

AUSTBROKERS HOLDINGS LIMITED

First Half Year 2013
Results Presentation

Monday 25th February 2013

Mark Searles CEO & Managing Director
Steve Rouvray CFO

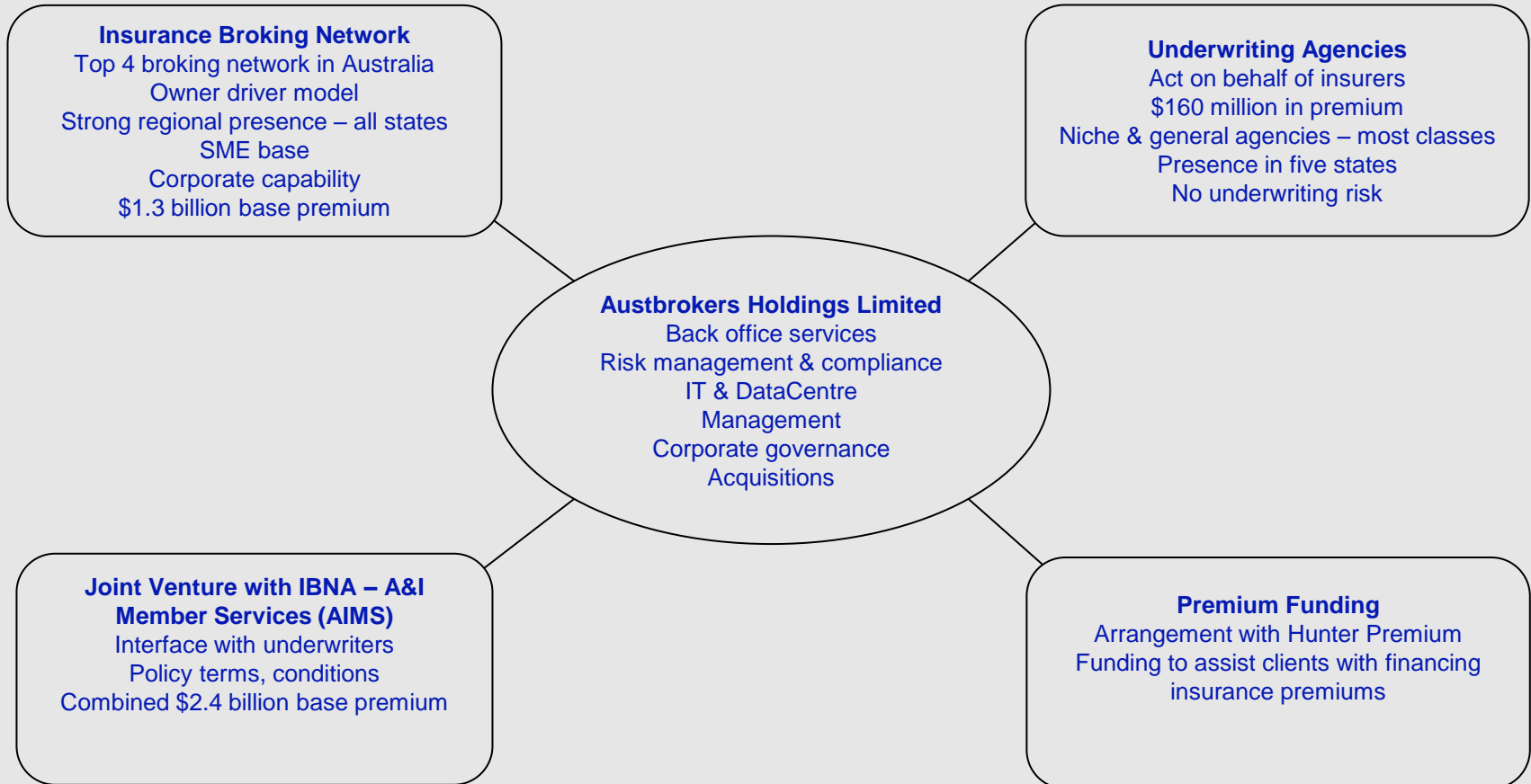


Agenda

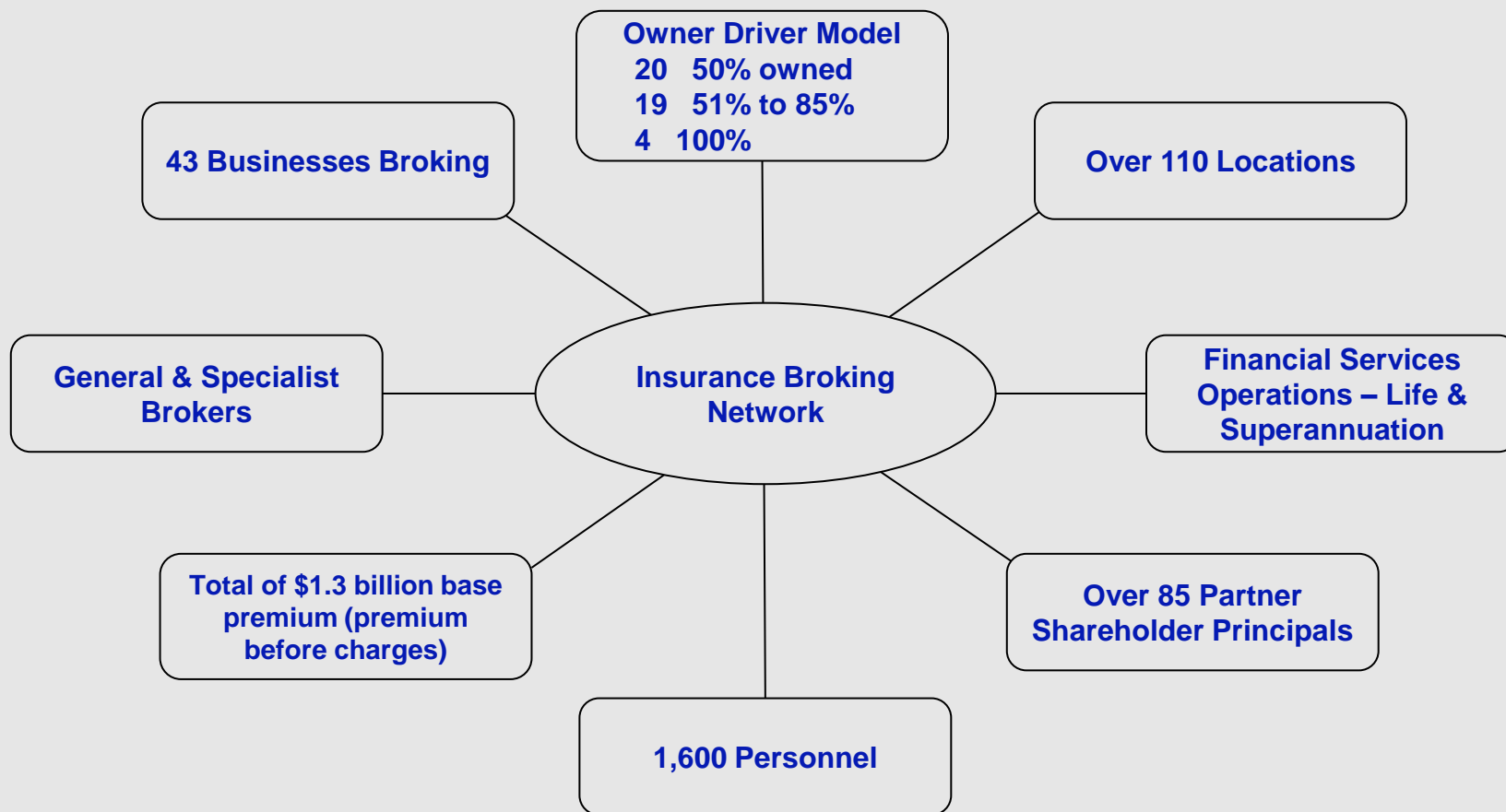
- **Overview**
 - **Business Overview**
 - **1HY 2013 Financial Highlights**
 - **1HY 2013 Operational Highlights**

- 1HY 2013 Financial Performance
- FY 2013 Outlook

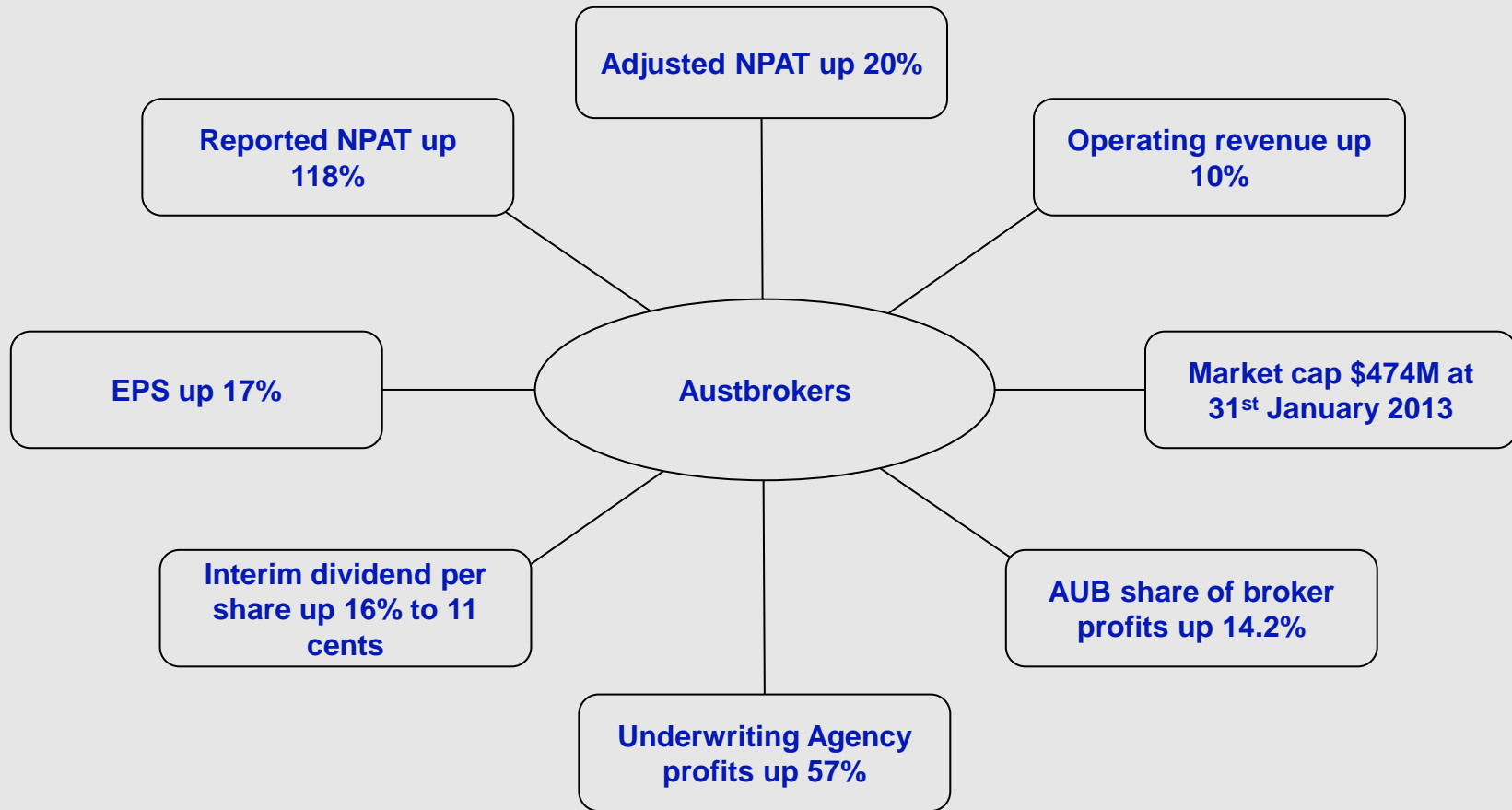
Business Overview



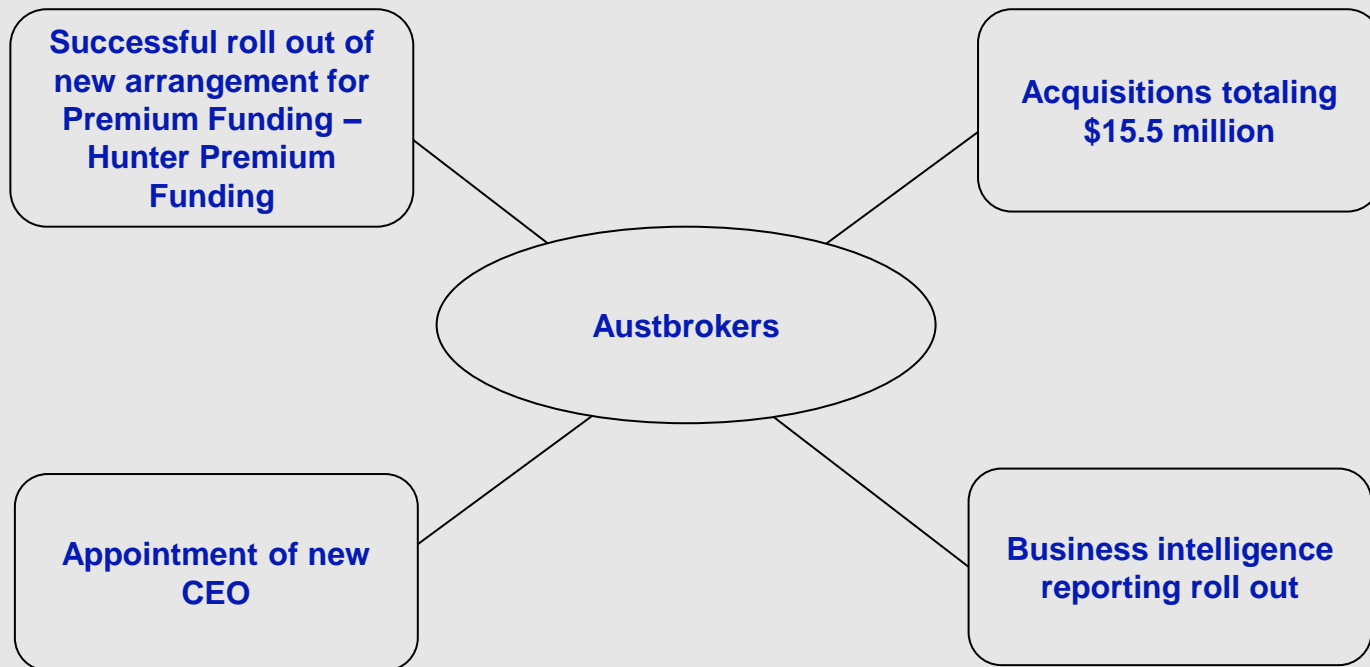
Business Overview con't



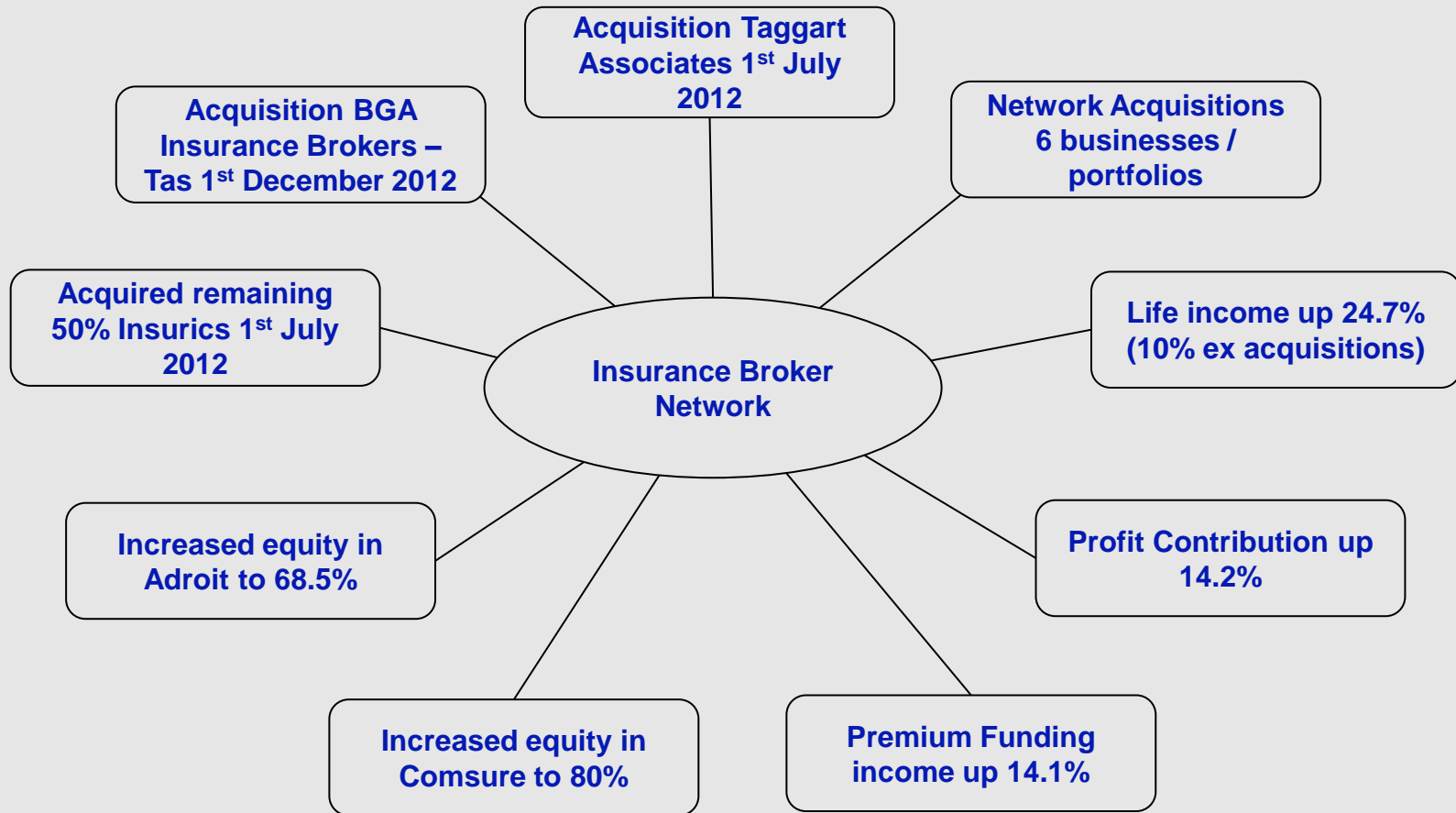
1HY2013 Financial Highlights



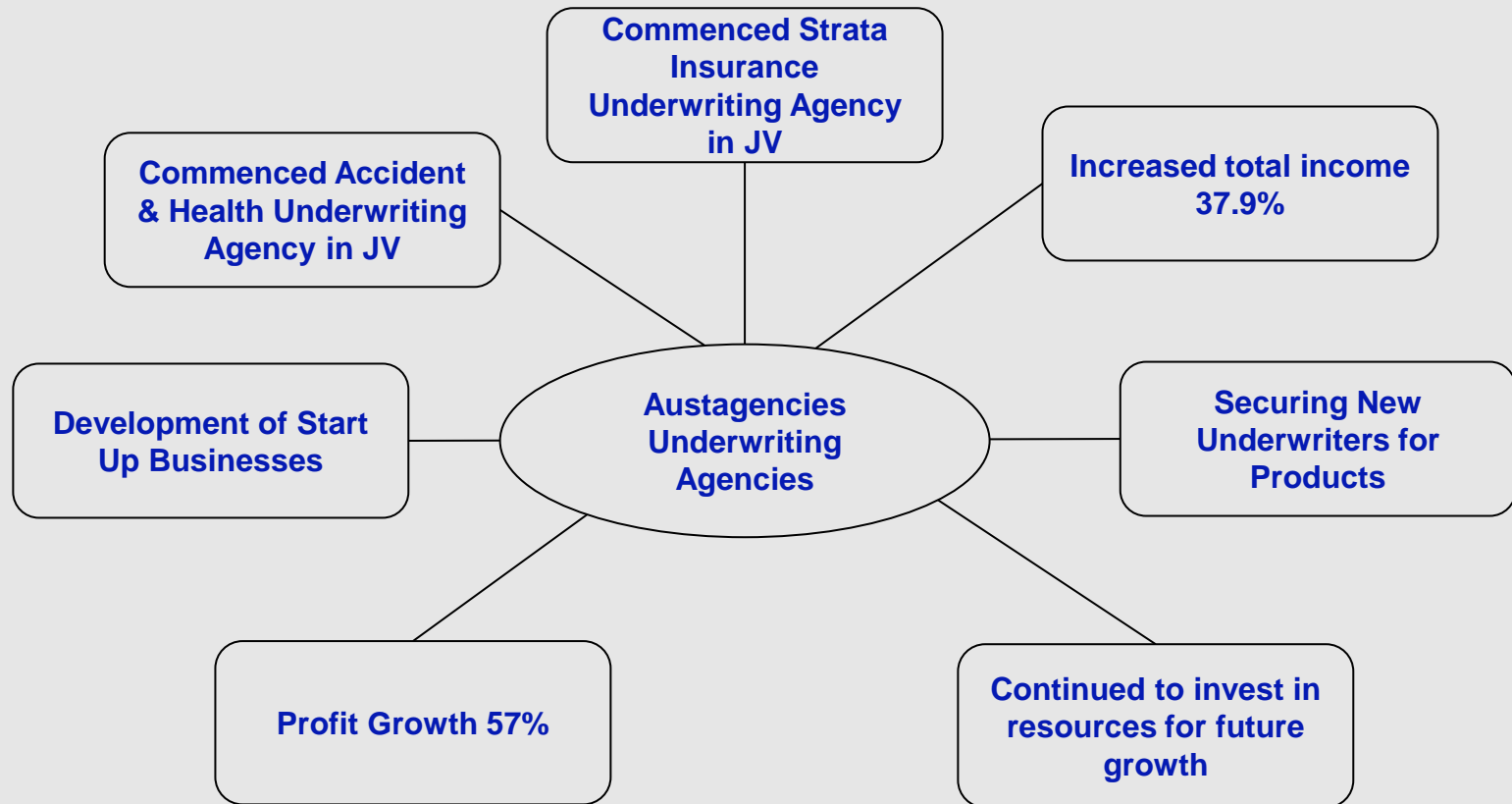
1HY2013 Operational Highlights



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1HY 2013 Financial Performance

\$'000	1HY 2013	1HY 2012	% change
Broker Revenue (net of commission Paid)	131,311	121,595	8.0
Brokers & Agencies Profit (AHL share)	25,168	21,295	18.2
Profit (before tax and amortisation of intangibles and sales of businesses)	19,833	16,539	19.9
NPAT Reported	24,489	11,214	118.0
NPAT (before amortisation of intangibles and sales of businesses) – Adjusted NPAT	13,759	11,461	20.0

Agenda

- Overview
- **1HY 2013 Financial Performance:**
 - Income statement – as per Financial Report
 - Reconciliation to Adjusted NPAT
 - Profit and loss statement – detailed
 - Balance sheet
 - Other financials
 - Changes to accounting standards
- FY 2013 outlook

1HY 2013 Results – Financial Statement Presentation

	1HY2013	1HY2012	Variance %
	\$'000	\$'000	
Revenue from ordinary activities	80,690	58,988	36.7
Expenses from ordinary activities	(58,700)	(42,432)	38.3
Borrowing costs	(1,547)	(1,241)	24.7
	20,443	15,315	33.5
Fair value adjustment to the carrying value of associates on the date at which they become controlled entities	12,630	-	
Adjustment to contingent consideration	(490)	398	
Profit before tax	32,583	15,713	107.4
Income tax expense	(5,269)	(2,821)	86.8
Net profit	27,314	12,892	111.9
Profit attributable to minority interest	(2,825)	(1,678)	68.4
Net profit attributable to members	24,489	11,214	118.4

Extracted from Consolidated Financial Statements for Half Year ended 31st December 2012

1HY 2013 Reconciliation of Reported NPAT to Adjusted NPAT

	1HY 2013 \$'000	1HY 2012 \$'000
Reported Profit attributable to members (NPAT)	24,489	11,214
Fair value adjustments to the carrying value of associates at the date at which they became controlled entities*	(12,630)	-
Adjustment in contingent consideration on acquisition of controlled entity (net of non controlling interests)*	414	(398)
Tax credit relating to prior years*	-	(631)
Profit from ongoing operations	12,273	10,185
Amortisation of intangibles net of tax*	1,486	1,276
Net profit after tax from operations before amortisation of intangibles (Adjusted NPAT)	13,759	11,461

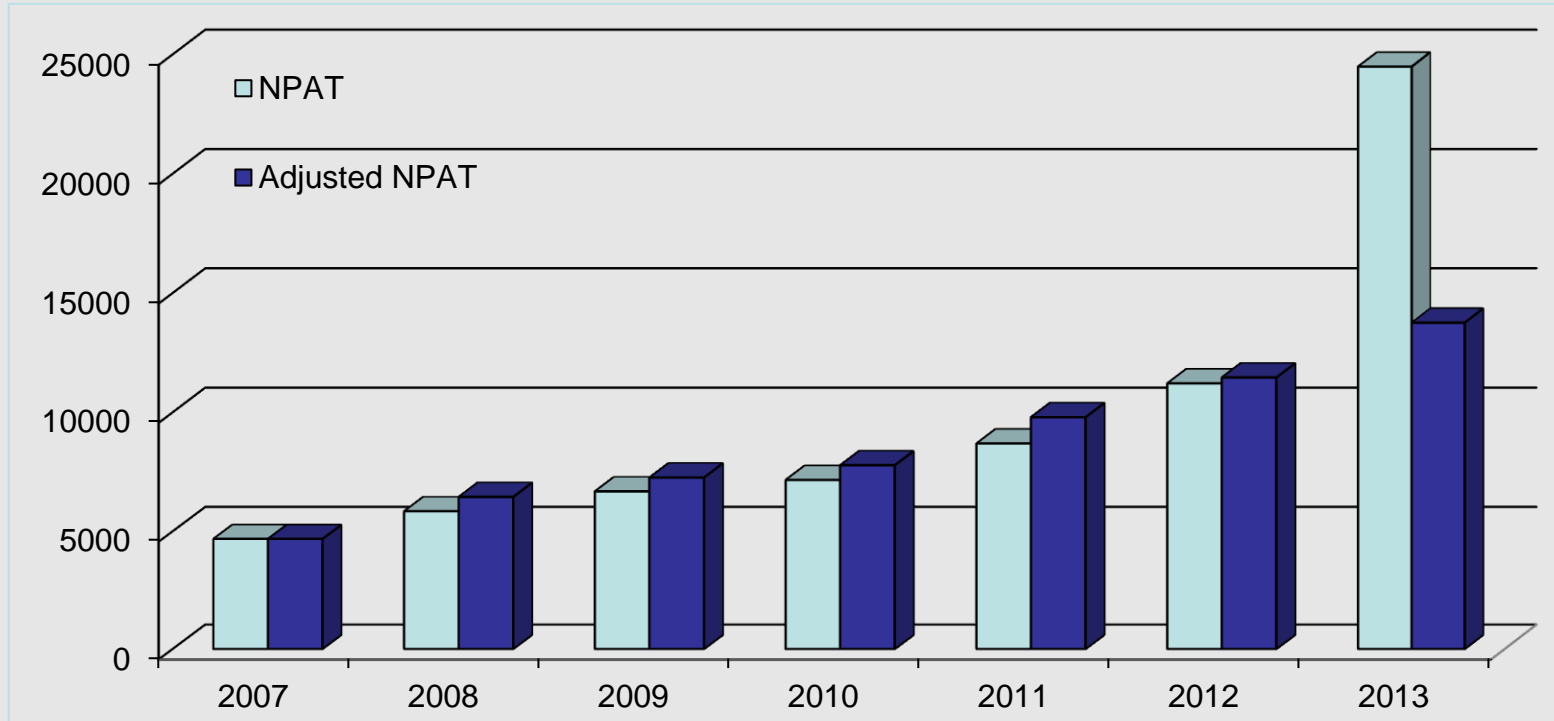
* This information has been derived from the consolidated financial statements which have been subject to review by the company's auditors

Elimination of the items above provides a basis for analysis of the underlying performance of the company. These items may or may not recur and can distort underlying performance compared to prior periods. Amortisation of intangibles is a non cash item and may fluctuate depending on acquisitions and their timing. It may also reduce as existing intangibles are fully amortised

1HY 2013 Compared to 1HY 2012 - Highlights

	\$'000	1HY 2013	1HY2012	Change
Net Profit after Tax attributable to members (NPAT)		24,489	11,214	118%
Underlying (Adjusted NPAT)		13,759	11,461	20%
Earnings per share (NPAT)		43.4 cents	20.4 cents	112.7%
Earnings per share (Adjusted NPAT)		24.4 cents	20.8 cents	17.3%
Dividend per share		11.0 cents	9.5 cents	15.8%

NPAT Growth 1HY 2007 - 2013

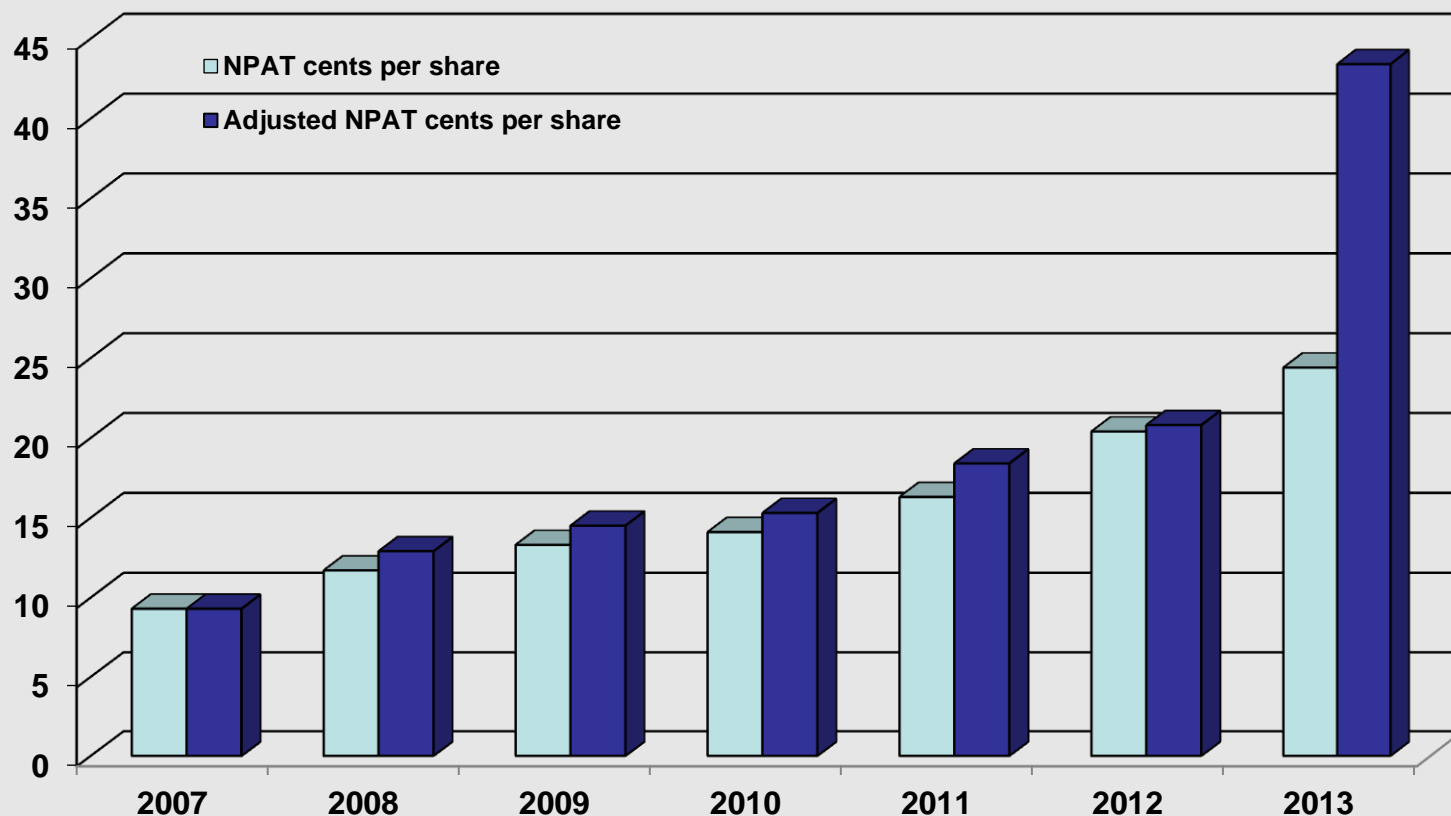


% increase Adjusted	28.3%	25.1%	14.3%	7.2%	21.3%	29%	118%
% increase NPAT	14.6%	38%	12.6%	7.1%	25.9%	17%	20%

NPAT - Net Profit after tax attributable to members

Adjusted NPAT – Net profit after tax before amortisation of intangibles before profits on business / portfolios sold, adjustment to contingent consideration for acquisitions and tax credit relating to prior periods (2012 only) and fair value adjustment to carrying value of associates on date at which they became controlled entities (2013 only)

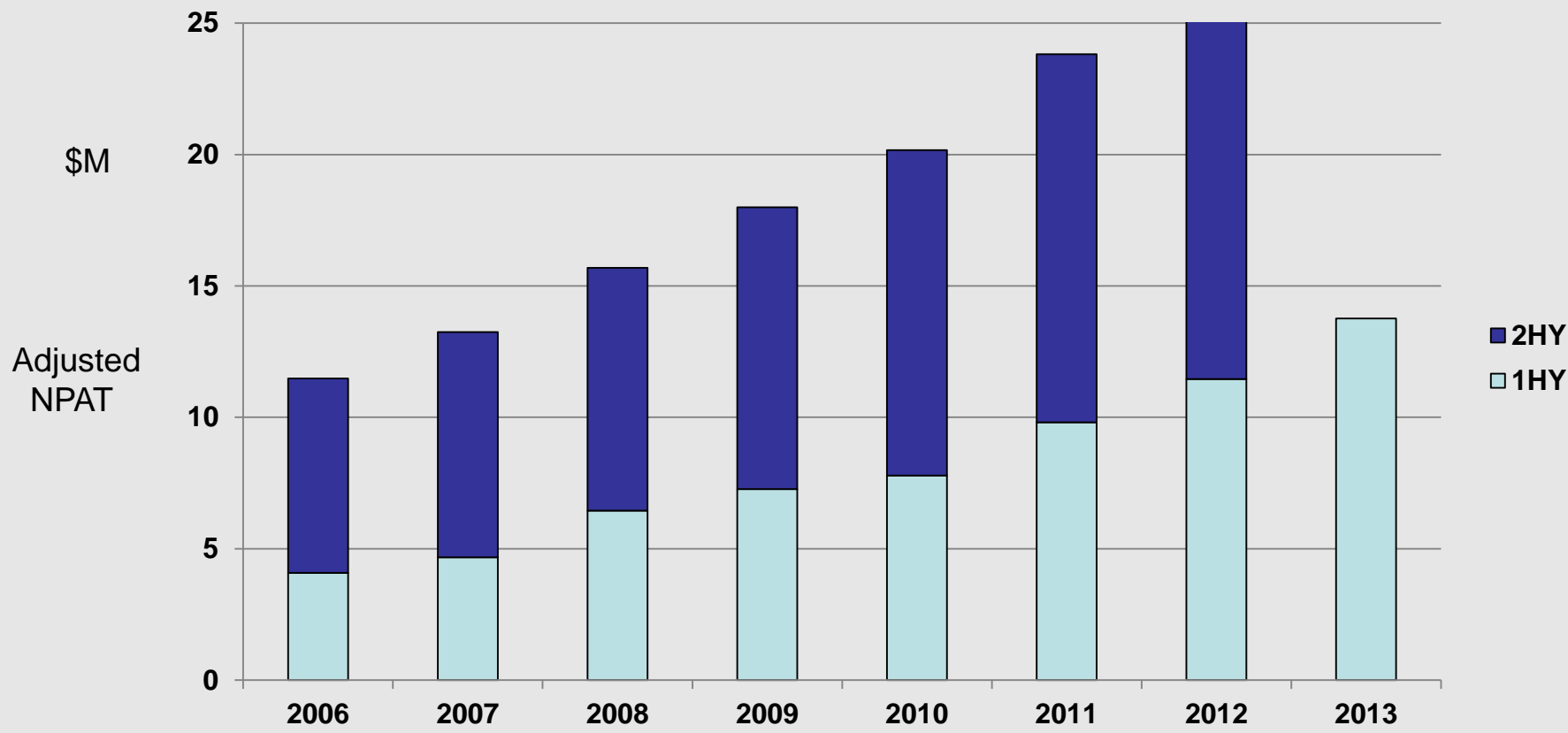
Earnings Per Share 1HY2007 - 2013



NPAT cents per share	9.3	11.7	13.3	14.1	16.3	20.4	24.4
Adjusted NPAT cents per share	9.3	12.9	14.5	15.3	18.4	20.8	43.4

Adjusted NPAT calculated on same basis as Basic Earnings per share

1HY Compared to 2HY



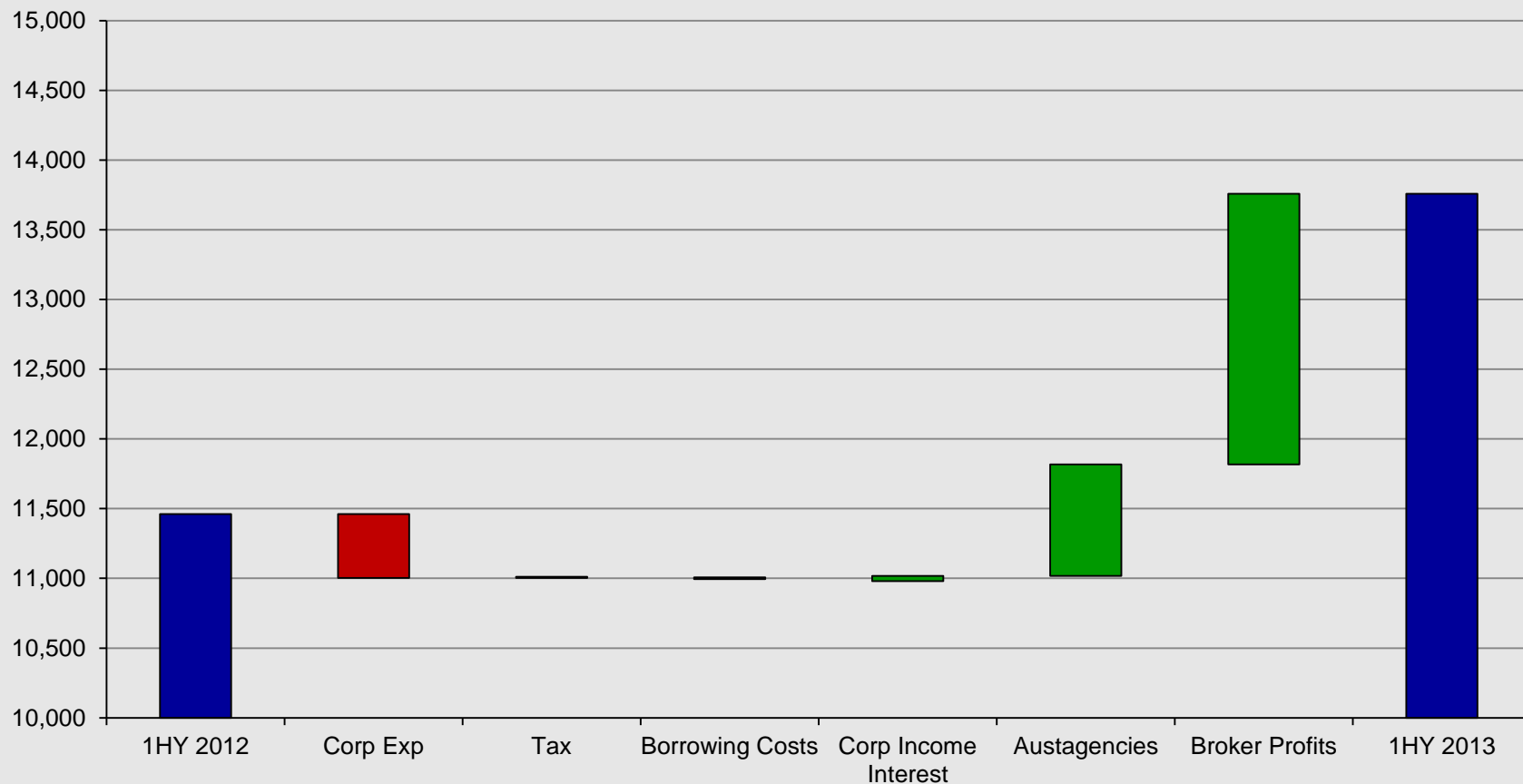
	Financial Year							
2HY	64%	65%	59%	60%	61%	59%	58%	
1HY	36%	35%	41%	40%	39%	41%	42%	

Interim Dividend

- 11.0 cents per share fully franked – up from 9.5 cents last year
- Increase of 15.8%
- Eps growth of 17.3% on an adjusted NPAT basis expected to moderate in 2HY 2013
- Eligible for reinvestment under Dividend Reinvestment Plan
- DRP not being underwritten

Increase in Adjusted NPAT 1HY2013 vs 1HY2012

\$'000



Adjusted NPAT
% Growth

11,461

(458)

(4.0)%

(9)

(0.1)%

(14)

(0.1)%

37

0.3%

800

7.0%

1,942

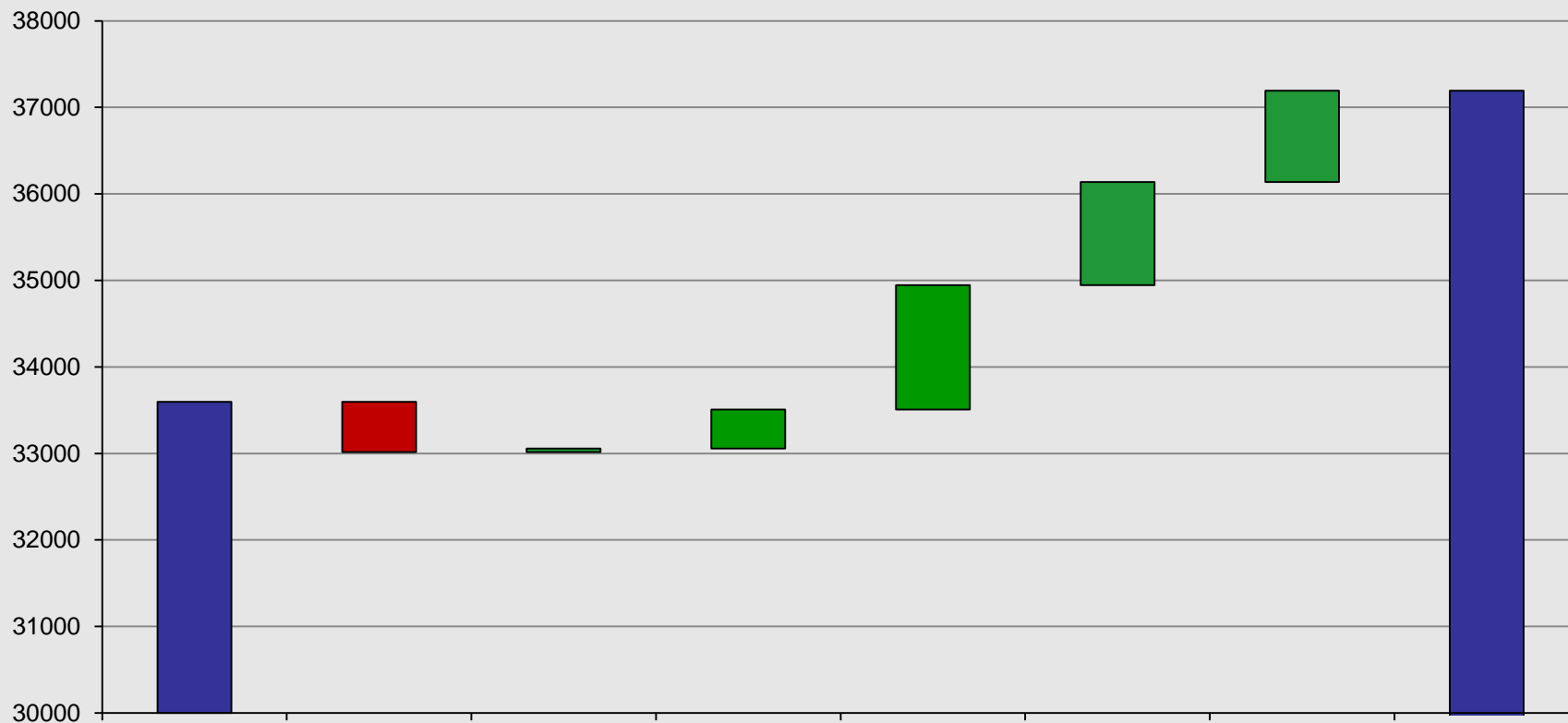
16.9%

13,759

20%

Increase in Pre-Tax Broker Profits 1HY 2013 from 1HY 2012

\$'000

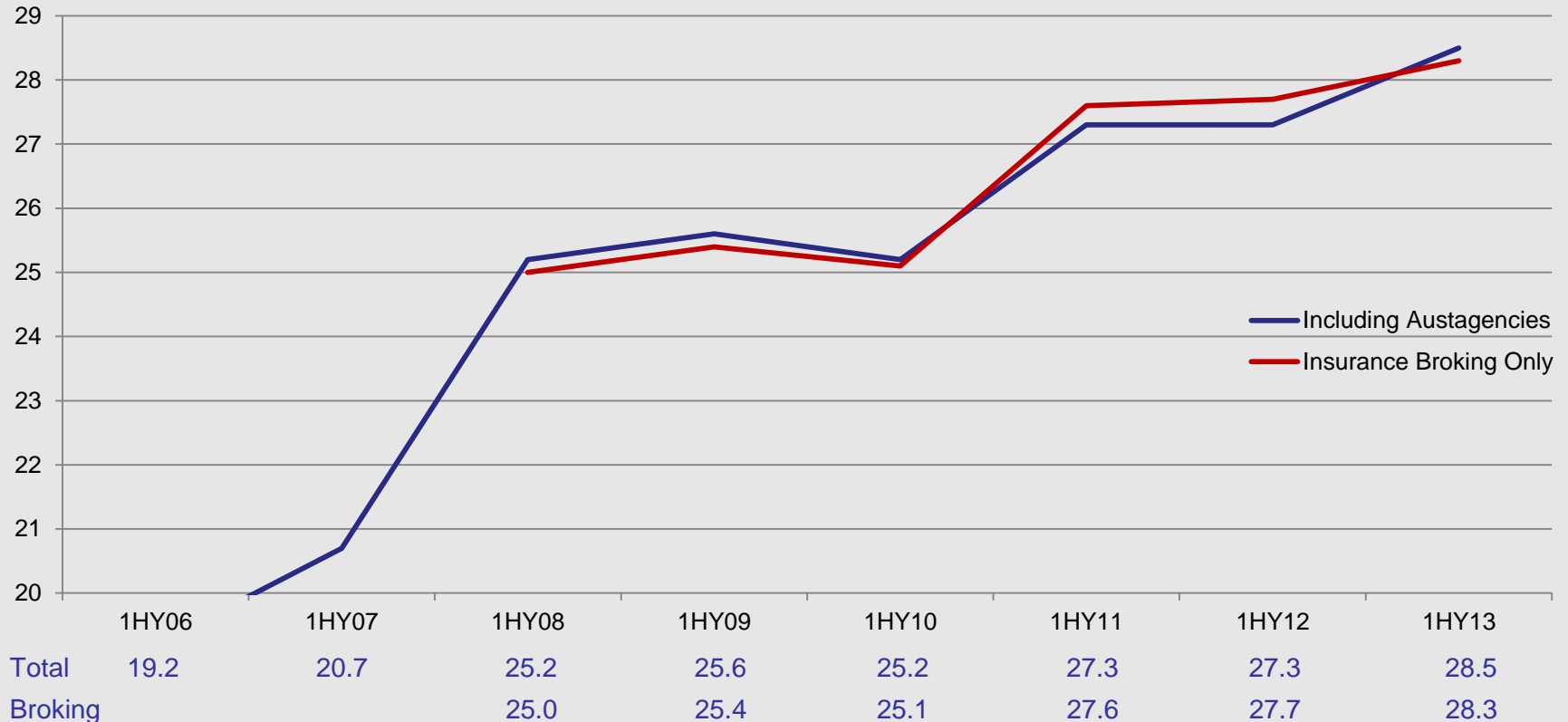


	1HY 2012	Interest Earnings	Profit Commissions	Other	Life	Premium Funding	Increase in c&f inc net of exps	1HY 2013
Profit	33,597	(580)	39	452	1,191	1,437	1,058	37,194
Growth %		(1.7)%	0.1%	1.3%	3.5%	4.3%	3.2%	10.7%

Note: These are before deducting outside interests

Broker Profits as % of Broker Income

Profits (before tax) as a percentage of Broker Income



Base commission and fees represented 17.5% of base premiums (1HY2012 17.5%)

Commission and fee split 65% / 35% (1HY2012 65% / 35%)

Commission and fee net increase across the network excluding acquisitions was approximately 5% (net organic growth)

Austagencies - 1HY 2013

- NPBT up 57% (54% excluding acquisitions) to \$3.142 million
- Commission and fee income up 37% (31% excluding acquisitions) to \$12.238 million
- Expenses up 29% (21% excluding acquisitions)
- Increased margin from 25.0% to 29.9%
- Growth driven largely through start ups such as Strata and development of products attractive to brokers

Refer Appendix 2 for detailed Underwriting Agency Results

Balance Sheet & Cash Flow

- Balance sheet impacted by associates becoming controlled entities during period including adjustment to carrying value \$12.6 million
 - Increase in intangibles and goodwill - \$43.8 million
 - Increase in trust bank and receivables (compared 12 / 11)
 - Borrowings are \$41.4 million versus \$34.5 million at 30th June 2012
 - Increase in outside equity interest \$11.2 million
- Borrowings of \$25 million under St George facility shown as short term pending entering new facility agreement with St George
- Cash flow
 - Acquisitions \$15.5 million
 - Earn out payments \$1.4 million
 - Net increase in cash of \$19.8 million included \$18.3 million acquired with acquisitions of controlled entities (trust account \$15.7 million)

Funding

- Facility from St George Bank
 - limit \$38 million at holding company level
 - \$27 million drawn
 - \$11 million undrawn
- Facility term is 5 years to August 2013. Reached agreement with St George on terms for new \$40 million three year facility – in process of legal documentation
- Estimated \$2.2 million committed for future payments for completed acquisitions
- Funding available from facility for future acquisitions around \$11 million with free cash around \$10 million over the next twelve months assuming maintenance of DRP
- Key ratios – consolidated
 - Interest cover ratio – 16.8 times (EBITDA basis)
 - Gearing 17%, range up to 30% (debt to debt plus equity)
 - Comfortably meet financial undertakings to Bank
- Borrowing by associates at 31st December 2012 not on Austbrokers balance sheet - \$38.6 million which has decreased due to former associates now being controlled entities offset by additional borrowings for acquisitions
 - Borrowings largely for acquisition funding
 - Interest cover ratio 16 times (as a group)

Agenda

- Business Overview
- 1HY 2013 Financial Performance

- **FY 2013 Outlook**
 - **Market conditions**
 - **Strategy**
 - **Outlook**

Market Conditions FY 2013

- Premium rates
 - Underwriters continue to seek increases particularly property classes
 - Competition restrains extent of increases achievable
 - Premium rate movements vary across classes
- Lower interest rate environment
- Moderate economic growth forecast but patchy economic outlook may have impact on SME
- Age demographics in insurance broking industry indicates that continued acquisition opportunities for direct acquisitions or portfolio / bolt on businesses should be available
- Insurance broking industry consolidation will continue to present acquisition opportunities

Strategies FY 2013

- Optimisation of operating model to continue to underpin future growth across the group
- Growth – acquisition activity to continue
 - focus on increasing cross sell of insurance products
 - continue to expand underwriting agency capability through product and acquisition growth
- Central service provision; continue to develop best practice centralised services to create efficiencies
 - IT Central DataCentre
 - Compliance and Risk Management
 - Business Centre services – accounting, tax, payroll, HR and Treasury
 - Marketing capabilities
- Automation of broking processes to develop efficiencies – further development of iClose, business intelligence reporting
- Underwriter relationship / product development via AIMS (IBNA Joint Venture) for marketing advantage
- Premium funding – continued growth and development through Hunter arrangement
- Life risk and superannuation - continue to develop businesses both stand alone and integrated with broking operations

Outlook FY 2013

- Premium rate increases being sought by underwriters
- Economic outlook remains uncertain – impact on SME sector
- Insurance broking industry consolidation – continuing acquisition opportunities
- Further growth and development in underwriting agency business with continued investment in capability in specific market segments
- Continued resourcing of Austagencies and anticipated lower profit commissions will moderate growth in this business in the second half
- Organic growth expected to continue to emerge through broker network initiatives and premium rate increases
- Profit commissions for year depends on 2012 underwriting results
- Organic growth and acquisitions have increased Adjusted NPAT (NPAT before amortisation of intangibles, profits on sale and adjustments to contingent consideration)
- Given the above and outlook, it is now expected that Adjusted NPAT for FY 2013 will be in the range of 10% to 15% above FY2012

This presentation 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.

Appendix 1

1HY 2013 Results – Management Presentation

	1HY 2013	1HY 2012	VARIANCE	VARIANCE
	\$'000	\$'000	\$'000	%
BROKER OPERATIONS				
COMMISSION AND FEES	105,074	97,897	7,177	7.3%
LIFE INCOME	6,018	4,827	1,191	24.7%
PROFIT COMMISSIONS	241	202	39	19.3%
PREMIUM FUNDING	11,654	10,217	1,437	14.1%
INTEREST	5,434	6,014	(580)	-9.6%
OTHER INCOME	2,890	2,438	452	18.5%
REVENUE	131,311	121,595	9,716	8.0%
EXPENSES	(94,117)	(87,998)	(6,119)	7.0%
PROFIT FROM BROKING OPERATIONS	37,194	33,597	3,597	10.7%
PROFIT FROM UNDERWRITING AGENCIES	3,876	2,352	1,524	64.8%
PROFIT BEFORE TAX, CORPORATE EXPENSES AND AMORTISATION OF INTANGIBLES	41,070	35,949	5,121	14.2%
PROFIT ATTRIBUTABLE TO OTHER PARTIES	(15,902)	(14,655)	(1,248)	8.5%
PROFIT BEFORE TAX, CORPORATE OFFICE EXPENSES AND AMORTISATION OF INTANGIBLES (AFTER OUTSIDE EQUITY INTERESTS)	25,168	21,295	3,874	18.2%
CORPORATE OFFICE				
INCOME	1,058	1,005	53	5.3%
EXPENSES	(6,393)	(5,761)	(632)	11.0%
NET CORPORATE OFFICE EXPENSES	(5,335)	(4,756)	(579)	12.2%
PROFIT BEFORE TAX AND AMORTISATION OF INTANGIBLES	19,833	16,539	3,295	19.9%
INCOME TAX	(6,074)	(5,078)	(996)	19.6%
NET PROFIT AFTER TAX AND BEFORE AMORTISATION OF INTANGIBLES	13,759	11,461	2,298	20.1%

1HY 2013 Results – Management Presentation

\$'000	1HY 2013	1HY 20112	VARIANCE	
			\$	%
CONSOLIDATED BROKERS				
COMMISSION AND FEES	44,238	30,852	13,386	43.4%
LIFE INCOME	4,025	2,468	1,557	63.1%
PROFIT COMMISSIONS	207	166	41	24.7%
PREMIUM FUNDING	4,121	2,684	1,437	53.5%
INTEREST	1,812	1,769	43	2.4%
OTHER INCOME	1,113	827	286	34.6%
REVENUE FROM CONSOLIDATED BROKERS	55,516	38,766	16,750	43.2%
EXPENSES FROM CONSOLIDATED BROKERS	(39,443)	(28,024)	(11,419)	40.7%
PROFIT FROM CONSOLIDATED BROKERS	16,073	10,742	5,331	49.6%
EQUITY ACCOUNTED BROKERS				
COMMISSION AND FEES	60,836	67,045	(6,209)	-9.3%
LIFE INCOME	1,993	2,359	(366)	-15.5%
PROFIT COMMISSIONS	34	36	(2)	-5.6%
PREMIUM FUNDING	7,533	7,533	-	0.0%
INTEREST	3,622	4,245	(623)	-14.7%
OTHER INCOME	1,777	1,611	166	10.3%
REVENUE FROM EQUITY ACCOUNTED BROKERS	75,795	82,829	(7,034)	-8.5%
EXPENSES FROM EQUITY ACCOUNTED BROKERS	(54,674)	(59,974)	5,300	-8.8%
PROFIT FROM EQUITY ACCOUNTED BROKERS	21,121	22,855	(1,734)	-7.6%
PROFIT FROM BROKING OPERATIONS	37,194	33,597	3,597	10.7%

Variances between equity and consolidated due to equity brokers becoming controlled entities during the period

Appendix 2

Austagencies Results – 1HY 2013

\$'000	PROFIT IMPACT			
	1HY 2013	1HY 2012	INCR / (DECR)	INCR / (DECR) %
Commission and fees	12,238	8,913	3,325	37.3
Profit commission	290	30	260	866.7
Claims handling fees	69	45	24	53.3
Interest	348	402	(54)	13.4
Other income	-	-	-	-
	<u>12,945</u>	<u>9,390</u>	<u>3,555</u>	<u>37.9</u>
Expenses	<u>(9,070)</u>	<u>(7,037)</u>	<u>(2,033)</u>	<u>28.9</u>
Net Profit before income tax	3,875	2,353	1,522	64.7
Other shareholder interest	<u>(733)</u>	<u>(354)</u>	<u>(379)</u>	<u>107.1</u>
Net Profit after other shareholder interest	<u>3,142</u>	<u>1,999</u>	<u>1,143</u>	<u>57.2</u>
Gross margin (profit to income)	29.9%	25.0%	4.9%	

Appendix 3

Balance Sheet

Assets	31 Dec 2012 \$000	30 June 2012 \$000
Current Assets		
Cash at Bank	44,800	40,743
Cash at Bank – Trust	89,033	74,859
Receivables	96,747	117,167
Other financial assets	1,321	1,316
Total Current Assets	231,901	234,085
Non Current Assets		
Receivables	50	261
Plant Equipment	7,338	5,058
Investments equity accounted	76,786	79,553
Other financial assets	516	152
Intangibles & Goodwill	126,599	82,836
Deferred Tax Assets	4,759	5,194
Total Non current Assets	216,048	173,054
Total Assets	447,949	407,139

Balance Sheet (con't)

Liabilities	31 Dec 2012 \$000	30 June 2012 \$000
Current Liabilities		
Payables	179,196	181,420
Tax Liabilities	3,659	3,655
Provisions	8,942	8,418
Interest bearing loans and borrowings	32,178	1,130
Total Current Liabilities	223,975	194,623
Non Current Liabilities		
Provisions	2,132	1,871
Borrowings	9,161	33,384
Deferred Tax Liabilities	7,045	4,971
Total Non Current Liabilities	18,338	40,226
Total Liabilities	242,313	234,849
Net Assets	205,636	172,290
Equity		
Contributed Equity	85,188	76,036
Retained earnings	89,666	77,017
Other reserves	4,519	3,873
Asset Revaluation Reserve	1,764	2,109
Outside equity interest	24,499	13,255
Total Equity	205,636	172,290

Cash Flow

	1HY2013 \$'000	1HY2012 \$'000
Cash flows from operations	<u>21,215</u>	<u>15,292</u>
Cash flows from investing activities		
- Acquisitions	(7,011)	(1,709)
- Share issues to non controlling entities	2,243	-
- Proceeds received from new consol ent.	9,859	-
- Plant equipment	(698)	(1,110)
- Sales proceeds / loans	<u>(182)</u>	<u>35</u>
	<u>4,211</u>	<u>(2,854)</u>
Cash flows from financing activities		
- Dividends	(7,398)	(10,952)
- Proceeds from share capital & DRP	2,248	2,389
- Net borrowings	936	(156)
- Payments for deferred settlements	<u>(1,433)</u>	<u>(12)</u>
	<u>(5,647)</u>	<u>(8,731)</u>
Net increase in cash ex broker trust account	19,779	3,707
Increase (decrease) in broker trust account cash	<u>(1,548)</u>	<u>466</u>
Net increase in cash	<u>18,231</u>	<u>4,173</u>

Note \$15.5 million spent on acquisitions