



25<sup>th</sup> August 2016

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

**FOR RELEASE TO THE MARKET**

Dear Sir / Madam,

**Re: Market announcement on results for the year ended 30<sup>th</sup> June 2016**

Please find attached for immediate release AUB Group Limited's Market Announcement in relation to the results for the year ended 30<sup>th</sup> June 2016.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'J2 Coss'.

Justin Coss  
**Company Secretary**

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## ASX release

25<sup>th</sup> August 2016

### AUB Group's focused approach continues to drive growth

#### Summary:

- 20.4% increase in Reported consolidated Net Profit After Tax for FY16 of \$42.0 million (FY15: \$34.9 million), including realised after tax profits on sale of investments of \$6.2 million.
- 3.3% increase in Adjusted NPAT<sup>1</sup> to \$37.6 million (FY15: \$36.3 million).
- Final fully franked dividend of 28.0 cents per share, bringing the total distribution for 2016 to 40.0 cents per share.

AUB Group Limited (ASX:AUB) has reported a consolidated Net Profit After Tax (Reported NPAT) of \$42.0m, for the year ending 30 June 2016, up 20.4% on the prior year. This includes the after tax profit on sale of AUB Group's investment in associates, of \$6.2m.

Adjusted Net Profit After Tax (Adjusted NPAT<sup>1</sup>), which reflects underlying business performance, was \$37.6m in 2016 (FY15: \$36.3m). Adjusted NPAT has increased 3.3%, continuing the trend of year on year growth since listing.

Despite challenging market conditions, the result continues to demonstrate the benefits of disciplined adherence to the Group's strategy, which in turn has enabled continued diversification of profit generation; the resilience of both the core 'owner-driver' Business Model and Group Operating Model. "A particularly pleasing aspect of our Group result has been how our business model responded in the challenging market conditions with our partner businesses demonstrating good cost control and continued focus on the development of organic growth initiatives", said Mr Searles, CEO and Managing Director of AUB Group.

The company has declared a final dividend of 28.0 cents per share fully franked, payable on 31<sup>st</sup> October 2016, bringing the dividend for FY16 to a total of 40.0 cents per share (FY15: 39.7 cps).

Reported earnings per share increased by 17.1% over the period, with profits realized on the sale of investments contributing 9.5 cents per share. Earnings per share on Adjusted NPAT increased by 0.5%.

AUB Group continued acquisition activity aligned to the overarching Group strategy and those of each market segment, and enhanced its portfolio through the divestment of Strathearn in the first half and the re-investment of proceeds into higher returning and less volatile investments. The group has committed \$76.8m of acquisition spend in FY16 (FY15: \$70m), or \$43.3m net of proceeds from disposals.

<sup>1</sup> 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

Australian Insurance Broking contributed \$48.0m to AUB Group profit in FY16, continuing to demonstrate resilience despite a reducing premium rate environment and reducing interest rates, with the organic profit contribution to AUB Group down 2.1%<sup>2</sup>. Total Australian Broking profits, were down 4.4% due to the loss of earnings from Strathearn, however this was more than offset by the \$6.0m after tax profit on sale of Strathearn included in Reported NPAT.

In Australia, while average premium rates per policy reduced over FY16 (down 5% vs 9% pcp<sup>3</sup>) and interest rates declined, brokers have maintained income by growing other sources of income including premium funding, expanding in life insurance and maintaining expense growth below CPI. Australian and New Zealand Broking benefited from additional fees in FY16 on the renewal of the premium funding contract with Hunter Premium Funding, and will benefit from enhanced terms over the next 5 years.

AUB Group acquired 49% of specialist Australian broker, KJ Risk Insurance Brokers Pty Ltd and our broking partners completed a number of smaller acquisitions in FY16. Excluding the impacts of standalone acquisitions and divestment activity, broker margins improved slightly compared to the prior year reflecting the focus on organic growth.

## INSURANCE BROKING - NEW ZEALAND

Insurance Broking in New Zealand contributed \$2.9m to AUB Group profit in FY16 (FY15: \$0.3m). Having entered the New Zealand market 18 months ago, AUB Group NZ (including NZbrokers), is now the largest broking management group in the New Zealand market and performance is ahead of expectations. In December, AUB Group announced the acquisition of Runacres & Associates Ltd (Runacres), through the 80% owned AUB Group NZ, and this business made a solid contribution to second half earnings. A number of other acquisitions were completed in the year via the Group's investment in BrokerWeb Risk Services Ltd (BWRS) and since the year end BWRS has completed the acquisition of 50% of leading Rotorua-based broker – Dawsons.

## UNDERWRITING AGENCIES - SURA

Underwriting Agencies contributed \$10.3m to AUB Group's profit in FY16, down from FY15 (FY15:\$13.2m), impacted by a reducing premium rate environment with average premiums down 9% across the portfolio exacerbated by strong competition in the strata and plant and equipment portfolios and continued investment in developing future business streams.

Revenue reduced by \$0.8m (1.6%) impacted by: reduced average premium rates, despite growth in policy count; income from contract renewals in FY15 not being replicated in FY16; and the lost revenues from the divestment of an associate. This reduction was partly offset by increased profit commissions and revenue from transition services in relation to the sale of an associate.

Expenses grew by \$2.3m (6.4%) over the year as a result of planned investment to support future growth. With market conditions deteriorating over the year, remedial actions were taken in the second half, which reduced costs (versus first half of FY16). Furthermore, Underwriting Agencies incurred expenses in seeding two start-ups in the current year, which are due to be launched in FY17. This, together with the introduction of fee strategies, and tight management of costs, should see margins improve in FY17.

From an organic growth perspective, policy count continued to grow (up 7% in FY16) and importantly, profit commissions remain strong (up 24.5% on pcp), demonstrating the underlying health and prospects for the business.

During the year, the Group divested its interest in NewSurety Pty Ltd (NewSurety), a specialty surety business that no longer aligned to strategy, reducing risk and volatility in the portfolio. NewSurety was seeded 2 years ago and has delivered \$3.7m total return to shareholders<sup>4</sup>. While Underwriting Agencies will not receive future income from the divested NewSurety business in FY17, fees from the continuation of the transitional services will partially offset income reduction in FY17.

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<sup>2</sup> Excluding profits from acquisitions and divestments (Strathearn & KJ Risk) in FY15 and FY16.

<sup>3</sup> Prior comparable period.

<sup>4</sup> Total shareholder returns includes all dividends and receipts on sale since inception, net of initial start-up costs, discounted at AUB Group cost of capital.

## RISK SERVICES

Risk Services contributed \$7.2m to AUB Group Profit in FY16 (FY15: \$2.0m), demonstrating the benefits of the Group's strategy to provide total risk management solutions to clients. This result included strong organic growth in the existing businesses of Procure Pty Ltd and Altius Group Pty Ltd and the contribution from Allied Health Australia Pty Ltd, 60% of which was acquired on 1 July 2015.

Strong organic growth in injury management revenue and rehabilitation is underpinned by expanding insurer relationships, a broadening geographic footprint and continued quality return to work outcomes. In addition, revenues from ancillary insurer services continues to build as relationships are deepened and new services added.

## GROUP SERVICES AND CORPORATE COSTS

AUB Corporate Expenses include corporate (or holding company) costs and costs in providing services to the network, where they are not recovered. AUB Corporate Expenses increased 7.5% over FY15, due to provisions for short term incentives that were not included in the prior period. Before provisions for short and long term incentives, underlying costs increased 1.1% on prior year, demonstrating tight cost control.

Acquisition and divestment costs totaled \$0.6m (FY15: \$0.4m) and interest costs were slightly down at \$2.1m (FY15: \$2.3m) with lower interest rates on the termination of some fixed rate facilities on slightly higher debt levels. The cost of interest unwind on deferred consideration increased to \$1.1m (FY15: \$0.4m) as a result of increased deferred contingent consideration on recent acquisitions. Other income of \$2.6m was up (FY15:\$1.9m).

## CAPITAL MANAGEMENT AND DIVIDENDS

Net assets at 30 June 2016 are \$351.2m, up from \$311.3m in the prior period, due to an increase in retained earnings. Net gearing (i.e. net of cash held at Corporate) reduced to 15.3%. The parent entity has cash and committed facilities totaling \$43.4m at 30 June 2016. In addition, the Group has additional balance sheet capacity should further opportunities arise.

The Board has declared a fully franked final dividend of 28.0 cents per share. This dividend is payable on 31<sup>st</sup> October 2016 to shareholders on the record date of 10<sup>th</sup> October 2016. No DRP arrangements will be offered for the final dividend, as the Group has a preference for utilising cash and debt capacity in the current low interest rate environment.

## OUTLOOK

The commercial lines insurance market outlook remains challenging, with some signs that premium rates are stabilising. The continuation of a stable rate environment in Australia and New Zealand in FY17, and even targeted rate increases in underperforming segments, is dependent on actions by insurers. In the absence of catastrophic events significant rate increases are considered unlikely in FY17. Drivers of revenue in Risk Services remain positive and are not impacted by the soft insurance cycle.

In FY17, we will continue to build on the strength of our Group Strategy, our core 'owner-driver' business model and to optimise the operating model. 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, while maintaining a focus on margins.

In an environment of stable premium rates and interest rates, the Group would expect Adjusted NPAT for FY17 of 0-5% over FY16. The achievement of this target is subject to prevailing economic conditions.

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the Intercontinental Hotel (117 Macquarie Street, Sydney) on 24<sup>th</sup> November 2016 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

337065#

Webcast Audience Link

<http://edge.media-server.com/m/p/dzr67xn7>



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, AUB Group 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.

## AUB GROUP FY16 PRESENTATION OF FINANCIAL RESULTS

**Table 1 Financial Results Summary**

FINANCIAL RESULTS SUMMARY	FY2016 \$ 000	FY2015 \$ 000	Variance %
Revenue from ordinary activities <sup>1,2</sup>	233,878	217,347	7.6%
Profit before tax	60,914	53,766	13.3%
Net profit after tax (before non-controlling interests)	48,787	42,857	13.8%
Net profit attributable to members (Reported NPAT)	42,002	34,887	20.4%
Adjusted NPAT <sup>3</sup>	37,553	36,345	3.3%
Reported earnings per share	66.6	56.9	17.1%
Adjusted earnings per share <sup>3</sup>	59.6	59.3	0.5%
Dividend per share	40.0	39.7	0.8%

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 controlled entity became an associate and as a result their revenue and expenses are no longer included in those items and their share of after tax profits are included in revenue.

3. Adjusted NPAT represents the underlying profitability of the business used by management and the board to assess performance of the business. Further details are provided in the table below. Adjusted earnings per share is earnings per share calculated with reference to Adjusted NPAT.

**Table 2 Reconciliation of Adjusted NPAT to Reported NPAT<sup>(1)</sup>**

The Reported profits of the business include non-operational items, such as profits and losses on sale of equity interests, fair value adjustments to carrying values on ownership changes, changes to estimates or payments of deferred contingent consideration amounts, impairment adjustments and amortisation of intangible assets. These profits or losses are not part of the regular trading activities and can distort the underlying performance of the business. These items have been eliminated to provide a clear representation of the underlying trading performance. This measure, labelled Adjusted NPAT, is used by management and the board to assess operational performance, and is reconciled below.

RECONCILIATION OF ADJUSTED NPAT TO REPORTED NPAT <sup>(1)</sup>	FY2016 \$ 000	FY2015 \$ 000	Variance %
Net Profit after tax attributable to equity holders of the parent	42,002	34,887	20.4%
Reconciling items net of tax and non controlling interest adjustments for:			
Adjustments to contingent consideration for acquisitions of controlled entities and associates <sup>2</sup>	343	(4,441)	-107.7%
Add back offsetting impairment charge to the carrying value of associates & goodwill, related to above (as relevant)	3,114	4,104	-24.1%
Net adjustment	3,457	(337)	-1125.8%
Add back adjustments to the carrying value of associate (impairment), not subject to contingent consideration <sup>3</sup>	-	1,500	N/a
Less profit on sale or deconsolidation of controlled entities net of tax <sup>4</sup>	(191)	(817)	-76.6%
Less profit on sale of associates net of tax <sup>5</sup>	(6,047)	-	N/a
Adjustment to carrying value of entities (to fair value) on date they became controlled or deconsolidated <sup>6</sup>	(5,725)	(3,224)	77.6%
Net Profit from operations	33,496	32,009	4.6%
Add back amortisation of intangibles net of tax <sup>7</sup>	4,057	4,336	-6.4%
<b>Adjusted NPAT</b>	<b>37,553</b>	<b>36,345</b>	<b>3.3%</b>

- The financial information in this table has been derived from the audited financial statements. The adjusted NPAT is non-IFRS financial information and as such has not been audited in accordance with Australian Accounting Standards.
- 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 payments are made. This adjustment can be a loss (if increased) or a profit (if reduced). Where an estimate or payment is reduced, an offsetting adjustment (impairment) is made to the carrying value.
- In FY2015, one investment in an associate recorded an impairment, due to specific competitive circumstances in a niche segment.
- Profits on deconsolidation occur when interests in a controlled entity are sold and it becomes an associate.
- During the period the Group sold its entire shareholdings in three associates and sold part of its shareholding in another, resulting in profits on sale. These may not occur in a future periods unless similar transactions occur.
- The adjustments to carrying values of associates or controlled entities arise where the Group increases its equity in associates whereupon they became controlled entities or decreases its equity in a controlled entity and it becomes an associate (deconsolidated). As required by accounting standards the carrying values for the existing investments have been adjusted to fair value and the increase included in net profit. Such adjustments will only occur in future if further acquisitions or sales of this type are made.
- Amortisation of intangibles expense decreased over last year due to some intangible assets now being fully amortised. The expense is a non-cash item.

### Table 3 Management Presentation of Results

A number of the businesses in the AUB Group 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 businesses 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 this data to the operating segments (note 3) in the Annual Report, is included in the Operating and Financial Review section of the Annual Report.

MANAGEMENT PRESENTATION OF RESULTS	FY2016	FY2015	Variance
	\$ 000	\$ 000	%
Australian Broking revenue	308,316	312,816	-1.4%
Australian Broking expenses	(221,196)	(224,613)	-1.5%
Net profit - Australian Broking	87,120	88,203	-1.2%
Profit attributable to other equity interests	(39,165)	(38,057)	2.9%
<b>Australian Broking net profit</b>	<b>47,955</b>	<b>50,146</b>	<b>-4.4%</b>
New Zealand Broking revenue	24,171	9,821	146.1%
New Zealand Broking expenses	(18,857)	(8,774)	114.9%
Net profit - New Zealand Broking	5,314	1,047	407.5%
Profit attributable to other equity interests	(2,434)	(754)	222.8%
<b>New Zealand Broking net profit</b>	<b>2,880</b>	<b>293</b>	<b>882.9%</b>
Underwriting Agencies revenue	51,209	52,037	-1.6%
Underwriting Agencies expenses	(37,651)	(35,370)	6.4%
Net profit - Underwriting Agencies	13,558	16,667	-18.7%
Profit attributable to other equity interests	(3,211)	(3,505)	-8.4%
<b>Underwriting Agencies net profit</b>	<b>10,347</b>	<b>13,162</b>	<b>-21.4%</b>
Risk Services revenue	60,826	27,172	123.9%
Risk Services expenses	-48,130	(23,487)	104.9%
Net profit - Risk Services	12,696	3,685	244.5%
Profit attributable to other equity interests	(5,538)	(1,645)	236.7%
<b>Risk Services net profit</b>	<b>7,158</b>	<b>2,040</b>	<b>250.9%</b>
<b>Net profit before corporate income / expenses</b>	<b>68,340</b>	<b>65,641</b>	<b>4.1%</b>
Corporate expenses	(13,362)	(12,427)	7.5%
Acquisition expenses	(621)	(426)	45.8%
Corporate finance costs	(3,185)	(2,693)	18.3%
Corporate income	2,601	1,939	34.1%
Net corporate expenses	(14,567)	(13,607)	7.1%
<b>Net profit before tax</b>	<b>53,773</b>	<b>52,034</b>	<b>3.3%</b>
Income tax expense	(16,220)	(15,689)	3.4%
<b>Adjusted NPAT</b>	<b>37,553</b>	<b>36,345</b>	<b>3.3%</b>