calliden group

www.calliden.com.au

ASX Announcement: Calliden Group Limited (CIX)

27 February 2014

Calliden delivers uplift in profit and declares special dividend

Calliden Group Limited ("Calliden") (ASX: CIX) today announced a $6.2m net profit after tax (2.7 cents earnings per share) for the year ended 31 December 2013. This represents a strong improvement on the $1.1m profit recorded for 2012, including an 81% increase in EBITDA to $10.5m, and is in line with guidance provided to the market on 6 November 2013.

Highlights

- Increase in agency profit from $1.1m to $8.2m as a result of the transition to the MGA model
- Insurance profit of $2.6m despite $4.2m adverse warranty and run-off experience
- Significantly stronger capital adequacy multiples for both the Group and insurer
- NTA increased from 20.1cps to 22.5cps
- Final dividend declared of 1.7cps fully franked
- Special dividend declared of 0.5cps fully franked to reflect strong capital position post transition to new model

This result represents the completion of a two year transition of the business from that of dedicated general insurer to a strategy focused on the development of an agency business based on the Managing General Agent model. Improving shareholder returns through the payment of regular, fully franked dividends was a key driver of this change in strategy which required a more consistent and reliable pattern of earnings growth than Calliden's insurance business, with its historically unpredictable earnings profile, could provide.

Final dividend increased and special dividend declared

In 2013 the board announced a new dividend policy, setting the payout ratio at 60-80% of NPAT and introducing the payment of interim dividends. Today the board has declared a fully franked final ordinary dividend of 1.7 cents per share which, combined with the interim dividend of 0.5 cents per share, represents an 80% dividend payout ratio.

In recognition of the strong capital position brought about by the change in strategy the board has also declared a special dividend of 0.5 cents per share fully franked, bringing total fully franked dividends paid for 2013 to 2.7 cents per share.

Level 7
100 Arthur Street
North Sydney
NSW 2060 Australia
Tel: 02 9551 1111
Fax: 02 9551 1155

Nick Kirk, Calliden's Managing Director said "the implementation of our new business model is all but complete and the declaration of the final and special dividends both rewards and acknowledges our shareholders for their support during the transition process. The Group now has a growing and profitable agency business, a smaller repositioned insurance company and two valuable joint venture niche agency businesses."

Summary of financial results

$m (unless otherwise stated)	2013	2012
Agency profit	8.2	1.1
Insurance profit	2.6	5.5
JV agency profit	0.6	0.3
Other income and admin. expenses	(0.9)	(1.2)
EBITDA	10.5	5.7
Amortisation – customer relationships	(1.1)	(1.5)
Amortisation – systems development	(2.8)	(2.8)
Depreciation	(0.4)	(0.3)
Net profit after tax	**6.2**	**1.1**
Earnings per share (cents)	2.7	0.5
NTA per share (cents)	22.5	20.1

Agency

In 2013 Calliden continued the transition to its new business model resulting in an increase in profit from 100% owned agency operations from $1.1m in 2012 to $8.2m. Total Gross Written Premium ("GWP") through agency operations increased to $151m including $56m underwritten by the Group's own insurer. GWP underwritten by third party insurers increased from $52m in 2012 to $95m in 2013, meaning around half of Calliden's overall GWP is underwritten by third party insurers.

Activity during the year included implementing further agency revenue streams; completing the transition of Business Pack and Farm; commencing distribution of Accident and Health products on behalf of ACE and launching a new Middle Market product suite backed by Great Lakes Australia ("GLA"). Calliden wrote policies on behalf of four external insurers: GLA (part of the Munich Re Group), Lloyd's, SICorp and ACE Insurance.

Premium written by our joint venture agency businesses increased to $29m and their profit contribution grew to $0.6m for 2013.

Insurance

The insurance profit for the year was $2.6m, compared with a profit of $5.5m last year and reflects the lower underwritten premiums resulting from the continued transition of the Business Pack portfolio (commenced May 2012) and Farm Pack portfolio (commenced January 2013) to an agency basis. Additionally, a number of portfolio management actions were taken to reduce CIL's exposure to natural catastrophe risk such as the transition of the QUS strata portfolio to WR Berkley. Overall, GWP fell 44% to $95.7m during the year to December 2013.

The reduction in insurance profit reflects the lower premium, adverse experience in Builders' Warranty of $3.5m, losses on discontinued portfolios of $0.7m and natural catastrophe claims of $3.3m (2012: $0.5m). The Group reported an underwriting loss of $1.4m compared with a profit of $0.2m in 2012.

Capital strength

Calliden's new strategy and the 2013 underwriting performance have led to further strengthening in its capital position. This is reflected in the group and insurer Capital Adequacy Multiples ("CAM").

- The group's CAM increased from 1.9 times in 2012 to 2.3 times as at 31 December 2013; and
- The insurer's CAM increased from 2.2 times in 2012 to 2.8 times as at 31 December 2013.

Outlook

In 2014 Calliden is investing in future growth for its new business model by:

- Completing the build of the IT connection to the Steadfast Virtual Underwriter (SVU);
- Growing the new products launched in its agency business, Calliden Agency Services; and
- Starting a new niche personal lines joint venture agency.

Calliden Agency Services will focus on developing business through its distribution partners and leveraging its investment in the new products launched in 2013.

CIL will continue to focus on improving the underlying profitability of the underwritten portfolio, taking advantage of a less conservative reinsurance programme and less volatile portfolio arising from management actions in 2012 and 2013.

The Group will also look to source new joint venture investment opportunities.

Level 7
100 Arthur Street
North Sydney
NSW 2060 Australia
Tel: 02 9551 1111
Fax: 02 9551 1155

Mr Kirk commented "After two years devoted to changing our business model it is good to now turn the Company's attention again to future opportunities. We believe the development of contestable platforms is a significant opportunity for Calliden and our insurer partners and one that we are keen to pursue. After a gap of a few years we are also very keen to recommence our joint venture strategy, initially with an opportunity in the niche personal lines segment."

Calliden expects to improve its profitability in 2014 by at least 20% and is forecasting a net profit after tax of $7.5-9.5m, depending on catastrophe and claims experience throughout the year. It will continue to pay fully franked dividends of between 60% and 80% of net profit after tax.

For further information, please contact:

Nick Kirk
Chief Executive Officer
(02) 9551 1111

Anthony Dijanosic
Chief Financial Officer
(02) 9551 1111

For media contact:

Ian Brown
FIRST Advisers
(02) 8011 0352
0418 466 129

- ENDS -