20 August 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,

Re: Presentation notes supporting AUB Group Results for the Full Year Ended 30 June 2019

AUB Group Ltd (ASX:AUB), Australasia's largest equity based broker network, hosted a conference call and webinar on Tuesday, 20th August 2019 at 10:00am AEST.

CEO and Managing Director Mike Emmett and CFO Mark Shanahan discussed AUB Group's FY19 Results and AUB's FY20 execution priorities and guidance.

Attached is a summary of the speaking notes supporting the presentation provided to the ASX this morning.

Yours faithfully,

David Franks
Company Secretary

For further information, contact David Franks   Tel: (02) 8098 1169 or 0414 899 897
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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 500 locations. In Australia, the Group has around 20 percent of the commercial SME insurance broking market share with investment in 61 broking businesses, complimented by established capabilities in life insurance broking, premium funding, claims management and legal services. In New Zealand, AUB Group holds equity stakes in seven major insurance broker partners, an underwriting agency as well as equity in NZbrokers, the largest broking management group in New Zealand with presence in 140 locations and Insurance Advisernet NZ. The Group's Underwriting Agencies business has a portfolio of 19 specialist agencies with access to delegated global underwriting capacity for niche specialist insurance products. The Group's Risk Services division includes equity investments in three businesses with capabilities in loss adjustment, investigations, claims management, claims legal support and rehabilitation services.

20 August 2019

AUB Group FY19 Results – Presentation Notes

Opening

- The call started with a summary of the results from Mike Emmett before handing over to Mark Shanahan to run through some of the numbers in more detail. Mike concluded the call with a review of the business and provided an outlook for the year ahead.
- We start by acknowledging that 2019 was a year with a number of challenges 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 3 - FY19 PERFORMANCE SNAPSHOT – GROUP

- Slide 3 reflects a snapshot of the financial performance for FY19. Underlying revenue increased by 3.2% and adjusted NPAT by 4.1%.
- We would like to highlight that if, acknowledging a big if, we excluded the impact of Canberra and Risk Services then adjusted NPAT grew by $7.3m, i.e. a normalised improvement of 16% on the prior year. These headwinds resulted in a deterioration of the underlying EBITA margin of 1%.
- The business has commenced a programme 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.
- The adjusted EPS reduced by 3.1%. This is the result of the impact of the equity capital raise in November. In FY19 the weighted average number of shares in issue increased 9% which diluted the 4.1% increase in adjusted NPAT. This will continue to have an impact in FY20 due to the full number of shares issued in FY19 taking effect for calculation purposes, which has a further increase of 5.6% of shares in issue.
- The dividend. We are increasing the full year dividend by half a cent in per share to 46c.

Slide 4 - FY19 PERFORMANCE BREAKDOWN – GROUP

- On slide 4 we're endeavouring to explain the underlying performance of the business.
- On the left, you'll note that adjusted NPAT from core insurance operations, namely broking and underwriting, grew by $7.3m (an increase of 16%) offset by the adjusted NPAT reduction of $5.4m (a reduction of 12%) arising from the deterioration in health and rehabilitation services and Canberra.
- On the right, the slide shows a normalised impact of one-offs and the full year effect of actions we've already taken to reduce corporate costs. Normalising for these items indicates an underlying improvement in adjusted NPAT of 14% yoy.
- Albeit the performance in FY19 was disappointing, we want you to understand that the Group has a very strong underlying business notwithstanding that there are numerous remediation actions still to be taken.

Slide 5 - FY19 PERFORMANCE SNAPSHOT – DIVISIONAL

- In this slide we will cover off on 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 NCI to arrive at PBT attributable to equity holders of the parent.

<u>Australian Broking.</u>

- The 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:
  - organic growth in policies;
  - increases in average premium rates.

- Excluding the Canberra result from both prior and current years gives organic growth in underlying revenue of 4.1%.
- There is evidence of average premium rate increases in the low to mid-single percentages, with variability across class and geography and between new and renewal business.
- Year on year broker expense growth on an organic basis (excluding Canberra) was 2.6% vs 4.6% in FY18.
- The Australian broking EBIT margin grew 20bp.
- Ancillary income increased 4.4% over FY18.

New Zealand

- The profit contribution from the division was \$9.2m, up 41.5%. This largely reflects the impact of the change of BWRS from a 50% owned associate to a 100% owned subsidiary on 1 January 2019 partially offset by acquisition and financing costs.
- Underlying revenue grew 19.3% driven by:
  - acquisitions of Rosser Underwriting and Primesure;
  - organic growth in client numbers;
  - average mid-single digit increases in premium rates.
- Excluding acquisitions from both prior and current years gives organic growth in underlying revenue of 7.7%.
- Expense growth on an organic basis at 10% includes one off step changes due to investment in people, processes and infrastructure (including technology) as the business expands.
- NZbrokers continues to attract new members and build its market presence – as the largest broker management group in the NZ Market.

Underwriting Agencies

- The pre-tax profit contribution to the Group from our Underwriting Agencies was \$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 the insurer transitions in the strata businesses most notably in Longitude.
  - continued strong underwriting results delivered to insurers
- Expenses were up 10% or 8% if we exclude IT cost overruns related to the new underwriting system.
- The main reason for the expense increase was staff costs to support increased underwriting activity.
- We are investing in the implementation of a new underwriting agency system which will improve efficiencies as it is rolled out.

Risk Services

- The pre-tax profit contribution to the Group from Risk Services was \$2.4m.
- The later than expected changes in the NSW workers' compensation market in FY18 had a substantial impact in FY19 with variable referral flows continuing throughout FY19.
- Altius and Allied, the two Health and Rehabilitation businesses, carried excess capacity throughout the year.
- Procare's core operations to deliver Claims Management and Loss Adjustment Services to insurers performed well and forms a base for expansion to deliver these services to Austbrokers network clients.

Slide 6 – FY19 PERFORMANCE BREAKDOWN – BY DIVISION

- The Group's adjusted NPAT grew 10% year on year if we exclude the Canberra results from both years.
- Increased pre-tax profits from Australian and New Zealand broking as well as Underwriting Agencies were partially offset by the reduced profit in Risk Services.
- 84% of divisional revenues come from areas exposed to the premium rate environment and this provides leverage to a hardening market.
- AUB Corporate expenses net of corporate interest were down 6.5% year on year. Corporate expenses excluding acquisition costs and net interest were down 3.3% with a reduced corporate cost to Adjusted PBT ratio of 16.5%. We continue to focus on managing the corporate cost to income ratio as the business grows,

balancing returns to shareholders with investments in infrastructure to support a diverse and multi-jurisdiction business.

Slide 7 – STRONG BALANCE SHEET AND CAPITAL POSITION

- This slide refers to AUB Group's consolidated balance sheet.
- Investments the aggregate of Investments in Associates and Intangible Assets and Goodwill have increased to $529m, up $96m due to acquisitions. Cash in Trust and Liabilities have increased for the same reason.
- Borrowing by associates at 30 June 2019 – that is, debt that is not on the AUB Group Balance Sheet, has reduced to $44m (FY18 73.4m) due mainly to the step up acquisitions in Adroit and BWRS causing their debt to be consolidated.

Slide 8 – EFFECTIVELY LEVERAGING AND MANAGING DEBT

- This slide refers to AUB Group's Group debt.
- The chart on the upper left is compiled on a look through basis including shares of associates' debt.
    - AUB Corporate debt was paid down by $44m as a result of the capital raising;
    - The change in balance between subsidiary and associate debt was due to Adroit and BWRS becoming subsidiaries.
- 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 Gearing ratio which is debt over debt plus equity on a look through basis is 22% down from 31% at 30 June 2018.
- The Group's Interest cover ratio was 11:1.
- AUB Group entered into a $150m multi-currency syndicated loan facility in December 2017 for a term of three years with a mechanism for two one year extensions. One of those extensions has been contracted to during the year.

Slide 9 – STRONG CASH GENERATION

- This slide refers to AUB Group's Corporate Entity level cashflow.
- Operating cash generation is strong with $33m of operating cash generated prior to payment of dividends and the effects of investing and financing activities.
- At an AUB Group Corporate entity level there was cash of $17.2m at year end and undrawn facilities totalled $94.5m.

Slide 10 - DISCIPLINED APPROACH TO M&A

- This slide outlines the Group's approach to supplementing organic growth with growth through M&A.
- Over the past 6 years we have undertaken 54 transactions with a total value in excess of $250m.
- Acquisitions to complement the core insurance operations in Australia and New Zealand will remain the focus for FY20.

Slide 11 - IMPROVING SHAREHOLDER RETURNS A PRIORITY

- The Group will pay a final dividend per share of 32.5c taking the total dividend to 46c 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.
- Return on equity is measured as Adjusted NPAT / average equity attributable to equity holders of the parent was 13.1%.

Slide 13 - FY20 EXECUTION PRIORITIES

- Our execution priorities for FY20 are summarised:
    - provide our partners with more competitive products with differentiated features tailored for their customers;

- the ability to access significantly enhanced technology so that partners can be quicker and more efficient;
  - reducing the cost overhead in the Group to improve the Group's operating leverage.
- FY20 will be a year of consolidation and simplification of our portfolio to unlock benefits of scale and focus.
- The Group will make acquisitions to accelerate or enhance the portfolio optimisation and we will continue to work closely with the businesses in Risk Services to remediate performance and also to redefine the risk services strategy.

Slide 14 - STRONG, RELIABLE AND PREDICTABLE DRIVERS

- Retaining our clients is paramount and assisting them to do more with us is key to our success.
- Per slide 14, we are achieving this as demonstrated by increases over the past three years in both the average premium per client as well as the number of policies our clients, on average, place through us.
- Also, our business has a strong and consistent revenue base underpinned by a significant level of premium retention. In FY19 this was 90% (excluding premium rate increases) reflecting a very high level of consistency in the business.

Slide 15 - TRACK RECORD OF DELIVERING GROWTH

- We are a business that grows and have delivered compound annual Revenue growth of 11% and adjusted NPAT growth of 10% over the past 10 years.
- Unfortunately this has been undermined by our low growth in FY19. We are however focused on growth and will be taking a range of actions in FY20 to ensure that in future years we can revert to our historic growth performance.

Slide 16 - CORE INSURANCE OPERATIONS - OUR SCALE AND REACH

- As slide 16 shows, we are a sizable and well represented player with a footprint that enables us to access all of the key metropolitan and urban markets in Australia and New Zealand.
- We are however, not optimised for profitability nor to deliver market leading services to our network partners.

Slide 17 - TAKING CONTROL OF OUR CORE CAPABILITIES

- To address this, Slide 17 describes how we're going to leverage AIMS.
- From 1 October, following IBNA's exit, AIMS will become the group's primary provider to our network comprising four units delivering best in class services for underwriting capacity and placement, technology, claims handling and accounting and compliance support.
  - We have commenced a process to review all of our underwriting and placement arrangements and to explore ways in which current and potential new insurance partners can better participate with us to meet the tailored needs of our members and clients. The response from our insurance partners has been very positive and we anticipate having new arrangements in place in Q2 and Q3.
  - We are consolidating the AUB Business Centre into AIMS in order to provide the scale and capability to deliver enhanced accounting and compliance services to partners.
  - We have made good progress with a range of IT initiatives and will go live with a new high volume broking system in Austbrokers as well as the new agency system in SURA during Q2.
  - The group has a strong set of claims propositions in larger brokers as well as in Procare. We will be leveraging these to provide better and cheaper services to our clients across the full Austbrokers network.
- Our commitment to partners is that we'll deliver these services better or cheaper than they can source themselves. The benefit of the AIMS initiatives and restructuring is that it allows us to leverage our scale in ways that enhance the services to our customers and do this in a more efficient way for our partners.

Slide 18 - FY20 GUIDANCE

- We do not take our mixed performance in FY19 lightly. Our guidance range for adjusted NPAT growth in FY20 of 4% to 6% factors in the various activities required to prepare the Group so that it is poised for consistent, profitable growth in the years ahead.
- FY20 will be 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, Group overhead costs and other poor performing elements of our portfolio. This will position us for accelerated growth for the years ahead.

Closing

- Australian Broking, Underwriting Agencies and NZ Broking all performed well.
- The new strategy to build scale and specialisation to improve our broker offering and efficiencies is underway and is expected to deliver improved results. The Group have made good progress to remediate the issues that have impacted these results namely Canberra and Risk Services and are enhancing services to our network partners to assist them to grow and operate more efficiently.
- Our guidance of 4%-6% incorporates a number of factors we've highlighted including one-off costs of $1.5m-$2m for a major acquisition such as Coverforce but does not include income from such an acquisition.
- Excluding for these costs, adjusted NPAT guidance would be for 8% to 10% growth from the $46.4m comparative base.