

24 August 2020

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

PSC INSURANCE GROUP LTD (PSI) – 2020 FULL YEAR RESULTS ANNOUNCEMENT AND INVESTOR PRESENTATION

Please find attached:

- FY20 Full Year 30 June 2020 Results Announcement.

Other documents lodged today are:

- Appendix 4E.
- 2020 Annual Report.
- Investor presentation. As previously released to the Market an Investor presentation will be held 9.00 am today.
- Notification of dividend / distribution. The DRP will be active for the final FY20 dividend payable on 14 October 2020. A 2.5% discount will apply to the DRP for this dividend.
- Appendix 4G.

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

Authorised for release to the ASX by the PSC Insurance Group Limited Board.



Stephen Abbott

Company Secretary

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PSC FY 2020 RESULTS ANNOUNCEMENT

Key financial highlights in 2020 were:

- **UNDERLYING REVENUE UP 49% TO \$176.7M.**
- **UNDERLYING EBITDA UP 33% TO \$57.7M¹.**
- **UNDERLYING NPATA UP 34% TO \$37.4M.**
- **EPS GROWTH OF 23% TO 13.9 CPS.**

Year in Review:

What an exceptional year. Exceptional in so many ways:

- a. Our two largest mergers, Paragon and Griffiths Goodall.
- b. One of the most difficult years for placing risks.
- c. An extraordinary social and business environment.

Any one of these alone would make it an exciting and challenging year. All three together have stretched our people and our business.

Perhaps that is the most exceptional part of the year. Just how well our people and our businesses have adapted, adjusted and responded to all of the above while continuing to focus on servicing our customers and driving themselves and the business forward. The outstanding financial results are the final record of those efforts by our people and the businesses.

It is worth talking about some of these in a little more detail given their significance to us and also due to most of these challenges are continuing into this financial year.

Firstly, the Paragon and Griffiths Goodall mergers.

While all transactions see us acquire the right to future profit from historic shareholders, in every other way these are mergers. We combine businesses into PSC with the goal being for PSC to end up a more diversified and smarter Group. The outcome from these two mergers is that we are definitely a better business.

Paragon is enormously well regarded in the insurance industry both in the UK and the USA and has been rated by its peers as the most capable broker in many of its professional and financial lines specialties. Its inclusion into PSC has increased the depth and capability in these areas and that has already helped us retain and gain clients in Australia.

It has also allowed us to bring a person of significant insurance and commercial experience on to the PSC Board. Tara Falk has already made a great contribution in her new role as a PSC Director.

Griffiths Goodall has also made a difference to the Group. While its centre of gravity is regional Australia, its client base is Australia-wide and its expertise in a number of areas has been of value across the Group.

It would be remiss to not mention the successful other transactions we have completed during the financial year 2020 ("FY20") period. While smaller they are important as they have also brought great people into the Group. The size difference is more about the number of people joining the Group through an individual transaction than the importance of that transaction.

1. Adjusted for AASB16 impact of ~ -\$0.3m to ensure like for like comparison.

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The people who are joining the Group as part of any merger are the key factor in assessing the value of the opportunity and so our interest. With the acquisition of the Walker Insurance and Australian Unity GI broking businesses in Australia and the Carroll Insurance business in the UK, we have recruited some wonderful people to the Group.

No report this year would be complete without mentioning the impact of COVID-19 on the business and social environment. The demands on people from this have been significant. It has made the underwriting market harder to access and it has been more difficult to place risks.

Underwriters in Australia and the UK have all spent long periods of time working from home and so accessing them and selling them on the risks we are wanting to insure has been difficult. This is on top of a hardening market that has seen key global capacity being actively reduced, particularly in Lloyds.

Dealing with those challenges has increased the demands on our people. That, coupled with the impact from COVID-19 on our clients and restrictions we have faced in physically visiting with many clients through this period has made it a very challenging period for the people and our business.

Those difficulties need to be recognised. Schools have been closed, placing demands on families to step up to additional roles, some families have dependents needing more support, and all people have lost interactions at work and with the social networks.

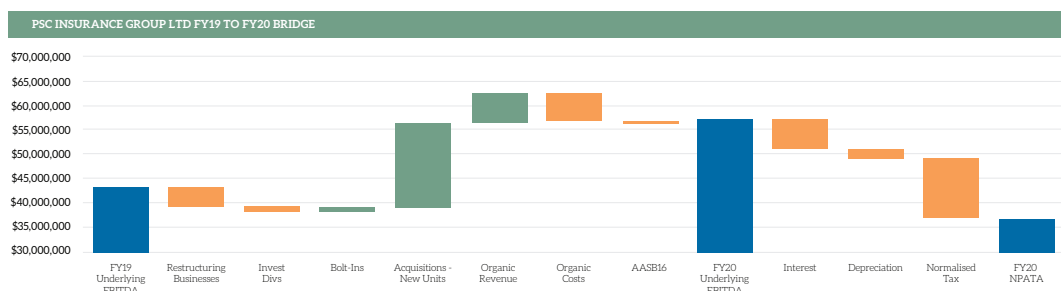
Yet we have achieved a terrific result. For our clients, ourselves and for our shareholders. We have solved problems, made good decisions and benefitted from the foundations that have been laid in the Group over the preceding years. As we look forward, the changes we have made to adapt to this new environment, the continuing tailwinds of recent acquisitions, the calibre of the people in the Group and the commitment they have to their clients makes us confident that we will also achieve great results in FY21 and beyond.

The FY21 year will be a year where we return our focus to achieving strong organic profit growth. We are well placed to do that given the abilities of our people and their resilience and also the recent efforts to reset the costs in a number of areas of the Group. That, coupled with the benefit of full year contributions from some of the acquisitions we made during FY20, makes us confident that we will see significant profit and EPS growth in the FY21 period.

Thank you to everyone involved in the Group and mostly thank you to people at the front of our businesses working with our clients to achieve great outcomes for them.

Year in Review (Financial Commentary):

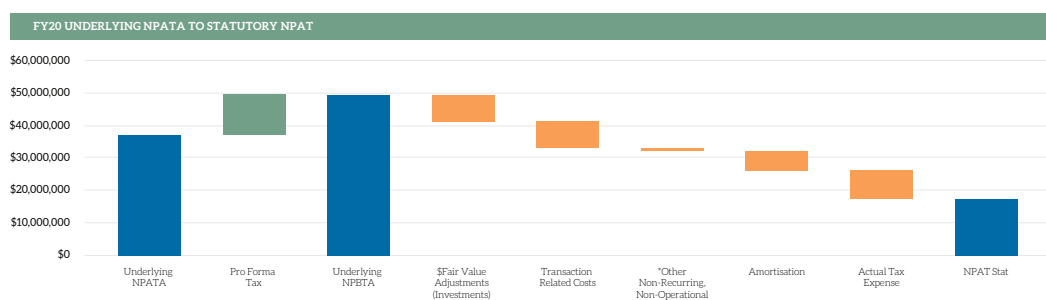
We summarise the components of our 2020 growth below:



Comments:

- The acquisitions of Paragon and Griffiths Goodall were the key driver of earnings growth, contributing \$17.4m. The Paragon result of ~ \$12m was the largest contributor and represented a 9 month contribution. All acquisitions have performed well.
- There have been three businesses that have adversely impacted the organic growth by ~ \$2.4m compared to the prior period. These were Breeze Underwriting Australia, Online Travel and Reliance Partners. We have and are actively making changes to all these units so they remain viable businesses in the Group.
- Organic revenue growth across the Group was \$6.2m (5.6%), and this was broadly based across the 3 operating segments. In Distribution, the Broking businesses performed well, aided by the hardening premium cycle and customer and Authorised Rep (AR) growth. In Agency, Chase Underwriting performed strongly with revenue growth of 11%. In the UK, Carrolls, Breeze Underwriting UK and Chase UK all performed strongly.
- Organic cost growth across the Group was \$6.4m (8.9%). Prior to COVID-19, the Group invested in additional capability to underpin the medium term prospects for the Group. Given the change in economic environment and outlook in Q4 the Group has reduced its cost base commensurately and these changes will be evident in FY21.
- The overall result was adversely impacted by ~ \$1.1m in lower dividends from non-operating investments held by the Group, largely BP Marsh and after the sale of our JLG investment.
- The incremental contribution from bolt-in acquisitions was ~ \$0.7m and the negative impact of AASB16 where the P&L impact exceeded the rental cash costs by ~ \$0.3m.
- Interest costs have increased over the period as a result of increased debt to fund the Paragon and Griffiths Goodall acquisitions. All debt facilities have remaining maturities greater than 4 years and covenants are comfortably covered. Leverage Ratio for the Group is ~ 2.5 times on a pro-forma historical basis.
- The normalised tax adjusts for the impact of fair-value change in our investments and other non-recurring items. The normalised tax charge of \$11.9m equates to an average tax rate of 24.2%, with the increased contribution from UK operations impacting this result. We expect this to be in the range of 26-27% in FY21.

Key adjustments to reconcile underlying to statutory results are below:



Comments:

- Fair Value (Investments) – adjustment of ~ -\$8.0m relates to changes in market value of the Group’s on balance sheet investments. On a net basis, this was the movement in the market value of our BP Marsh investment, which was impacted by the COVID-19 induced market correction.

- Transaction Related Costs – adjustment of ~ -\$8.3m relate to 2 separate amounts, 1) ~ \$3.7m in transaction related costs, principally from Paragon, Griffiths Goodall and Carroll Insurance Group and 2) ~ \$4.6m in the fair value adjustments in the deferred consideration liabilities, and in turn these largely relate to the higher payments for both Paragon and Turner Insurance, which were ahead of expectation.
- Other Non-Recurring Costs – of ~ \$1.2m on a net basis relate to non-recurring costs from restructures to various businesses, as well as movements in unrealised FX balances and FX hedge fair values.
- Amortisation – of ~ \$6.5m, which has increased materially over FY19, given the amortisation of acquired intangible assets as a result of the acquisitions.
- The actual tax expense is ~ \$5.3m lower than the pro-forma tax position of ~ \$11.9m given the impact of these non-operating balances as well as deductions related to prior year acquisitions of client lists.

Dividend and Outlook:

The Chairman announced an increased final, fully franked dividend to 5.5 cents per share, bringing total dividends for the financial period to 9.0 cents per share.

This represents a payout ratio of approximately 68%, based on underlying NPATA. Despite the uncertain economic conditions, we remain confident in the outlook of the Group for FY21, noting as follows:

- The result will have a full annualised contribution from Paragon (Q1 FY21), plus the contribution from Carroll Insurance Group and other bolt-in acquisitions.
- The annualised impact of reduced costs implemented in Q4 FY20.
- An expectation for continued hard market conditions, which is expected to outweigh any potential volume reductions from potentially weak economic conditions in our key Australian and UK markets.

On this basis we expect an underlying EBITDA range of \$65-70m and underlying NPATA range of \$40-43m. This is represented below at slightly ahead of the mid-point:

