



28<sup>th</sup> August 2014

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 30<sup>th</sup> June 2014**

Attached for immediate release is Austbrokers Holdings Limited (AUB) Market Announcement in relation to the results for the year ended 30<sup>th</sup> June 2014.

Yours faithfully,

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

Stephen Rouvray  
**Company Secretary**  
Austbrokers Holdings Limited

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

# ASX release



28<sup>th</sup> August 2014

## Austbrokers delivers strong diversified growth in FY2014

### Summary:

- Group revenue increased by 18.3%<sup>1</sup>.
- 16% decrease in reported consolidated Net Profit After Tax for FY2014 to \$34.7 million (FY2013: \$41.2 million which included \$12.0 million accounting adjustments to carrying values of associates).
- 10.5% increase in Adjusted NPAT to \$35.5 million - the ninth consecutive year of double digit underlying profit growth.
- Final fully franked dividend of 26.5 cents per share, bringing the total distribution for 2014 to 38.5 cents per share, up 8.5%.

Austbrokers Holdings Limited (ASX: AUB) announced strong revenue and profit growth across the Group's business divisions demonstrating successful progress of the business strategy focused around income diversification in the commercial risk arena and optimisation of the Group's operating model.

**Revenue for the year increased 18.3%** (up by \$30 million), boosted by both organic and new acquisition growth across the Group.

While the 2014 \$34.7 million reported Net Profit After Tax (NPAT) was down 16% on the prior year, the result on an **adjusted NPAT basis was a 10.5% increase** to \$35.5 million.

The reported NPAT Tax of \$34.7 million includes adjustments to the carrying value of associates of \$3.4 million (2013 \$12.0 million), after tax loss on sale of portfolios, interests in associates & controlled entities and contingent consideration adjustments of \$0.5 million (2013 \$0.4 million profit). If the above, together with the amortisation of intangibles are excluded (as shown in Table 3 below), the net profit (Adjusted NPAT) was \$35.5 million in 2014 (2013: \$32.1 million), an increase of 10.5%. Adjusted NPAT was particularly strong in the second half of FY2014. Adjusted NPAT for the six months to 30<sup>th</sup> June 2014 was \$20.8 million compared to \$18.3 million in 2013 – a 13.7% increase.

Shareholders are benefitting from the successful execution of the Group's strategy, with a final dividend of 26.5 cents per share fully franked, payable on 24 October 2014. This brings the dividend for FY2014 to a total of 38.5 cents per share – **an 8.5% increase in dividend per share**.

On a reported NPAT basis, earnings per share decreased by 19% over the prior year, however it increased by 6.5% based on Adjusted NPAT.

The Group's results were underpinned by good growth across all three market-facing business divisions - Insurance Broking, Underwriting Agencies and the recently established Insurance & Risk Services supported by the continued deployment and usage of Group Services.

### Insurance Broking

The Insurance Broking division achieved good growth given the flat to declining premium rate environment which was particularly evident over the last quarter of the year. With Gross Written Premium (GWP) rising to over \$2 billion, our share of broker **profits was up 4.2%**, with acquisitions in FY2014 contributing 1.3% of this increase. Insurance Broking contributed 4.6% to the Group's overall Adjusted NPAT growth.

Total commission and fee income in the broker network increased by 12.1%, again assisted by acquisitions. Total **income increased by 11.1%**, and resulted from a combination of both organic growth and new broker growth.

<sup>1</sup> All comparisons are Financial Year 2014 compared to Financial Year 2013 unless otherwise stated.

**Premium funding income grew by 16%.** Profit commissions were up by almost 18.5% as a result of improved claims experience by insurers in 2013 and so far in 2014.

Broker network expenses increased by 13.3% (5.3% excluding direct acquisitions) as a result of the cost impact of bolt on acquisitions within the network, direct expenses related to income growth as well as some inflationary increase in costs.

Over the year, the Group made a total of 10 acquisitions. Since year end the Group has acquired 50% of a large Bunbury based insurance broker, Nexus Aust, which further reinforces its position in Western Australia.

## Underwriting Agencies

Austagencies continued its strong growth during the period with a **40% growth in revenue**, and **profit contribution up 33%** which added 5.3% to the Group's overall Adjusted NPAT growth. This was achieved by a mix of organic growth, the development of start up agencies and a small contribution from acquisitions with an overall focus on underwriting discipline and the defined market segment strategy. Profit commissions earned for the year were up 110% on the prior year demonstrating the quality of the underwriting performance.

Since year end Austagencies has acquired Asia and Mideast Insurance and Reinsurance (AMIR), a leading offshore energy agency, continuing its focus on investing in niche underwriters with the objective of achieving a top three position in their respective industry sectors.

## Insurance & Risk Services

The Insurance & Risk Services division was established during the year following the acquisition of the Procure Group in February 2014. The acquisition **contributed 1.3% to the Group's Adjusted NPAT growth** in its first 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.

Earlier this week the group acquired a 50% interest in Risk Strategies Pty Ltd, which has offices in Melbourne, Sydney and Brisbane and offers risk based consulting services to its clients. The acquisition expands the Group's capabilities in the provision of risk solutions giving partners and clients access to expertise and specialist risk advice.

## Group services

We have previously foreshadowed our objective of optimising 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 invested in our people, technology, processes and systems. Significant effort and resources were invested in developing and providing support, systems and project management competencies within the Group - with the aim of creating enhanced efficiencies and improving our delivery capabilities. This resulted from the strategic decision to invest in the operating model by building management and systems capability to underpin future growth.

The development of the full policy administration system (incorporating iClose placements) has progressed and is expected to be operational this quarter. This will enable additional efficiencies in operational activities across the Group. In addition, work has been undertaken on developing a group Customer Relationship Management (CRM) system and sales platform to assist our partners with their new business growth activities.

The business technology systems have been continually upgraded to achieve best practice levels and to meet the new privacy legislation requirements. 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.

As a result, corporate expenses increased however this was partially offset by a reduction in variable incentive costs which reduced in line with performance compared to the prior year resulting in a net 9% increase. This offset 2.3% of Group Adjusted NPAT growth.

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.**

## Austbrokers FY2014 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. A reconciliation of Reported NPAT to Adjusted NPAT is shown in Table 3.

### Table 1 Management Presentation of Results

	FY2014 \$' 000	FY2013 \$' 000	Variance %	Contribution to profit increase %	Contribution to after tax profit increase %
Insurance broking revenue	303,316	272,967	11.1		
Insurance broking expenses	(214,149)	(189,023)	(13.3)		
Net profit	89,167	83,944	6.2		
Profit attributable to other equity interests	(36,649)	(33,559)	(9.2)		
<b>Austbrokers net profit from insurance broking</b>	<b>52,518</b>	<b>50,385</b>	<b>4.2</b>	<b>4.7</b>	<b>4.6</b>
Underwriting agencies net income	40,314	28,814	40.0		
Underwriting agencies expenses	(27,022)	(19,368)	(39.5)		
Net profit	13,292	9,446	40.1		
Profit attributable to other equity interests	(3,515)	(2,091)	(68.1)		
<b>Austbrokers net profit from underwriting agencies</b>	<b>9,777</b>	<b>7,355</b>	<b>32.9</b>	<b>5.3</b>	<b>5.3</b>
Insurance and risk services income	7,742				
Insurance and risk services expenses	(6,538)				
Net profit	1,204				
Profit attributable to other equity interests	(602)				
<b>Austbrokers net profit from insurance and risk services</b>	<b>602</b>			<b>1.3</b>	<b>1.3</b>
<b>Net profit before corporate income / expenses</b>	<b>62,897</b>	<b>57,740</b>	<b>8.9</b>	<b>11.3</b>	<b>11.2</b>
Corporate expenses	(12,556)	(11,409)	10.1	(2.5)	(2.5)
Acquisition expenses	(352)	(432)	(18.5)	0.2	0.2
Corporate finance costs	(1,809)	(2,013)	(10.1)	0.4	0.4
Corporate income	2,530	2,185	15.8	0.7	0.8
<b>Net corporate expenses</b>	<b>(12,187)</b>	<b>(11,669)</b>	<b>4.4</b>	<b>(1.2)</b>	<b>(1.1)</b>
<b>Net profit before tax</b>	<b>50,710</b>	<b>46,071</b>	<b>10.1</b>	<b>10.1</b>	<b>10.1</b>
Income tax expense	(15,260)	(13,996)	9.0		0.4
<b>Adjusted NPAT</b>	<b>35,450</b>	<b>32,075</b>	<b>10.5</b>	<b>10.1</b>	<b>10.5</b>

## Dividend and Dividend Reinvestment Plan

On 28<sup>th</sup> August 2014, the Directors declared a fully franked final dividend of 26.5 cents per share. This dividend is payable on 24<sup>th</sup> October 2014 to shareholders on the record date of 2<sup>nd</sup> October 2014. Based on issued shares of 59,955,596 shares, this dividend will total \$15,888,233.

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 FY2014 elections will need to be received by the share registry by 5pm on 3<sup>rd</sup> October 2014.

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 3<sup>rd</sup> October 2014 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 FY2014, ordinary shares will be issued at a 2.5% discount to the relevant "price". Austbrokers may determine a different discount for subsequent dividends.

Subject to reaching satisfactory terms Austbrokers proposes to have any DRP shortfall for the final dividend underwritten.

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

## Outlook

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 in our drive to continue to be the leading Insurance Broking, Specialist Underwriting Agencies and Insurance & 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 FY2015, Austbrokers Holdings expects continued growth, by driving organic growth, supplemented by executing relevant acquisition and start-up investment opportunities across all three divisions (Insurance Broking, Underwriting Agencies and Insurance & Risk Services).

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 contain costs below the rolling 7 year average.

Notwithstanding economic uncertainty, the Group is budgeting to achieve growth in Adjusted NPAT for FY2015 of between 5% and 10% over FY 2014.

## Review of Reported FY2014 Results

**Table 2 Results as reported in Financial Statements**

	2014 \$' 000	2013 \$' 000	Increase / (Decrease) %
Revenue from ordinary activities	198,745	168,040	18.3
Expenses from ordinary activities	(148,087)	(121,695)	21.6
	50,658	46,345	9.3
Net Profit after tax on sale of interests in associates portfolios and controlled entities and contingent consideration adjustments	(512)	412	
Adjustment to the carrying value of associates ( before income tax)	3,867	12,001	
Profit before tax	54,013	58,758	(8.1)
Income tax expense	(11,611)	(11,221)	3.5
Net profit	42,402	47,537	(10.8)
Profit attributable to minority interest	(7,747)	(6,334)	22.3
Net Profit attributable to members	<b>34,655</b>	<b>41,203</b>	<b>(15.9)</b>

### 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. Consequently increases in revenue and expenses and also profit before tax show inflated growth compared to the growth in Adjusted NPAT. An offset for this is in part reflected in the increase in profit attributable to non-controlling interests.

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. Also profits and losses can arise from over or under estimation of contingent consideration for acquisitions. These profits (or losses), together with the income tax credit relating to the recognition of a deferred tax asset resulting from prior years' share based payments expense, 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

	FY2014 \$' 000	FY2013 \$' 000	Increase %
Net Profit after tax attributable to equity holders of the parent	34,655	41,203	(15.9)
Add (less) Net loss (Profit) after tax on sale of interests in associates, portfolios and controlled entities and contingent consideration adjustments *	512	(276)	
Less adjustments to the carrying value of associates (after income tax)*	(3,405)	(12,001)	
Net Profit from operations	31,762	28,926	9.8
Add back Amortisation of intangibles net of tax*	3,688	3,149	17.1
Adjusted NPAT	35,450	32,075	10.5

\* This financial information has been derived from the audited consolidated financial statements.

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

### Annual General Meeting

The Annual General Meeting will be held at the Sofitel Sydney Wentworth Hotel (61-101 Phillip Street, Sydney) on 25<sup>th</sup> November 2014 at 10.00am.

### 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 153 721**

**New Zealand: 0800 442 709**

**International: +61 2 8047 9300**

Participant Pin Code **659845#**

Webcast Audience Link <http://www.media-server.com/m/p/5tzkrbmb>



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 may contain forward looking statements relating to future matters, which are subject to known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of Austbrokers and the Austbrokers Group to be materially different from those expressed in this announcement. Except as required by law and only to the extent so required, neither Austbrokers nor any other person warrants that these forward looking statements relating to future matters will occur.