



IOOF to acquire SFG Australia

16 May 2014

About the transaction







- IOOF Holdings Limited (“IOOF”) and SFG Australia Limited (“SFGA”) have entered into a Scheme Implementation Agreement under which IOOF proposes to acquire all the shares in SFGA via a Scheme of Arrangement
- SFGA shareholders will be offered 0.104 IOOF shares for each SFGA share (“the Share Consideration”)
- IOOF is also making available a cash alternative, subject to a maximum cash component of \$100m in aggregate
- SFGA’s Board unanimously recommends that its shareholders vote in favour of the Scheme, and SFGA Directors intend to cause any SFGA shares in which they have a relevant interest to be voted in favour of the Scheme, subject to an independent expert concluding that the proposed transaction is in the best interests of SFGA shareholders and in the absence of any superior proposal
- The transaction is expected to be at least 8.3% cash EPS accretive for IOOF by FY 2016 (including synergies)
- Pre-tax synergies from the merger are expected to exceed \$20m per annum by FY 2016
- The combination is in line with IOOF’s advisor-driven growth strategy

About SFGA



SFGA is a leading non-aligned client focused financial advice and end-to-end wealth management firm in Australia

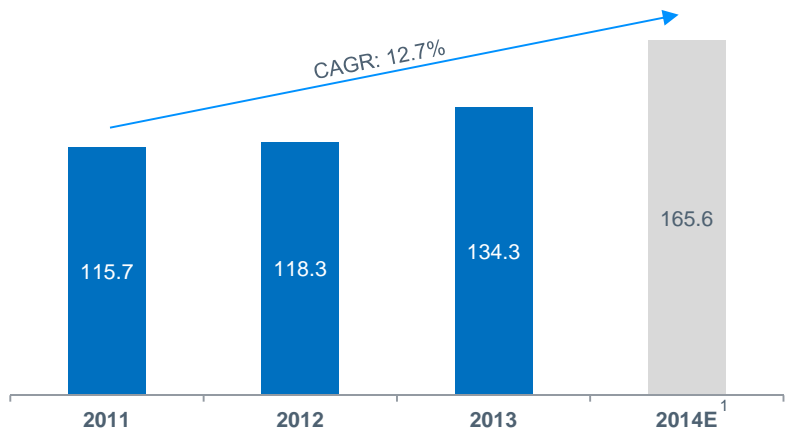
Advice		
Professional Advice (End-to-End)	Affiliate	B2B
<ul style="list-style-type: none">■ Shadforth Financial Group<ul style="list-style-type: none">- High Net Worth (“HNW”) focus- 123 employed advisers■ Lachlan Partners<ul style="list-style-type: none">- Private clients and SME business owners- 46 accountants and 11 financial advisers	<ul style="list-style-type: none">■ Western Pacific Financial Advisors<ul style="list-style-type: none">- Dealer group owned by SFGA- 16 practices and 43 advisers	<ul style="list-style-type: none">■ SFG Alliance Services<ul style="list-style-type: none">- Services third party financial planning firms and dealer groups
 		

Solutions & Support				
Portfolio Construction/ Management	Platform Services	Insurance & Lending Services	Stockbroking	Corporate Services

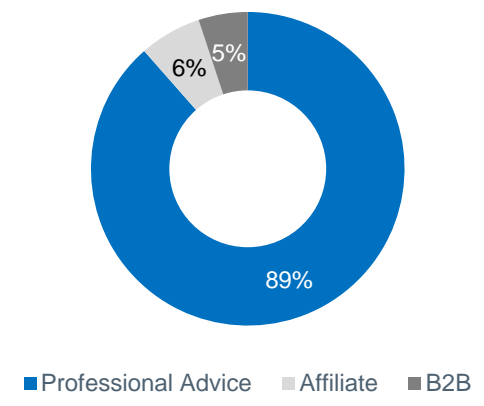
SFGA's financial performance



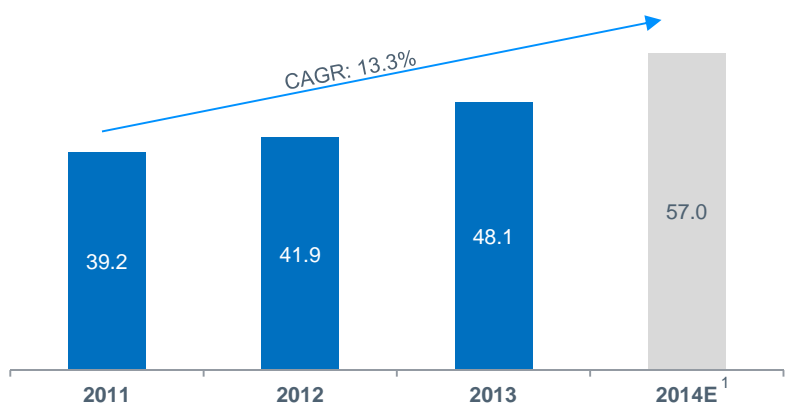
Revenue (\$m)



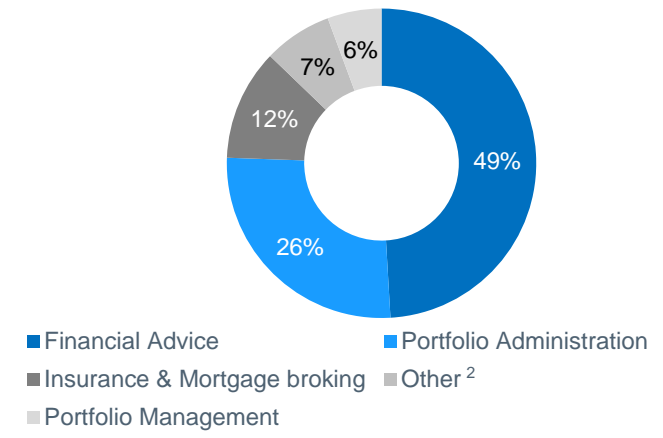
FY 2013 Revenue by channel



EBITDA (\$m)



FY 2013 Revenue by business mix



Source: Company filings, Bloomberg (15 May 2014).
 Note:
 1. 2014E is based on broker consensus as per Bloomberg (15 May 2014).
 2. Includes: Stockbroking, Accounting, Other.



Details of the transaction

The transaction	<ul style="list-style-type: none"> ▪ IOOF and SFGA have signed a Scheme Implementation Agreement under which IOOF proposes to acquire all of the shares of SFGA via a Scheme of Arrangement ▪ The Scheme meeting is likely to be held in early August 2014
Consideration	<ul style="list-style-type: none"> ▪ Exchange ratio of 0.104 IOOF shares for each SFGA share ▪ Implies \$0.90 per SFGA share and a \$670m equity value¹ ▪ SFGA shareholders can elect to receive the Scheme consideration in IOOF shares or a cash alternative, subject to maximum total cash component of \$100m² ▪ Cash funded by bank facilities
Target board recommendation	<ul style="list-style-type: none"> ▪ SFGA's Board unanimously recommends that its shareholders vote in favour of the Scheme, and SFGA Directors intend to cause any SFGA shares in which they have a relevant interest to be voted in favour of the Scheme, subject to an independent expert concluding that the proposed transaction is in the best interests of SFGA shareholders and in the absence of any superior proposal
Other terms	<ul style="list-style-type: none"> ▪ "No talk" and "No shop" provisions subject to customary fiduciary carve-outs ▪ Break fee of \$6.0m, payable in circumstances considered standard in a transaction of this nature ▪ Approval required from SFGA shareholders, the Supreme Court and the relevant regulatory authorities ▪ Several SFGA directors and shareholders have entered into call option deeds³ with IOOF giving IOOF the right to purchase approximately 16% of the issued share capital of SFGA in certain circumstances ▪ Messers Kilkenny, Gannon and Fenning have agreed to join a new SFG Advisory Forum which will advise the SFGA businesses following the merger

Note:

1. Based on IOOF's 90-day VWAP as at 15 May 2014. Equity value calculated using SFGA shares outstanding of 741m including performance rights.
2. The cash equivalent is calculated based on the VWAP of IOOF shares in 10 trading days immediately before the Scheme meeting.
3. The details of the call options will be disclosed in a substantial holder notice to be lodged with ASX by IOOF in the due course.

Why SFGA?



Complementary business	<ul style="list-style-type: none"> ▪ Captures revenue across the value chain including advice, portfolio administration, accounting, insurance, SMSF administration and investment management ▪ Natural fit with IOOF's existing capabilities
HNW proposition	<ul style="list-style-type: none"> ▪ Strong HNW client retention and profitability <ul style="list-style-type: none"> – \$88m FUA per adviser ▪ Provides brand/capabilities to target HNW and affluent clients
Enhanced scale	<ul style="list-style-type: none"> ▪ Positions IOOF as Australia's 3rd largest advice business by FUA ▪ 19% increase in total advisers to ~1,120 ▪ IOOF's due diligence of SFGA has confirmed meaningful synergies, expected to exceed \$20m per annum pre-tax by FY 2016
Salaried model	<ul style="list-style-type: none"> ▪ Differentiated advice proposition ▪ Planners subject to restraint of trade provisions through employment agreements and planner business acquisition agreements
High quality advisers	<ul style="list-style-type: none"> ▪ Shadforth Financial Group awarded the Money Management Independent Dealer Group of the Year for 2013 ▪ 70% of advisers CFP qualified (vs 23% industry average) ▪ Deep pool of advisers supported by internal development team and regional management structure
SMSF capabilities	<ul style="list-style-type: none"> ▪ Enhances exposure to SMSF clients ▪ Opportunity to broaden administration and advice proposition, including accounting advice to SME owners

Source: Company filings, Money Management Top 100 Dealer Group Survey 2013.

Complementary business



SFGA's businesses are similar to those of IOOF but different in focus

	IOOF	SFG
Revenue streams	<ul style="list-style-type: none"> ▪ Platform (49%) ▪ Investment Management (20%) ▪ Financial Advice (14%) ▪ Other (17%)¹ 	<ul style="list-style-type: none"> ▪ Financial advice (49%) ▪ Portfolio Administration (26%) ▪ Portfolio Management (6%) ▪ Accounting (4%) ▪ Other (15%)²
Type of adviser	<ul style="list-style-type: none"> ▪ 937 advisers <ul style="list-style-type: none"> – c. 900 affiliated – c. 30 salaried 	<ul style="list-style-type: none"> ▪ 182 advisers <ul style="list-style-type: none"> – c. 42 affiliated – c. 140 salaried ▪ 46 accountants
Advice focus	<ul style="list-style-type: none"> ▪ Mainly mid-market and mass affluent clients 	<ul style="list-style-type: none"> ▪ Mainly HNW, affluent and SME clients

Source: Company filings; percentages of revenue are calculated on FY 2013 filings.

Note:

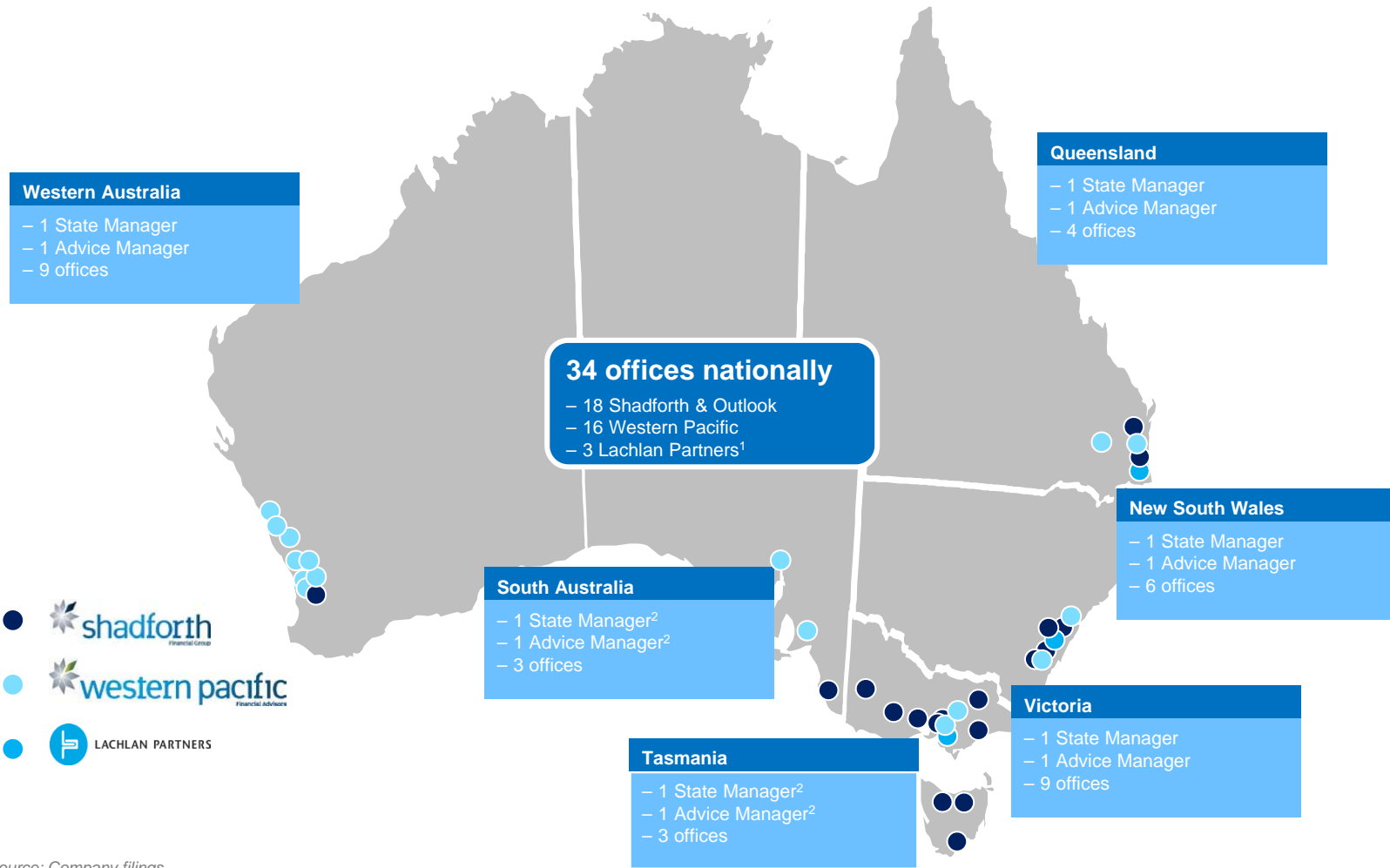
1. Includes: Stockbroking, Estate & trustee, Other.

2. Includes: Insurance & Mortgage Broking, Other.



SFGA national footprint

SFGA has a strong national adviser network



Source: Company filings.

Note:

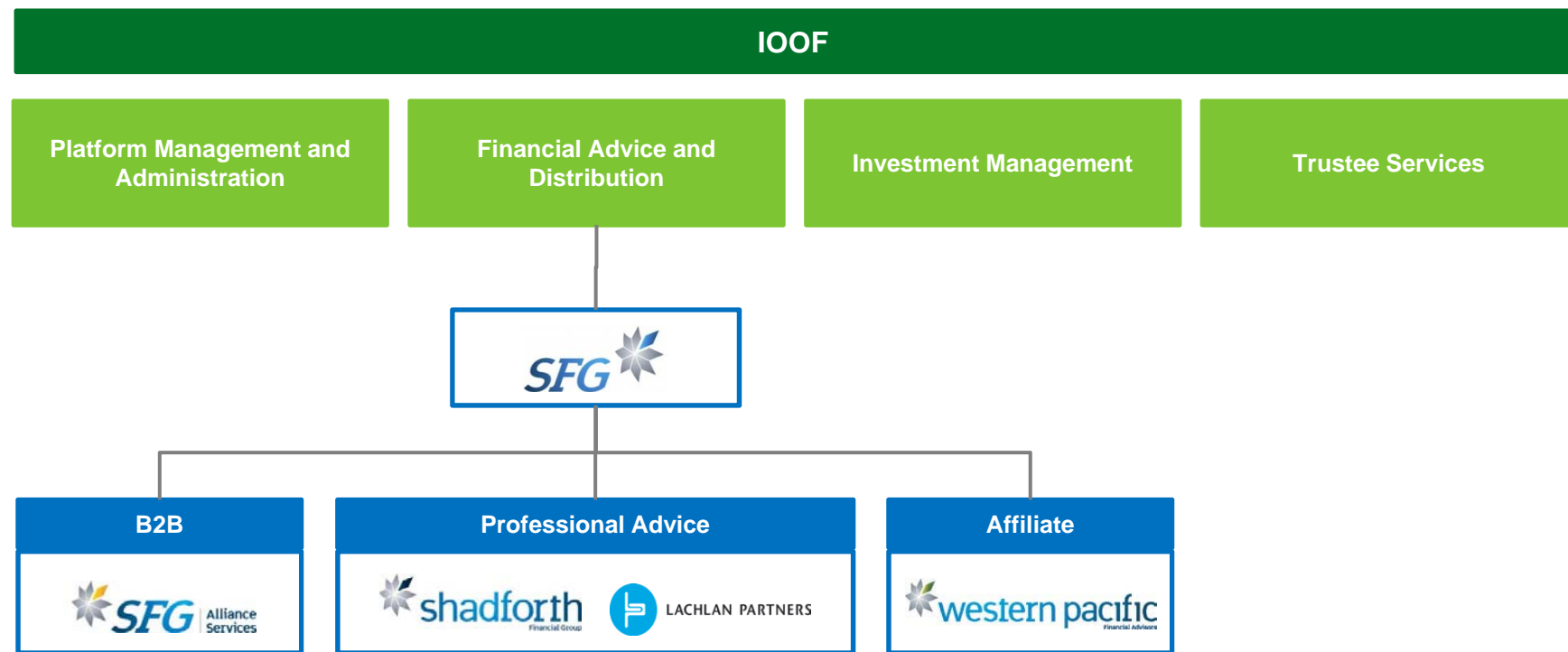
¹ Lachlan Partners operate from established Shadforth and Western Pacific offices.

² State Manager and Advice Manager manage both Tasmania and South Australia.



Post-acquisition operating model

IOOF intends that it will be business as usual for SFGA's clients, advisers, accountants and employees





IOOF's advice businesses

Different advice models for different client segments

Financial Advice and Distribution Overview						
	Financial and accounting adviser to HNW and affluent clients and SME business owners	Long term knowledge and expertise in supporting advisers aligned to accounting practices	Largest financial planning partner of choice to credit union and building society members across Australia	Strong history of supporting advisers at any stage in their practice development growth or succession	A small and dedicated group supporting high net worth clients in Western Australia	
Type of advice	Mostly salaried	Aligned	Aligned	Aligned	Mostly salaried	
FUA	\$13.7bn	\$31.9bn				
No. of advisers	182	734 ¹				

Source: Company filings, Money Management Top 100 Dealer Group Survey 2013.

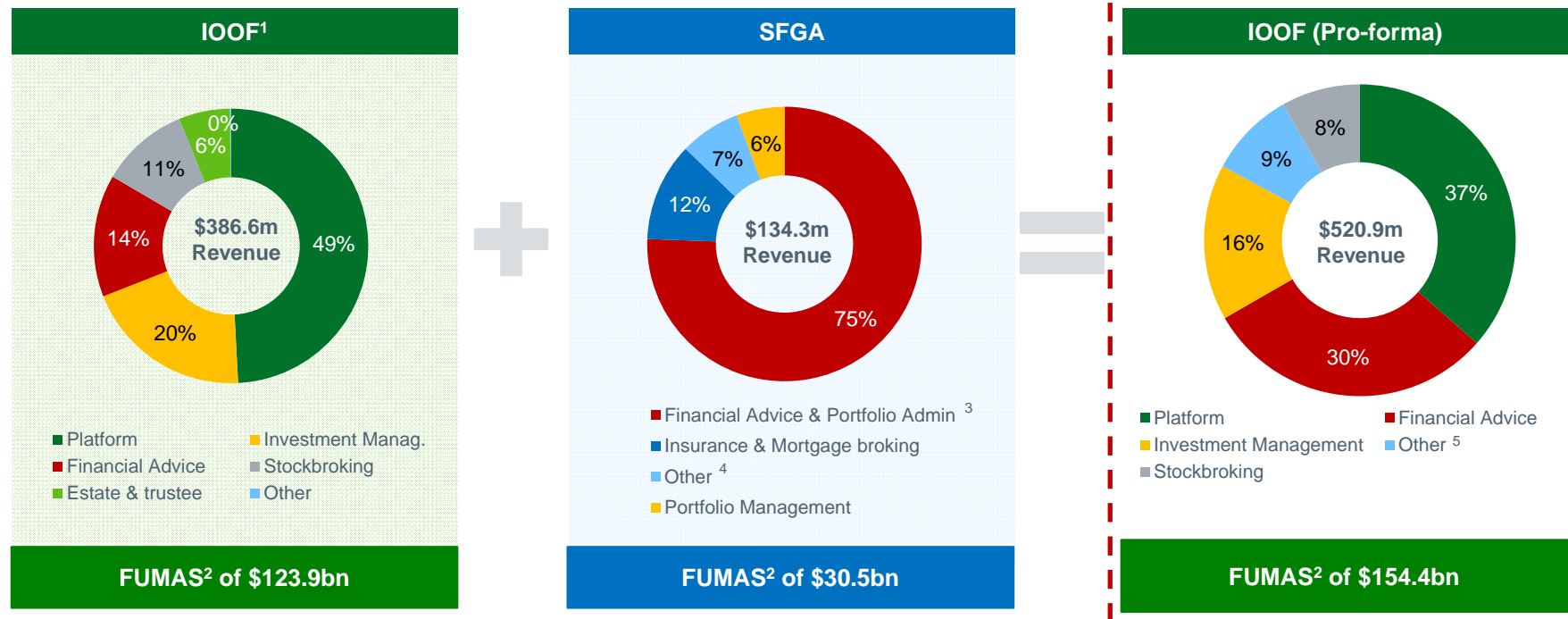
Note:

1. Excludes Ord Minnett (203 advisers).



Pro-forma business mix

IOOF's business will be more diversified post-transaction



Source: Company filings (FY 2013).

Notes:

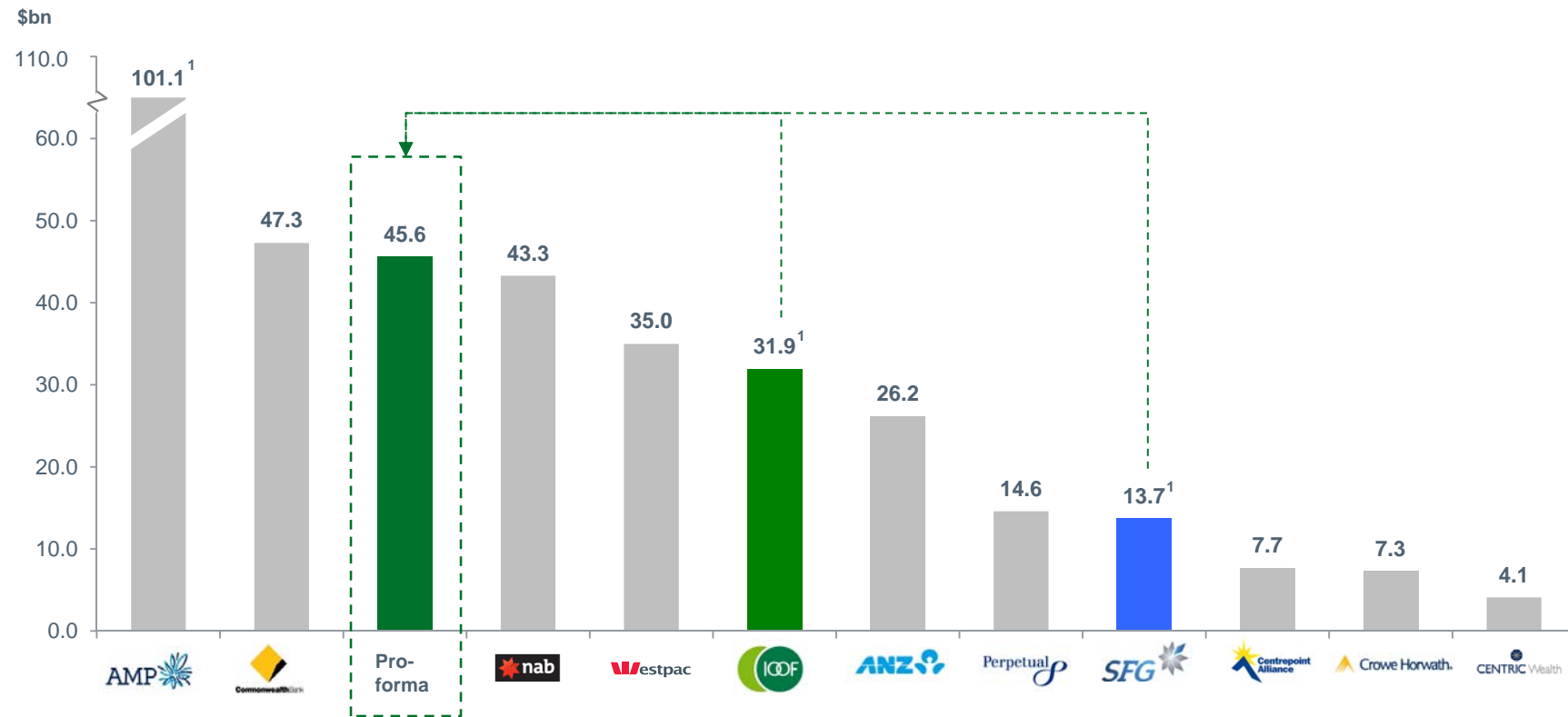
1. IOOF revenue = gross margin for each business unit + stockbroking gross margin.
2. FUMAS – Funds Under Management, Administration, Advice and Supervision (data as at 31 March 2014), SFGA has no Funds Under Supervision.
3. Financial Advice and Portfolio Administration have been grouped for illustrative purposes.
4. Other includes: Stockbroking, Accounting, Other.
5. Other includes: Insurance & Mortgage Broking, Accounting, Estate & trustee, Other.



Combined market position

The combined business will be the third largest Funds Under Advice (FUA) provider in Australia

FY 2013 Funds Under Advice



Source: Company filings (FY 2013), Money Management Top 100 Dealer Group Survey 2013, company website.
 Note:
 1. As at 31 March 2014.

Financially attractive transaction



Attractive relative valuation	<ul style="list-style-type: none"> ▪ Attractive valuation relative to recent transactions in the wealth management industry <ul style="list-style-type: none"> – 18.5x December 2013¹ earnings
Significant synergies	<ul style="list-style-type: none"> ▪ Significant synergies expected through the rationalisation of overlapping cost bases <ul style="list-style-type: none"> – Removing duplicate support infrastructure and ASX listing structure – Centralising and consolidating shared services functions ▪ Synergies from the proposed acquisition are expected to be at least \$20m per annum pre-tax by FY 2016²
EPS accretive³	<ul style="list-style-type: none"> ▪ ~8.3% cash EPS accretion by FY 2016 (including synergies)
Retain balance sheet flexibility	<ul style="list-style-type: none"> ▪ Pro-forma Net Debt / EBITDA of ~0.4x post-transaction⁴ ▪ Capacity to fund further bolt-on acquisitions as required

Source: Company filings (FY 2013, 1H 2014), Bloomberg (15 May 2014).

Note:

1. Based on SFGA December 2013 LTM UNPAT adjusted for Lachlan Partners; based on IOOF's 90 day VWAP to 15 May 2014.
2. IOOF's synergies estimate based on the due diligence completed prior to announcement.
3. Based on IOOF 2016E UNPAT (Bloomberg consensus), SFGA 2016E UNPAT (Bloomberg consensus), Synergies of ~\$20m, Integration costs ~50% of synergies.
4. Pro-forma net debt based on consensus 2014 net debt and additional \$100m of funding. FY2014E EBITDA based on Bloomberg consensus (15 May 2014).

Conclusion



- Highly complementary transaction which significantly enhances the position of the combined group
- The group will become the third largest advice business by FUA in Australia
- Expected to deliver significant value to shareholders of both SFGA and IOOF
- Diversifies IOOF's business model
- Several SFGA directors and other shareholders have entered into call option deeds giving IOOF the right to purchase approximately 16% of the issued share capital of SFGA
- Messers Kilkenny, Gannon and Fenning have agreed to join a new SFG Advisory Forum
- Due diligence analysis has confirmed meaningful synergies
- ~8.3% cash EPS accretion by FY 2016 (including synergies)
- Consistent with IOOF's stated strategy of growth through value accretive acquisitions and its vertically integrated wealth management model

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Appendix

Indicative timeline



Late June 2014	First Court Hearing
Early July 2014	SFGA to dispatch Explanatory Memorandum to its shareholders
Early August 2014	SFGA Shareholder Scheme Meeting
Early August 2014	Second Court Hearing
Early August 2014	Effective Date
Mid to late August 2014	Implementation Date

Disclaimer



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