

12 November 2019

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

**2019 AGM Addresses and Presentation to Shareholders**

AUB Group Limited's (ASX: AUB) Board will address shareholders at the company's Annual General Meeting to be held today, 12 November 2019, at 10:00 am at The Auditorium, Level 15, 1 Farrer Place, Sydney.

Please find a copy of the Chairman's address, Managing Director and CEO's address and the AGM Presentation, as attached.

Yours faithfully,

A handwritten signature in blue ink that reads 'Freya Smith'.

Freya Smith  
**Group General Counsel & Company Secretary**

For further information, contact Freya Smith

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**About AUB Group** | AUB Group Limited is Australasia's largest equity-based insurance broker network driving approximately A\$3.2 billion GWP across its network of 93 businesses, servicing more than 600,000 clients, over one million policies across more than 450 locations.

## AUB Group – Annual General Meeting

12 November 2019, Tuesday | 10AM | The Auditorium, Level 15, 1 Farrer Place, Sydney

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### Chairman's Address

David Clarke | *Chairman of the Board*

#### **Opening**

Good morning ladies and gentlemen. I am David Clarke, the Chair of the Board of AUB Group Limited. Welcome to our 2019 Annual General Meeting.

Could I request that you now take a moment to ensure that your mobile phones are switched to silent.

It is now 10:00 am and as there is a quorum of shareholders present, I declare this Annual General Meeting of AUB Group Limited properly constituted and open.

As we begin the meeting, I would like to acknowledge the Indigenous people on whose land we conduct our business around Australia and New Zealand and convey my respect for their communities; culture; and elders past, present and emerging.

This morning I will provide a brief overview of our business and achievements during Financial Year 2019.

Our CEO and Managing Director, Michael Emmett, will then provide an update on our business and key results as well as provide an outlook for the 2020 Financial Year.

We will then move to the formal business of the meeting and the resolutions set out in the Notice of Meeting that has been sent to shareholders.

There will be an opportunity to ask questions on each resolution and also during the general discussion session following the formal business.

After the meeting we look forward to you joining us for refreshments just outside this room.

I would like to begin by introducing your Directors:

- Ray Carless who is standing for re-election to the Board.
- Robin Low who chairs our Audit & Risk Committee and is standing for re-election to the Board.
- Paul Lahiff who chairs our Remuneration & People Committee.
- Cath Rogers.
- In addition, we have our CEO and Managing Director Michael Emmett, and our Group General Counsel and Company Secretary, Freya Smith.

We also have present representatives of our Auditors, Ernst & Young led by David Jewell and our Share Registry, Link Market Services. Also, throughout the audience we have senior executives of the Company.

In addition to receiving the Statements of Financial Position and Performance for the financial year ended 30 June 2019, there are six further items of business:

1. Adoption of the Remuneration Report;
2. Re-election of Ray Carless as a Director;
3. Re-election of Robin Low as a Director;
4. Approval of Issue of 5-year performance options to Michael Emmett, Managing Director & CEO;
5. Approval of Issue of 3-year performance options to Michael Emmett, Managing Director & CEO; and
6. Reinsertion of proportional takeover provisions into the Constitution.

At our meeting today Mike and I will report to you on AUB Group's performance and the outlook for the year ahead. This is my fourth year as Chairman of this company, a year of significant change with a refresh of our leadership team, strategic agenda and profitable, albeit underwhelming financial result for AUB Group.

### ***Financial Performance***

As reported, the business in FY19 delivered a 4.1% increase in Adjusted Net Profit After Tax ("ANPAT") of \$46.4 million, while maintaining a strong balance sheet and capital position.

Our results for the year are less than we would wish for when consolidated, however within that result, the Group's core insurance broking and underwriting agency business in Australia and New Zealand performed well delivering double digit growth. The Group continues to have significant scale and footprint and an excellent market reputation. Our Australian Broking, Underwriting Agencies and New Zealand Broking businesses all performed well in FY19 with the Group's Adjusted NPAT growing 10% year on year if we exclude the result of the Canberra fraud. Growth is expected to continue in FY20.

### ***Capital Position***

The Company continues to be prudent in managing capital, with the Group gearing ratio reducing to 22% in FY19, well below the Board mandated maximum of 30%. The business has strong ongoing cash flow generation from the investments in our partner businesses, whilst the corporate entity has access to cash and long-term corporate debt facilities to fund future acquisition and organic growth initiatives.

### ***Dividend***

The Directors declared a final fully franked dividend of 32.5 cents per share, paid on 8 October 2019. This, together with the interim dividend of 13.5 cents, results in a full year dividend of 46 cents, being a payout ratio of 72.9%.

Earnings per share retracted slightly, reducing by 3.1% due to a combination of an increase in outstanding shares as a result of the capital raising in November 2018, the headwind impact of the Canberra fraud event and challenges in the Health & Rehabilitation component of the Risk Services division.

### ***Canberra Fraud Event***

The consequences of a substantial fraud event in Austbrokers Canberra impacted underlying Adjusted NPAT by \$2.3 million. Whilst recovery proceedings continue, the Group does not expect any further negative impacts from the matter on future periods.

## ***New CEO***

As announced during last year's AGM, Mark Searles retired from the Group and we undertook an extensive search for a suitable replacement to lead AUB Group into the future. As a result, we appointed Mike Emmett as the new Chief Executive and Managing Director for AUB Group in March 2019.

Mike's values as well as his impressive experience in a range of executive positions are an important asset, critical to his ability to successfully lead AUB Group into the future.

Mike's credentials include executive positions across the Insurance, Consulting and IT Industries in Australia, the UK and South Africa. Prior to joining AUB Group, Mike was the Group CEO for Cover-More, previously an ASX-listed global travel insurer and now part of the Zurich Group, which saw tremendous growth and increase in shareholder value under Mike's leadership. Prior to that, Mike held senior roles at QBE as Group Executive, Operations and at EY leading the Financial Services Advisory business. Before moving to Australia, Mike spent several years working in London including at IBM leading the Insurance and Banking consulting teams.

The Board believes that Mike has the ambition, strategic acumen and expertise to guide AUB Group through an important phase in the Insurance broking industry in Australia, and the Board is looking forward to working with him to achieve enhanced outcomes for our shareholders.

## ***Strategic Agenda***

We have operated a very successful business model for many years and Mike has seen the strength of our core businesses and has quickly gone about implementing new initiatives to build on that strength and successfully execute on the long-term growth vision for the Group.

The Group's strategic agenda involves:

- An expansion of our existing portfolio through continued focus on acquisitions, with a pipeline of strong M&A opportunities under review in various stages. Our balance sheet is well positioned, and we will continue our strategy of disciplined acquisitions;
- Driving organic partner growth via further investment in our broker value proposition to improve our partners' ability to serve clients. This includes taking control of our core insurance capacity sourcing capabilities via a re-vamped wholly owned AIMS and expanding it to deliver improved technology capabilities, partner support services and a centralised claims capability, all of which will assist partners in meeting the needs of their clients more efficiently and effectively; and
- Focus on remediation of the Health and Rehabilitation portfolio within Risk Services through cost-take out and realisation of available synergy benefits across the two businesses.

Your Board has been particularly engaged to ensure the business is well-prepared to address regulatory matters in the industry and increase momentum in the business.

## ***Hayne Royal Commission***

We are mindful of the heightened focus and scrutiny of the financial services industry in light of the Hayne Royal Commission findings.

While the Hayne Royal Commission found no material adverse findings in relation to General Insurance brokers, remuneration models are under constant scrutiny across the entire financial services industry, and future outcomes are difficult to predict.

The Board and key AUB stakeholders are actively participating in industry groups and working with regulators on key areas to ensure a strong, ethical, sustainable and client-focused industry.

### ***Environment, Social and Governance***

AUB Group is committed to having a responsible and sustainable portfolio of businesses, with a focus on policies and programs that 'do the right thing' by our partners, our environment and the communities in which we operate. The Group manages its environmental, social and corporate governance risks as part of the Board's oversight of AUB's enterprise risk framework and its focus on the long-term sustainability of AUB's business.

Our partners are subject to risk-based pricing of insurer terms, which inherently considers the exposure of our clients to climate change. We are also committed to directly reducing our own environment impact and our ESG policy is regularly reviewed to explore ways to enhance promotion of a sustainable AUB Group.

AUB Group and our partner businesses are committed to supporting community organisations including charities and sporting clubs through fundraising, sponsorship and volunteering. Our partner network covers a wide variety of communities across Australia and New Zealand, and the model allows partner autonomy to engage and support communities in ways best suited to local needs.

The business also has a strong focus on leadership development and training. Across AUB Group and our network, 50 partners have graduated with a Diploma in Leadership and Management in addition to 5,000 hours of professional training and soft skills development for our employees.

The business has relevant risk management and compliance frameworks in place and works closely with partners to continuously improve capability across people, processes and supporting technology.

The Board has increased their expectations for more rigorous governance and risk management standards and are working with management to ensure adoption with a focus on timely reporting, driving a culture of accountability and transparency across the network.

As a result, the current governance model across our partner business is under review, with key structural and personnel changes that aim to enhance objectivity at partner Boards while uplifting capability and improve transparency for the Group across its investment portfolio.

### ***Conclusion***

On behalf of the Board, I would like to thank our shareholders for your commitment in a challenging year. Thank you also to my Board colleagues, Mike and all AUB Group employees for their efforts to grow your business. Whilst it is disappointing to have performed below our potential in FY19, we know that the business is built on strong foundations by a focused and committed team. As such, we are optimistic about our future, with a pipeline of strategic initiatives underway and anticipating an improved performance in future years under the leadership of our new CEO.

I would now like to hand over to Mike to give you an update on our business and the key results as well as an outlook for financial year 2020.

## **CEO and MD's Address**

**Michael Emmett** | *Chief Executive Officer and Managing Director*

### ***Opening***

Thank you, David, and Good Morning everyone.

This is my first opportunity as your chief executive officer to address the Annual General Meeting of shareholders and it's a great privilege to lead AUB Group on your behalf.

### ***Initial Observations***

Since joining AUB Group eight months ago, we have undertaken a detailed review of our portfolio companies to understand key growth and profitability drivers. As we've noted previously, I am very impressed with the quality and capability in each of the brokerages and underwriting agencies. I am also comfortable that the issues experienced in Canberra are not systemic across the AUB Group.

As Australasia's largest equity-based insurance broker network, AUB Group drives approximately A\$3.2 billion GWP across its network of 93 businesses, servicing more than 600,000 clients and over one million policies across more than 450 locations. The Group encapsulates core insurance broking businesses and underwriting agencies, complimented by established capabilities in life insurance broking, premium funding, claims management, legal services, loss adjustment, investigations and rehabilitation services. Our partners' market leading expertise and professionalism has been highlighted through several external industry awards, most recently with Insurance Advisernet winning the Authorised Representative Group of the Year for the second consecutive year at ANZIIIF and Lisa Carter from Clear Insurance winning the coveted Broker of the Year – Authorised Rep at both Insurance Business Awards and NIBA in 2019.

Our business has a strong and consistent revenue base underpinned by a significant level of premium retention demonstrated through an ongoing increase in both the average premium per client as well as the number of policies with our clients over the past three years. In FY19 this retention was 90%, excluding premium rate increases, reflecting a very high level of consistency in the business.

### ***FY19 Financial Performance***

I'm conscious of the great responsibility that comes with leading AUB Group. As a business, we acknowledge that 2019 was a challenging year for the Group. Pleasingly the core Insurance broking and Underwriting Agencies businesses delivered a solid performance however we faced significant headwinds arising from the challenges in the health and rehabilitation components of the Risk Services division as well as the costs arising from remediation of the Canberra fraud.

Slide 8 reflects a snapshot of the financial performance for FY19. Underlying revenue increased by 3.2% and adjusted NPAT by 4.1%. The headwind impact of the Canberra fraud event and the deterioration in Risk Services resulted in a deterioration of the underlying EBITA margin of 1%.

The business has commenced a program to reduce corporate cost. The early impact of this is reflected in the reduction of the 'Corporate Cost to Adjusted PBT' metric which has reduced from 17.4% in FY18 to 16.5%. We anticipate further improvements to this metric in FY20 as we continue to focus on managing the corporate cost to income ratio, balancing returns to shareholders with investments in infrastructure to support a diverse and multi-jurisdiction business.

The adjusted EPS reduced by 3.1% as a result of the impact of the capital raised in November and will continue to have an impact in FY20 due to the full number of shares issued in FY19 taking effect for calculation purposes.

Slide 9 reviews each operating area in more detail. The Underlying Revenue and EBIT Margin here represent the aggregated (or 100% view) of all of our business holdings (whether controlled or associates) and then adjusts for Non-Controlling Interest to arrive at a Profit-before-Tax "PBT" attributable to equity holders of the parent".

The core Insurance broking and Underwriting Agencies businesses delivered a solid performance however we faced significant headwinds arising from the challenges in the health and rehabilitation components of the Risk Services division as well as the costs arising from remediation of the Canberra fraud.

In Australian Broking, profit contribution from the division was \$52.8m, up 3.7%. Excluding Canberra from both years the divisional profit contribution grew 11%. Underlying revenue grew 1.8% driven by increases in client policies and average premium rates.

In New Zealand, profit contribution from the division was \$9.2m, up 41.5%. This largely reflects the impact of average mid-single digit increases in premium rates, the acquisition of additional equity in BWRS as well as the acquisitions of Rosser Underwriting and Primesure. Underlying revenue grew 19.3%. Additionally, NZbrokers continues to attract new members and build its market presence – as the largest broker management group in the New Zealand Market.

Our Underwriting Agencies business delivered a pre-tax profit contribution of \$15.5m, up 11.6%. Underlying revenue grew 8.5% driven by significant revenue growth in a number of agencies partially offset by the impact of insurer transition in the strata businesses.

Risk Services delivered a pre-tax profit contribution to the Group of \$2.4m. The later than expected changes in the NSW workers' compensation market in FY18 had a substantial impact in FY19 with inconsistent referral flows continuing throughout FY19.

Slide 10 gives an overview of our debt profile and ability to effectively leverage debt. The Company continues to be prudent in managing capital, with the Group gearing ratio reducing to 22% in FY19. The business has strong ongoing cash flow generation, whilst the corporate entity has access to cash and long-term corporate debt facilities to fund future acquisition and organic growth initiatives. The Group's Leverage Ratio compiled on a look through basis has ranged historically between 1- and 2-times net debt to EBITDA and is currently at 1.5 times. The Group's Interest cover ratio was 11:1.

Additionally, AUB Group entered into a \$150m multi-currency syndicated loan facility in December 2017 for a term of 3 years with a mechanism for two one-year extensions. One of those extensions has been contracted to during the year, extending the maturity of this facility to December 21

Our business has effectively leveraged M&A to supplement organic growth as noted on [slide 11](#). Over the past 6 years we have undertaken 54 transactions with a total value in excess of \$250mn. Acquisitions to complement the core insurance operations in Australia and New Zealand will remain a focus for FY20.

As noted on [slide 12](#), The Group paid a final dividend per share of 32.5 cents taking the total dividend to 46 cents for FY19. Due to the increase in shares on issue as a result of the equity capital raising this, will increase the payout ratio to 72.9% from 65.2% in FY18, while Return on equity was 13.1%.

### ***FY20 Strategic Agenda***

FY20 is an important year for AUB, a year in which the Group substantially enhances the value and benefits we deliver to our partners whilst also being a year in which we complete the remediation of Risk Services, Canberra, focus on Group overhead costs and address other poor performing elements of our portfolio. This will position us for accelerated growth in the years ahead.

In FY20, the business will continue to grow our core broking businesses and expand our underwriting agency capabilities in Australia and New Zealand. Having built a strong distribution platform in New Zealand, the Group will look to introduce new services to that market that accord with the Group's strategy.

As part of our strategic review and analysis, we identified six FY20 strategic imperatives for building a stronger AUB Group at the FY19 Results presentation. We are pleased to report strong progress against these key areas that will drive new growth within the business.

#### **Enhance our core business partner proposition with improved product and capacity offerings**

Capacity sourcing and product offering design is a key component of the Group's value proposition for its partners and we need to provide our partners with more competitive products with differentiated features tailored for their customers. Last month, we released a global Expression of Interest "EOI" process to source responses from existing and new capacity providers with a focus on specialty product design, commercial model innovation, support of our technology vision and expanded utilisation of AUB's insurance capabilities. We have received a fantastic response to the process and are currently progressing the inputs into a formal RFI process with individual insurers.

#### **Implement best-in-house technology features across the Group**

The Group has made good progress to enhance our core broking system with several initiatives underway to drive incremental uplift of key functionalities, identifying the best-of-network benchmarks to drive increased standardisation, simplification and automation.

Additionally, we commenced the pilot of a new high-volume broking system focused on improving efficiency and customer service outcomes.

#### **Reduce Corporate costs and drive efficiency through cross-network synergies**

In recent months, we have made some critical decisions to reorganise and restructure the corporate head office that increases transparency and accountability, enhances capability, simplifies our business model and optimises our corporate cost base.



Additionally, following the recent restructure of AIMS, we have incorporated AUB Business Services. We are now making meaningful progress to increase its scale, with new partners joining the centre over the coming months. The business is making additional investment into AIMS capabilities, particularly in Claims, to improve efficiency and drive increased partner adoption.

### Consolidate our core businesses for scale and create sector specialisations to build market leadership

For Australia, FY20 will be a year of consolidation and simplification to unlock benefits of scale and focus. As part of the review, we have identified pockets of strong specialist expertise in key industry sectors and insurance risk areas, providing an opportunity to leverage these through consolidation. The review also revealed key drivers in our underperforming businesses, some of which will benefit from consolidation and cross-partner capability synergies to drive enhanced returns.

We are currently progressing discussions on a number of potential transactions with meaningful progress on the following:

- Consolidation of four broking businesses and a small acquisition into two operations
  - a. Rolling up an existing broking business into a larger broker
  - b. Consolidating 2 existing brokers complimented by a small acquisition to create a larger business
- Merging a specialty broker and segment agency into a single business
- Transferring a branch portfolio into another broker partner within the Group

### Execute on strategically aligned acquisitions that drive outperformance

The Group is working closely on a number of M&A opportunities to support inorganic growth. Notably, the M&A focus has shifted from reactive to pro-active engagement, as we actively identify and source opportunities that meet our strategic agenda in areas of specialty and creating additional scale. Since the start of FY20, the business has undertaken one small bolt-on acquisition in New Zealand.

Additionally, on the 2nd of August 2019, AUB Group announced that it had signed a conditional agreement with Pemba Capital regarding its shareholding in Coverforce. There are legal proceedings underway between the shareholders of Coverforce. AUB Group is not a participant in these and will decide on the next steps once we hear the outcome of the proceedings. The Group will update the ASX on the outcome of the proceedings once a decision is delivered by the Court.

### Redefine Risk Services strategy

Since joining AUB, I have personally taken an active role in the Risk Services operations and the underlying businesses in place. We have initiated a series of remediation activities that seek to deliver cost synergies, however external market factors remain uncertain for those businesses particularly in the Health and Rehabilitation market.

### **Guidance**

During FY20 the group anticipates good growth from Insurance Broking in Australia and New Zealand as well as the Underwriting Agencies but remains wary of challenges in the external and internal environment.

The commercial lines premium rate environment in Australia is likely to continue delivering modest increases. Our expectation is that the average commercial line premium rate increases in Australia in FY20 could be around 4%-5% per annum.

With consideration for our FY20 to-date performance, progress on planned growth and cost management initiatives, as well as an assessment of the external market environment, we reaffirm the Group's guidance of Adjusted NPAT growth of 8% to 10% in FY20, as announced in August 2019.

### ***Closing***

Whilst 2019 has been disappointing on certain fronts, the core business remains strong, with potential to unlock significant value as we remediate and build AUB Group for the future. The Group has undertaken several new initiatives with significant progress achieved on long-term areas of concern for our partners, clients and capacity providers, enhancing the Group's overall proposition to all relevant stakeholders.

I look forward to updating you on our progress.

Thank you, and I'll hand back to David.