



28th August 2017

The Manager
Market Announcements Office
Australian Securities Exchange Ltd
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 30th June 2017

Please find attached for immediate release AUB Group Limited's Market Announcement in relation to the results for the year ended 30th June 2017.

Yours faithfully,

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

Justin Coss
Company Secretary

For further information, contact Justin Coss

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AUB Group Limited

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ASX release

28th August 2017

AUB Group's focused approach delivers strong organic growth

Summary:

- 7.5% increase in Adjusted NPAT¹ to \$40.4 million (FY16: \$37.6 million), with growth across all operating units. Adjusted earnings per share increased 6.2% to 63.2 cents.
- Organic growth is the key driver of business performance.
- Underlying EBITA² up 9.9% on prior year.
- Final fully franked dividend of 29.5 cents per share, bringing the total declared dividends for 2017 to 42.0 cents per share, up 2.0 cents per share on prior year.
- Reported Net Profit After Tax of \$33.0 million (FY16: \$42.0 million), a decrease on prior comparable period due to non-recurring profits on sale of investments earned in FY16, and other non-cash accounting adjustments relating to mergers and acquisitions.

AUB Group Limited (ASX:AUB) has reported a 7.5% increase in Adjusted Net Profit After Tax (Adjusted NPAT¹), to \$40.4 million (FY16: \$37.6 million), with a good performance from all business areas. On an Adjusted basis, earnings per share has increased to 63.2 cents per share, up 6.2% over the prior comparable period.

Due to profits on sale of investments in FY16, which were non-recurring, reduced fair value adjustments and contingent consideration adjustments relating to mergers and acquisitions, AUB Group's consolidated Net Profit After Tax (Reported NPAT) decreased to \$33.0 million in FY17 (FY16: \$42.0 million).

AUB Group CEO and Managing Director Mark Searles said: "AUB Group's strong results reflect the ongoing benefits of the disciplined implementation of the Group's strategy together with strict adherence to our partnership and operating models. Despite a flat market, organic growth was the key driver of business performance, which further highlights our strategic execution - importantly growth was not a result of premium rate increases. Nevertheless, evidence of rate increases in the last quarter leads us to believe that the return to a more stable premium rate environment will further support the Group's financial performance going forward."

The company has declared a final dividend of 29.5 cents per share fully franked, bringing the dividend for FY17 to a total of 42.0 cents per share (FY16: 40.0 cps).

Highlights of the FY17 results by operating area include:

Australian Broking (Austbrokers):

- **3.6% increase in profit contribution from Australian Insurance Broking over the period on a like for like basis³.** Australian Broking contributed \$49.2 million (FY16: \$47.9 million) to the Group, in a market where insurance premiums were flat over the year with evidence of premium rate increases occurring in the last quarter. Organic growth of clients and policies were the key drivers of growth and margins have slightly improved.
- **Acquisitions continue** with AUB Group acquiring 50% of Lea Insurance Brokers on 1 May 2017 and our broking partners completing a number of smaller acquisitions and mergers.
- **4.6% growth in the Hunter Premium Funding loan book** demonstrates the strength of the joint venture relationship with Hunter.

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. Performance measure used by management to assess underlying business performance.

² Underlying EBITA represents an aggregate of 100% of all business partners' revenue and expenses before deducting non controlling interests and after AUB corporate costs.

³ Excluding operating profits arising from directly acquired or divested businesses from both periods.

- **Launch of the Austbrokers Life Solutions product** in partnership with Suncorp Life complements the current full advice life offerings, as we continue to execute our strategy of Total Risk Solutions for clients.

New Zealand

- **\$2.6 million increase in profit contribution from New Zealand to \$5.5 million** (FY16: \$2.9 million), reflecting strong organic growth and the contribution from the acquisition of Runacres & Associates Ltd in January 2016 and acquisitions by our associate BWRS.
- **Organic growth** has been delivered from growth in new clients, life income and premium funding income, while the premium rate environment continues to be muted, with early signs of stabilisation.
- **The strength of NZbrokers in the market has been further enhanced** with four new members joining the network which now manages in excess of \$550 million GWP making it the largest broking management group in NZ.
- **Since inception 3 years ago, AUB Group NZ is now the third largest Insurance Broking entity in NZ by GWP.**

Risk Services

- **5% increase in profit contribution from Risk Services to \$7.5 million**, with contribution from acquisitions by existing equity partner businesses, and the addition of ancillary services.
- **Double digit revenue growth continued in FY17**, as businesses expanded geographically and into new services. The investment in resources to support new services ahead of revenues offset organic profit growth in FY17. However margins improved slightly in the second half, as revenues came on line.
- **The completion of the national footprint of our 55% owned rehabilitation specialist, Altius Group Pty Ltd** with the acquisition of PeopleSense Pty Ltd, a leading Western Australian licensed provider, has performed strongly.

Underwriting Agencies (SURA)

- **21% increase in profit contribution from Underwriting Agencies**, driven by increased policy count up 12.7%. Premium rates on renewal have been largely flat across the portfolio, with reductions experienced in the first half largely recovered in the second half. Underwriting Agencies contributed \$12.5 million (FY16: \$10.3 million) to the Group, despite the divestment of an agency in the prior period. EBIT margins improved to 35% (up from 29%).
- **Portfolio rationalisation continues within the Agency business**, and this will lead to decreased reliance on profit commissions going forward and continued strong operating margins.
- **The business acquired 50% of Fleetsure Pty Ltd**, a specialist fleet transport agency. **Two new agencies have now been launched to market** which are expected to break even in FY18.
- **Following a global review of potential providers, implementation of a new underwriting system has commenced** and will roll-out over the next three years, replacing the three systems currently utilised and delivering operational efficiencies and improved governance in future years.

Group Services and Corporate Costs

- In recognition of the expansion of the AUB Group, beyond its traditional heritage of Australian Broking, leaders have been appointed to each market facing segment (Australian Broking, New Zealand, Underwriting Agencies, Placements/Wholesale Broking and Risk Services), to drive performance.
- **AUB Group remains focused on managing the group cost to income ratio, which improved to 20.6%⁴**. Costs increased due to higher staff incentives based on strong business performance, increased lease costs, investment in establishing a direct life offer, increased cyber insurance and one off technology costs.

Capital management

- **Net assets at 30 June are \$371.7 million** (FY16: \$351.2 million), up predominantly due to the recognition of non controlling interests on reduction of equity ownership in partner businesses and on new acquisitions.
- **Gearing is stable at 20.4%** (FY16: 20.2%). The parent entity has cash and undrawn committed facilities of \$20.2 million at 30 June 2017. We are currently re-tendering the Group's lending facility to support future growth, with a new facility expected to be in place in the first half of FY18.

Dividends

The Board has declared a fully franked final dividend of 29.5 cents per share, bringing the total dividends declared for the year to 42.0 cents, up 5% on FY16. This dividend is payable on 31st October 2017 to shareholders on the record date of 10th October 2017. Dividend Reinvestment Plan (DRP) arrangements will continue to be suspended for the final dividend.

⁴ Calculated as AUB corporate costs (excluding acquisition and finance costs) normalised for STI at target as a percentage of net income before corporate costs and tax.

Outlook

- There was evidence of single digit percentage premium rate increases in Australia the last quarter of FY17 and an expectation that insurers will continue to execute premium rate increases at a similar level into FY18. New Zealand remains competitive, with early signs of stabilisation. Any sustained increases in the premium rate environment in Australia and New Zealand in FY18 are dependent on actions by insurers and indications are that insurers will be executing premium rate increase strategies that will have a positive effect on income.
- Drivers of revenue in Risk Services remain positive outside of the NSW market. The industry changes caused by iCare's rationalization of Managing Agents is seen to be positive for the longer-term however, there is significant industry change to occur in NSW over the next 12 months and this may impact case volumes in some of our businesses. Our expectations for FY18 are moderated to focus on business retention, rather than growth in NSW. Opportunities outside NSW and in ancillary risk services continue, unaffected by these changes.
- As demonstrated in FY17, the Group expects continued organic growth as a result of ongoing disciplined execution of our strategy, supplemented by relevant acquisition and start-up investment opportunities in Australia and New Zealand.
- In the context of low single digit premium rate increases in Australia, and to a lesser extent in New Zealand, the Group expects Adjusted NPAT in FY18 in the range of 5 to 10% growth over FY17.

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 Teleconference:	Australia Access:	1800 268 560
	New Zealand:	0800 466 125
	International:	+61 2 7200 9400

Teleconference Participant Pin Code: 341712#

Webcast Audience Link:

<http://event.onlineseminarsolutions.com/wcc/r/1437176-1/E1AA8664D7F40AD55E1D434469846E06>



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 FY17 PRESENTATION OF FINANCIAL RESULTS

Table 1 Financial Results Summary

FINANCIAL RESULTS SUMMARY	FY17	FY16	Variance
	\$ 000	\$ 000	%
Revenue from ordinary activities ¹	264,509	233,878	13.1%
Adjusted NPAT ²	40,382	37,553	7.5%
Profit before tax	54,377	60,914	-10.7%
Net profit after tax (before non-controlling interests)	43,101	48,787	-11.7%
Net profit attributable to members (Reported NPAT)	32,988	42,002	-21.5%
Reported earnings per share (cents)	51.7	66.6	-22.4%
Adjusted earnings per share (cents) ²	63.3	59.6	6.3%
Dividend per share (cents)	42.0	40.0	5.0%

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 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 NPAT¹

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 ¹	FY17	FY16	Variance
	\$ 000	\$ 000	%
Net Profit after tax attributable to equity holders of the parent	32,988	42,002	-21.5%
Reconciling items net of tax and non controlling interest adjustments for:			
Adjustments to contingent consideration for acquisitions of controlled entities and associates ²	5,811	343	
Add back offsetting impairment charge to the carrying value of associates & goodwill, related to above ²	2,623	3,114	
Net adjustment	8,434	3,457	
Less / plus profit on sale or deconsolidation of controlled entities net of tax ³	-	(191)	
Less profit on sale of associates net of tax ⁴	(661)	(6,047)	
Adjustment to carrying value of entities (to fair value) on date they became controlled or deconsolidated ⁵	(4,334)	(5,725)	
Net Profit from operations	36,427	33,496	8.8%
Add back amortisation of intangibles net of tax ⁶	3,955	4,057	-2.5%
Adjusted NPAT	40,382	37,553	7.5%

1 The financial information in this table has been derived from the financial statements, reviewed by the auditors. The adjusted NPAT is non-IFRS financial information and as such has not been audited in accordance with Australian Accounting Standards.

2 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) may be made to the carrying value.

3 Profits on deconsolidation occur when interests in a controlled entity are sold or it becomes an associate.

4 The Group sold shareholdings in certain entities over the period, resulting in profits on sale. Such profits may not occur in a future periods unless similar transactions occur.

5 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.

6 Amortisation of intangibles expense decreased over the prior period due to some intangible assets being fully amortised. Amortisation 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 per the financial statements is included in the Director's Report.

MANAGEMENT PRESENTATION OF RESULTS	FY17	FY16	Variance	Variance
	\$ 000	\$ 000	\$	%
Australian Broking revenue	312,720	308,316	4,404	1.4%
Australian Broking expenses	(218,967)	(216,739)	(2,228)	1.0%
EBIT - Australian Broking	93,753	91,577	2,176	2.4%
New Zealand Broking revenue	38,412	24,171	14,241	58.9%
New Zealand Broking expenses	(25,049)	(17,689)	(7,360)	41.6%
EBIT - New Zealand Broking	13,363	6,482	6,881	106.2%
Underwriting Agencies revenue	56,317	51,209	5,108	10.0%
Underwriting Agencies expenses	(36,698)	(36,228)	(470)	1.3%
EBIT - Underwriting Agencies	19,619	14,981	4,638	31.0%
Risk Services revenue	80,797	60,826	19,971	32.8%
Risk Services expenses	(66,947)	(48,068)	(18,879)	39.3%
EBIT - Risk Services	13,850	12,758	1,092	8.6%
Total revenue - operating entities	488,246	444,522	43,724	9.8%
Total expenses - operating entities	(347,661)	(318,724)	(28,936)	9.1%
Total EBIT - operating entities	140,585	125,798	14,788	11.8%
Corporate revenue	2,248	2,601	(353)	-13.6%
Corporate expenses	(17,055)	(13,983)	(3,072)	22.0%
EBIT - Corporate	(14,807)	(11,382)	(3,425)	30.1%
Total - Group revenue	490,494	447,123	43,371	9.7%
Total - Group expenses	(364,716)	(332,707)	(32,008)	9.6%
Total- EBIT AUB Group before NCI (underlying EBITA)	125,778	114,416	11,363	9.9%
Interest expense - Operating entities	(7,492)	(7,110)	(383)	5.4%
Interest expense - Corporate	(1,762)	(3,185)	1,423	-44.7%
Total - Interest expense	(9,254)	(10,295)	1,040	-10.1%
Profit before NCI	116,524	104,121	12,403	11.9%
Non - Controlling Interest (NCI)	(58,413)	(50,348)	(8,065)	16.0%
Adjusted Net profit before tax	58,111	53,773	4,338	8.1%
Income tax expense	(17,729)	(16,220)	(1,509)	9.3%
Adjusted NPAT	40,382	37,553	2,829	7.5%