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Australian Unity Limited

Investor update

Financial half-year ended 31 December 2016

30 March 2017

Australian Unity investor update

Australian Unity Limited is pleased to invite you to our investor presentation for the half-year ended 31 December 2016

Date: Thursday 30 March 2017

Time: 2pm to 3pm

Ways to participate:

By teleconference:

Toll-free number: 1800 175 864

Conference ID: 8085 3462

By Webex:

Meeting Number: 573 104 481

Meeting Password: AustralianUnity

Link to [Webex](#)

Presenters

Kevin McCoy – Chief Financial Officer

- Joined Australian Unity in April 2012
- Appointed Chief Financial Officer in April 2014
- Responsible for the effective execution of our strategic initiatives, treasury, capital management and organisation-wide performance measures

Darren Mann – Deputy Chief Financial Officer

- Joined Australian Unity in April 2012
- Appointed Deputy Chief Financial Officer in March 2017
- Previously, Group Treasurer

Poh Poh Chin – Assistant Group Treasurer

- Joined Australian Unity in October 2012
- Appointed Assistant Group Treasurer in June 2015
- Previously, Treasury Accountant

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Overview of Australian Unity

TRUSTED MUTUAL

- More than 175 years as an independent Australian mutual
- ~300,000 members; almost 1 million customers
- Profits reinvested into programs and services benefitting the wellbeing of members, customers and the community
- A prudentially supervised company, regulated by the Australian Prudential Regulation Authority

DIVERSE AND EXPANDING PORTFOLIO

- A diversified group of interdependent businesses that create community value
- Broad capability and deep experience in healthcare, aged care, home care, retirement accommodation, asset management, funds management and financial advice
- Nearly half of group adjusted EBITDA¹ generated by businesses other than health insurance
- Multiple acquisitions and organic growth across all platforms in recent years

FINANCIAL SUBSTANCE

- Strong profit history: HY17 NPAT \$16.6 million, an increase of \$5.3 million, or 47 percent, since HY13
- Gearing ratio closely managed: 40 percent at 31 December 2016
- Interest cover steady and stable since FY11 and at 31 December 2016 was 3.8 times (on a rolling 12 month basis)
- AYUHB investment grade credit rating of BBB+ by Australia Ratings
- Big Sky Building Society investment grade credit rating BBB by S&P

LONG-TERM OBJECTIVES

- Two million customers
- Highly influential national brand
- Financial substance with a balanced approach to risk
- Sought after products and services

¹ Group adjusted EBITDA excludes corporate functions and eliminations

Overview of results and achievements

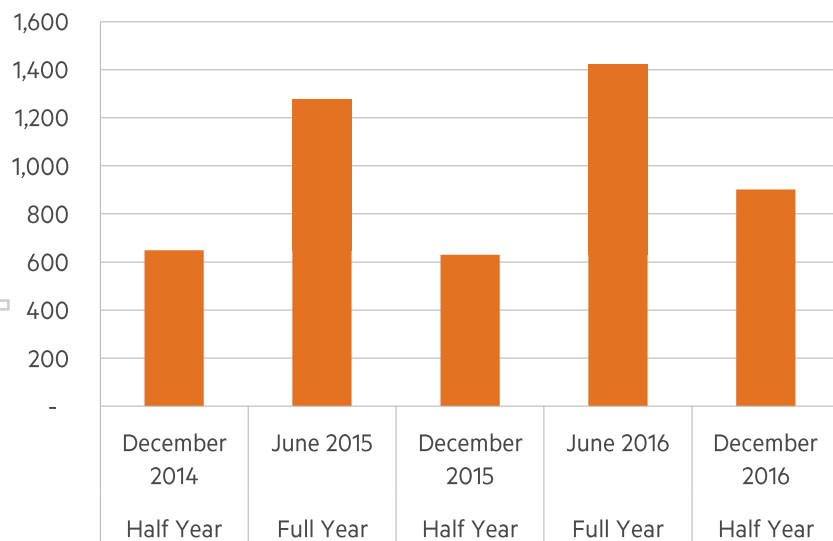
Strong growth and expansion continued

Revenue and other income was \$901.7 million – up 43.0 percent from the same period last year

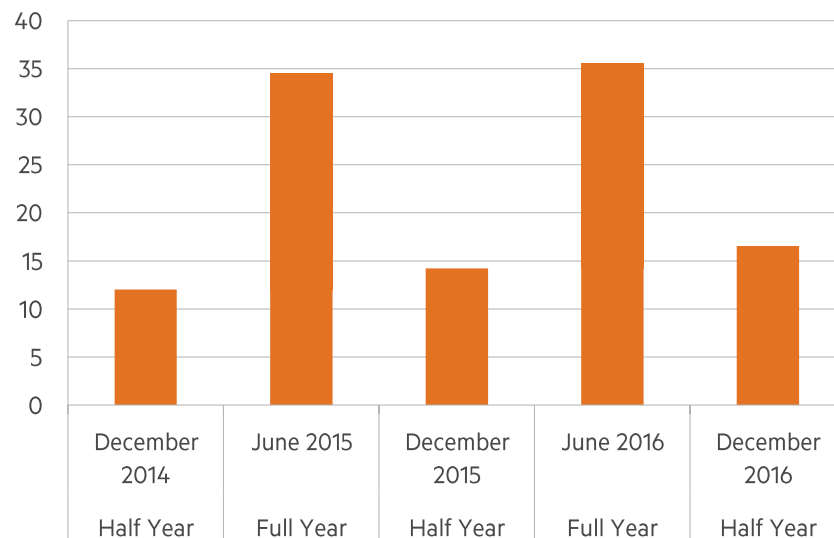
- Independent & Assisted Living up by 209.0 percent driven by a full half-year of revenue from Home Care NSW
- Healthcare up by 6.9 percent driven by an increase in health insurance premium income and higher healthcare services revenues
- Wealth up by 12.7 percent driven by growth in the property, investment bonds and banking segments
- Personal Financial Services down by 3.7 percent largely as a result of a number of practices leaving the now wholly owned Premium Wealth Management business and the impact of one-off revenue received in the prior corresponding period, associated with the transition to QBE for personal insurances

Profit after income tax was \$16.6 million – up 16.4 percent from the same period last year

Revenue and other income \$m



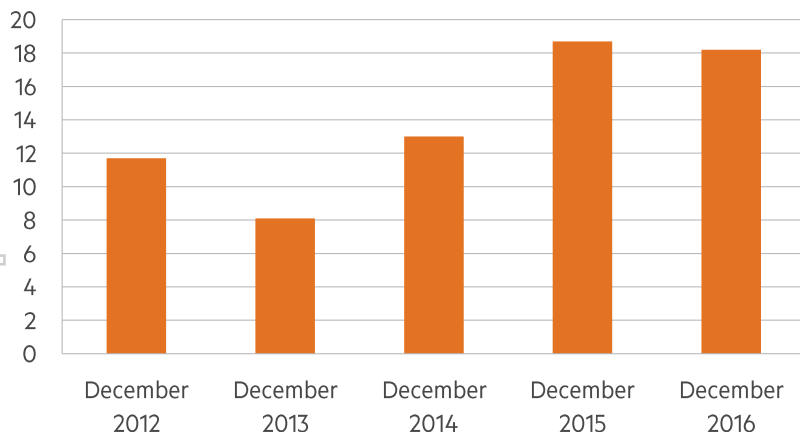
Net profit after tax \$m



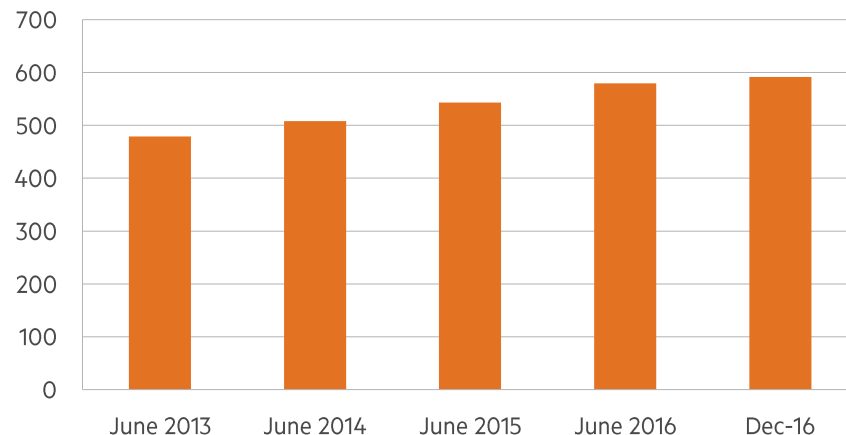
Future growth ambitions progressed

- While operating earnings were down 0.5 percent compared to the same period last year, expansion, integration and organic growth continued across the Group
- The Home Care NSW integration, creation of Australian Unity Trustees Limited and preparations for the finalisation of agreements with the Queensland Government for the \$1.1 billion Herston Quarter Precinct redevelopment in Brisbane, were major priorities for the Group
- Organic growth in the Healthcare and Wealth platforms continued to be very encouraging
- These significant growth activities reflect the continued unfolding of the Group's strategic ambitions

Operating earnings \$m



Members' funds \$m



Operating earnings: profit before tax attributable to members of Australian Unity less investment income, borrowing costs exclusive of accommodation bond interest reclassification and discontinued operations and business acquisition costs.

Half-year business highlights

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- Australian Unity became preferred tenderer by the Queensland Government for the Herston Quarter Precinct in August 2016 (agreements finalised February 2017)
- The recently listed Australian Unity Office Fund (ASX: AOF) outperformed the S&P/ASX 300 A-REIT Index and upgraded its earnings and distributions guidance for the year
- Funds Under Management in the Investment bonds business grew from \$1.99 billion to \$2.11 billion
- Banking increased on-balance sheet assets by 1.8 percent despite competitive market conditions and interest rate margin pressure

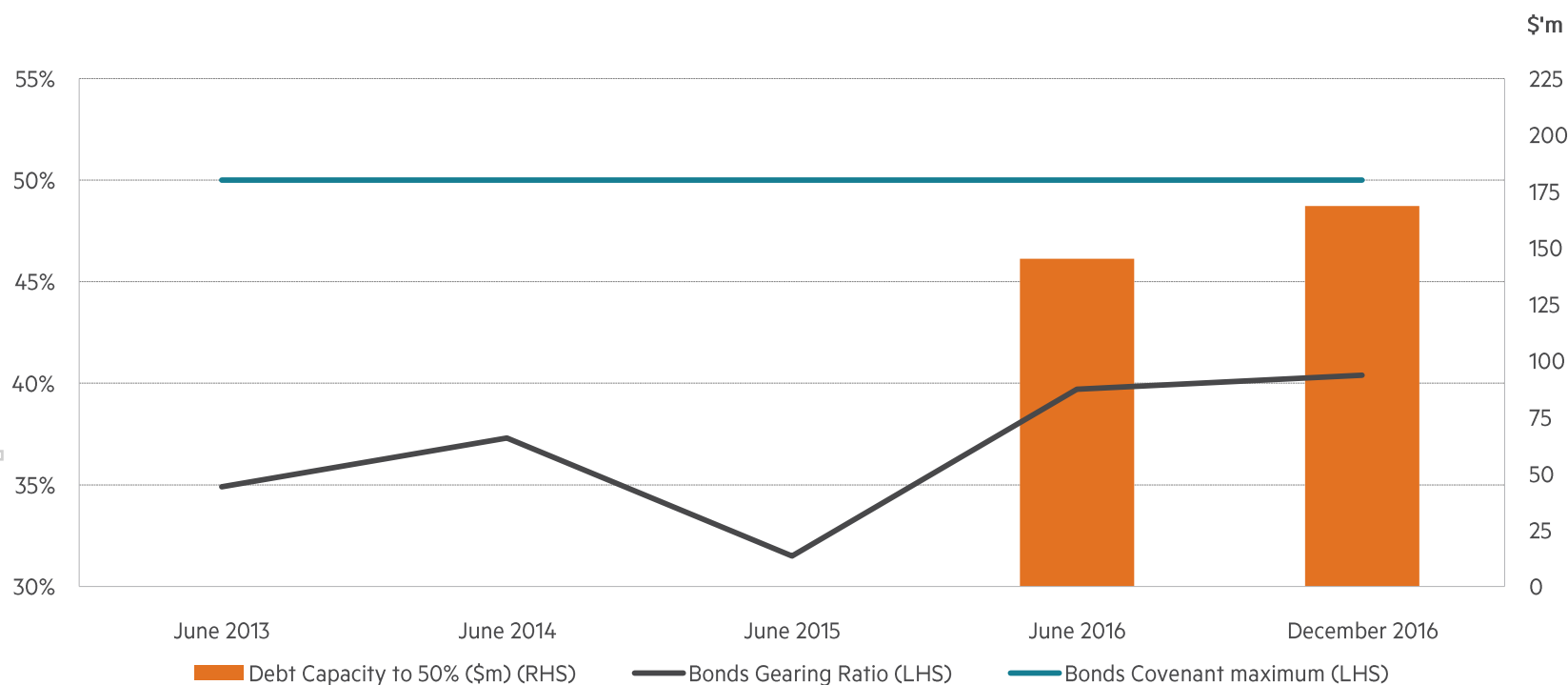
- Healthcare business performed strongly reporting a 36.4 percent increase in adjusted EBITDA while delivering lower than industry average PHI premium increases
- Increased GU Health policyholders by 8.4 percent

- Preparation for launch of Australian Unity Trustee Services (launched February 2017)
- General insurance operating revenue increased 31.7 percent

- Continued integration of Home Care NSW which added 50,000 clients and 4,300 employees to the Group (transfer completed on February 2017)

Gearing analysis and interest cover

- The Gearing Ratio based on the Australian Unity Bonds – Tranche 1 covenant gearing calculation as at 31 December 2016 was 40.4 percent
- The interest cover ratio on the Bonds calculation basis at 31 December 2016 was 3.8 times



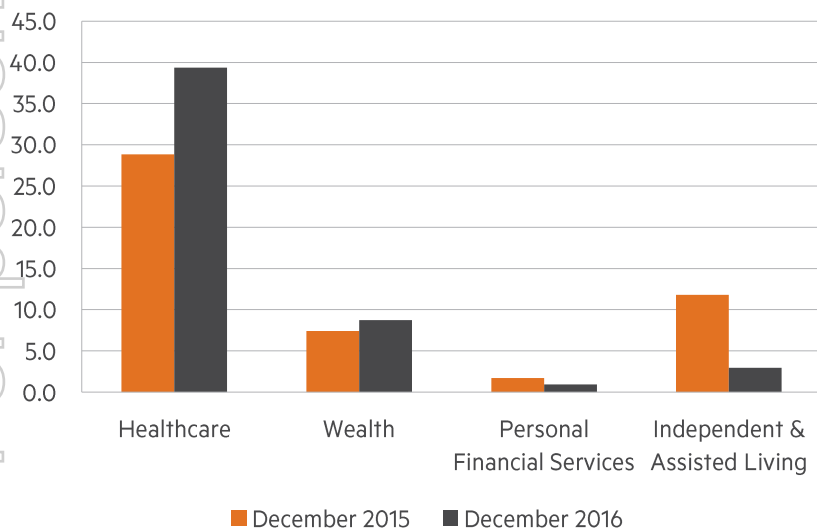
Note: Covenant limits and calculation is aligned to the Australian Unity Bonds – Tranche 1 issued 15 Dec 2015. Prior to April 2016, gearing was measured in accordance to Australian Unity Notes issued in 2011.

Business segment highlights

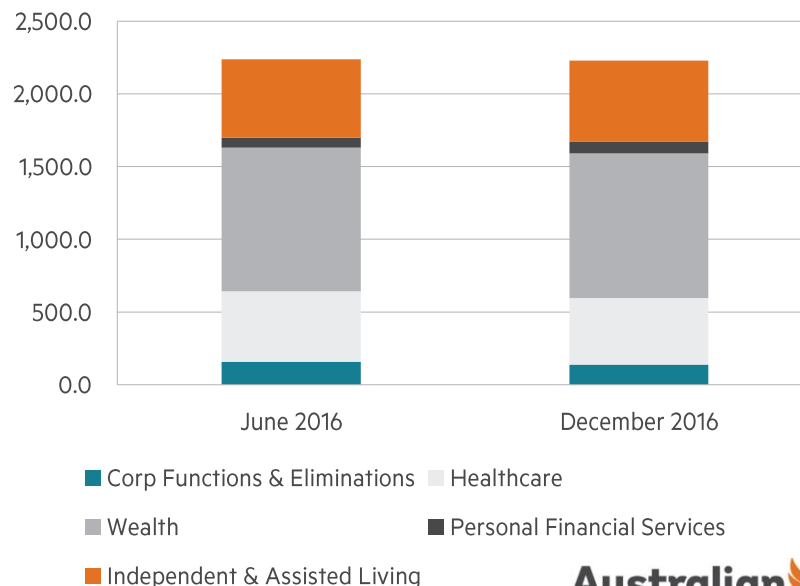
Financial results by segment

- The Group's assets are split into three categories: income producing, working capital and non-interest bearing assets
- The Group's operations are conducted through four business platforms: Healthcare; Independent & Assisted Living; Wealth; and Personal Financial Services
- Adjusted EBITDA increases were recorded by the Healthcare and Wealth businesses – highlighted by the 36.4 percent increase recorded in Healthcare
- In the Independent & Assisted Living business, integration costs associated with the Home Care NSW transfer contributed to an overall decrease in adjusted EBITDA to \$3.0 million compared to \$11.8 million in the corresponding period last year
- Three of the company's four operating platforms reported revenue increases – highlighted by a 209 percent increase recorded by the Independent & Assisted Living business

Adjusted EBITDA \$m



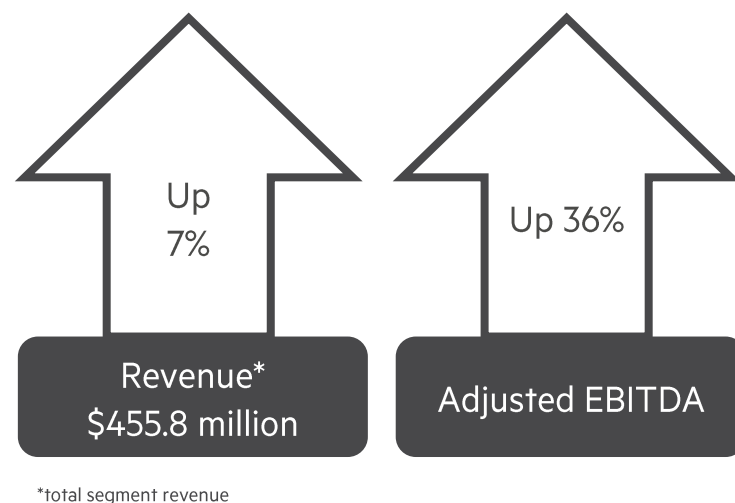
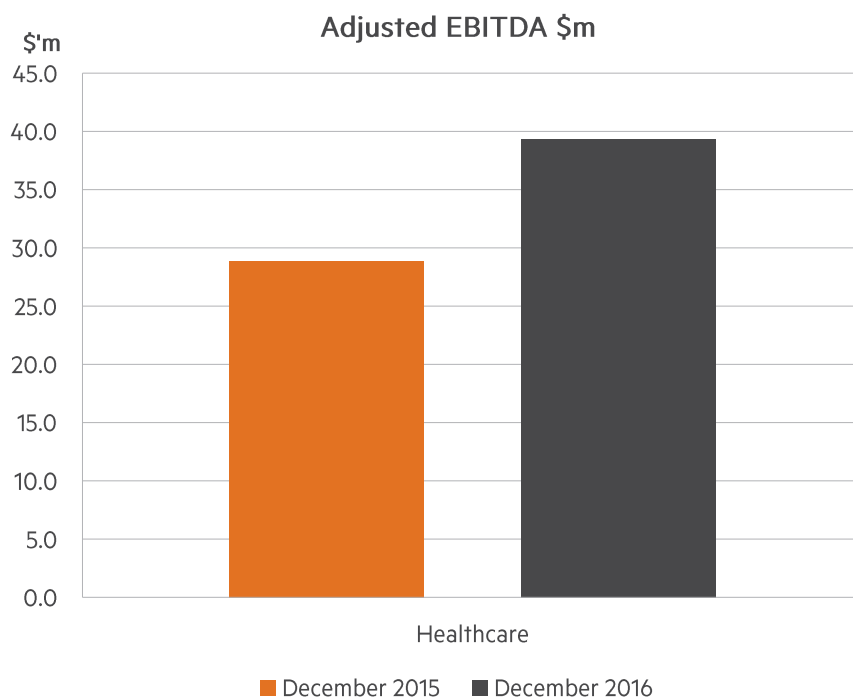
Total assets by business segments \$m



Healthcare

Healthcare

- The Healthcare platform had a strong half-year despite the ongoing economic and political challenges that private health insurers have been managing in the past five years
- This result was driven by an improved underwriting experience for retail and corporate health insurance and a strong increase in health services earnings
- Lower utilisation, driven in part by internal efforts to reduce claims leakage and payments for inappropriate care, has seen the company able to implement the **lowest retail fund premium increase in a decade and below the industry average**
- Notwithstanding this very positive half-year result, the underlying economics of the Australian healthcare system continue to be under pressure and affordability remains a key concern



Healthcare highlights



Retail health insurance

- Policyholders increased by 2.0 percent to 205,506 at 31 December 2016 (2015: 201,411)
- Continued focus on embedding an innovation process designed to develop solutions to affordability in the healthcare system
- Ongoing campaign focused on minimising waste in the healthcare system, by scrutinising procedures and services that are delivered unnecessarily



Corporate health insurance (GU Health)

- The only fund in Australia that caters exclusively to the corporate market, GU Health increased its policyholders by 8.4 percent to 34,253 at 31 December 2016 (2015: 31,592)
- Focused on building new capability to better service new regional communities and extend reach



Remedy Healthcare

- MindStep program evaluation completed by Flinders University after one year of operation showing 55 percent recovery rates, reduction in mean length of stay of 55% and reduction in readmissions of 39% – resulting in significant cost reduction for treatment of anxiety and depression
- Launched a new program for supporting individuals with MS



Dental

- A sixth dental clinic in Moonee Ponds, Victoria opened in August 2016
- Number of patients visiting Australian Unity dental clinics during the half-year was 29,576

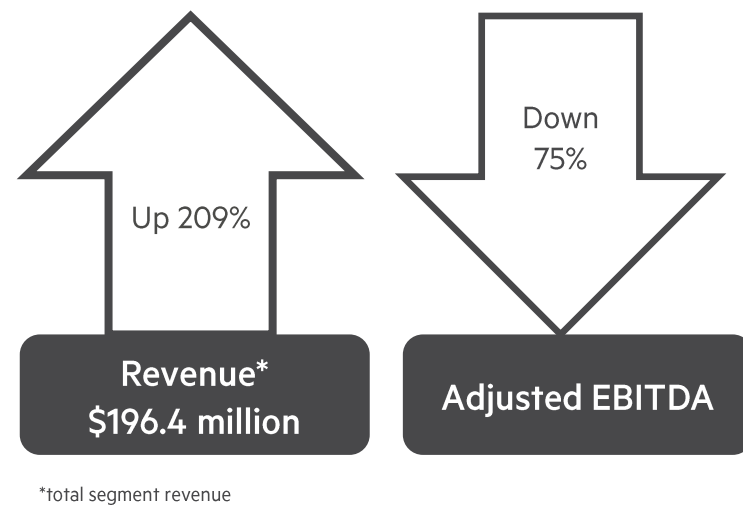
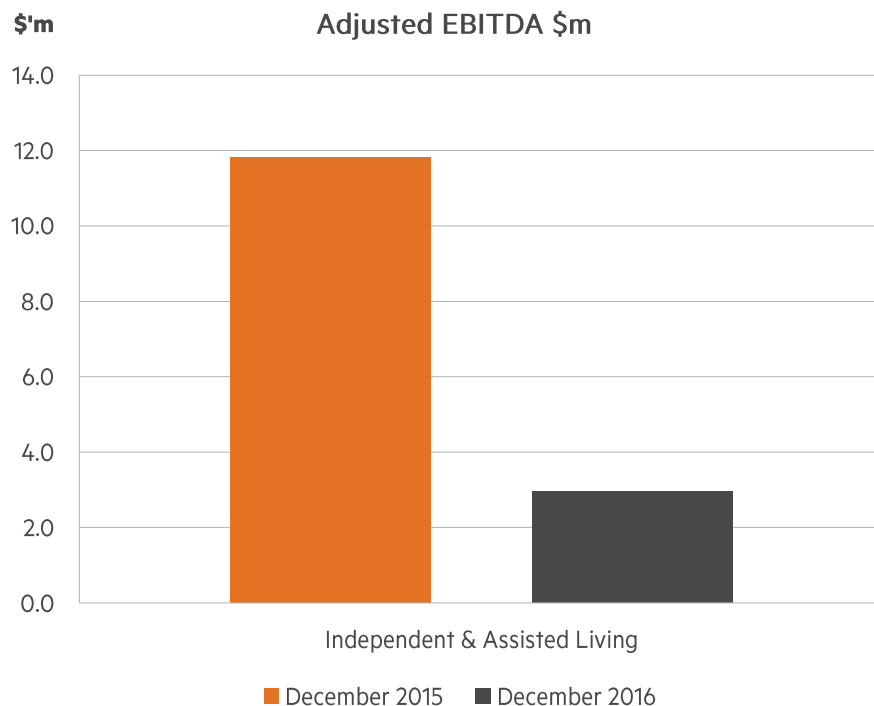
Healthcare outlook

- While health cost inflation eased in the last 12 months, without major policy reform that effectively addresses input costs, it is likely health inflation will revert to its long term average, which is well above general inflation
- This recent easing of health cost inflation will see lower increases in premiums across the industry from 1 April 2017, which is positive for policyholders and may see 'switching' levels stabilise in the short term
- While the Federal Health Minister's announcement on prostheses reform is both necessary and an appropriate first step in improving the affordability of private health insurance, it in itself is not sufficient. If lower premium increases are to be sustained, all root causes of high increases in PHI benefits—above general inflation increases in doctors and hospital charges, ageing, supply induced demand and many other factors—need to be addressed

Independent & Assisted Living

Independent & Assisted Living

- Australian Unity Independent & Assisted Living's results for the half-year ended 31 December 2016 reflect continued growth across all four components of the business
- The business recorded total segment revenue of \$197.7 million for the half-year to 31 December 2016 (31 December 2015: \$64.0 million) which was largely attributable to the transfer of the Home Care NSW business in February 2016
- However, the integration costs associated with the Home Care NSW transfer contributed to an overall decrease in adjusted EBITDA to \$3.0 million for the half-year to 31 December 2016 compared to \$11.8 million in the corresponding period last year



Independent & Assisted Living highlights



Home care & disability services

- Transfer of Home Care NSWs' 50,000 new clients and more than 4,000 staff continued and was 60 percent completed at 31 December 2016 (transfer was 100 percent complete on 19 February 2017)
- The existing Home Care business (excluding Home Care NSW) continued to provide significant growth with revenue for the half-year of \$12.9 million



Retirement communities

- Owns and operates 19 retirement communities in Victoria and New South Wales with a portfolio of 2,110 independent living units
- Village occupancy rose to 97.8 percent an increase of 0.8 percent from 30 June 2016
- 61 new home units were added to the portfolio during the half-year bringing the total number of units in the portfolio to 2,171



Development

- The second stage of the Lifestyle Manor retirement community was completed in Bondi, NSW
- Construction activity on The Residences at Rathdowne Place in Carlton, Victoria, and Campbell Place is on-track to be completed by 30 June 2017
- The business progressed a number of other development projects including Peninsula Grange in Victoria and Sienna Grange and The Governors in NSW. Construction work on the Albert Road development in South Melbourne will commence in the second half of FY17
- Only six completed retirement units remained unsold at 31 December 2016 providing encouraging levels of market support for the businesses new communities



Aged care

- An important area of growth and key component of the business' strategy to provide services that offer a continuum of care
- Occupancy levels remained very high at 98 percent (609 beds) at Australian Unity's five aged care facilities
- The Campbell Place aged care facility is scheduled for completion in the second half of the financial year and will add a further 102 beds, increasing the number of aged care beds across the portfolio by 17 percent

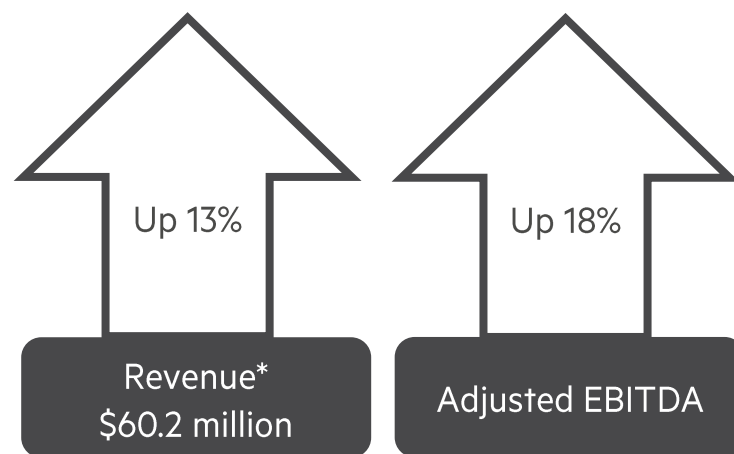
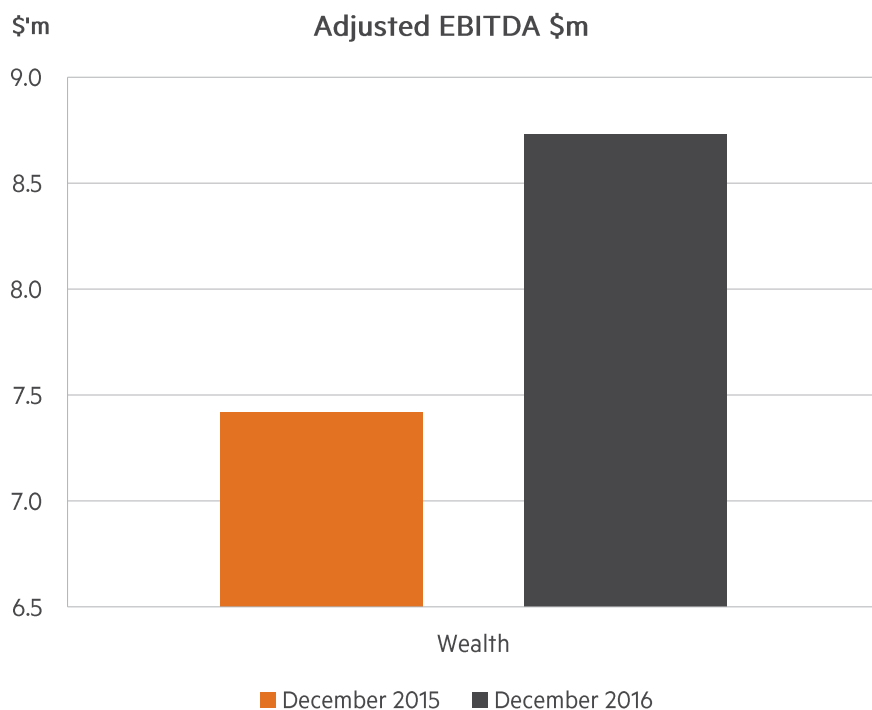
Independent & Assisted Living outlook

- The business will continue pursuit of development opportunities arising out of the needs of Australia's ageing demographic – the business seeks to provide a continuum of care to its customers in the form of home care, retirement communities and aged care, built around the concept of ageing in place and supporting older Australians to age in the community of their choosing. The business strives to achieve this vision by continuing to invest in the development of sought-after accommodation and services for Australia's ageing population
- Integrating Home Care NSW remains a key goal for the remainder of FY17
- Participating effectively in providing services for the National Disability Insurance Scheme

Wealth

Wealth

- The Wealth platform built on its successful year in 2016 with a 17.7 percent increase in adjusted EBITDA and a 12.7 percent increase total segment revenue
- The platform's performance was positively impacted by factors that include: increased marketing expenditure supporting strong revenue growth in the property, investment bonds and banking segments



*total segment revenue

Wealth highlights



Funds management

- Total funds under management, administration and advice were at \$9.12 billion at 31 December 2016 (30 June 2016: \$9.59 billion)
- Group's investment portfolio is managed by Australian Unity's Wealth platform and achieved an overall return of 3.2 percent, above its strategic benchmark of 2.4 percent



Property

- Australian Unity's Real Estate Investment portfolio increased to \$2.30 billion at 31 December 2016 (30 June 2016: \$2.21 billion)
- The Australian Unity Office Fund (ASX: AOF) outperformed the S&P/ASX 300 A-REIT Index and upgraded its earnings and distributions guidance for the year
- The Healthcare Property Trust, the largest fund of its kind in Australia, increased funds under management to \$1.17 billion (30 June 2016: \$1.06 billion) and posted a return of 12.5 percent for the year to 31 December 2016



Banking

- Banking total on-balance sheet assets grew to \$876.8 million as at 31 December 2016 (30 June 2016: \$861.6 million)



Life & Super

- Funds under management and administration increased to \$2.11 billion as at 31 December 2016 (30 June 2016: \$1.99 billion)
- With over \$656 million in funeral funds under management and 90,000 clients, Australian Unity has a leading position in the pre-paid funeral segment via the specialised business Funeral Plan Management
- The Federation Managed Accounts business reached \$347 million in funds under administration during the year (30 June 2016: \$290 million)

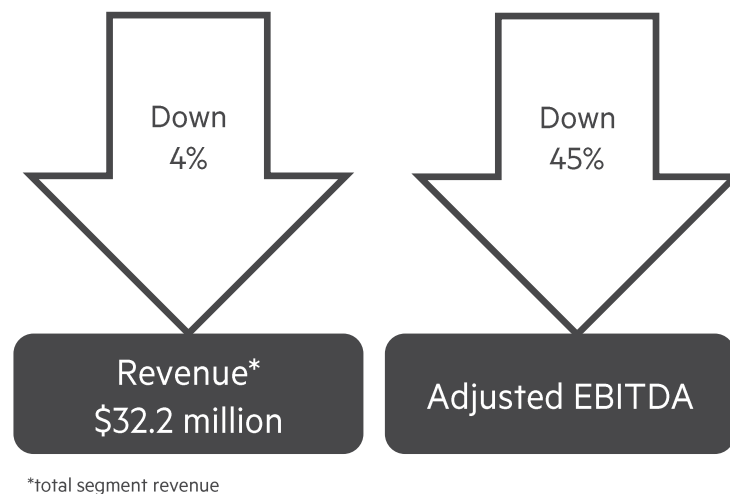
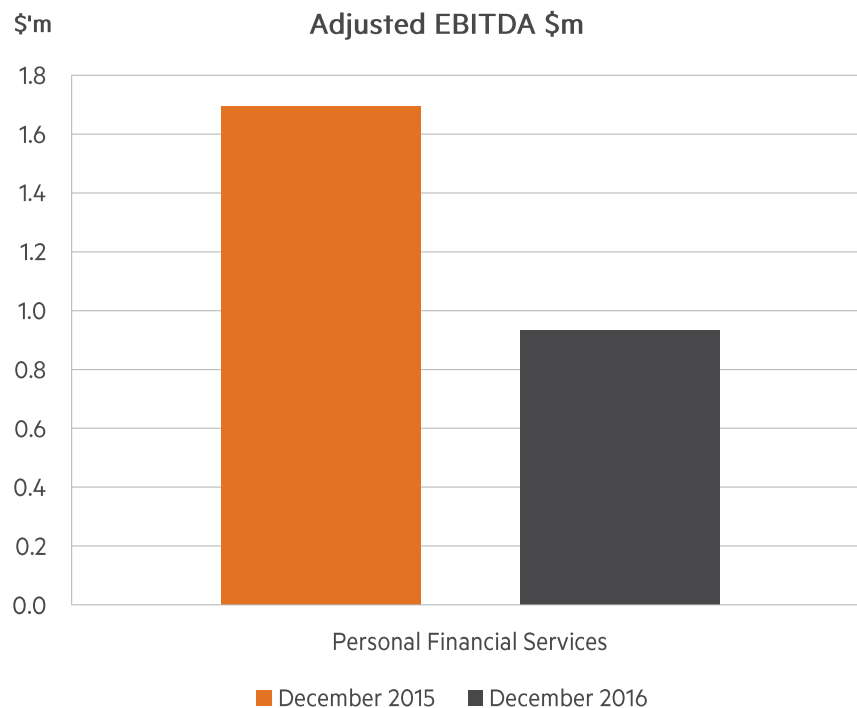
Wealth outlook

- The Wealth platform will continue to deliver a broad but specific range of financial solutions, directly or indirectly, to cater to the needs of its clients over progressive life stages
- Will continue to improve the efficiency of the operating platform and seek to achieve strong growth in new business in a number of areas, delivering clients very solid investment returns in what remain uncertain and volatile investment markets, and launching a number of new products and technology improvements for the benefit of customers
- The platform will drive the \$1.1 billion development of the Herston Quarter precinct in Queensland

Personal Financial Services

Personal Financial Services

- During the half-year the business focused considerably on consolidating existing acquisitions and preparing for Australian Unity Trustees Limited (formerly Flinders Australia Limited) to operate as a fully licensed trustee business
- Total segment revenue decreased by 3.7 percent to \$32.2 million (31 December 2015: \$33.5 million) which was largely as a result of a number of practices leaving the now wholly owned Premium Wealth Management business (acquired by Australian Unity in 2014) and the impact of one-off revenue received in HY16 associated with the transition to QBE for personal insurances
- Adjusted EBITDA was \$0.93 million for the half-year compared to \$1.69 million for the prior year's corresponding period. This result was impacted by ongoing investment in the trustee services business and by the decline period on period in the revenue associated with the transition to QBE



Personal Financial Services



Financial advice

- Funds under advice increased by 7.2 percent to \$6.5 billion
- Strong adviser recruitment pipeline has been developed and numbers are expected to increase in the second half of the financial year
- The business executed part of its growth strategy with the provision of investment management services via Separate Managed Accounts (SMA)



Trustee Services

- The focus for the half-year was acquiring an Australian Financial Services Licence (AFSL) for Trustee Services which was subsequently achieved in February 2017
- The business has been renamed Australian Unity Trustees Limited (formerly Flinders Australia Limited) and now operates as a fully licensed trustee business – the first of its type in Australia for many decades
- Estate planning specialist lawyers have been recruited across the country to provide a national estate planning service which will leverage internal and external referral partnerships and will also provide leads to other parts of the business



Finance and insurance services

- Loans under advice increased to \$855 million at 31 December 2016 compared to \$795 million at 30 June 2016
- Finance broking revenue of \$1.3 million was steady with the prior half-year while gross margin improved by 5.5 percent
- General insurance achieved significant first half operating revenue growth to \$1.1 million representing an increase of 31.7 percent compared to the previous half-year

Personal Financial Services outlook

- The business continues to be impacted by a range of regulatory reforms, including the Future of Financial Advice reforms; the MySuper reforms the proposed introduction of new Professional Standards for Financial Advisers; the finalisation of the recommendations for the Life Insurance Framework, which will result in remuneration changes and accountants' SMSF licensing reforms
- Against this backdrop the business continues its development into a diversified financial services business designed to serve the growing needs of the community
- The Personal Financial Services business is well placed for growth as a result of gaining the traditional trustee services licence and the opportunity to offer these services to our network of advisers, accountants and members as well as independent and assisted living clients and in particular new Home Care NSW clients

Questions?



Health | Wealth | Living