

27 August 2014

Australian Unity Group increases operating earnings by 21 percent

Financial services, healthcare and retirement living company Australian Unity Limited (Australian Unity) has reported operating earnings¹ of \$38.2 million for the year ended 30 June 2014 compared to \$31.6 million reported in the previous year.

This result was led by the strong performance of the Retirement Living business, which recorded a 69 percent increase in adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (adjusted EBITDA)².

The Group's revenues³ of \$1.3 billion increased 7.2 percent (2013: \$1.2 billion).

While the Group's combined portfolio of businesses experienced solid revenue and operating earnings growth this was offset by lower investment earnings compared to the prior year. Investment income was \$18 million (2013: \$27 million, including some material non-recurring items). The Group's results were also partially affected by higher than anticipated claims costs in the corporate health fund.

Profit after tax for the year ending 30 June 2014 was \$29.6 million compared to \$29.4 million in 2013.

Result Overview:

- Revenues \$1.30 billion, up 7.2%
- Operating earnings \$38.2 million, up 21%
- Profit before tax \$35.1 million, down 0.8%
- Profit after tax \$29.6 million, up 0.8%
- Members' funds \$508 million, up 6.2%
- Health claims paid \$655 million, up 9.4%
- Funds under management \$7.4 billion, up 3.5%
- Funds under advice \$3.5 billion, up 12%
- Retirement Living development projects of \$447 million
- Value of Retirement Living developments completed during the year \$126 million

¹ Operating earnings: Profit before tax less investment income, borrowing costs and discontinued operations and business acquisition costs.

² Adjusted EBITDA: the measure the Group uses in assessing the operating performance of its business segments. This measurement basis excludes the effects of depreciation and amortisation, interest on external borrowings and investment income. It also excludes non-recurring expenditure.

³ Revenues comprise revenue and other income receipts as shown in the statement of comprehensive income in the Annual Financial Report plus life investment contract premium receipts. The latter receipts are recorded as movements in benefit fund policy liabilities in the balance sheet and not through the statement of comprehensive income.

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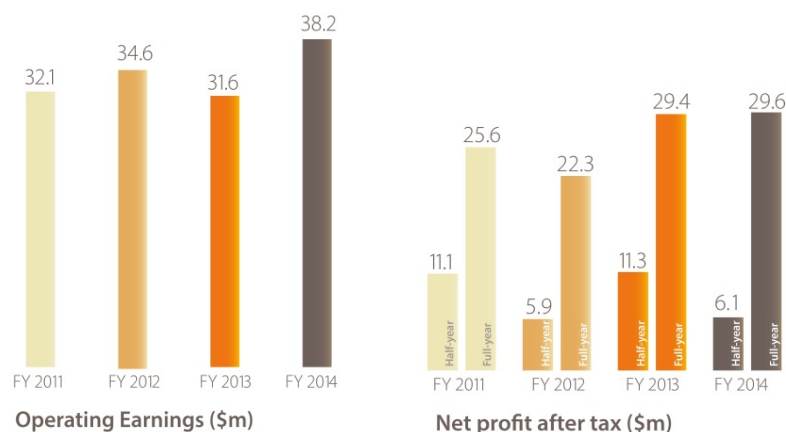
Notes on Issue:
1,200,000

Issuer:
Australian Unity Limited
ACN 087 648 888

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The listing of Australian Unity Notes on the ASX does not affect Australian Unity Limited's status as a mutual organisation



Group Managing Director Rohan Mead said these results reflected the increasing strength and resilience of the Group’s diverse portfolio of businesses.

“The positive financial condition of the Group is very satisfying in a year that saw our largest business, Healthcare, challenged by elevated claims costs in our corporate health fund and the continued cost impact of regulatory changes introduced over the last several years. The full impact of these changes is still washing through the entire private health insurance industry,” Mr Mead said.

The Healthcare business dedicated significant time and resources during the year to building further responses to the challenges it faced, with new products and services tailored to the needs of existing and future members.

“Against the backdrop of ongoing regulatory uncertainty, adverse claims experience in our corporate health insurance business, and a year-on-year decline in investment income, the Group has been able to achieve a very sound uplift in operating earnings,” Mr Mead said.

In addition to the positive financial performance for the year, a number of substantial strategic development milestones were achieved. The opening of Stage 1 of Rathdowne Place, Australian Unity’s \$180 million Wellbeing Centre, retirement village and aged care facility in the heart of inner-city Carlton, Victoria, was a particular highlight.

The strong performances of Retirement Living, the ADI business (Big Sky), the property funds management business and the continued growth of the Personal Financial Services and allied health businesses were other notable achievements.

“Our business portfolio is connected by its focus on wellbeing and providing services to meet community needs that are growing. At the same time the portfolio produced diverse income streams that should continue to strengthen into the future,” Mr Mead said.

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Business Unit Results and Highlights

Retirement Living

The Retirement Living business had a very strong year and grew total segment revenue by 22 percent to \$89.2 million. The business recorded \$21.3 million in adjusted EBITDA, a 69 percent increase on the previous year.

The year's highlights included the opening of Stage 1 of Rathdowne Place in Carlton, the Wellbeing Centre and aged care facility, as well as a number of other development milestones and home care acquisitions.

"We believe Rathdowne Place redefines aged care by offering residents new levels of choice. With Stage 1 now complete and more than 80 residents already making it their new home (162 when fully occupied), we are looking forward to the construction of the next stage—90 retirement apartments over a planned eight levels—which we plan to commence in the current financial year," Mr Mead said.

During the year Retirement Living also increased the total number of independent living units from 1,931 to 1,986 following the completion of an additional 20 units at Peninsula Grange in Mornington, Victoria, 23 units at Victoria Grange in Vermont South, Victoria and 12 units at Sienna Grange in Port Macquarie, New South Wales. Following the opening of Rathdowne Place, the number of aged care beds increased from 451 to 613.

The first stage of the Lifestyle Manor development in Sydney's Bondi was also completed during the year with all units now sold. The second stage has been approved and is planned to add 44 units to the existing 42, in this sought after area of Sydney. Construction is due to commence in late 2014.

Home care was an important growth area for Retirement Living. Home care revenue grew to \$9.5 million for the year ended 30 June 2014 compared to \$5.0 million in the previous year. In addition to organic growth, the business expanded its home care portfolio by acquiring two businesses in New South Wales – INS Health Care (planned for completion by the end of August 2014) and a 50 percent share of Kenilworth Nursing Service.

"These acquisitions will add nearly 100 additional staff to the home care business which at 30 June 2014 employed some 250 staff," Mr Mead said.

Healthcare

Australian Unity's Healthcare business proved to be resilient to economic and regulatory challenges during the year. Adjusted EBITDA was \$43.6 million compared to \$47.8 million for the previous year, a decrease of approximately 9 percent. The financial performance of the corporate health insurance fund, GU Health, was the predominant factor influencing this outcome.

After years of outperformance, the results of GU Health were adversely affected by higher than anticipated claims. Action has commenced to seek to address the issues involved.

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Notwithstanding the impact of regulatory changes, total segment revenue for the year for Healthcare was \$789.2 million (2013: \$735.2 million).

“This was a pleasing result considering that the onslaught of legislative change forced the business to devote considerable resources to implementation and informing customers of the widespread implications,” Mr Mead said.

“These regulatory changes have also resulted in some members downgrading to lower cost policies due to reductions in government contributions to health insurance premiums, or in some instances to abandoning private health insurance completely.

“It was pleasing that despite economic and regulatory sidewinds, both funds increased their total number of policyholders during the year,” Mr Mead said.

Australian Unity’s allied health business, Remedy Healthcare, had another strong year. Remedy continues to be an industry leader in providing evidence-based preventative healthcare and hospital discharge support programs. These programs help patients to stay healthy and to more effectively self-manage emerging or existing conditions.

More than 11,000 patients completed a Remedy program during the year taking the total number of patients who have enrolled in, or completed, one of Remedy’s programs past the 46,000 mark.

Investments

The funds management sector had a patchy year, which combined strong domestic equity markets with persistent low interest rates and variable international securities markets. In this context the Investments business achieved a creditable result.

Australian Unity Investments funds under management were \$7.4 billion (2013: \$7.1 billion). Total segment revenue was \$103.2 million, a decrease of 8 percent on the previous year. Adjusted EBITDA was \$13.8 million, which was down 10 percent on the previous year.

“Highlights for the Investments business this year included the performances of Big Sky Building Society, the Real Estate business, and the majority of our flagship associated investment managers – particularly Wingate Asset Management,” Mr Mead said.

Big Sky Building Society finished the year with total on-balance sheet assets of more than \$700 million (2013: \$618 million) and achieved strong lending growth during the year, making a record number of loans (\$168 million).

The Retail Property Fund achieved an 8.4 percent return for investors in the year to 30 June 2014 (2013: 6.1 percent), a positive result given difficult retail trading conditions during the period.

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During the year, the Fund completed the first phase of the \$90 million expansion of the Waurn Ponds Shopping Centre in Geelong. It subsequently sold 50 percent of its interest in the Centre for \$63 million, crystallising a capital gain for investors and improving the fund's earnings and distribution profile.

The Healthcare Property Trust continued to attract strong support from the adviser and investor community. The Trust achieved a return of 9.0 percent for the year to 30 June 2014 consistent with the previous year's performance.

During the year the Investments business also completed a number of initiatives to simplify its business and capital structures, and improve the efficiency of its operating model. A notable example was the merger of Lifeplan Australia Friendly Society Limited and the previously separate Australian Unity Investment Bonds Limited in July 2013, which has facilitated the delivery of improved services to policyholders and investors.

Personal Financial Services

Despite a challenging regulatory environment, Australian Unity's Personal Financial Services business increased adjusted EBITDA from \$2.1 million in 2013 to \$2.3 million in 2014. Funds under advice grew by 12 percent to \$3.5 billion (2013: \$3.1 billion), supporting an 18 percent increase in total segment revenue to \$39.8 million (2013: \$33.7 million).

"The continued growth in the business was pleasing considering the uncertainty created by a range of regulatory reforms, particularly the Future of Financial Advice (FoFA) changes. By year end a degree of confusion pertaining to these reforms remained and the fate of some key legislation was also unclear," Mr Mead said.

The number of adviser practices and accounting firms in the business' referral partner program both increased during the year.

"In such a challenging environment, the ability of the business to attract new adviser practices is a marker of its growing position and reputation. The business remains well positioned to take advantage of opportunities arising from the consolidation of the industry that is occurring, in part, as a result of smaller advisory groups being unable to adapt and operate profitably in the new regulatory environment," Mr Mead said.

Further information

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About Australian Unity

Australian Unity is a national healthcare, financial services and retirement living organisation providing services to more than 650,000 Australians, including more than 300,000 members nationwide. Australian Unity's history as a trusted mutual organisation dates back 174 years. It has grown organically—by continually evolving and providing the services and products needed by the communities it serves—as well as through successful strategic mergers and diversification into new business activities.

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