

20 February 2020

Market Announcements Office  
ASX Limited  
Exchange Centre  
20 Bridge Street  
SYDNEY NSW 2000

**PSC INSURANCE GROUP LTD (PSI) – 2020 HALF YEAR RESULTS ANNOUNCEMENT**

Please find attached:

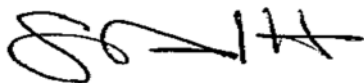
- FY20 Half Year 31 December 2019 Results Announcement

Other documents lodged today are:

- Appendix 4D.
- Financial Report for the Half Year Ended 31 December 2019.
- Notification of dividend / distribution. The DRP is active for the FY20 interim dividend.
- FY20 Half Year Results presentation. Investor presentations commence 27 February 2020.

Please direct any queries to Tony Robinson, Managing Director, on 0407 355 616 or Joshua Reid, Chief Financial Officer, on (03) 8593 8303.

Yours faithfully



**Stephen Abbott**

**Company Secretary**

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### **PSC INSURANCE GROUP LTD (PSI) – HALF YEAR 31 DECEMBER 2019 RESULTS ANNOUNCEMENT**

PSI is pleased to announce a 39% increase in underlying revenue to \$74.6 million and 31% increase in underlying earnings before interest, tax, depreciation and amortisation (EBITDA) in the core business<sup>1</sup> to \$18.8 million.

Inclusive of dividends from investments, underlying EBITDA increased 24% for the 6 months to 31 December 2019 to \$18.9 million and underlying net profit after tax before amortisation (NPATA) increased 19% to \$11.2 million.

A dividend of 3.5 cents per share has been declared for the period. This is a 13% increase on the prior period.

The result is a product of the Group's disciplined approach to building a great insurance broking and services business and reflects growth from existing business and the inclusion of recent acquisitions.

Key highlights in this period include:

- The integration of Griffiths Goodall and Paragon in to the Group as stand-alone business units. PSI is a stronger business for their inclusion which reflects both the profits they are generating and as importantly the skills and ability of the people who have now joined the Group.
- The integration of Carroll Insurance and Walker Insurance, which we merged into existing business units. As with Griffiths Goodall and Paragon, the key value of these additions are the expected profit contribution and the people who joined us as a consequence of the transactions.
- Good organic growth in revenue throughout the existing Australian and UK operations.
- Investment in the existing businesses to ensure they are well placed to meet their obligations and responsibilities as we continue to grow and expand. This includes investment in people, new roles and systems. The profit benefit of these increased costs are expected to flow quickly to the Group.
- Building a strong pipeline of acquisition opportunities and identifying and seeding a small number of new business ventures. The acquisition pipeline includes opportunities in Australia and the UK and the possibility of taking a holding in a small business in Hong Kong to test the opportunities in that region.
- Improved net operating cash-flow partly reflecting the lower average tax rate applicable to UK earnings.
- Establishment of a UK debt facility to support acquisition based growth opportunities. This facility provides the Group with additional flexibility in gearing levels.

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<sup>1</sup> Core Business excludes the dividends from investments and the impact of AASB16 has been adjusted.

## **Outlook:**

The Group continues to grow strongly with the size and scale of the Group increasing materially following the acquisitions of Griffiths Goodall and Paragon.

We remain confident of the outlook, including for a strong second half of FY2020, and note that the full benefit of the acquisitions made in this half will flow through to the second half and provide a good foundation for growth going in to FY2021.

We continue to be focussed on building a great insurance broking and services business in a disciplined way, to ensure a sustainable growth base in the long term.

*Please direct any queries to Tony Robinson, Managing Director, on 0407 355 616 or Joshua Reid, Chief Financial Officer, on (03) 8593 8303.*

## Financial Highlights:

CORE BUSINESS REVENUE UP 39% TO \$74.6M.

CORE BUSINESS EBITDA UP 31% TO \$18.8M.

UNDERLYING EBITDA, ADJUSTING FOR INVESTMENT INCOME, UP 24% TO \$18.9M.

UNDERLYING EPS UP 17% TO 4.2 CENTS.

INTERIM DIVIDEND INCREASED BY 13% FULLY FRANKED TO 3.5 CENTS.

## Key Financial Metrics:

- Strong operating performance from the Group. Underlying EBITDA up 24% on prior corresponding period to \$18.9 million. Core business EBITDA, excluding dividend income from non-operating assets, up 31% to \$18.8 million.
- The half year period was the first with the introduction of AASB16 leasing standard. Underlying EBITDA was \$18.9 million on a like for like basis on the prior period.
- Underlying net profit after tax before amortisation (NPATA) was up 19% on the prior corresponding period to \$11.2 million. Underlying NPATA, adjusted for dividend income from non-operating assets, up 26% to \$11.1 million.
- Statutory net profit after tax (NPAT) up 13% on the prior period at \$8.8 million.
- An interim dividend of 3.5 cents per share, fully-franked, has been declared, an increase of 13% on the prior period. Underlying EPS for the period was 4.2 cents per share, and increase of 17%.

## Underlying Revenue:

Underlying revenue has increased 37% to \$74.8 million. Excluding dividend income from investments, core business revenue has increased 39% to \$74.6 million.

\$m	FY20	FY19	Change	%
Core Business Revenue	74.6	53.8	+20.8	+39%
Dividend Revenue	0.2	1.0		
	74.8	54.8	+20.0	+37%

Increased underlying revenue of \$20.0 million was comprised as follows:

- Acquisitions contributed approximately \$20.1 million. The drivers of this growth were Griffiths Goodall \$4.7 million (~ 5 month contribution) and Paragon \$13.9 million (3 month contribution). The workers compensation consulting business and Carroll Insurance was the majority of the difference.
- Organic growth contributed approximately \$0.7 million (~ 1%). Comprising a flat result from the Distribution businesses (although growth in insurance broking), a small decrease of \$0.4 million (-5%) from the Agency businesses, and an increase in the UK businesses of \$1.1 million (8%).
- Organic growth in the Distribution businesses was impacted by non-recurring revenue in the prior period of \$0.9 million.
- Organic growth in Agency was impacted by a reduction in GWP and revenue in Breeze Underwriting after a delay in appointing new management to that business. We are confident these changes will improve its performance. Chase Underwriting revenue was up 2% which is

a sound result after a review of their underwriting capacity and remuneration in 2H FY2019 (GWP up 13% on the prior year).

- Organic growth in the UK businesses was broad based, with Breeze Underwriting and Carroll Holman continuing to perform well, and good growth from the Chase International start-up business.
- Dividend revenue was \$0.8 million lower than the prior period, with the BP Marsh dividend now recognised in the second half. This position excludes the fair value adjustments of the assets.

### Underlying EBITDA:

Underlying EBITDA has increased 24% to \$18.9 million<sup>2</sup>. Excluding dividend income from investments and impact of AASB16, underlying core business EBITDA has increased 31% to \$18.8 million.

\$m	FY19	FY18	Change	%
Core Business EBITDA	18.7	14.3	+4.5	+31%
Dividend EBITDA	0.2	1.0		
	18.9	15.3	+3.6	+24%

Increased underlying EBITDA of \$3.6 million was comprised as follows:

- Acquisitions contributed growth of approximately \$7.1 million, with Griffiths Goodall contributing \$2.7m (~5 months) and Paragon contributing \$4.2m (3 months). Griffiths Goodall is trading slightly ahead of expectations and Paragon's higher than expected contribution was assisted by new client wins and a seasonally strong quarter. Our workers compensation consulting business also contributed well to this result and is performing well.
- Organic growth was impacted by a step up in costs made to invest in further resources over the period, particularly across our Broking Network businesses (PSC Connect) and our Agency businesses. The profit from existing businesses at \$2.6 million below the prior year reflects this investment and some change in the first half/second half split in the expected full year revenue. These decisions have been made to underpin the long term strength of these businesses. Profit growth has been impacted by Group insurance costs increasing by \$1.1 million over the prior period. Further detail as follows:

Segment	\$m
Distribution	-1.7
Agency	-1.0
UK	0.4
Group	-0.3
	-2.6

- We expect the organic growth to improve for the full year results given the usual second half seasonality and linear cost base.
- The lower dividend revenue has a corresponding impact on reducing underlying EBITDA by \$0.8 million.

### Statutory NPAT and Underlying NPATA:

Underlying NPATA was 19% higher at \$11.2 million. Excluding dividend income from investments, underlying NPATA has increased 26% to \$11.1 million.

<sup>2</sup> Adjusted for AASB 16 changes. The AASB16 charges recognised in the period were an amortisation charge of the right to use assets of \$1.1m and interest charge of \$0.2m. An equivalent expense on premises leases of \$1.2m would have been the charged without AASB16.

\$m	FY20	FY19	Change	%
Statutory NPAT	8.8	7.7	+1.1	13%
Amortisation	1.6	0.8		
Non Recurring Revenue – Tax Adjusted	0.6	(0.4)		
Non Recurring Costs – Tax Adjusted	0.2	1.4		
Underlying NPATA	11.2	9.5	+1.7	19%
Dividends – Tax Adjusted	(0.1)	(0.7)		
Underlying NPATA – Core Business	11.1	8.8	+2.6	26%
W.avg Shares	265.1	245.2		
Underlying EPS	4.2 cents	3.6 cents	+0.6 cents	17%
Average Tax Rate	25%	30%		

**Note:**

- Non-recurring revenue is the fair value adjustments on listed investments and any adjustments on deferred consideration payments. In the current period there was a small loss, with a decrease in the fair value of BP Marsh partly offset by realised gains after the full sale of our investment in the Johns Lyng Group during the period.
- The Group's net non-recurring costs were lower than the corresponding period. The composition of the small net position is 1) +\$1.9m impact from the combination of the fair value of the Paragon hedge book, realised and unrealised FX and a review of doubtful debts and debtors carry values and 2) -\$3.0m in non-recurring costs, principally relating to transaction costs from acquisition activity in the period (Griffiths Goodall and Paragon).
- The tax rate for the period of 25% is lower than the prior period, largely as a result of the increased contribution from UK operations. We expect the full year tax rate will also be lower than the prior period.

**Balance Sheet:**

There are a number of changes to the presentation of the balance sheet, driven by changes in accounting standards and re-assessment of some Group accounting policies:

- As required under AASB16, right of use assets are recognised on properties under lease, offset by corresponding lease liabilities of a similar amount.
- The Group has re-assessed our accounting policy in relation to recognition of insurance premium receivables owed by policy holders and the corresponding premium payable to underwriters. The Group has determined that the premium receivable should no longer be recognised on the basis that our role is one of intermediary and not principal. Premiums payable to underwriters will now only be recognised when the cash has been received from the policy holder. This change is aligned with emerging global practices.
- The cash held in trust will now be shown as a separate current financial asset on the face of the balance sheet.
- Commission and fees owing will now be shown as 'Contract Assets' to reflect monies owing to the Group on insurance policies when paid by the policy holder.
- We have recognised the value of a put option liability in relation to the 30% of Turner Financial Services the Group do not currently own.

The balance sheet remains in a sound position. During the period the Group raised \$35 million in additional equity capital and entered into a new UK based debt facility with Barings with an initial limit of £35 million, with an ability to increase this to £85 million to support acquisition based growth opportunities. This facility provides the Group with additional flexibility in gearing levels.

Taking in to account the Group's known deferred consideration commitments, we expect that gross debt to EBITDA to be below 2.5 times. The Group retains ~ \$50 million in investment assets on balance sheet (predominantly BP Marsh and equity in the East Melbourne property). Including these assets, the gross debt to EBITDA measure would be below 2.0 times on a pro-forma basis.

**Dividend:**

The Directors have declared an increase in the interim dividend to 3.5 cents per share, a 13% increase on the prior period. This represents a 24% increase in cash dividends paid by the Group over the prior period. Record date will be 11 March 2020 and a payment date of 8 April 2020. This dividend will be fully-franked.