AIM Advisers, Inc.
Maximizing Present & Future Value

1223 Wilshire Blvd., Suite 1855, Santa Monica, CA 90403
mmcgowan@aimadvisers.com
+1 310 903 0322

Global Benefits Group Raises $40 Million in AIM IPO

Overview

Irvine, California-based Global Benefits Group, Inc. raised $40 million in its recent IPO on the London Stock Exchange's AIM and commanded an opening market capitalization of $163 million. The Company was founded in 1981 and generated $108 million of revenue during its fiscal year ended June 30, 2016. Revenue, EBITDA and net income grew at 52%, 120% and 181%, respectively. The trailing, pre-money revenue and EBITDA multiples were 1.14 and 10.01 and the trailing, pre-money P/E ratio was 11.84.

Proceeds from the AIM IPO will primarily be used to further strengthen the Company's regulatory capital position, with the goal of increasing its A.M. Best Insurer Strength Rating from secure (B++ (negative outlook)) to an A rating. The AIM IPO proceeds will also provide the Company with enhanced financial flexibility and additional working capital. The Company intends to pay 60% of annual profits as dividends.

Global Benefits Group, Inc. (GBGI) is an integrated provider of international benefits insurance; operating in 120 jurisdictions with 10 offices and 280 employees, mainly in India and California. The Company distributes and underwrites health (79%), disability (8%), travel (7%) and life (6%) insurance for multinational corporations, expatriates, local high-net-worth individuals, international schools, non-profit organizations and international students. GBGI is a fully-integrated insurance group providing services from policy sales to claims administration and servicing and delivers a high level of customer service. The Company recently entered into a Memorandum of Understanding with AXA, the large, French global insurer, covering collaboration across four key areas; reinsurance, client referrals, access to new markets and support in improving GBGI's insurer financial strength rating with A.M. Best.

The international private medical insurance market is estimated to be worth just under $10 billion and is expected to grow at a CAGR of 13.5% from 2014 - 2018. The principal drivers of growth are; growth in the number and scale of multinational corporations, increasingly wealthy populations in developing economies, growth in the number of international students and medical cost inflation. These structural growth drivers are expected to underpin increasing demand for the Company's insurance products.

The competitive landscape can be divided into two groups; specialist divisions of large, global insurers and brokers and smaller managing general underwriters. The former operate across the value chain with standardized products and underwriting and policy administration and client service performed remotely. The latter specialize in a limited number of products and/or geographic regions, only cover part of the value chain and do not retain risk. GBGI is well positioned to compete with both groups in its chosen markets and niches. The Company operates across the value chain, controlling the customer experience throughout. GBGI's agile underwriting model allows for policy customization, rather than standardization. In-house customer service supports high standards of service delivery and retention rates of over 80%. All of these capabilities are underpinned by a disciplined focus on underwriting performance.

GBGI intends to further increase its client base by expanding distribution of existing products in existing jurisdictions, filling in product gaps in existing jurisdictions and entering new jurisdictions. Strategically, GBGI is focused on three main opportunities. The first is GBG Assist, a product which provides worldwide customer support with access to assistance on a wide range of medical services, from basic inquiries to emergency medical situations, at any time in over 180 different languages. There is the potential to offer this service to third parties on a fee basis. The second is improving the Company's A.M. Best Insurer Strength Rating from secure (B++ (negative outlook)) to A which would expand GBGI's addressable market. Finally, the Company is looking to add scale through the acquisition of smaller businesses or books of business or to enhance service offerings.

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Key Financial Metrics

(in USD millions)	Y/E 6/30/14	Y/E 6/30/15	Y/E 6/30/16	∆ '14 - '15	∆ '15 - '16
Premiums	$17.7	$29.4	$70.7	+66%	+140%
Commission and Fee Income	34.4	41.6	37.5	+21%	-10%
Claims	9.0	17.2	37.5	+91%	+118%
Commission Expense	18.3	19.7	27.7	+8%	+41%
Administrative Expenses	22.5	28.7	31.0	+28%	+8%
FOREX Gain/(Loss)	0.3	(0.4)	(0.7)	-233%	-75%
Investment Income	0.1	0.1	0.1	+0%	+0%
Finance Costs	0.7	0.7	0.7	+0%	+0%
Income Tax Credit/(Expense)	0.2	(0.6)	(0.3)	-400%	+50%
Net Income	2.2	3.8	10.4	+68%	+181%
EBITDA	2.4	5.6	12.3	+133%	+120%
Cash and Cash Equivalents	14.6	23.2	24.9	+59%	+7%
Total Assets	159.8	187.5	206.3	+17%	+10%
Total Liabilities	145.8	169.7	178.0	+16%	+5%
Retained Earnings	3.7	7.5	17.9	+97%	+139%

During 2016, the Company generated 34% of its revenue from Latin America, 21% from Africa, 13% from North America, 12% from the Asia Pacific region, 7% from Central and Eastern Europe, 6% from the Rest-of-Europe, 3% from China and the remaining 4% from the Rest-of-the-World. In terms of product mix, health insurance accounted for 79% of revenue, disability 8%, travel 7% and life 6%.

Since the IPO completed within nine months of the latest audited financial statements, unaudited, comparative stub period financials were not required, however, the Company chose to provide them. During the six months ended December 31, 2016, the Company generated revenue, EBITDA and net income of $62.1 million, $5.8 million and $5.2 million. Compared to the six months ended December 31, 2015, these figures were up 22%, 5% and 11%, respectively.

Key Listing Metrics

- $40.0 million gross was raised, $36.5 million net of offering costs, to be used as follows:
  - $22.1 million for contractual payments to certain shareholders triggered by the AIM IPO
  - $14.4 million to further strengthen the Company's capital position and for working capital
    - Expand distribution of existing products in existing jurisdictions
    - Fill in product gaps in existing jurisdictions
    - Enter new jurisdictions
    - Acquisitions of smaller businesses or books of business

- The offering costs amounted to 8.75% of the gross capital raised
  - The offering was undertaken on a 'best efforts' basis, as opposed to being underwritten
    - Nominated Adviser and Nominated Broker earned a commission of 4%

- Opening market capitalization of $163.1 million
- Dilution to existing shareholders of 24.5%
- Free float of 27.8%

- Trailing pre-money revenue multiple of 1.14
- Trailing pre-money EBITDA multiple of 10.01
- Trailing pre-money P/E ratio of 11.84

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Shareholder Base

The Company had 65.6 million shares outstanding prior to the IPO and issued 21.3 million new shares for cash in the IPO, leaving the Company with 86.9 million shares outstanding. The table below details those who held 3% or more of the Company prior to and after the IPO, along with the aggregate holding of the Other Historic Shareholders and the New UK Investors who individually hold less than 3%.

Shareholder	Pre-IPO %	Post-IPO%
Director of Strategic Planning (former CEO and Chairman)	39.77	30.01[1]
California-based Private Equity Group	27.83	29.22[2]
Founder	10.14	7.65
European-based Family Trust	10.12	12.97[2]
Former President and CEO	10.12	7.64
Other Historic Shareholders	2.02	1.52
New UK Investors	-	10.99
Totals	100.00	100.00

The AIM IPO triggered contractual payments of $13.4 million and $8.7 million to the California-based Private Equity Group and the European-based Family Trust, respectively. Both parties invested the entirety of these payments back into the Company via the purchase of new shares issued in the IPO. The Director of Strategic Planning owed the Company approximately $1.5 million which was satisfied by him relinquishing the requisite number of shares to the Company.

The remaining net proceeds of $14.4 million from the AIM IPO will primarily be used to further strengthen the Company's regulatory capital position, with the goal of increasing its A.M. Best Insurer Strength Rating from secure (B++ (negative outlook)) to an A rating. The AIM IPO proceeds will also provide the Company with enhanced financial flexibility and additional working capital. The Company intends to pay 60% of annual profits as dividends.

The Company was also eager to create a public market for its shares by listing on AIM for the following reasons. The Company's profile will be further enhanced which should provide additional opportunities for growth. The employees and the senior executive team will now be able to participate in the ownership of the Company. The AIM listing provides the Company with a more flexible capital structure for future growth through the ability to raise additional capital and/or issue additional shares to fund acquisitions.

In connection with the AIM IPO, the Company granted options amounting to an additional 2.7% of the total shares outstanding to certain directors, employees and consultants. These options are not subject to any performance or other conditions other than continued engagement with the Company. They vest in three equal tranches on the first, second and third anniversaries of the Company's AIM IPO and may be exercised at the IPO price from the time of vesting until the 10th anniversary of the Company's AIM IPO. A broader Incentive Plan, encapsulating the above, was also adopted by the Company which limits the aggregate number of share options to 10% of the total shares outstanding over a 10 year period and no more than half of the share options can be granted to the Company's directors and senior executives.

1 Subject to a 12-month lock-in and customary orderly market provisions for a further 12 months.
2 Subject to a 6-month lock-in and customary orderly market provisions for a further 12 months.

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Board of Directors and Corporate Governance

The Board consists of seven Directors; three executives (the CEO, the CFO and the Director of Strategic Planning who was formerly the CEO and Chairman) and four non-executives, all with solid resumes and a good blend of complementary experiences and skill sets. The non-executives consist of an Independent Non-Executive Chairman (NEC), a Senior Independent Non-Executive Director (SNED), an Independent Non-Executive Director (NEDs) and a Non-Executive Director who is not independent.

Companies listed on AIM are not required to comply with the UK Corporate Governance Code published by the Financial Reporting Council, which is mandatory for companies listed on the Main Market of the London Stock Exchange. AIM-listed companies typically comply with the Quoted Companies Alliance's Corporate Governance Code for Small and Mid-Sized Quoted Companies. The Company has taken the latter into consideration and has taken steps to apply the principles of the former in so far as they can be applied given the size of the Company, its stage of development and the nature of its operations. An overarching principle of corporate governance on AIM is to ensure that companies are managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the long term.

In accordance with best practice, the Company established Audit, Remuneration and Nomination Committees. The Company also established two operating committees; a Regulatory and Compliance Committee and an Underwriting Committee.

The Audit Committee is Chaired by the SNED with both NEDs serving as members. In compliance with the UK Code, the SNED has the "relevant financial experience". The Audit Committee has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Company is properly measured and reported on. The Audit Committee will meet at least twice a year and will have unrestricted access to the Company's auditors. The ultimate responsibility for review and approval of the annual report and accounts and the half-yearly report remains with the Board.

The Remuneration Committee is also Chaired by the SNED with the NEC and Independent NED serving as members. The Remuneration Committee has responsible for reviewing the performance of the Executive Directors and making recommendations to the Board on matters relating to their remuneration and terms of employment. The Remuneration Committee will also make recommendations to the Board on proposals for the granting of share options and other equity incentives. The remuneration and terms and conditions of appointment of the NEC and NEDs will be set by the Board.

The Nominations Committee is Chaired by the NEC with the SNED and Independent NED serving as members. The Nominations Committee reviews the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board, taking into account the Company's current requirements and expected development, and makes recommendations to the Board regarding any changes. The Nominations Committee will also give consideration to succession planning for the Board and will be responsible for identifying and nominating candidates to fill Board vacancies.

The Regulatory and Compliance Committee is Chaired by the Independent NED with all three Executive Directors as members. They will normally meet four times a year and are responsible for implementing the regulatory and compliance enhancement program and monitoring all compliance issues.

The Underwriting Committee is Chaired by the Director of Strategic Planning with the other two Executive Directors as members. They will normally meet twice a year and are responsible for reviewing and evaluating the Company's policies, guidelines, performance, risk management, processes and procedures relating to the underwriting of insurance and reinsurance risks undertaken by the Company.

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Since the California-based Private Equity Group (the "CA-PEG") remained a substantial shareholder of the Company and is obviously not governed by an employment contract or the rules and regulations that a director must abide by, as is the case for the Director of Strategic Planning, the CA-PEG entered into a Relationship Agreement with the Company. The principal purpose of the Relationship Agreement is to ensure that the Company is always capable of carrying on its business independently of the CA-PEG.

The CA-PEG agreed, among other things, that all transactions and arrangements between themselves and the Company will be conducted at arm's-length and on normal commercial terms, they will not interfere with the Company's obligations under the AIM Rules, etc. and they will abstain from voting on any resolution to approve a transaction between themselves and the Company. The CA-PEG is permitted to appoint one NED to the Board but they cannot do so within three months of the AIM IPO. The Relationship Agreement will continue in effect until the earlier of the CA-PEG holding less than 10% of the Company's shares or the date on which the Company's shares cease to be listed on AIM.

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Accounting Considerations

The Company is incorporated in Guernsey, a bailiwick of the Channel Islands, with the Channel Islands being a Crown Dependency of the UK; therefore, the Company is required to report using IFRS. The Group has three main operating subsidiaries; one in the UK and two in the U.S. The Group has an additional 15 subsidiaries, set up principally for administrative and licensing purposes, in several of the countries and regions where they have operations. Since the Company is in the business of providing global insurance coverage, the U.S. Dollar is the functional currency and was also chosen as the reporting currency.

The U.S. and UK Member Firms of an international accountancy network acted as Auditor and Reporting Accountant, respectively. An unaudited pro forma statement of net assets is never required in connection with an AIM IPO and was not provided in this case given the simplicity of the use of the IPO proceeds.

Legal Considerations

There are three significant differences between U.S. and UK corporate law. Since the Company is incorporated in Guernsey, only the City Code on Takeovers and Mergers automatically applies. The Takeover Code states that if any party, or parties deemed to be acting in concert, accumulates a holding of 30% or more, they must make a cash offer to the other shareholders at the highest price they paid for the Company's shares during the last 12 months.

As is customary, the Company amended its constitutional documents for the other two main differences between U.S. and UK corporate law as outlined below.

1. Pre-emption rights (i.e. anti-dilution) – Shareholders may participate in, or the Company must obtain approval from at least 75% of them for, the issuance of shares for cash of more than 10% of the then outstanding shares during any 12-month period.[3]

2. Notifiable interests – Shareholders are required to notify the Company of, and the Company is required to publicly announce, holdings at or above the 3% level and whenever a full percentage point is breached in either direction.

The IPO was not subject to Regulation S of the U.S. Securities Act of 1933. Since the Company is incorporated in Guernsey, the shares are eligible for dematerialization and trading within CREST, the most common electronic system for the holding and transfer of shares in the UK. As such, it was not necessary to appoint a Depository and create Depository Interests, as would be the case for a company incorporated outside the UK or one of its Crown Dependencies, the Channel Islands and the Isle of Man.

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[3] This is the typical level at which AIM-listed companies seek an annual standing authorization from their shareholders for the issuance of additional shares for cash. This flexibility increases the certainty and speed of small capital raises during the year and reduces transaction costs, since further communications with, and approvals from, shareholders are not required.