

David Clarke
Chairman
AUB Group

By email via Richard Bell

Monday, July 1, 2024

Dear Mr Clarke

As you might remember, we last caught up at the RACV Club in Melbourne in 2008 during your tumultuous 18 month stint as Allco Finance Group CEO as the GFC unfolded. A lot has happened since then, including the excellent financial performance of AUB Group during your 8-plus years as chair, for which I offer my sincere congratulations.

I'm writing to you today as a shareholder in AUB Group (who has participated in the SPP) and a former director of the Australian Shareholders' Association (ASA) who now independently advocates for retail shareholders, particularly in the area of capital raising treatment.

There is a long and unfortunate history of retail shareholders being diluted without compensation and generally poorly treated in Australian capital raisings and, unfortunately, AUB Group has contributed to this situation in recent years and appears set to do so again this week.

Therefore, this letter is a simple request for the AUB Group directors, led by yourself as chair, to use your discretion to ensure a fair outcome for retail shareholders, potentially by accepting all applications for the current SPP, which is capped at \$25 million.

As you can see from [this list](#), there are more than 50 precedents for companies which have uncapped SPPs in the face of strong retail demand, including HMC Capital as [recently as last month](#). Such a move is always popular with retail shareholders and with a current market capitalisation of \$3.7 billion, would not be materially dilutive to AUB Group's institutional shareholders.

In my opinion, it was quite unfair in the first instance for the AUB directors to contemplate doing a \$200 million placement last month with no SPP at all. This would have put the company on this [shame file of companies](#) which have chosen to do big end of town institutional placement only raisings which deliberately dilute retail shareholders without compensation. Well done for instead choosing to proceed with the contemplated \$25 million SPP a month later.

Australian Shareholders' Association [policy](#) is for any SPP cap to reflect the percentage holding of retail shareholders as a class before the placement is launched. Therefore, if retail shareholders owned 20% of AUB Group before the placement, they should be allocated 20% of the capital raising which would require a lift in the SPP cap from \$25 million to \$50 million.

However, this ignores the question of reparations or compensation from past unfairly structured capital raisings which dilute retail shareholders and AUB has done two of them over the past 3 years, before considering the current situation.

As you can see from [this list](#), I've been tracking all capital raisings above \$20 million since COVID hit in March 2020. AUB features three times on the list, with the first two worded as follows:

May 27, 2022: AUB (AUB): the insurance company [announced](#) the \$880m acquisition of UK insurance broker Tyser with funding partially coming from a \$350m equity raising, comprising a \$71 million institutional placement and a \$279m 1-for-5.2 non-renounceable entitlement offer. Both were priced at \$19.50, a 12.8% discount to the previous close of \$22.36. Macquarie and Goldman Sachs were the under-writers. This should have been a PAITREO and they didn't even offer retail overs. The insto offer raised \$232 million but was [only 81% subscribed](#) and the retail offer [only raised \\$5.9 million](#), leaving a shortfall of \$41 million with the under-writers.

June 10, 2023: AUB Group (AUB): raised \$150 million in a placement at \$24 and then offered a \$15m SPP which was not increased after [attracting \\$37 million](#) in applications from 1,908 holders. The scale back formula included \$984 worth of shares for all.

There are multiple problems with these raisings, from a retail shareholder perspective. The decision to ban retail overs in May 2022, in conjunction with offering a \$71 million institutional placement, was very unfair for retail shareholders and got AUB Group onto [this shame file list](#) which tracks raisings where retail “overs” are banned. The biggest losers in Australian capital raisings are the retail shareholders who do nothing, and sadly this is usually a majority of those on the register who choose not to participate, even when raisings are comfortably in-the-money. This is why I always advocate for PAITREOs which treat all shareholders equally and compensate non-participants. When it comes to non-renounceable offers, rather than allowing under-writers and institutions to benefit from this known retail apathy, the opportunity should be passed to other retail shareholders through an “overs” facility that reduces dilution between the classes.

All up, retail shareholders went into your 2022 raising owning 16.8% of AUB, but only ended up contributing 1.7% or \$5.9 million of the \$350 million raised at \$19.50 per share. With the stock above \$31 in July 2024, the institutions which contributed the other \$344.1 million at \$19.50, are enjoying capital gains of around \$200 million or some 58%. Part of this is a pure transfer of value from retail shareholders to the big end of town and should be taken into consideration as you weigh your next decision on retail shareholder treatment this week.

The retail dilution situation was then exacerbated with the June 2023 raising when you had a chance to make amends by uncapping the \$15 million SPP, but instead chose to refund \$22 million of the \$37 million in retail applications after doing an over-sized \$150 million placement at \$24 per share. The lost paper profits for retail investors from your decision not to uncap the 2023 SPP are currently worth around \$6.4 million.

Frankly, the decision to do 3 separate institutional placements in 3 years which have diluted retail shareholders warrants AUB doing a future discounted SPP only raising to make amends, although the argument against this could be strengthened by at least uncapping the current SPP.

Next is the question of SPP scale back formula. As can be seen from [this list](#), many companies provide a minimum allocation to all applicants which historically ranges between \$500 and \$5000 before adopting a pro-rata scale back formula based on size of holding.

In 2023, you opted for a minimum allocation of \$984. If going down the scale back path again this week, can I suggest that you go with a minimum allocation of \$2500, as this will line up with the minimum application amount prescribed in the SPP offer document.

There has also been a large number of companies which have scaled back SPPs based on size of application rather than size of holding, as can be seen on [this list](#). Such a formula is administratively easier and a more progressive approach, supporting less well off small shareholders compared with high net worth individuals. And while I appreciate that you have said a size of holding approach will be taken in the offer document, a size of application approach does deal with the conflict of interest situation where the AUB directors themselves have above average holdings that will benefit from a size of holding scale back policy.

That said, the best way to deal with this conflict of interest situation regarding use of director discretion on share allocations, would be just to accept all SPP applications. If persuaded by these arguments, can I suggest you use the following form of words in Thursday's SPP outcome announcement.

After close consideration, the directors have elected to accept all \$42 million in SPP applications, conscious of the fact that \$22 million was refunded to retail shareholders after the \$15 million SPP in 2023 and retail shareholders only contributed \$5.9 million to the \$350 million equity raising in 2022.

Commenting on the decision chairman David Clarke said: “AUB values our 5,000 retail shareholders and is delighted that this decision means that none of the 2,127 retail applicants will be scaled back. And with a current market capitalisation of \$3.66 billion, expanding the SPP from \$25 million to \$42 million will not have a material impact on other shareholders or the company's financial ratios.”

Finally, it would be great to add AUB to [this list of companies](#) pursuing best practice transparency when announcing the outcome of capital raisings.

For that to happen, you simply need to say precisely how many shareholders were entitled to participate in the SPP and how many did. Similarly, if there is a scale back based on size of holding, the announcement should include a clear table outlining the allocations formula, as can be seen in [this QBE scale back announcement](#) in 2014.

For the avoidance of doubt, below are some proposed words on how you could announce the conclusion of this capital raising process, including the adoption of a scale back formula which doesn't leave the directors open to accusations of favouring themselves in any use of their director discretion.

SPP expanded after strong demand from retail shareholders

The directors of AUB Group are delighted to announce that after strong demand from retail shareholders, the AUB Group SPP has been doubled from \$25 million to \$50 million.

The SPP was open to 5,356 AUB shareholders and 2,354 or 51.6% chose to participate, collectively applying for \$55.5 million worth of shares.

The board decided to double the cap to \$50 million and adopt an allocation policy whereby all applicants, including the directors, will be scaled back to a maximum allocation of \$25,000 worth of shares. Under this formula, more than 90% of applicants received their full allotment without scale back.

ENDS

If you would like to discuss any of these points further, I can be reached on 0412 106 241.

Otherwise, I look forward to seeing the outcome announcement and discussing this issue at the 2024 AUB AGM in November. If the directors choose to ignore most or all of these requests, I may choose to nominate for the AUB board at that AGM on a platform of giving retail shareholders a stronger voice around the board table, but would prefer not to do that and instead see at least some positive responses to the requests in this letter. Over to you.

Yours sincerely

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