

AFG

Merger with Connective Investor Presentation

AFG continuing to drive competition and choice



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Transaction/merger rationale (1 of 2)

Significant national mortgage aggregator and broker distribution network

- AFG to merge with the aggregation business of Connective Group in a transaction that values Connective at \$120 million on a cash-free, debt-free basis
- Transaction consideration implies a pro forma unaudited reported FY19 PE multiple of ~11.0x¹
- A significant national broker distribution network to drive greater competition in the home loan market
- Broadens choice for brokers and consumers
- Enhances competition amongst major and non-major lenders

Key benefits of combined group

- 6,575+ brokers and combined FY19 mortgage settlements of \$76 billion, leveraging best practice in technology and compliance as well as combined financial strength
- Significant opportunities for further distribution of AFG products across Connective Group's network, including AFG Securities (AFGS) products
- Larger distribution channel, generating data rich insights into the Australian mortgage market
- Expecting pre-tax cost synergies of \$4m p.a. to be fully realised over a four-year period

Creates long-term value for AFG shareholders

- Expected to be EPS accretive (pre-synergies) in first full financial year post-integration
- Proposed funding structure expected to allow AFG to maintain a dividend payout ratio between 60-80 per cent

Transaction/merger rationale (2 of 2)

Consideration

- Connective Group shareholders will receive \$60 million in cash and 30.9 million AFG shares
- AFG shares to be issued at \$1.9426/share, being the 10-day VWAP up to and including 9 August 2019

Transaction is fully funded

- Cash consideration funded through a new debt facility - conservative gearing levels (~1.0x debt/EBITDA¹ on an FY19 pro forma basis)
- AFG can elect to cash settle up to 50% of the AFG shares to be issued as consideration at completion²

Strong cultural fit and regulatory alignment

- Both AFG and Connective have a strong focus on service delivery to brokers, operating in a highly competitive environment for market share
- Connective Group executives Glenn Lees and Mark Haron will continue to run the Connective business and retain a significant shareholding in AFG (per the terms of the escrow arrangements)
- Glenn Lees will be offered the opportunity to join the AFG board on completion of the transaction

Conditional Transaction, anticipated to complete in 2HFY20

- Transaction conditional upon a court validating the transaction as not being unlawful or able to be set aside (a non-customary condition), in addition to ACCC, AFG shareholder (if required), Connective Group shareholder approval and other customary approvals
- ***If the conditions are satisfied, AFG anticipates completion of the transaction in the second half of FY20***

Key terms of the transaction

Transaction structure	<ul style="list-style-type: none"> • AFG will acquire substantially all the assets and liabilities of Connective Group • The transaction is structured so that it will proceed as an asset sale but can proceed as a share sale in certain circumstances and where the parties agree
Purchase price	<ul style="list-style-type: none"> • \$120 million – payable \$60 million in cash and 30.9 million AFG shares • Purchase price subject to a standard working capital adjustment mechanism depending on the level of working capital delivered at completion and level of net cash remaining in the business (Connective has no outstanding interest-bearing debt)
Key conditions	<ul style="list-style-type: none"> • Transaction conditional upon a court validating the transaction as not being unlawful or able to be set aside (a non-customary condition), ACCC and AFG shareholder approvals (if required), Connective Group shareholder approval and other customary conditions precedent for a transaction of this nature
Funding	<ul style="list-style-type: none"> • Cash consideration to be funded through a new \$60 million debt facility • 30.9 million AFG shares to be issued to Connective Group at \$1.9426/share (being the 10-day VWAP up until 10 August 2019) • AFG retains the right to cash settle up to 50 per cent of the AFG shares to be issued as consideration at completion at a price per share equal to: <ul style="list-style-type: none"> — <u>If funded via a new equity raising</u>: the higher of (1) 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 (2) the issue price of any new shares; or — <u>If funded through other sources (i.e. existing cash or debt)</u>: AFG's 10 day VWAP up until the date on which AFG issues a cash settlement notice • All AFG shares issued to Connective Group (or any ultimate Shareholders of Connective Group where the escrow arrangements are rolled up to those shareholders) will be placed under a voluntary escrow as follows (all periods are from completion): <ul style="list-style-type: none"> — First 12 months: All shares under escrow — After 12 months: 25 per cent of shares released from escrow — After 18 months: 50 per cent (cumulative) of shares released from escrow — After 24 months: All remaining shares released from escrow • If AFG is subject to a control transaction during the escrow period, Connective Group has agreed to accept the offer in circumstances where the transaction has been recommended by a majority of the AFG board (this obligation does not apply if such an action would breach the fiduciary duties of the board of the Connective Group or it is prohibited by a court or statutory order)
AFG board	<ul style="list-style-type: none"> • Glenn Lees will be offered the opportunity to join the AFG board on completion of the Transaction
Other key terms	<ul style="list-style-type: none"> • Standard representations and warranties for this type of transaction

Who is Connective?

Connective has a network of 3,600+ brokers, offering services across residential, commercial and asset finance and its own range of white label home loan products, under Connective Home Loans

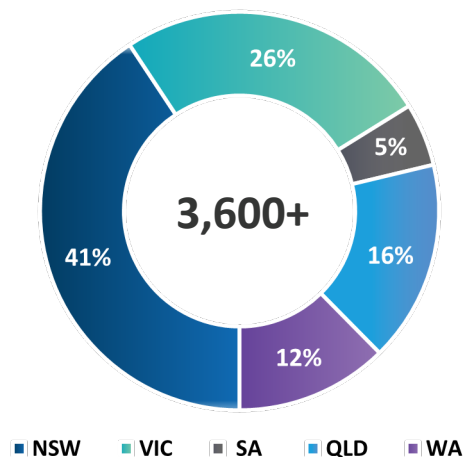


128 Full-time Employees
5 Offices (HQ in Melbourne)

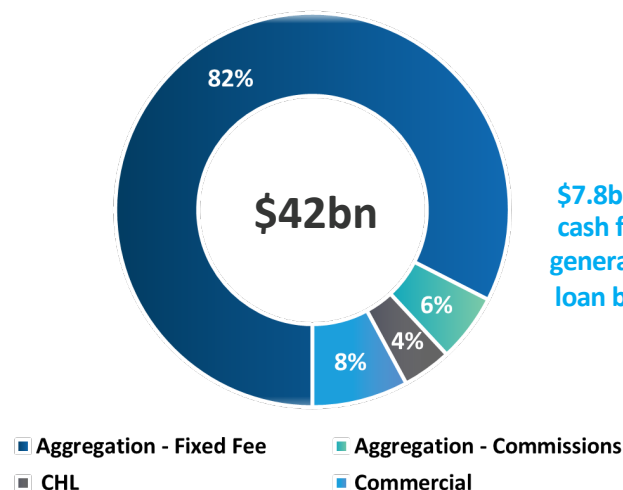


Pro forma FY19 underlying and reported NPAT of **\$9.4m^{2,4}** and **\$10.9m^{4,6}** respectively

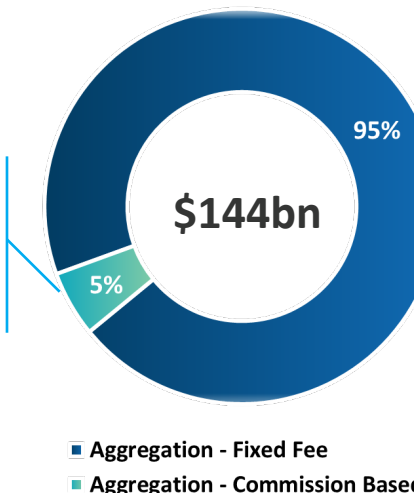
Brokers by state¹



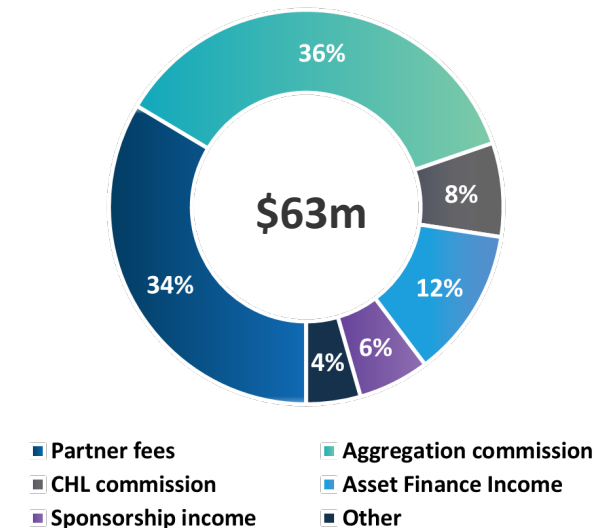
FY19 Total Settlements



Total Loan Book^{1,3,5}



FY19 Revenue⁴



An Alternative Revenue Model:

Connective's aggregation services are predominantly provided under a fixed monthly fee model where all commissions are passed through to the broker. Connective also offers a commission-based structure, which is similar to AFG (although this represents a smaller portion of the business)

Merged group – key metrics



Residential Settlements¹

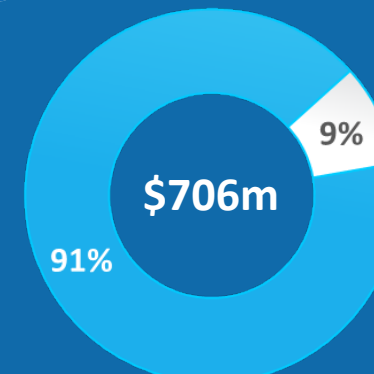
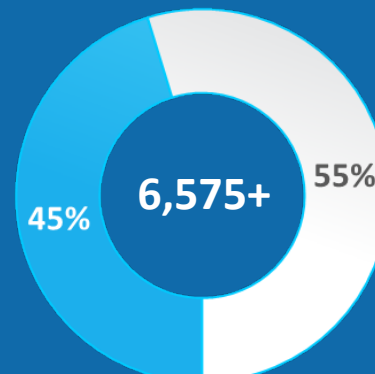
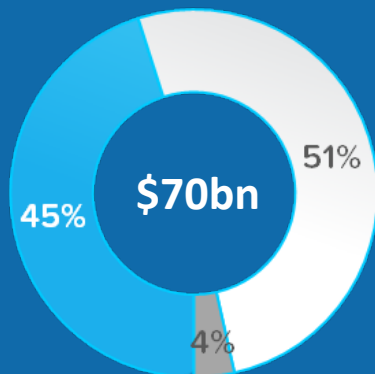


Broker Network²



FY19 Revenue^{1,4}

- AFG
- Connective – Fixed Fee Model
- Connective – Commission Structure Model



Connective revenue lower due to predominantly flat fee revenue model where 100% of commissions are paid out to brokers



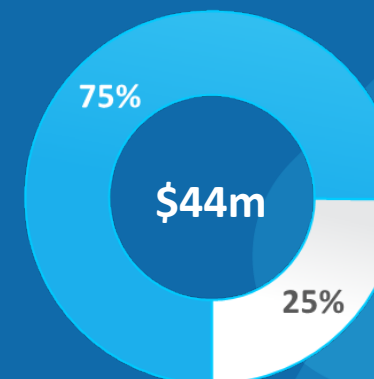
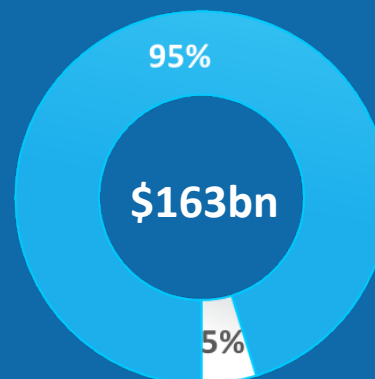
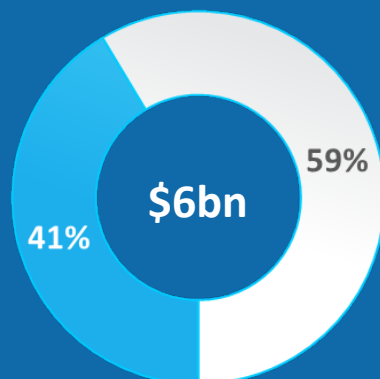
Commercial Settlements¹



Total Loan Book^{2,3}



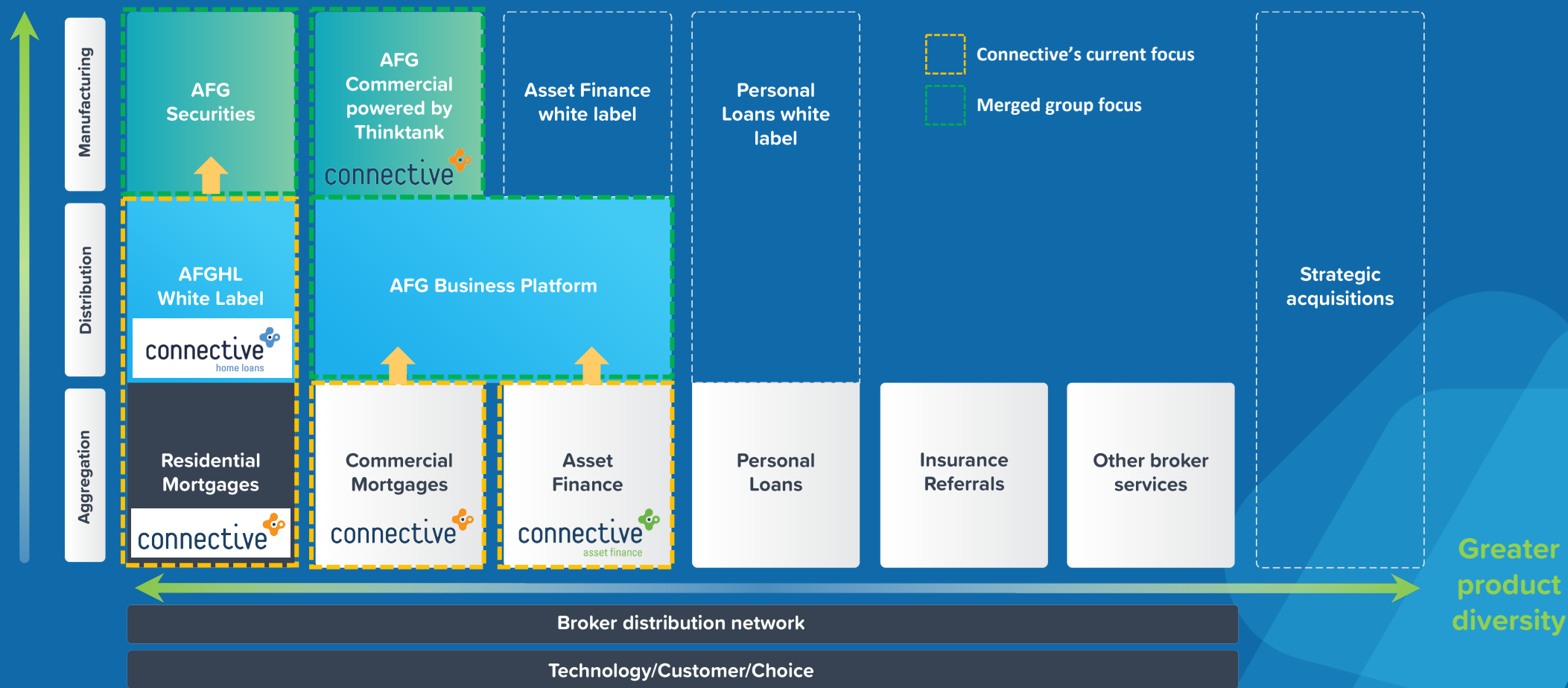
FY19 Reported NPAT^{1,4}



- AFG
- Connective

Executing on AFG's earnings diversification strategy

The Connective transaction is consistent with our long-term strategy, significantly grows the distribution network and allows AFG to increase the penetration of products such as AFG Securities, white label products and the AFG Business Platform



Complementary strategic fit at the product and broker level

- Provides exposure to an alternative mortgage broker aggregation model with strong ongoing brand recognition
- Access to a larger distribution channel with key white label and securitisation products under-penetrated relative to AFG's existing broker network
 - AFG has achieved 10% penetration through its network in FY19 and Connective's annualized penetration was 4% in white label products in FY19
 - Connective will have access to AFG's securitisation program
 - Additional opportunity to grow scale and margin in both asset finance and commercial lending through the combined network
- Both AFG and Connective are capex light with strong cashflow generation
- Larger distribution channel and broader diversification of products is positive for both brokers and consumers in choice, and generates greater competition amongst major and non-major lenders
- Better equip brokers to service the self employed and SME segments that are presently underbanked but represent an opportunity of a similar scale to residential
- Strong cultural alignment and focus on value to the broker and their customers
- Robust regulatory and compliance framework – the merged group will leverage best practice across both businesses and be an industry-leading partner with lenders

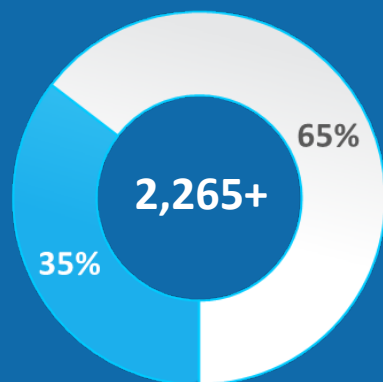
Two brands – one vision

AFG and Connective will remain as two brands in the market place with clearly differentiated value propositions

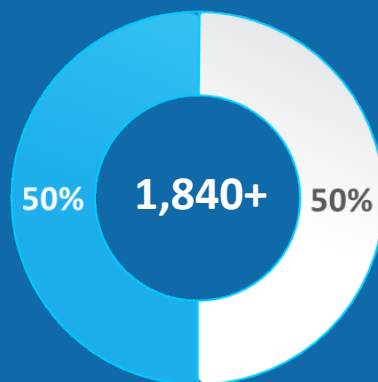
		AFG	connective	AFG + connective
Distribution network		2,975+ brokers	3,600+ brokers	<ul style="list-style-type: none"> ✓ A significant national broker distribution network to drive greater competition in the home loan market ✓ Broader service offering for broker network
FY19 Mortgage Settlements ¹		\$34 billion	\$42 billion	<ul style="list-style-type: none"> ✓ \$76 billion
Products & Services	Residential	<ul style="list-style-type: none"> • Aggregation services provided under commission based compensation structure (upfront & trail) • White label (AFGHL) and manufacturing products (AFGS) 	<ul style="list-style-type: none"> • Aggregation services predominantly provided under fixed monthly fee model (also offer commission based structure) • White label products under Connective Home Loans (CHL) 	<ul style="list-style-type: none"> ✓ Distribution of AFGS products through Connective network ✓ Deeper penetration of Connective network with its own-branded products ✓ Industry-leading partner to lenders
	Commercial	<ul style="list-style-type: none"> • Aggregation • AFG Business technology • White-label product offering (AFG Commercial, Powered by Thinktank) 	<ul style="list-style-type: none"> • Aggregation • White-label product offering (Connective Commercial, Powered by Thinktank) 	<ul style="list-style-type: none"> ✓ Greater penetration with white label products (expected area of growth) ✓ AFG Business made available to Connective brokers ✓ More lender and product opportunities for brokers, particularly important for the self-employed and SME sectors of the market that are presently under banked
	Asset Finance	<ul style="list-style-type: none"> • Aggregation 	<ul style="list-style-type: none"> • Aggregation 	<ul style="list-style-type: none"> ✓ Increased scale ✓ White label and ultimately manufacturing opportunities to be assessed
Corporate		Industry-leading compliance, governance and advocacy		<ul style="list-style-type: none"> ✓ \$4m run-rate pre-tax cost synergies expected over a four-year period

Merged group – distribution network

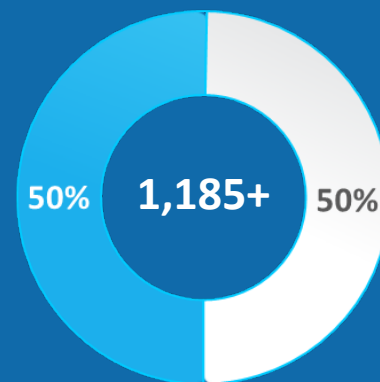
New South Wales



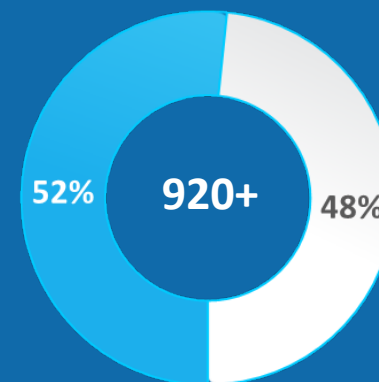
Victoria



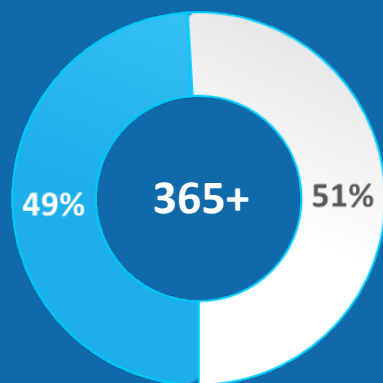
Queensland



Western Australia



South Australia



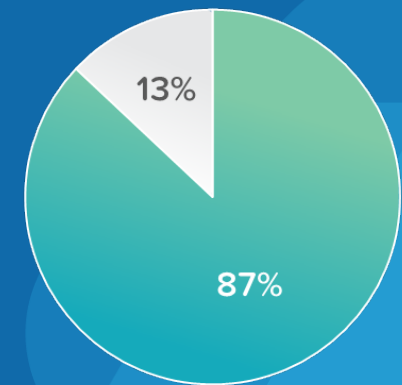
- Combined national distribution network of 6,575+ brokers as at 30 June 2019
- Larger network to continue to deliver earnings diversification
- Greater choice for consumers - over 4,000 individual products offered
- 55+ lenders
- Drivers of competition – over 40% of FY19 settlements with non-majors
- Up to 20,000 customers per month driving great data insights
- Combined asset finance settlements of over \$1.4 billion in FY19

Revenue opportunities

- Potential to increase volumes across:
 - **Connective Home Loans:** Increased penetration of existing network through shared products and expertise of Merged Group
 - **AFGS:** Distribution of AFG securitised products through Connective network
- Higher margin AFG Business technology platform made available to Connective brokers
- Potential increase in Thinktank profit share as a result of increased settlements through network (and hence profitability)
- Additional investment anticipated to increase distribution of white label, manufacturing and business products through the network
- AFG to monitor potential impact of merged group on existing pay-out ratios
- Potential for incremental manufacturing opportunities in other product classes

Earnings growth / maintaining a conservative balance sheet

- On an unaudited pro forma basis, the combined business would have FY19 reported NPAT of ~ \$44 million¹ and underlying NPAT of ~ \$38 million¹
- Combined broker network of 6,575+ with residential and commercial settlements of \$76m in FY19 driving unaudited pro forma revenue of \$706 million
- Both businesses are capital light with strong cash flow generation
- Expected to be EPS accretive (pre-synergies) in first full financial year post integration
- The transaction represents pro forma unaudited reported FY19 PE multiple of 11.0x (pre synergies)
- Transaction funding supported by a major Australian bank
 - Credit approved term sheet obtained for a \$60 million facility limit. Annual interest rate equivalent to BBSY plus 3.65%
 - Five-year term (amortisation is for 50% of debt over 5 years, with a bullet repayment of the remaining 50% balance to occur at end of year 5)
- Conservative gearing levels – ~1.0x debt to FY19 EBITDA^{1,2}
- Connective shareholders, including key executives and shareholders Glenn Lees and Mark Haron, will retain significant exposure in AFG following the acquisition³



● Existing AFG shareholders ● Vendors

Merger to create long-term value for AFG shareholders

- A significant national broker distribution network to drive greater competition in the home loan market
- Both businesses are culturally aligned and highly complementary at the strategic and operational levels
- Expected to be EPS accretive (pre-synergies) in first full financial year post integration
- Proposed funding structure expected to allow AFG to maintain a dividend payout ratio of between 60-80 per cent

AFG

Q&A

Appendix 1 – Key Connective Executive Biographies

Glenn Lees

Glenn Lees is a director and CEO of the Connective Group. He started his career in the mortgage broking industry in 2000, initially as a mortgage broker before becoming one of the founding directors and shareholders of Connective in 2003.

Glenn holds bachelor's degrees in Science and Law from Monash University, and is currently a member of the OPM Program at Harvard Business School.

Glenn has been intimately involved in all aspects of the Connective business on its growth journey from 2 brokers to the largest mortgage aggregator in Australia by number of brokers and volume of loans settled.

As CEO, and supported by the Connective executive team, Glenn is responsible for the development and implementation of Connective's growth strategy, and has a particular passion for Connective's award winning Mercury Platform.

Mark Haron

Mark was appointed Executive Director of Connective in 2006, having previously been the CEO at aggregator FAST. Mark brings with him a wealth of knowledge across all aspects of mortgage broking and lending. His vast experience and expertise spans operations, sales and relationship management. Mark is an active advocate of the industry and has recently been appointed to the MFAA Board.

Mark is also the Deputy Chair of the Combined Industry Forum, an industry group guiding and implementing reforms to improve customer outcomes throughout the industry. Mark's vision for the future of the industry strongly influences the direction that Connective takes in its dealings with broker members and lender partners.

Mark has been instrumental in driving Connective's growth through establishing excellent lender relationships to strengthen Connective's industry leading panel. He has worked tirelessly to advocate for brokers and the mortgage broking industry helping shape key industry reforms and deliver better customer outcomes.