

28 August 2019

## Australian Unity reports strong progress in FY2019

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### Results overview:

- Revenue of \$1.61 billion, 8.2% increase
  - Operating expenses decrease by \$45.0 million
  - \$39.8 million adjusted EBITDA<sup>1</sup> improvement for Home & Disability Services business
  - Profit after tax of \$53.0 million, up 2.8% on FY2018 (including GUCH sale)
  - Profit after tax of \$53.0 million, up \$68.3 million on FY2018 (excluding GUCH sale)
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Health, wealth and living group Australian Unity (the Group) has reported a profit after income tax of \$53.0 million for the 12 months to 30 June 2019, as it progressed its strategy of creating contemporary business models within a portfolio spanning the areas that matter most to people's wellbeing.

In the year under review, the Group continued to advance its longstanding strategy of achieving a diversified portfolio, with participation in the higher-growth human services and social infrastructure sectors. To this end, the focus remained on developing and delivering contemporary, evidence-based and person-centred services to market segments where there is most scope to contribute to community value.

The net profit after tax of \$53.0 million was a 2.8 percent increase compared to the same period last year. Excluding the impact of the sale

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<sup>1</sup> 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. See note 1 to the Consolidated Financial Statements in Australian Unity Limited's Annual Report for the Financial Year to 30 June 2019.

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of the Group's corporate health insurance subsidiary (Grand United Corporate Health Limited) in October 2017, this represented a \$68.3 million increase compared to last year.

Total revenue and other income from continuing operations increased to \$1.61 billion (2018: \$1.49 billion). Overall revenue growth generated by the Group's operating businesses was up \$35.6 million on the prior corresponding period, and solid investment returns, up \$19.9 million, were bolstered by a \$66.5 million increase in benefit fund revenue.

Within the benefit funds, growth in premiums and other revenue of \$14.3 million was supported by \$52.2 million in higher investment returns.

Total expenses, excluding financing costs, from continuing operations increased marginally to \$1.49 billion (2018: \$1.48 billion).

Overall operating expenses decreased by \$45.0 million, reflecting both current year beneficial impacts from the business transformation program and prior year costs of the program. In the consolidated accounts, this is offset by \$54.5 million higher expenses in the benefit funds compared to the prior corresponding period.

The overall outcome represents a significant improvement in the aggregate trading position, with operating earnings from continuing operations for the year of \$61.8 million, an increase of \$80.3 million on the prior year.

Each of the business platforms contributed to this result, with year-on-year growth achieved across the operating business units, and within the more transactional property and social infrastructure portfolio.

Two major factors in delivering this result were the realisation of benefits arising from the extensive business transformation program commenced in the prior year, and the improvement in the Group's Home & Disability Services (HDS) business.

Group Managing Director Rohan Mead said that Australian Unity made strong progress on its key strategic goals during the 2019 financial year

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and achieved growth across its main business segments.

“The year under review was one of strong financial performance and continued advancement against a strategic direction set some six years ago—to create contemporary business models within a portfolio spanning the areas that matter most to people’s wellbeing,” Mr Mead said.

“Operating in an external environment of heightened uncertainty and volatility, the Group successfully balanced the need to perform now, while building our capabilities for the future.”

Over the period, the Group prioritised financial flexibility and resilience. This has put the Group in a strong financial position to realise the opportunities and respond to challenges expected to arise from an external environment that presents considerable uncertainty and disruption.

Over the period, the Group repaid \$30.0 million of subordinated debt issued by Australian Unity Health Limited (AUHL) while \$16.3 million of Retirement Village Investment Notes matured on 30 June 2019. The next major maturity is the Series B Australian Unity Bonds - Tranche 1, due in FY2021.

Australian Unity Limited (AUL) is giving consideration to an offer of Simple Corporate Bonds, the net proceeds of which would be used for general corporate purposes. However, no decision has been made to proceed with any offer, and any offer would be subject to appropriate market conditions being maintained in the short term. Any offer would be made under a ‘2-part’ Simple Corporate Bonds prospectus and if any transaction were to proceed, investors wishing to participate would need to apply using an application form accompanying the prospectus.

In addition, Australian Unity is also proposing to seek approval under section 167AJ of the *Corporations Act 2001* (Cth) to amend its constitution to enable it to issue Mutual Capital Instruments (MCIs). MCIs are a new

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permanent capital instrument that can only be issued by eligible mutual entities.

### *Strategic and financial performance of the three operating platforms*

1. The **Independent & Assisted Living** (IAL) platform recorded total segment revenue of \$469.4 million for the full-year, representing an increase of 11.0 percent compared to the prior corresponding period (2018: \$422.7 million).

Notably, IAL's Home & Disability Services (HDS) business achieved a 13.3 percent increase in revenue to \$305.7 million, Health Services (Remedy Healthcare and Dental) was in line with the prior year at \$37.2 million, Residential Communities decreased 8.9 percent to \$100.4 million, while Developments increased 359.4 percent to \$26.2 million.

IAL's adjusted EBITDA of \$48.2 million represented an increase of \$51.5 million on the prior year. This increase reflected the continued focus on improving the sustainability of the HDS business.

The HDS business grew revenue by 13.3 percent in the year under review, driven predominantly by an 87.7 percent increase in home care packages revenue and \$5.4 million or 6.3 percent growth in Commonwealth Home Support Program (CHSP) funding revenue— including growth funding tendered for and won during the year.

The HDS business also made considerable progress in its financial performance in the year under review, achieving a \$39.8 million adjusted EBITDA improvement in comparison to the prior year. This was achieved through a variety of growth and operational efficiency initiatives undertaken throughout the year that built on foundations set in the 2018 financial year.

Indigenous Services was established on 1 July 2018 with a focus on Aboriginal Home Care.

Within the Residential Communities portfolio 22 apartments were opened in May 2019 as part of the final development stage at Peninsula

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Grange, Mornington, Victoria, and in June The Grace on Albert Park was opened, comprising 79 independent living apartments located in South Melbourne.

As the internal operating partner in Australian Unity's Social Infrastructure and Development Group (SIDG), IAL continued to focus on the development pipeline of aged care and retirement communities over the 12-month period to June 2019.

During the year under review, construction was commenced, progressed or completed and occupancy progressed, in eight of the Group's residential communities across New South Wales and Victoria.

2. The **Retail** platform delivered a solid result despite challenging conditions, with adjusted EBITDA up by \$9.8 million or 15.2 percent to \$74.4 million compared to the prior year. This result was driven principally by a favourable underwriting experience in the health insurance business, strong growth in net interest income in the banking business and sound containment of operating expenses.

Total operating expenses were \$647.7 million, which was \$13.8 million or 2.1 percent lower than the prior year. This decrease reflects a \$6.4 million decrease in health insurance claims net of risk equalisation, and an \$7.4 million decrease in operating expenses across the Retail platform.

During the year under review, the Group's health insurance business, Australian Unity Health Limited (AUHL) successfully executed a significant change agenda in response to the private health insurance reforms, the largest regulatory change to the sector in a decade.

Responding to these reforms included the launch of new products, significant rationalisation and simplification of the product portfolio and re-classification of products in line with the new gold-silver-bronze-basic product tiers.

Despite challenging conditions within the retail banking sector, Australian Unity Bank Limited (AUBL) maintained strong lending momentum throughout the year, with \$173.3 million in new loans

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written. In combination with improved retention rates, this lifted the loan book by a net \$85.5 million.

As at 30 June 2019, Australian Unity Bank had approximately 24,400 customers and its total assets grew by \$108.6 million to \$886.0 million (2018: \$777.4 million).

In July 2019, Standard & Poor's (S&P) Ratings upgraded Australian Unity Bank's issuer credit rating to 'BBB+' from 'BBB'.

3. The **Wealth & Capital Markets** (W&CM) platform recorded a 6.2 percent increase in total segment revenue to \$180.9 million (2018: \$170.4 million), which reflected positive underlying revenue growth across all business units in the platform.

Adjusted EBITDA increased to \$50.5 million, up 36.7 percent for the year ended 30 June 2019 (2018: \$36.9 million). This strong result in adjusted EBITDA was achieved through underlying business growth in the property, investments and trustees segments, and favourable outcomes in specific initiatives in social infrastructure related developments. It also included a legal settlement received in the Life & Superannuation business. The result also benefited from ongoing work within the platform designed to streamline operations and optimise capital usage.

Key examples of the Group's involvement in social infrastructure are the Herston Quarter development in Brisbane, Queensland and the Healthcare Property Trust. Construction of the \$390.0 million Surgical, Treatment and Rehabilitation Service (STARS) by the Healthcare Property Trust commenced in May 2018, with practical completion planned for the second quarter of the 2021 financial year.

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In summing up FY2019 and looking to the future, Mr Mead said:

“After some years of investment, the growth seen across the business during the past year reflects our strategic choices.

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“We are now well-placed to continue advancing our portfolio of valued health, wealth and living services to members and customers; services with demonstrated broader social impact.”

### Key financial metrics by business

#### Independent & Assisted Living

For period ended:	30/06/19 \$M	30/06/18 \$M	CHANGE %
Total segment revenue	469.4	422.7	11.0
Adjusted EBITDA	48.2	(3.3)	N/A
Other results:	30/06/19 \$M	30/06/18 \$M	CHANGE %
Remedy Healthcare revenue	25.9	25.6	1.2
	30/06/19 Number	30/06/18 Number	CHANGE Number
Retirement villages ILUs	2,469	2,368	101
Aged care beds	786	711	75

#### Retail

For period ended:	30/06/19 \$M	30/06/18 \$M	CHANGE %
Total segment revenue	722.1	726.1	(0.6)
Adjusted EBITDA	74.4	64.6	15.2
Other results:	30/06/19 \$M	30/06/18 \$M	CHANGE %
Gross claims paid	612.3	613.3	(0.2)
Australian Unity Bank total assets	886.0	777.4	14.0
	30/06/19 Number	30/06/18 Number	CHANGE %
Policyholders (AUHL)	185,936	193,771	(4.0)
Australian Unity Bank total customers	24,399	24,692	(1.2)

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### Wealth & Capital Markets

	30/06/19	30/06/18	CHANGE
For period ended:	\$M	\$M	%
Total segment revenue	180.9	170.4	6.2
Adjusted EBITDA	50.5	36.9	36.7
Other results:	30/06/19	30/06/18	CHANGE
	\$B	\$B	%
Investments under management	6.00	5.58	7.5
Property under management	2.99	2.76	8.3
Property under development	1.26	1.25	0.8
Debt facilities under management	1.59	1.71	(7.0)
Funds under Advice	6.20	6.42	(3.4)
Funds under Trusteeship	0.33	0.36	(9.8)
Life & Super FUM	2.34	2.23	4.9
<b>Total</b>	<b>20.71</b>	<b>20.31</b>	<b>1.9</b>

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#### For more information please contact:

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#### About Australian Unity

Established in 1840, Australian Unity is one of Australia's first member-owned wellbeing companies. From our early days, we've been here to help people thrive and been strong advocates in the community for positive change and the wellbeing of Australians. Today, while we've grown to a company of more than 7,000 employees with hundreds of thousands of members and customers, we remain true to our roots. Our broad range of products and services are focused on enhancing the wellbeing of Australians.