



27th August 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 year ended 30th June 2015

Attached for immediate release is Austbrokers Holdings Limited (AUB) Market Announcement in relation to the results for the year ended 30th June 2015.

Yours faithfully,

A handwritten signature in blue ink, appearing to be 'SR' followed by a stylized flourish.

Stephen Rouvray
Company Secretary
Austbrokers Holdings Limited

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

ASX release

27th August 2015

Austbrokers delivers growth for FY2015 in challenging market

Summary:

- Reported consolidated Net Profit After Tax for FY2015 of \$34.9 million marginally increased against prior year (FY2014: \$34.7 million).
- 2.5% increase in Adjusted NPAT¹ to \$36.3million. Adjusted NPAT is within the range indicated by Austbrokers in the market update on 23 January.
- Final fully franked dividend of 27.7 cents per share, bringing the total distribution for 2015 to 39.7 cents per share, up 3.1%.

Austbrokers Holdings Limited (ASX:AUB) announced a consolidated Net Profit After Tax (Reported NPAT) of \$34.9 million, up 0.7% on the prior year.

The Reported NPAT includes fair value adjustments to the carrying value of associates, profit on sale and deconsolidation of controlled entities, contingent consideration adjustments, impairment charges and the amortisation of intangibles. If those are excluded (as shown in Table 3 below), the net profit (Adjusted NPAT) was \$36.3 million in 2015 (2014: \$35.5 million).

The Adjusted NPAT is in the middle of the range indicated in Austbrokers' 23 January 2015 market update and reaffirmed with the announcement of our half year results.

Adjusted NPAT has increased 2.5% to \$36.3 million, continuing the trend of year on year growth since listing. This result demonstrates the strength of the Group's income diversification approach and the resilience of the core 'owner-driver' business model especially in Broking. Strong and growing contributions have been delivered from Underwriting Agencies, Risk Services and recent acquisitions in New Zealand.

Importantly, the Group's income diversification has meant that non-broking businesses now constitute 23% of net operating profits from the businesses, up from 12% in FY2012.

The company has declared a final dividend of 27.7 cents per share fully franked, payable on 30th October 2015. This brings the dividend for FY2015 to a total of 39.7 cents per share – a 3.1% increase in dividend per share over FY2014.

On a Reported NPAT basis, earnings per share decreased by 2.7% over the prior year, and by 0.9% based on Adjusted NPAT. In the current environment where the cost of debt is low and the low level of gearing, the company is not proposing to underwrite the dividend reinvestment plan.

The Group has invested in acquisition activity across the respective market segments where such acquisitions conform to group strategy and can add value to shareholders. The group has committed over \$70m of acquisition spend in FY2015 (FY2014 \$24.4m). Acquisition expenses incurred (including funding costs on contingent consideration payments) have been charged against the results for FY2015. These acquisitions have made net contributions to earnings this year and are expected to contribute further in FY2016.

¹ NPAT excluding adjustments to carrying values of associates, profit on sale and deconsolidation of controlled entities, contingent consideration adjustments, impairment charge and amortisation of intangibles.

Insurance Broking (Australia and New Zealand)

Insurance Broking demonstrated resilience given the decline in premium rates during the year (as foreshadowed in previous market briefings and further evidenced in latest APRA general insurance statistics) with the level of broking income decline less than the market decline in premium rates.

In Australia, commissions and fees were up 3.1% assisted by acquisitions and the brokers focus on non-commission based income. Within this, life income increased 3.9% and profit commissions were up 5.4%. Premium funding increased 0.8% even though premiums were lower. Broker margins improved in the second half of 2015, with benefits of deferred income and acquisitions, as mentioned in 1HY2015 results. Over the year, broker margins decreased by 1 per cent, as brokers continue to service a growing client base in a lower average premium market place. Overall, our share of broker profits was down 4.0%, after the benefit of acquisitions in FY2015.

While income reduced in FY2015 as a direct result of lower premium rates, client numbers and policy count (excluding stand alone acquisitions) have increased, which positions the businesses well for the future.

Broker network expenses increased by 4.9% (2% excluding direct acquisitions) as a result of the cost impact of bolt on acquisitions within the network, direct expenses related to servicing an increased client base as well as some inflationary increase in costs.

Insurance Broking acquisitions in Australia and New Zealand contributed approximately 2.9% to profit growth, offsetting the reduction in underlying insurance broker profits.

Acquisition activity continued on both a stand-alone and bolt-on basis and included the acquisition, through the 80% owned NZ Broker Holdings, of the manager of the largest broking cluster group in New Zealand and 50% of the country's largest independent broker. In Australia, acquisitions included a 50% shareholding in Nexus and a number of bolt on acquisitions within the network. A highlight of the year has been the increased levels of collaboration between the broking entities and our recent Risk Services investments to provide enhanced risk propositions to clients. The Group also announced the merger of the two largest cluster groups in New Zealand to create the third largest broking entity by premium in the New Zealand market – NZBrokers. This positions the group well for future growth.

Underwriting Agencies

Underwriting Agencies continued its strong growth during the period with a 29% growth in revenue, and profit contribution before tax up 35%.

This was achieved through organic growth with an increasing revenue contribution from agency start ups over the last 3 years, increased commissions and fees from securing long term insurer contracts, and a small contribution from acquisitions in the current financial year.

The Underwriting Agencies business has grown from almost \$6m profit contribution before tax in FY2012 to \$13.2m in FY2015. Over the last 3 years the business has seeded several start ups, and these now contribute approximately 25% to Underwriting Agencies profit before tax. Longitude and New Surety have reached a top 3 position in their relevant markets within 3 years. As this growth has been internally funded as resources were employed to develop the businesses, it has been achieved at a much lower overall cost than acquisitions.

Underwriting Agencies FY2015 result has benefited from securing long term contracts with key insurers. This has enabled the business to improve commissions, improve underwriting profit share commissions and earn additional fees for the current financial year and the longer term. These contracts reflect the value of the business model we have developed and our relationships with insurers.

Profit commissions earned for the year were up on the prior year based on the continued quality of the underwriting performance and the finalisation of commissions on the sale of a portfolio.

The costs in the business grew over the prior year reflecting continued investment to support the growth in these businesses and included some non-recurring expenses. Key initiatives implemented in the current year include rebranding of the business to SURA, investment in management and resourcing to support the strong organic growth of recent start ups.

Systems investments were made in redesigning product offerings in Latitude with the launch of SURA 360, to enhance ease of doing business and deliver back office synergies. A portion of this spend was capitalised in the current year and will be amortised over the benefit period. The benefits of this investment will enhance profitability in FY2016.

The business implemented an offshoring strategy targeted at controlling future growth in costs, initially around pre-underwriting analytics, and policy administration. Set up costs were incurred in the current financial year, with benefits to operational efficiency expected to accrue over time.

Risk Services

The Risk Services division was established in 2014 following the acquisition of the Procare Group. The group acquired two businesses to further expand the Group's capabilities; a 60% interest in Altius Group in February 2015 a leading provider of rehabilitation and related services; and a 50% interest in Risk Strategies Pty Ltd in September 2014, which offers risk based consulting services to its clients.

Growth in Risk services contributed strongly in the year demonstrating the benefits of the Group's strategy to provide total risk management solutions to clients. 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. We have seen good evidence in the take up of these services by our partners. Importantly, these businesses have been impacted less by the insurance cycle.

Since year end the Group has acquired a 60% interest in Allied Health Australia Pty Ltd, a leading rehabilitation services provider in the NSW market.

Group Services & Corporate Costs

As previously disclosed, we continue to optimise the Group's operating model by ensuring the delivery of market leading services to aid the effectiveness and efficiency of our partner businesses. Throughout the year we have continued to invest in our people, technology, processes and systems.

Group costs consists of corporate (or holding company) costs and costs in providing services to the business network, where they are not recovered. While external costs are fully recovered, costs of internal staff on research and development activities, particularly in business technology, are not recovered until products or solutions are delivered to the network. Approximately 50% of gross group costs are in relation to delivering services for the business network. Approximately 75% of these costs are recovered from the business, with the remainder (circa \$2.7m in FY2015) representing our investment in future initiatives.

The internal development of the full policy administration system (incorporating iClose placements), designed to enable operational efficiencies across the network, is now complete but will only be fully operational once insurer partners complete the final phase of work required at their end (programmed for FY2016) although trials by selected broking businesses have successfully demonstrated the capability of the platform. The iClose platform is in use in selected Underwriting Agencies businesses and delivering expected benefits. The roll out of the group Customer Relationship Management (CRM) system and sales platform to assist our partners with their business growth activities is progressing ahead of plan.

The business technology systems including cyber security and privacy have been continually upgraded. The vast majority of the operating businesses take advantage of the Group's centralised data centre, common broking system and administrative back office services that are a key part of the operating model.

Due to this continued investment, Group expenses increased however this was partially offset by a reduction in variable incentive costs which reduced in line with performance.

In building this support base for the business, costs have been carefully managed, with the key metric income: expense ratio being held beneath the rolling seven year average. This metric ensures that overall margins are improved over time. The income: expense ratio remained at 18.9% in the current financial year, which is below the rolling seven year average of 20.6%. Pleasingly, the rolling average has declined from 22.9% in FY12.

Dividend and Dividend Reinvestment Plan

On 27th August 2014, the Directors declared a fully franked final dividend of 27.7 cents per share. This dividend is payable on 30th October 2015 to shareholders on the record date of 6th October 2015. Based on issued shares of 62,256,689 shares, this dividend will total \$17,245,102.

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 final dividend for FY2015 elections will need to be received by the share registry by 5pm on 7th October 2015.

If a shareholder has previously submitted an election to participate in the DRP, those instructions will apply to the forthcoming final 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 7th October 2015 in order to be effective for the forthcoming final 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 final dividend for FY2015, 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 underwrite any DRP shortfall.

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

Outlook

The commercial lines insurance market outlook remains challenging, and while premium rates are expected to stabilise in FY2016 in Australia and New Zealand, premium growth is unlikely before late FY2016. Drivers of revenue in Risk Services remain positive and are not impacted by the soft insurance cycle.

We will continue to build on the strength of our business strategy, our core 'owner-driver' business model and to optimise our Group operating model to be the leading Insurance Broking, Specialist Underwriting and Risk Services group. As our products and services mix continues to expand, this will enable growth across our business divisions building value for our partners and for our clients in Australia and New Zealand.

In FY2016, the Group expects continued organic growth, supplemented by executing relevant acquisition and start-up investment opportunities across Insurance Broking, Underwriting Agencies and Risk Services in Australia and New Zealand.

The previous investments in strengthening the management team and building key competencies will support the continued evolution of the operating model with the objective of underpinning growth. We will continue to invest appropriately to ensure the continued development of our value proposition ensuring, we are highly relevant and attractive to future partners, staff and clients. It is our objective to continue to contain costs below the rolling 7 year average.

The Group is targeting growth in Adjusted NPAT for FY2016 of 5% over FY2015. The achievement of this target is subject to prevailing economic conditions.

Austbrokers FY2015 Presentation of Financial Results

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 vice versa.

The following analysis is presented on an Adjusted NPAT basis. A reconciliation of Reported NPAT to Adjusted NPAT is shown in Table 3.

Table 1 Management Presentation of Results

	FY2015 \$' 000	FY2014 \$' 000	Variance %	Contribution to after tax profit increase %
Insurance broking revenue	312,816	303,316	3.1%	
Insurance broking expenses	(224,613)	(214,149)	4.9%	
Net profit – Australia	88,203	89,167	-1.1%	
Net profit – New Zealand	1,047	0	N/a	
Profit attributable to other equity interests	(38,812)	(36,649)	-5.9%	
Austbrokers net profit from insurance broking	50,438	52,518	-4.0%	(4.1)
Underwriting agencies net income	52,037	40,314	29.8%	
Underwriting agencies expenses	(35,370)	(27,022)	30.9%	
Net profit	16,667	13,292	25.4%	
Profit attributable to other equity interests	(3,505)	(3,514)	0.3%	
Austbrokers net profit from underwriting agencies	13,162	9,778	34.6%	6.7
Risk Services net profit	3,685	1,204	206%	
Profit attributable to other equity interests	(1,645)	(602)	173%	
Austbrokers net profit risk services	2,040	602	239%	2.8
Net profit before corporate income / expenses	65,640	62,897	4.4%	5.4
Corporate expenses	(12,427)	(11,915)	4.3%	(1.0)
Acquisition expenses	(426)	(352)	21.0%	(0.1)
Corporate finance costs	(2,693)	(1,809)	48.9%	1.7
Corporate income	1,939	1,889	2.6%	0.1
Net corporate expenses	(13,607)	(12,187)	11.7%	(2.8)
Net profit before tax	52,033	50,710	2.6%	2.6
Income tax expense	(15,688)	(15,260)	2.8%	0.1
Adjusted NPAT	36,345	35,450	2.5%	2.5

Table 2 Financial Results – Reported NPAT

	2015 \$' 000	2014 \$' 000	Increase / (Decrease) %
Revenue from ordinary activities ^{1 2}	217,347	198,745	9.4
Expenses from ordinary activities ²	(167,550)	(148,087)	13.1
	49,797	50,658	(1.7)
Net Profit before tax on sale of interests in associates portfolios and controlled entities	2,088	-	N/A
Adjustment to the carrying value of associates and contingent consideration adjustments (before income tax)	1,881	3,355	(43.9)
Profit before tax	53,766	54,013	(0.5)
Income tax expense	(10,909)	(11,611)	(6.0)
Net profit	42,857	42,402	1.1
Profit attributable to non controlling interests	(7,970)	(7,747)	2.9
Net Profit attributable to members	34,887	34,655	0.7

Notes

1. 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.
2. During the period one former associate became a controlled entity and as a result their revenue and expenses are now included in those line items in the above table whereas last year only the share of after tax profits was included in revenue. In addition, one former controlled entity became an associate and as a result their revenue and expenses are no longer included in those line items and their share of after tax profits are included in revenue.

Profits on sale of equity interests and fair value adjustments to carrying value of associates at the date at which they became subsidiaries 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. In addition the Group's acquisition policy is to defer a component of the purchase price, which is determined by future financial results. An estimate of the contingent consideration is made at the time of acquisition and is reviewed and varied at balance date if estimates change or actual payments are made. This adjustment can be a loss (if increased) or a profit (if reduced). Where an estimate is reduced, an offsetting adjustment (impairment) is made to the carrying value. An impairment charge of \$1.5m has been recorded in relation to one of our investments, due to specific competitive circumstances in a niche segment of the market. This impairment represents approximately 0.4% of the Group's investment in associates and controlled entities.

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 3 Reconciliation of Adjusted NPAT to Reported NPAT

	FY2015 \$' 000	FY2014 \$' 000	Increase %
Net Profit after tax attributable to equity holders of the parent	34,887	34,655	0.7
Reconciling items net of tax and non controlling interest adjustments for:			
Reduction in contingent consideration for acquisitions of controlled entities and associates	(4,441)	512	N/A
Add back offsetting impairment charge to the carrying value of associates & goodwill, related to above	4,104	254	N/A
Net adjustment	(337)	766	N/A
Add back adjustments to the carrying value of associate (impairment), not subject to contingent consideration	1,500	-	N/A
Less profit on sale or deconsolidation of controlled entities	(817)	-	N/A
Adjustment to carrying value of associates (to fair value) on date they became controlled	(3,224)	(3,659)	N/A
Net Profit from operations	32,009	31,762	0.8
Add back amortisation of intangibles net of tax	4,336	3,688	17.6
Adjusted NPAT	36,345	35,450	2.5

* The financial information in this table has been derived from the audited consolidated financial statements. The Adjusted NPAT is non-IFRS financial information and as such, has not been audited in accordance with Australian Accounting Standards. Further notes to this table are included in the Operating and Financial Review section of the Annual Report.

Annual General Meeting

The Annual General Meeting will be held at the Intercontinental Hotel (117 Macquarie Street, Sydney) on 26th November 2015 at 10.00am.

Webcast

Mark Searles, CEO & Managing Director and Jodie Blackledge, Chief Financial Officer 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

852361#

Webcast Audience Link

<http://edge.media-server.com/m/p/3vtumg4m>



M. P. L. Searles

CEO & Managing Director

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

Jodie Blackledge Tel (02) 9935 2231

– Ends –

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.