% whilst the cost of supporting a growing base, a focus on retaining existing clients and inflationary factors were a key contributory factor in the increase in broking expenses, excluding acquisitions, of 1.7%.

Overall insurance broking contributed 13.9% to the decline in Adjusted NPAT of which 2.9% related to acquisitions and a further 2.7% from deferral of income to the second half. Increased borrowing costs relating to acquisitions accounted for a further 1.3% decline in Adjusted NPAT.

Acquisition activity continued on both a stand-alone and bolt-on basis and included the acquisition through the 80% owned NZ Brokers Holdings of the manager of the largest broking cluster group in New Zealand and the acquisition of 50% of the country's largest independent broker; the 50% acquisition of the large WA Broker – Nexus and a number of bolt-on acquisitions within the network.

## **Underwriting Agencies**

Austagencies continued its strong income growth during the period with a 26% growth in revenue. This was achieved by solid organic growth with an increasing contribution from start-up agencies developed over the last 3 years in addition to an overall focus on underwriting discipline and the continuing execution of the defined market segment strategy.

During the period Austagencies' acquired Asia and Mideast Insurance and Reinsurance (AMIR), a leading offshore energy underwriting agency, continuing its focus on investing in niche underwriting businesses with the objective of achieving a top three position in their respective industry sectors. The costs associated with this were borne in the first half as were the costs relating to SURA Professional Risks acquired towards the end of FY14. The profit contribution from these will flow into the second half.

Significant investment to support the Austagencies businesses, including a number of non-recurring expenses, was incurred primarily in the areas of technology supporting new commercial products; the launch of new products on the iClose platform; new senior management roles recruited to support the growth experienced over the last 2 years and to increase core competence in the Agency business as well as investment in new start-up opportunities. These investments resulted in a first half profit reduction of 3% with the benefits expected to flow into the second half. Overall, Austagencies contributed 0.6% to the decline in Adjusted NPAT.

## **Risk Services**

The Group's capabilities in the provision of risk solutions giving partners and clients access to expertise and specialist risk advice have been expanded during the year. Services offered by the division are highly complementary to those provided by our existing operating businesses and provide solutions to clients, insurers and brokers in the areas of claims management, rehabilitation services, investigations, staff training and risk surveys amongst others.

Risk Strategies Pty Ltd was acquired in the half year, with offices in Melbourne, Sydney and Brisbane offering risk management consulting services to clients.

The Risk Services area contributed 2.8% growth in Adjusted NPAT which will be boosted in the second half by the recent acquisition of 60% of the Altius Group.

## Group Services

Throughout the period, we continued to invest in our Group Service provision to assist the efficiency, effectiveness and growth of our partner businesses. Over the half year, we started to roll out the Group CRM solution to assist in sales and lead management and continued with the roll-out of the Group's Data Centre capability with the result that over 80% of our operating businesses now operate on that platform. New products were introduced on the iClose platform. The technology costs incurred in these initiatives resulted in 5.3% of the 12.5% increase in total expenses.

Our Business Centre has continued to develop to provide back office capabilities to over half our broking network allowing the partners to concentrate on developing their core business. The Group invested in programmes focused around central HR services, marketing services, risk and compliance activities in addition to developing programmes targeted at future growth opportunities.

Overall increases in corporate expenses including acquisition costs and borrowing costs and net of corporate income increase contributed 3.6% of the decline in Adjusted NPAT.

## Review of Reported 1HY2015 Results

**Table 1 Results as reported in Financial Statements**

	<b>1HY2015</b> <b>\$' 000</b>	<b>1HY2014</b> <b>\$' 000</b>	<b>Variance</b> <b>%</b>
Revenue from ordinary activities	97,691	92,184	6.0
Expenses from ordinary activities	(81,599)	(72,027)	(13.3)
	16,092	20,157	(20.2)
Adjustment to the carrying value of associates ( before income tax)	3,525		
Profit before tax	19,617	20,157	(2.7)
Income tax expense	(2,956)	(4,241)	30.3
Net profit	16,661	15,916	4.7
Profit attributable to minority interest	(2,808)	(3,125)	10.1
Net Profit attributable to members	<b>13,853</b>	<b>12,791</b>	<b>8.3</b>

### Notes

Revenue from ordinary activities includes the Group's share of net profit after tax from associates which are companies and the Group's share of net profits before tax from associates which are unit trusts.

Profits on sale of equity interests and fair value adjustments to carrying value of associates at the date at which they became controlled entities occur from time to time as a result of the Company's owner driver strategy and the need to introduce new shareholders to businesses within the group and to facilitate succession. Also profits and losses can arise from over or under estimation of contingent consideration for acquisitions. These profits (or losses) are not part of the regular trading activities and can distort the underlying performance of the business. Furthermore, amortisation of intangibles is a non-cash expense and can vary due to the level of acquisitions and as existing intangibles are fully amortised.

These items have been eliminated to provide a clear representation of the underlying trading performance. This measure is referred to as the Adjusted NPAT. Reconciliation of reported Net Profit after Tax attributable to equity holders to Adjusted NPAT is set out below:

## Table 2 Reconciliation of Reported NPAT to Adjusted NPAT

	1HY2015 \$' 000	1HY2014 \$' 000	Variance %
Net Profit after tax attributable to equity holders of the parent	13,853	12,791	8.3
Less adjustments to the carrying value of associates (after income tax)*	(3,525)		
Net Profit from operations	10,328	12,791	(19.3)
Add back Amortisation of intangibles net of tax*	2,119	1,816	16.7
Adjusted NPAT	12,447	14,607	(14.8)

\* This financial information has been derived from the consolidated financial statements which have been subject to review by the company's auditors

Amortisation of intangibles increased in line with the recent increased level of acquisitions.

## 1HY2015 Adjusted NPAT Results Review

A number of the businesses are associates and are not consolidated in the financial statements. In order to give a more comprehensive view of performance, the following table aggregates 100% of these businesses' revenues and expenses with those of the consolidated brokers and corporate income and expenses before deducting outside shareholder interests. This provides a view as to the growth in the network without potential distortion from shareholding changes that may move entities from consolidated to associates or visa versa.

The following analysis is presented on an Adjusted NPAT basis.

## Table 3 Management Presentation of Results

	1HY2015 \$' 000	1Y2014 \$' 000	Variance %	Contribution to profit increase %	Contribution to after tax profit increase %
Insurance broking revenue	149,476	147,425	1.4		
Insurance broking expenses	(113,057)	(107,864)	(4.8)		
Net profit	36,419	39,561	(7.9)		
Profit attributable to other equity interests	(16,489)	(16,860)	2.2		
<b>Austbrokers net profit from insurance broking</b>	<b>19,930</b>	<b>22,701</b>	<b>(12.2)</b>	<b>(13.4)</b>	<b>(13.9)</b>
Underwriting agencies net income	22,393	17,787	25.9		
Underwriting agencies expenses	(17,109)	(12,652)	(35.2)		
Net profit	5,284	5,135	2.9		
Profit attributable to other equity interests	(1,497)	(1,231)	(21.6)		
<b>Austbrokers net profit from underwriting agencies</b>	<b>3,787</b>	<b>3,904</b>	<b>(3.0)</b>	<b>(0.6)</b>	<b>(0.6)</b>
Risk services income	9,253				
Risk services expenses	8,092				
Net profit	1,161				
Profit attributable to other equity interests	(580)				
<b>Austbrokers net profit from risk services</b>	<b>581</b>			<b>2.8</b>	<b>2.8</b>
<b>Net profit before corporate income / expenses</b>	<b>24,298</b>	<b>26,605</b>	<b>(8.7)</b>	<b>(11.2)</b>	<b>(11.7)</b>
Corporate expenses	(6,642)	(5,902)	(12.5)		
Corporate acquisition expenses	(128)	(138)	7.2		
Corporate finance costs	(1,136)	(870)	(30.5)		
Corporate income	1,294	1,035	25.0		
<b>Net corporate expenses</b>	<b>(6,612)</b>	<b>(5,875)</b>	<b>(12.5)</b>	<b>(3.6)</b>	<b>(3.6)</b>
<b>Net profit before tax</b>	<b>17,686</b>	<b>20,730</b>	<b>(14.7)</b>	<b>(14.8)</b>	<b>(15.3)</b>
Income tax expense	(5,239)	(6,123)	14.4		0.5
<b>Adjusted NPAT</b>	<b>12,447</b>	<b>14,607</b>	<b>(14.8)</b>		<b>(14.8)</b>

## Dividend and Dividend Reinvestment Plan

On 25<sup>th</sup> February 2015 the Directors declared a fully franked interim dividend of 12 cents per share. This dividend is payable on 30<sup>th</sup> April 2015 to shareholders on the record date of 13<sup>th</sup> April 2015. Based on issued shares of 61,740,597 shares, this dividend will total \$7,408,872.

The dividend will be eligible for re-investment under the Company's Dividend Reinvestment Plan (DRP). For shareholders to be eligible for the DRP in relation to the interim dividend for 1HY2015 elections will need to be received by the share registry by 5pm on 14<sup>th</sup> April 2015.

If a shareholder has previously submitted an election to participate in the DRP, those instructions will apply to the forthcoming interim dividend and all future dividends. If a shareholder wishes to vary its participation status, a

notice of variation must be received by the share registry by 5pm on 14<sup>th</sup> April 2015 in order to be effective for the forthcoming interim dividend.

The price for Austbrokers' shares allocated under the DRP will be the "price" determined under the DRP rules (being the daily volume weighted average market price of all ordinary shares sold in the ordinary course of trading on the ASX during the 5 day trading period starting on the second business day following the record date of the dividend) less any applicable discount determined by the Austbrokers' board. For the forthcoming interim dividend for 1HY2015, ordinary shares will be issued at a 2.5% discount to the relevant "price". Austbrokers may determine a different discount for subsequent dividends.

Austbrokers does not propose to have any DRP shortfall for the interim dividend underwritten.

The DRP will be open to shareholders whose registered address is in Australia or New Zealand at the relevant record date.

## Outlook

Despite the continued uncertainty with respect to premium rates we have demonstrated the ability and robustness of the owner-driver model to compensate for reductions in commission income.

Having accounted for the acquisition and funding costs of the acquisitions made in the first half of the year, we expect the acquisitions will now generate profitable growth in 2HY. As previously stated, we will continue to monitor and carefully manage corporate expenses to achieve an income-expense ratio below the rolling historical average.

As communicated in our announcement on 23<sup>rd</sup> January 2015, the Group is budgeting to achieve growth in Adjusted NPAT for FY2015 of between 0% and 5% over FY2014.

This is subject to market conditions, the insurance premium rates not deteriorating to any great extent, the level of profit commissions in the broking sector being stable, interest rates not declining significantly and the impact of prevailing market conditions on the SME sector.

## Senior Executive Change

Steve Rouvray, our Chief Financial Officer and Company Secretary has communicated his intention to retire during the second quarter of FY2016. We have undertaken a detailed search to find the most appropriate candidate to replace Steve and to support our ambitions moving forward.

We are very pleased to announce that Jodie Blackledge has accepted the role of CFO. Jodie was previously CFO of The Trust Company, having been with Perpetual Ltd, Bank of America Merrill Lynch Ltd and AMP Ltd. As such, Jodie brings a wealth of relevant experience to the role. She will be joining the Group in early April with a view to conducting an orderly handover with Steve to take over the reins as CFO from 1<sup>st</sup> July 2015. Steve will continue in the Company Secretary role until a replacement Company Secretary is appointed.

I would like to place on record our significant thanks and appreciation for all that Steve has done for Austbrokers over the last 30 years.

## Webcast

Mark Searles, CEO & Managing Director and Steve Rouvray, Chief Financial Officer & Company Secretary will host a webcast today at 10.00am AEST followed by a Q&A session – details below:

Direct DDI(s) for Participant Connection: **Australia Access: 1800 268 560**  
**New Zealand: 0800 466 125**  
**International: +61 2 8047 9300**

Participant Pin Code **405613#**

Webcast Audience Link <http://edge.media-server.com/m/console/>



M. P. L. Searles  
**CEO & Managing Director**

For further information, contact Mark Searles Tel (02) 9935 2255  
Steve Rouvray Tel (02) 9935 2201

**– Ends –**

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This release contains “forward-looking” statements. Forward-looking statements can generally be identified by the use of forward-looking words such as “anticipated”, “expected”, “projections”, “guidance”, “forecast”, “estimates”, “could”, “may”, “target”, “consider”, “will” and other similar expressions. Forward looking statements, opinion and estimates are based on assumptions and contingencies which are subject to certain risks, uncertainties and change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements including projections, indications or guidance on future earnings or financial position and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Should one or more of the risks or uncertainties materialise, or should underlying assumptions prove incorrect, there can be no assurance that actual outcomes will not differ materially from these statements. To the fullest extent permitted by law, Austbrokers and its directors, officers, employees, advisers, agents and intermediaries do not warrant that these forward looking statements relating to future matters will occur and disclaim any obligation or undertaking to release any updates or revisions to the information to reflect any change in expectations or assumptions.