

12 August 2019

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

Dear Sir/Madam

**AUSTRALIAN FINANCE GROUP LTD ANNOUNCES MERGER WITH AGGREGATOR
CONNECTIVE**

Please refer to the following information in relation to Australian Finance Group Ltd's (ASX: AFG) merger with mortgage aggregator Connective.

- Part 1: AFG Market Release
- Part 2: Merger with Connective Investor Presentation
- Part 3: Market Release – AFG FY19 Results in line with consensus

Investor Briefing

David Bailey, Chief Executive Officer and Ben Jenkins, Chief Financial Officer, will give a presentation to analysts and investors via conference call at 1:00 pm (AEST) today.

To participate in the call, please dial 1800 123 296 (toll free Australia), 0800 452 782 (toll free New Zealand) or +61 2 8038 5221 (international) and provide the operator with the details of the company you represent. The conference ID is 3595873.

For more information, please contact:
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Yours faithfully



Lisa Bevan
Company Secretary

12 August 2019

AUSTRALIAN FINANCE GROUP TO MERGE WITH MORTGAGE AGGREGATOR CONNECTIVE

Australian Finance Group Ltd (ASX:AFG) has entered into a binding conditional implementation deed to merge with the mortgage aggregation business of Connective Group Pty Ltd. Connective has a network of over 3,600 brokers across five states with a panel of more than 50 lenders. The combined group will create a significant national mortgage distribution network, with more than 6,575 brokers and combined mortgage settlements of \$76 billion in FY19.

Under the transaction, Connective Group Pty Ltd will receive \$60 million in cash and 30,886,441 AFG shares valuing the acquisition at \$120 million, with AFG to primarily fund the cash component through a new corporate debt facility. The transaction is expected to be EPS accretive (pre-synergies) in the first full financial year post integration and AFG is currently expected to maintain a dividend payout ratio of between 60 and 80 per cent.

AFG Chairman Mr Tony Gill said: “The merged business will have a significant national footprint in Australia’s \$1.8 trillion home loan market. The delivery of competition and choice to the Australian lending market is at the core of our strategy. The expanded distribution channel and broader diversification of products the combined group can supply will provide greater choice for both brokers and consumers”.

AFG Chief Executive Officer David Bailey said: “AFG’s ongoing successful execution of our earnings diversification strategy in recent years has the business set up for strong cash flow generation and well positioned for growth. The prospect of complementing AFG’s existing business with the cultural fit and similar customer-focused philosophy of the Connective business is compelling. “Competition is at the heart of both businesses with the non-major lenders representing 48 per cent of residential mortgage lodgements through AFG’s network in July 2019. Greater geographical portfolio diversification positions the merged group to further enhance choice and competition for consumers in all markets across Australia. Together with AFG’s existing growth plans, the opportunity presented by the sale process undertaken by Connective was absolutely aligned to our strategy.

“With extensive experience in the mortgage broking industry and proven management expertise, respected senior executives Glenn Lees and Mark Haron will continue to run Connective’s business and will retain a significant shareholding in the merged group. I look forward to working with Glenn, Mark, the Connective team and their network of brokers to create a driving force in competition in the Australian lending market.”

Connective CEO Glenn Lees said: “The coming together of the Connective and AFG teams is a natural fit. We share a strong set of values with the priority to always work on behalf of our brokers. I am incredibly proud of the business and, alongside the team, I look forward to continuing to drive the success of our brokers who positively impact the lives of thousands of Australian home buyers every year.

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The transaction remains conditional upon a court validating the transaction as not being unlawful or able to be set aside (a non-customary condition), Connective Group Pty Ltd shareholder approval, approval from the Australian Competition and Consumer Commission and AFG Shareholder approval (if required), as well as other conditions typical of a transaction of this nature.

Mr Bailey said the transaction represents an opportunity for all AFG shareholders to benefit from the diversification and flexibility of the combined group.

“Connective brokers will have access to AFG’s securitisation program and the combined network also offers the opportunity to grow scale in both asset finance and commercial lending. Connective brings a contrasting revenue model based on fixed membership fees and offers services across residential, commercial and asset finance, as well as its own range of white label home loan products under the Connective Home Loans brand.”

“This should result in more lender and product opportunities for brokers, which in turn means more choice for their customers. This is particularly important for the self-employed and SME sectors of the market that are presently under banked.”

“When we also consider the possibilities for both cost and revenue synergies together with the leverage of the distribution potential, the transaction becomes one we are delighted with. We will continue to update the market as we reach key milestones in the process.”

On completion of the transaction, Mr Lees, a founding shareholder of Connective, will be offered the opportunity to join the board of AFG.

Further details of the key terms of the transaction are set out in the schedule.

AFG will keep the market informed of progress of satisfaction of the conditions precedent to the transaction in accordance with its ASX continuous disclosure obligations.

ABOUT CONNECTIVE GROUP



Established in 2003 and headquartered in Melbourne, mortgage aggregator Connective Group has a network of over 3,600 brokers providing access to a range of financial products sourced from its panel of more than 50 lenders. Acting as an intermediary between lenders and borrowers, Connective Group offers services across residential, commercial and asset finance, as well as its own range of white label home loan products under the Connective Home Loans brand.

Operating from five Australian office locations with 128 full-time employees, Connective Group brokers originated total settlements of \$42 billion in FY19.

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Connective Group's business model is underpinned through the charging of a fixed monthly membership fee for brokers. This contrasts with AFG's existing revenue model, which is oriented towards a percentage of the upfront and trailing remuneration generated by the broker. AFG currently intends to keep both business models operating concurrently.

Connective Group generated FY19 revenue of \$63 million and pro forma reported FY19 NPAT of \$10.9 million (unaudited).

SCHEDULE - KEY TRANSACTION TERMS

- AFG has entered into a binding conditional implementation deed to merge with the mortgage aggregation business of Connective Group Pty Ltd (Connective Group).
- Under the transaction, Connective Group will receive \$60 million in cash and 30,886,441 AFG shares issued at a \$ 1.9426 per share (being the 10-day volume weighted average price (VWAP) up to and including 9 August 2019, valuing the acquisition at \$120 million).
- AFG to fund the cash consideration primarily through a new corporate debt facility, with expected post-transaction debt/ pro forma underlying FY19 EBITDA ratio of 1.0x.
- In addition, AFG retains the right to cash settle up to 50 per cent of the AFG shares to be issued as consideration at completion. If the cash settlement is funded via a new equity raising by AFG, the price is the higher of a 7.5 per cent discount to AFG's 10-day VWAP up until the date on which AFG issues a cash settlement notice or the issue price of any new shares. If the cash settlement is funded through other sources (i.e. existing cash or debt), AFG's 10-day VWAP up until the date on which AFG issues a cash settlement notice).
- The AFG shares issued to Connective Group will be escrowed for 24 months, with a release of 25 per cent of the shares at 12 months and a further 25 per cent of the shares at 18 months from completion. If AFG is subject to a control transaction during the escrow period, Connective Group has agreed to accept the offer in circumstances where the control transaction has been recommended by a majority of the AFG board (subject to certain fiduciary and regulatory exceptions).
- The transaction is structured so that it will proceed as an asset sale of the assets and liabilities of Connective Group and its subsidiaries but can proceed as a share sale in certain circumstances and where the parties agree.
- The transaction represents pro forma unaudited reported FY19 PE multiple of 11.0x (pre synergies).
- Connective Group to retain a significant shareholding in AFG, ongoing executive management roles and an offer of an AFG board seat for the current Connective Group CEO (and largest shareholder), Glenn Lees.
- The transaction is expected to be EPS accretive (pre-synergies) in the first full financial year post integration and AFG is expected to maintain a dividend payout ratio of between 60 and 80 per cent based on the adopted funding structure.
- The deal offers meaningful opportunities for distribution of AFG's securitised products through the combined group's national network of brokers.

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- On an unaudited pro forma basis, the combined business would have FY19 reported NPAT of approximately \$44 million.
- The transaction offers AFG shareholders exposure to an alternative mortgage broker aggregation model with strong ongoing brand recognition whilst also providing access to a broader distribution channel on an earnings accretive basis.
- The transaction remains conditional upon a court validating the transaction as not being unlawful or able to be set aside (a non-customary condition), Connective Group Pty Ltd shareholder approval, approval from the Australian Competition and Consumer Commission and AFG Shareholder approval (if required), as well as other conditions typical of a transaction of this nature.
- An initial hearing to seek the court order is expected to take place within the next month. The consultation process with the ACCC will be run in parallel with the process to seek the court order. On satisfaction of the conditions, the transaction is currently anticipated to complete in the second half of FY20.

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