

29 August 2018

## Australian Unity reshapes for the future

### Result overview:

- Profit after income tax \$51.5 million (incl. \$61.6 million gain from GUCH sale)
- Revenues<sup>1</sup> \$1.76 billion, down 6.4%
- Loss from continuing operations<sup>2</sup> of \$15.3 million, including \$35.9 million of capital management initiatives
- Significant investment in business transformation

Health, Wealth and Living group Australian Unity has reported a profit after income tax of \$51.5 million for the 12 months to 30 June 2018, as it significantly transforms its operations to better align with the current and future human services needs of its members and customers.

The profit figure for the Australian Unity Group (the **Group**) represented an increase of 10.0 percent compared to the same period last year. Of this result, \$66.9 million was a profit derived from discontinued operations<sup>2</sup> of the Group's corporate health insurance subsidiary, Grand United Corporate Health Limited (**GUCH**) and included a \$61.6 million after tax gain on its sale to nib holdings ltd.

Excluding this sale impact, the Group's result after income tax from continuing operations was a loss of \$15.3 million. The loss from continuing operations includes \$14.7 million of costs arising from the extensive business transformation program underway, which will ensure the Group efficiently and cost-effectively delivers the services members and customers value and is well positioned to pursue future business opportunities. The result was also adversely impacted by capital management initiatives designed to proactively enhance balance sheet resilience, including accelerated depreciation and amortisation of some capitalised assets (\$35.9 million) and the impairment of certain assets.

**ASX code:**  
AYU

**Securities on Issue:**  
AYUHB – 2,500,000

**Issuer:**  
Australian Unity Limited  
ACN 087 648 888

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<sup>1</sup> Revenues: comprise revenue and other income receipts as shown in the statement of comprehensive income in the Annual Financial Report, excluding discontinued operations, 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.

<sup>2</sup> As disclosed in the Consolidated statement of comprehensive income in Australian Unity Limited's 2018 Annual Financial report. The Consolidated statement of comprehensive income itself contains note references which provide additional information to readers about the items concerned.

## ASX Announcement

Revenues from continuing operations decreased to \$1.76 billion, a drop of 6.4 percent compared to the previous corresponding period. This was mainly driven by a reduction in benefit fund revenue of \$79.7 million and lower development revenue within the Independent & Assisted Living platform.

Total expenses, excluding financing costs from continuing operations, decreased 2.9 percent to \$1.48 billion with a reduction in benefit fund expenses partly offset by higher amortisation and other costs relating to the business transformation program and capital management initiatives.

The aggregate adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA<sup>3</sup>) of the Group's operating businesses was slightly down at \$98.1 million for the year.

Group Managing Director Rohan Mead said the Group made significant progress in its strategic ambitions and operations during the 2018 financial year.

"The previous 12 months have seen a marked development in the capacity and shape of the Group," Mr Mead said.

"Our focus in the year under review has been on adjustments to our portfolio of businesses; further substantial investment in our human services operations; progress in the realisation of real-property social infrastructure assets; along with the transformation and restructuring of the Group's operations.

"Together these initiatives, with the sound operating performance of most of the Group's business units, delivered a positive financial performance for the Group."

"We are seeking to fashion an organisation that provides valued services to members and customers in the areas of health, wealth and living. In providing these services, we have also sought to address key aspects of Australia's social infrastructure challenge, providing services that generate community value, in addition to the benefits derived by individuals."

**Rohan Mead, Group Managing Director**

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<sup>3</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(c)(ii) to the Consolidated financial statements in Australian Unity Limited's 2018 Annual Financial Report.

## ASX Announcement

### Key FY18 initiatives

#### 1. *Group transformation program*

The Group was restructured in order to achieve significant financial efficiencies. Business operations were streamlined from four to three operating platforms, arranged to focus on the related needs of the customer: Retail, Wealth & Capital Markets and Independent & Assisted Living. The Group also invested in strengthening and adding capabilities in the areas of customer experience, digital, business intelligence systems, strategy, data analytics, cloud technology platforms and risk management. While the FY18 transformation costs were significant, the program was structured so that the benefits surface in FY19, with multi-million dollar ongoing efficiencies to be recognised in the financial years ahead.

#### 2. *Continued investment in human services*

The Home & Disability Services business (including the former Home Care NSW operations transferred to Australian Unity in February 2016) received substantial investment during the year to support new models of branch operation across dozens of sites, new technology and systems for business intelligence.

“These investments have begun yielding tangible benefits with improvements in administrative automation, logistical efficiency and billing system management,” Mr Mead said.

#### 3. *Sale of GUCH*

The Group’s corporate health fund, GUCH, was sold for \$155.7 million, generating a discontinued operations profit of \$66.9 million, including a \$61.6 million after tax gain on sale.

“Consistent with Australian Unity’s strategy of developing the Group’s operations in areas that foster personal wellbeing and community value, the proceeds from the sale of GUCH are supporting ongoing investments in human services operations and the substantial transformation program under way.”

Rohan Mead, Group Managing Director

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## ASX Announcement

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

The **Independent & Assisted Living (IAL)** business successfully commenced the operation of the new Campbell Place retirement community in the year under review. The business also made the difficult decision to decommission and demolish the aged care and community facilities at Walmsley in Kilsyth, Victoria to rebuild a new aged care home that better meets customer's needs. Australian Unity's portfolio of independent living units increased to 2,370 in the year under review (2017: 2,354).

The financial performance of the Home & Disability Services business, while seeing a loss in the period under review, improved markedly from the first half to the second half of the year, growing revenue by 4.8 percent year on year. The business delivered more than 4.2 million hours of home and disability care during the year.

Remedy Healthcare delivered more than 540,000 episodes of care across 18 treatment programs, diversifying its revenue between the states, notably in South Australia, Queensland and NSW, in addition to Victoria.

The decision to close the Walmsley aged care facility and the investments in human services noted above significantly affected the financial performance of the IAL platform, with adjusted EBITDA at negative \$3.3 million. Total segment revenue declined by 3.7 percent to \$422.7 million.

The IAL business continued to progress several development projects including Victorian projects Peninsula Grange and Peninsula Grange Aged Care 2 in Mornington, The Grace Albert Park Lake in South Melbourne, and Walmsley in Kilsyth; and in NSW, Sienna Grange Aged Care in Port Macquarie.

The **Retail** business, which includes the private health insurance operations and banking activities, delivered a solid result despite complex trading, policy and environmental challenges.

Adjusted EBITDA was up 6.6 percent to \$64.6 million compared to the prior corresponding period, driven largely by an improved underwriting experience for the health insurance business and an improvement in the net interest margin for the banking business.

The health insurance business once again managed a lower average premium rise than the industry average—now below the weighted industry average for 11 of the past 15 years. The number of policyholders decreased slightly to 193,771, as did total segment revenue, by 0.3 percent to \$726.1 million.

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Retail's banking activities performed soundly with total assets of \$777.4 million at year end.

The **Wealth & Capital Markets** business which includes advice, investments, life & superannuation, property and trustee services, had a broadly successful year with its leading investment products achieving above benchmark returns. The Platypus Australian Equities Trust (Wholesale) fund recorded an investment return of 25.9 percent for the year.

The Healthcare Property Trust, one of Australia's leading healthcare investment vehicles, recorded an investment return of 12.8 percent, completed \$240 million in capital raisings and negotiated some \$740 million in financing facilities.

The Lifeplan insurance bonds business achieved gross inflows into its products of over \$210 million.

The \$1.1 billion Herston Quarter project in Brisbane is on track to provide Queenslanders with a range of health and wellbeing social infrastructure, such as a public rehabilitation hospital, a private hospital, aged care and retirement living.

The advisory and trustee services businesses progressed their operational development. However, progress for trustee services has been much slower than originally planned and we took an impairment charge on this asset of \$6.0 million.

The platform recorded an adjusted EBITDA of \$36.9 million (2017: \$29.4 million).

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In summing up FY18 and looking to the future, Mr Mead said:

“While the 2018 financial year was a year of many moving parts operationally, the Group faces the new financial year with strengthening operations, developing capabilities in important areas and an improved financial position.

“All these factors allow us to address the growing social infrastructure challenge facing our community as a customer-focused business, better shaped for future growth,” he said.

*A summary of key financial metrics for each business is on the following pages.*

## ASX Announcement

### Key financial metrics by business

#### Independent & Assisted Living

For period ended:	30/06/18 \$M	30/06/17 \$M	CHANGE %
Total segment revenue	422.7	439.1	(3.7)
Adjusted EBITDA	(3.3)	9.7	N/A
Other results:	30/06/18 \$M	30/06/17 \$M	CHANGE %
Total value of development pipeline	673.3	513.2	31.2
Remedy Healthcare revenue	25.6	23.3	9.9
	30/06/18 Number	30/06/17 Number	CHANGE Number
Retirement villages ILUs	2,370	2,354	16
Aged care beds	711	711	0

#### Retail

For period ended:	30/06/18 \$M	30/06/17 \$M	CHANGE %
Total segment revenue	726.1	728.1	(0.3)
Adjusted EBITDA	64.6	60.6	6.6
Other results:	30/06/18 \$M	30/06/17 \$M	CHANGE %
Gross claims paid	613.3	618.7	(0.9)
Mortgage broking loans under advice	785	824	(4.7)
Big Sky Building Society (Big Sky) total assets	777.4	827.4	(6.0)
	30/06/18 Number	30/06/17 Number	CHANGE %
Policyholders (AUHL)	193,771	201,516	(3.8)
Big Sky total customers	24,692	26,018	(5.1)

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## ASX Announcement

### Wealth & Capital Markets

For period ended:	30/06/18 \$M	30/06/17 \$M	CHANGE %
Total segment revenue	170.4	167.7	1.6
Adjusted EBITDA	36.9	29.4	25.5
Other results:	30/06/18 \$B	30/06/17 \$B	CHANGE %
Investments under management	5.91	6.08	(2.8)
Property under management	3.10	2.42	28.1
Property under development	1.25	1.13	10.6
Debt facilities under management	1.57	1.02	53.9
Funds under Advice	6.42	6.18	3.9
Funds under Trusteeship	0.36	0.35	2.9
Life & Super FUM	2.23	2.17	2.8
<b>Total</b>	<b>20.84</b>	<b>19.35</b>	<b>7.7</b>

### About Australian Unity

Australian Unity is a health, wealth and living organisation. We are working to create a brighter future by delivering services that help more than a million Australians thrive. As a mutual company, we invest back into our products, services and the Australian community. We can trace our roots back more than 175 years; today our purpose remains the same. We put our customers and members front and centre of everything we do, from delivering sustainable performances to building strong communities.

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### Further information:

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