

## IAG TO ACQUIRE WESFARMERS' UNDERWRITING BUSINESSES IN AUSTRALIA AND NEW ZEALAND AND CONDUCT CAPITAL RAISING



Insurance Australia Group Limited (IAG) today announced it had agreed to purchase the insurance underwriting businesses of Wesfarmers Limited for \$1.845 billion, strengthening its position in its home markets of Australia and New Zealand.

The acquisition comprises Wesfarmers' underwriting companies trading under the WFI and Lumley Insurance brands, as well as a ten-year distribution agreement with Coles.

IAG Managing Director and Chief Executive Officer, Mike Wilkins, said the acquisition is a compelling strategic fit for IAG. "This is a unique opportunity, which is expected to deliver significant long term value for IAG shareholders and unlock further growth potential for our businesses in Australia and New Zealand," he said.

The acquisition is expected to deliver modest earnings per share (EPS) accretion in its first full year of ownership, and at least 5% accretion in the second year (excluding integration costs and amortisation of identified intangibles). The acquisition will be funded from a combination of ordinary equity, subordinated debt and internal funds. This includes a fully underwritten \$1.2 billion institutional placement at \$5.47 per share, a 4% discount to the closing IAG share price on the Australian Securities Exchange (ASX) on 13 December 2013.

"Acquiring these businesses supports the Group's strategic priorities of accelerating profitable growth in Australia and sustaining our market-leading position in New Zealand, and we expect attractive EPS accretion," Mr Wilkins said.

The integration of Wesfarmers' underwriting businesses is expected to generate net synergies of approximately \$140 million per annum pre-tax, with a significant proportion derived from reinsurance. The integration process is expected to be substantially complete within two years, with pre-tax integration costs of \$120 million expected to be recognised.

"Wesfarmers' underwriting operations are highly complementary to our existing intermediated businesses in Australia and New Zealand and will be integrated with our CGU and NZI operations. This acquisition confirms IAG's position as the leading intermediated insurer in Australasia and, based on FY13 results, increases our gross written premium (GWP) base by around 18%," Mr Wilkins said.

### AUSTRALIA – CGU

CGU Chief Executive Officer, Peter Harmer, said the addition of WFI and Lumley confirms CGU's position as the leading intermediated insurer in Australia.

He said the combined business would have enhanced scale and capability to meet the needs of its customers and partners, providing them with access to broader product offerings.

"These businesses have a lot in common, with long and proud histories, a heartland in regional and rural Australia, well known and respected brands, a strong presence in SME and a growing capability in the large corporates segment. The addition of WFI and Lumley also provides CGU with solid positions in attractive segments, such as commercial motor," he said.

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Mr Harmer said the partnership with Coles is also an attractive opportunity, with affinity insurance an important part of CGU's existing portfolio.

"We're committed to providing customers with choices in how they interact with us, and this partnership enhances the Group's position in this regard.

"CGU has a strong capability in affinity and financial institution partnerships and the Coles partnership will complement our existing portfolio," Mr Harmer said.

#### **NEW ZEALAND – NZI**

IAG's Chief Executive Officer, New Zealand, Jacki Johnson, said the acquisition of Wesfarmers' New Zealand underwriting business would enhance IAG's product and service offerings.

"Wesfarmers in New Zealand has very complementary strengths to our own business, notably its expertise and success in the commercial motor vehicle segment, which we will look to build upon.

"The acquisition consolidates NZI's position as the leading provider of insurance through New Zealand's trusted broker network and further demonstrates our commitment to this country," Ms Johnson said.

#### **ACQUISITION FUNDING**

The acquisition will be funded through a combination of ordinary equity, subordinated debt and internal funds:

- A fully underwritten \$1.2 billion institutional placement, comprising the issue of approximately 219 million shares at \$5.47 per share;
- A non-underwritten share purchase plan (SPP) capped at \$200 million;
- \$300 million of Tier 2 subordinated debt, planned for issue in early calendar 2014; and
- The balance from internal funds.

IAG's Chief Financial Officer, Nick Hawkins, said that following completion of the acquisition and the related funding and capital initiatives, the Group's regulatory capital position is expected to remain within its targeted benchmarks. On a 30 June 2013 pro forma basis, the Group's Prescribed Capital Amount multiple is expected to be approximately 1.59.

#### **COMPLETION**

The acquisition is subject to all necessary regulatory approvals and is expected to be completed in the second quarter of calendar 2014.

#### **FY14 OUTLOOK**

The Group has reaffirmed its FY14 guidance of GWP growth of between 5-7% and a reported insurance margin in the range of 12.5-14.5%.

FY14 guidance assumes:

- No contribution from the acquired Wesfarmers underwriting businesses (assuming a 30 June 2014 completion date);
- Net losses from natural perils in line with budgeted allowance of \$640 million;
- No material movement in foreign exchange rates or investment markets; and
- Prior period reserve releases of 1-2% of net earned premium.

#### **ADDITIONAL INFORMATION**

Further information about the acquisition and associated funding can be found in the investor presentation lodged with the ASX today.

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## ABOUT INSURANCE AUSTRALIA GROUP

Insurance Australia Group Limited (IAG) is the parent company of a general insurance group with controlled operations in Australia, New Zealand, Thailand and Vietnam, employing around 13,500 people. Its current businesses underwrite approaching \$10 billion of premium per annum, selling insurance under many leading brands including NRMA Insurance, CGU, SGIO, SGIC and Swann (Australia); NZI, State and AMI (New Zealand); Safety and NZI (Thailand); and AAA Assurance (Vietnam). IAG also has interests in general insurance joint ventures in Malaysia, India and China. For further information please visit [www.iag.com.au](http://www.iag.com.au).

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## ABOUT WESFARMERS' INSURANCE UNDERWRITING BUSINESSES

Wesfarmers' insurance underwriting businesses reported GWP of over \$1.6 billion in respect of the financial year ending 30 June 2013 (FY13). The businesses comprise operations trading under the WFI and Lumley Insurance brands in Australia and under the Lumley Insurance brand in New Zealand. The businesses employ over 2,100 people.

## IMPORTANT INFORMATION

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