



Australian Unity Limited Investor update

Financial results for the half-year ended 31 December 2018

Australian Unity investor update



Australian Unity Limited is pleased to invite you to our investor presentation teleconference for the half-year ended 31 December 2018

Date

5 March 2019

Time

11 am to 12 pm AEDST

Dial in details

Toll-free number: 1800 725 000

Local dial in: 02 8373 3582

Conference ID: 5975648

If you are unable to attend, you are welcome to email any queries you may have to:

pchin@australianunity.com.au

We will endeavour to respond to your queries by email or during the teleconference.

Important information

This notice relates to all information provided as a part of this presentation including, without limitation, these slides, associated presentations and any oral presentations by the representatives of Australian Unity Limited ACN 087 648 888 (**AUL**) or its officers, directors, employees, agents, advisers or consultants made in connection with or arising out of this presentation (**Information**).

This presentation has been prepared by AUL.

The Information is intended for discussion purposes only and for no other purpose. The Information is provided to parties on the basis that they are persons to whom an invitation or offer of securities would not require disclosure under section 708 of the Corporations Act 2001 (Cth).

The Information is not financial product advice and reliance should not be placed on the Information or opinions contained therein.

The Information does not take into consideration the investment objectives, financial situation or particular needs of any particular investor.

AUL makes no representation or warranty, express or implied, as to the fairness, accuracy, completeness, correctness or reliability of the statements, estimates, opinions, conclusions and other information contained in the Information.

To the maximum extent permitted by law, AUL, its related bodies corporate and each of its respective officers, directors, employees, agents, advisers or consultants accept no responsibility for the Information including, but not limited to, forward looking information or projections and disclaim any and all liability whatsoever for any loss or damage, however so arising, from any use or reliance on the Information.

The Information is not and does not form an offer, or part of an offer or invitation, to subscribe for or purchase securities. Investors must make their own independent assessment of AUL and its related entities and undertake such additional enquiries as they deem necessary or appropriate for their own investment purposes. Past performance is no indication or guarantee of future performance.

You should be aware that any forecast, projection or other forward looking statement in the Information is subject to inherent risks, uncertainties and factors beyond AUL's control. Those risks and uncertainties include factors and risks specific to the business of AUL and its related entities as well as general economic conditions and may cause actual results, performance or achievements to be materially different from those expressed or implied by those statements.

1. Overview & group highlights
2. Business results
3. Summary & outlook

Esther Kerr-Smith

Head of Finance & Strategy



Darren Mann

Deputy Head of Finance & CFO



Paul Ryan

General Manager Commercial,
Finance & Strategy - Retail



Alex Smith

General Manager Commercial,
Finance & Strategy - IAL



Overview & Group highlights

Overview of Australian Unity



Trusted mutual

- More than 175 years as an Australian mutual
- 270,000+ members; almost 1 million customers
- Profits reinvested into programs and services that benefit members and customers, and create community value
- Prudentially regulated by the Australian Prudential Regulation Authority and other regulators

Diverse & expanding portfolio

- A diversified group of businesses across three platforms—Independent & Assisted Living, Retail and Wealth & Capital Markets—with deep experience and capability in healthcare, aged care, home care, retirement accommodation, asset management, funds management, financial advice and banking services
- Significant acquisitions and organic growth across all platforms in recent years, particularly in the area of social infrastructure

What are our priorities for FY19?



HDS operating model



Development pipeline
for retirement
communities



Sustained efficiencies



PHI reforms



Herston Quarter
execution



Maintain strong and
flexible balance sheet

How will we deliver our strategy...

We're here to help people thrive

OUR VALUES: BOLD | WARM | HONEST



CREATE A GREAT PLACE TO WORK

If we take care of our people they will take care of our customers



PUT OUR CUSTOMERS FRONT AND CENTRE

Customers and members have choices and we want them to choose us



DELIVER SUSTAINABLE PERFORMANCE

We've been here for 175+ years and we want to be here for many more



MAKE A DIFFERENCE IN OUR COMMUNITY

Community is at the heart of what we do

LEADERSHIP | INNOVATION | COLLABORATION | AGILITY

...and know we are succeeding?

Health | Wealth | Living

HY19: Solid performance against broad ambitions



Significantly progressed social infrastructure assets and activities

- Continued considerable investment in human services operations, such as the establishment of Indigenous Business Services and the completion of the integration of Home & Disability Services (HDS) clients to the National Disability Insurance Scheme (NDIS)
- Progressed the realisation of real-property social infrastructure assets, in particular the landmark \$1.1 billion Herston Quarter precinct
- Rebrand of Australian Unity Bank

Revenue and other income of \$699.4 million, down 6.8%

- Overall revenue growth generated by the Group's operating businesses, up \$14.9 million on the prior corresponding period, and solid investment returns were outweighed by a \$69.0 million reduction in benefit fund revenue. Within the benefit funds, growth in premiums and other revenue of \$17.4 million were more than offset by an \$86.4 million reduction in investment returns
- Sound revenue growth in IAL with HDS strengthening performance year-on-year and Wealth & Capital Markets performing well in a competitive and challenging environment

Operating earnings up 27.3% to \$15.7 million

- Growth in operating earnings from continuing operations with strong performance from Independent & Assisted Living and Wealth & Capital Markets

Continuing operations profit of \$13.3 million, up 55.9%

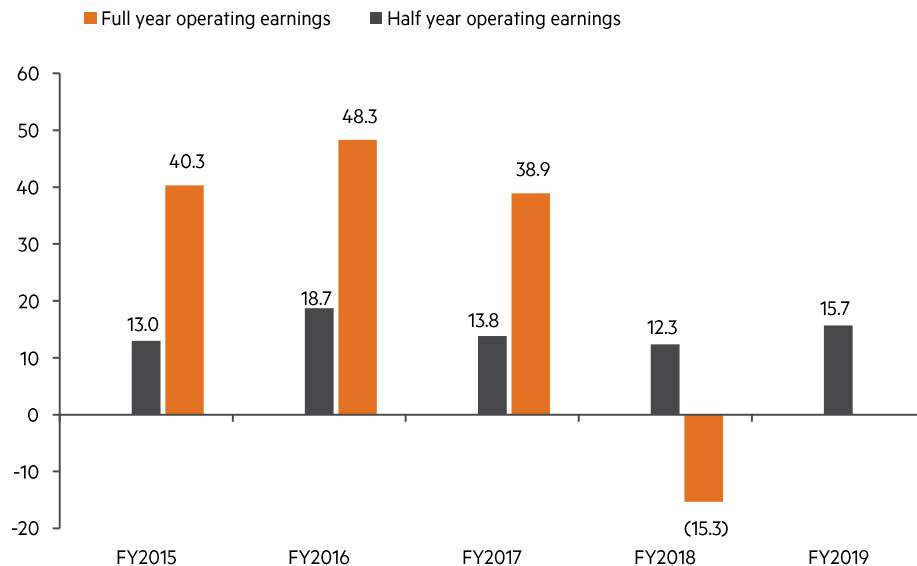
- Solid performance during the half-year in part achieved through benefits arising from the extensive business transformation program undertaken in the 2018 financial year
- Continuing operations profit increased \$4.8 million over the prior corresponding period

All figures attributable to continuing operations as disclosed in the Consolidated Statement of Comprehensive Income in Australian Unity Limited's Interim Financial Report for the half-year to 31 December 2018

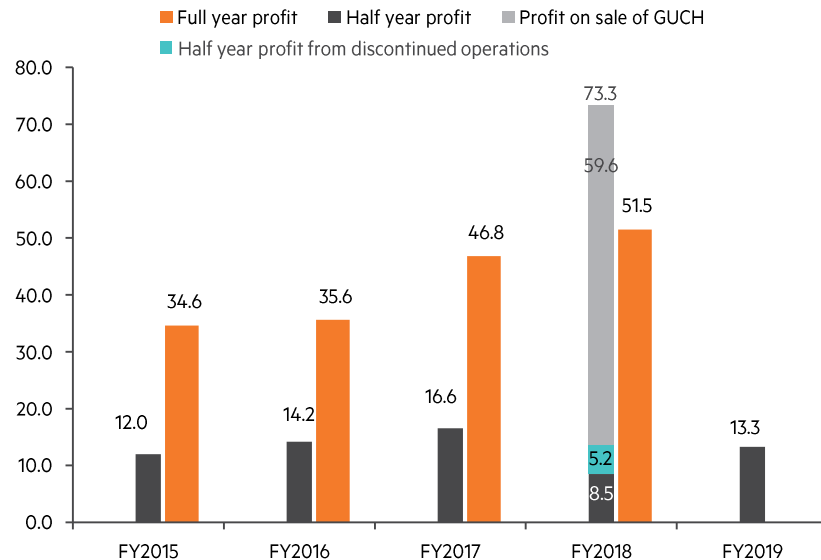
Health | Wealth | Living

HY19 key metrics

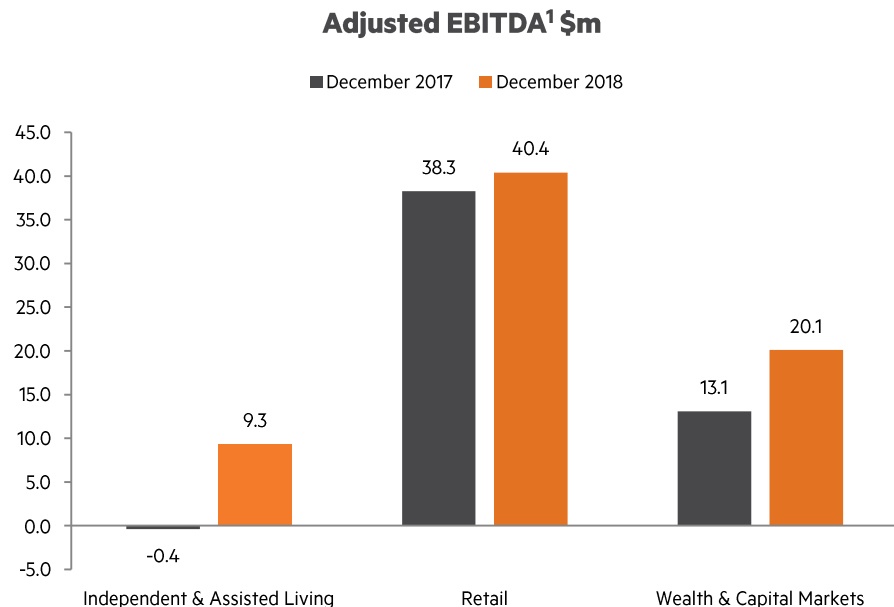
Operating earnings (\$m)



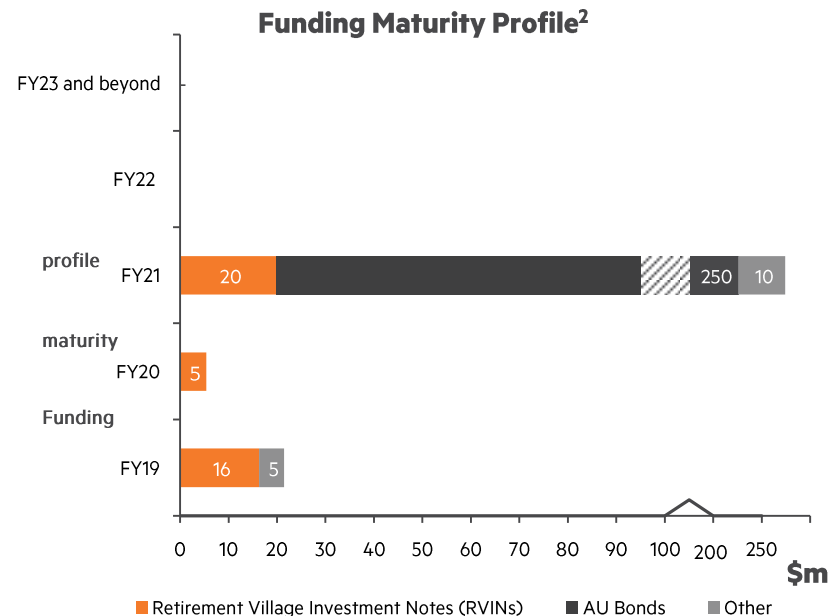
Net profit after tax (\$m)



HY19 key metrics



¹ 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 3(c) to the Consolidated Financial Statements in Australian Unity Limited's Interim Financial Report for the half-year to 31 December 2018.

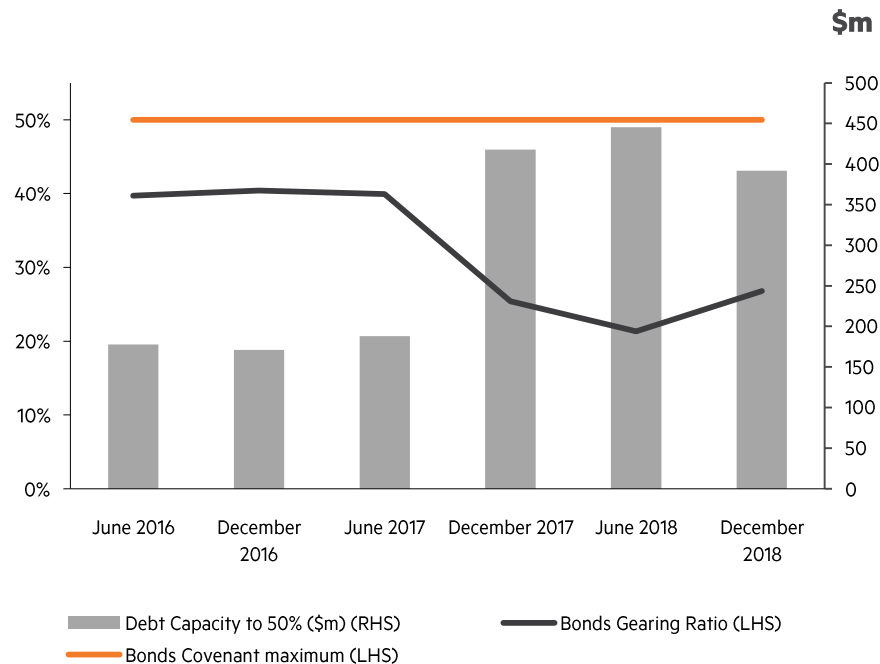


² Funding maturity profile shows consolidated interest bearing liabilities that contribute to the gearing ratio, excluding ADI borrowings

Gearing analysis and interest cover

Ratios for Australian Unity Bonds – Tranche 1 at 31 December 2018:

- Gearing at 26.8% based on covenant gearing calculations
- Interest cover ratio¹ at 3.86 times



¹ Interest cover ratio is calculated on a rolling 12 month basis

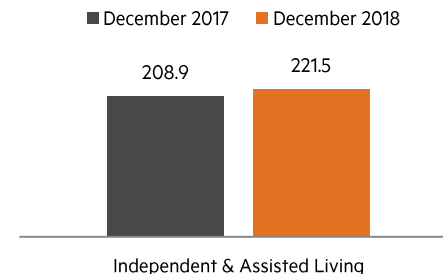


Independent & Assisted Living

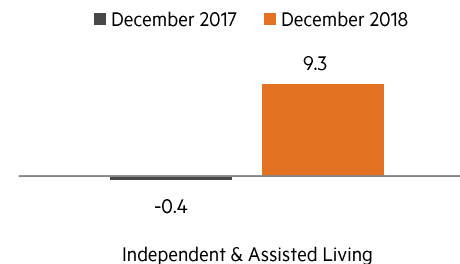
Integration and collaboration to drive diversification and growth

- Increase in total segment revenue by 6.0% reflected platform-wide growth with the exception of Residential Communities which saw a decline in revenue in part due to the decommissioning of the Walmsley aged care facility in Kilsyth, Victoria
- Increase in adjusted EBITDA reflects the business' continued focus on the sustainability of Home & Disability Services (HDS)
- Transition completion of state-funded disability clients to NDIS funding enabled a focus on growing Home Care Packages by 14.4%
- To more appropriately service the unique and culturally sensitive needs of Australia's indigenous communities, Indigenous Business Services was established, with initial focus to establish dedicated operations for Aboriginal Home Care (AHC) within home care services
- Pursued opportunities to further develop Integrated Care Model between Remedy Healthcare and Residential Communities and HDS

Total segment revenue (\$m)



Adjusted EBITDA \$m



IAL highlights*



Home & Disability Services

- Revenue growth of 8.4% to \$147.5 million
- Completed the transition of state-funded disability clients to NDIS funding
- Indigenous Business Services established 1 July 2018 with a focus on Aboriginal Home Care
- Reached 3,400 home care packages under management, representing a 14.4% increase in the half-year to 31 December 2018



Residential Communities

- Own and operate 19 retirement communities in Victoria and NSW with a portfolio of 2,370 independent living units (30 June 2018: 2,370)
- Retirement community occupancy remained greater than 96% while aged care grew to 98%
- Number of operational aged care beds declined from 711 to 590 due to the decommissioning of Walmsley Aged Care in Victoria after 40 years of service



Development

- Construction either completed, substantially progressed or commenced in the following communities:
 - Peninsula Grange, Mornington, Victoria
 - Peninsula Grange Aged Care 2, Mornington, Victoria
 - The Grace Albert Park Lake, South Melbourne, Victoria
 - Sienna Grange Aged Care, Port Macquarie, NSW



Remedy Healthcare

- Continued strong growth and diversification of customer portfolio and revenue sources
- Grew revenue by 12.9%, driven predominantly by Allied Health Services
- Pursued opportunities into an Integrated Care Model across residential communities, HDS and AHC
- Continued to expand and diversify depression and anxiety program, MindStep® adding new supporters to its portfolio
- Delivered more than 320,000 episodes of care across its 18 treatment programs



Dental

- Six dental clinics operating in Victoria
- Preparation to move Albert Road, South Melbourne clinic to Spring Street, Melbourne
- Embarked on a program of streamlining digital booking and operational systems in order to support improved scale efficiencies

- Continue to develop an integrated care model that combines the capabilities and services in Home & Disability Services and Remedy Healthcare
- The business will continue to refine the HDS branch operating model, leadership, and service and safety culture while shaping an appropriate network (capability and capacity) to deliver expected growth
- The HDS business is working closely with the National Disability Insurance Agency (NDIA) to address the suitability and sustainability of its policy settings in some areas.
- Further define a comprehensive Residential Communities workforce strategy, supported by an effective learning and development framework
- Continue to focus on mitigation strategies to address the softening residential housing market
- With ongoing support from investment partners, continue to grow the development pipeline of new and integrated communities

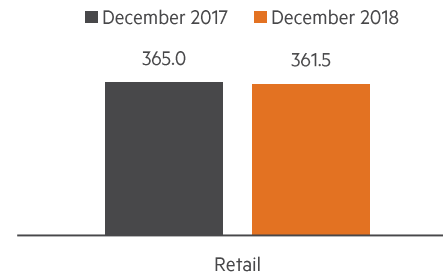


Retail

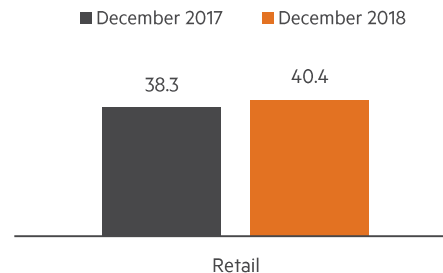
Successful half-year amidst mixed operating conditions

- Slight decrease in total segment revenue of 1.0% compared to the prior corresponding period
- Adjusted EBITDA increase of 5.6% driven principally by a steady underwriting experience in the health insurance business and continued net interest margin improvement in the banking business
- Operating expenses declined by 1.7% due to a \$1.3 million drop in health insurance claims net of risk equalisation, and a \$4.3 million decrease in operating expenses across the Retail platform

Total segment revenue (\$m)



Adjusted EBITDA (\$m)



Retail highlights*



Health insurance

- Policyholders decreased by 1.0% to 191,874 (30 June 2018: 193,771) reflecting declining industry growth and a considered strategy to review profitability of distribution channels
- Delivered lowest average premium increase to members in 18 years, slightly above the industry average
- Prepared for implementation of private health insurance industry reforms
- Completed transfer and migration of corporate health insurer GU Health to nib holdings Ltd



Banking

- Big Sky Building Society Limited renamed Australian Unity Bank Limited
- Total assets increased by \$57.7 million to \$835.1 million (30 June 2018: \$777.4 million)
- Banking business maintained its BBB/Stable rating from Standard & Poor's
- Continued to focus on digital delivery of services to better meet customers' needs

- Pressure on affordability and changing demography remain key factors for private health insurance industry
- Latest health insurance reforms to be introduced in April 2019, which include new clinical categories, will remain a key focus. The business is seeking to minimise change that is detrimental to policyholders, and instead upgrade policies with additional features where practical
- Continue engagement with sector participants and government to urge positive reforms to improve the quality, effectiveness and cost efficiency of the health care sector
- Retail business will be responsive to any reforms arising from the Royal Commission into Banking, and remains actively engaged with the relevant industry bodies
- Pursue opportunities arising from the health insurance and banking adjacencies

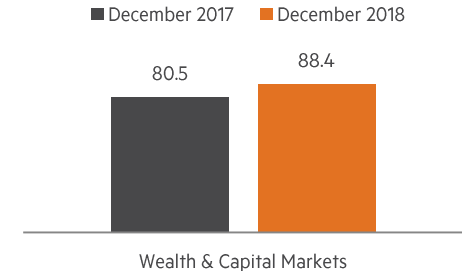


Wealth & Capital Markets

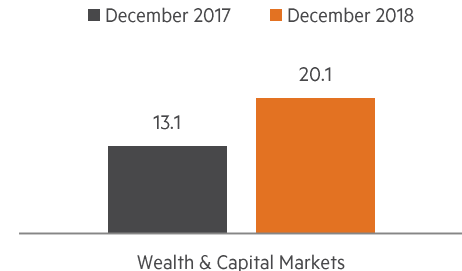
Building strong and sustainable growth

- Platform recorded a 9.8% increase on prior corresponding period in total segment revenue to \$88.4 million for the half-year to 31 December 2018
- Strong result of 54.0% increase in adjusted EBITDA was positively impacted by underlying business growth, net favourable outcomes in one-off items from social infrastructure related developments and legal settlements received in Life & Superannuation
- Weighted aggregate return* of 2.7% for the year to 31 December 2018 on the portfolios of the Australian Unity Group, of approximately \$700.0 million, including its capital stable and highly liquid insurance reserves. This compared favourably to the return available on risk-free cash (measured by the Bloomberg Ausbond Bank Bill Index) of 1.9%

Total segment revenue (\$m)



Adjusted EBITDA (\$m)



Wealth & Capital Markets highlights*



Advice

- New management team established, with a focus on positioning the business for growth, achieving increased operating scale and delivering longer term strategic priorities
- Minor increase in adviser numbers to 173 (30 June 2018: 172)
- Recruitment of new self-employed practices, with a strong recruitment pipeline in place



Investments

- Funds under management (FUM) of \$5.5 billion (30 June 2018: \$5.9 billion)
- Returns on equities mostly lower than prior years. Platypus Asset Management outperformed Australian share market with its flagship portfolio returning 1.7% for the year to 31 December 2018 compared to the benchmark return of -3.1% for the S&P ASX 300 Accumulation Index
- Further development of a socially responsible investment platform



Life & Super

- Assets under management and administration of \$2.2 billion (30 June 2018: \$2.2 billion)
- \$650.5 million in funeral FUM (30 June 2018: \$639.0 million)
- High Court of Australia finding in favour of Lifeplan in Ancient Order of Foresters in Victoria Friendly Society Limited (Foresters) v Lifeplan Australia Friendly Society Limited. Judgement amount was on an "Account of Profits" basis resulting in a favourable outcome to the Group



Property

- Assets under management increased to \$3.2 billion (30 June 2018: \$3.1 billion)
- Pipeline of property development of \$1.2 billion (30 June 2018: \$1.2 billion)
- Managing debt facilities on behalf of investors of \$1.5 billion (30 June 2018: \$1.6 billion)
- Healthcare Property Trust increased FUM to \$1.6 billion (30 June 2018: \$1.5 billion) with a return of 8.1% for the year to 31 December 2018



Trustees

- Continued implementation of a new operating system, designed to support and strengthen the capability and capacity of the business
- Total gross revenue below prior corresponding period due to lower than expected aggregate volumes in Deceased Estates and Protected Persons' appointments
- Estate planning, legal and taxation services revenues continued to grow during the period

- Period ahead should yield opportunities for the platform to offer customers valuable investment and financial opportunities, and to deliver important benefits to many areas of the community
- The Herston Quarter project continues to be a key focus as it embodies one element of Australian Unity's response to Australia's social infrastructure challenge.
- The business' continued success in accessing debt and equity from a more diverse range of sources is key as it looks to originate further initiatives in social infrastructure and impact investing

Royal Commission into Aged Care Quality and Safety

- Royal Commission into Aged Care Quality and Safety was announced in September 2018 and commenced public hearings in the week of 11 February 2019
- As both an aged care provider and an organisation committed to advocating on behalf of its customers and members, Australian Unity welcomes any opportunity to make a positive contribution to improving aged care
- Australian Unity has responded to the Royal Commission's invitation for approved providers to submit voluntary, early written submissions. In early 2019, we provided two such submissions to the Royal Commission (one related to our residential aged care business and one related to our home care business). These submissions also included our views on how the aged care system could be improved

Customer-focused business shaped for future growth

- Purposefully addressing social infrastructure challenges with some of the most significant projects in the more than 175-year history of the Group, including new retirement community facilities and locations, and the Herston Quarter redevelopment in Brisbane
- Key focus on further integrating and optimising human services activities and pursuing collaboration opportunities
- Goal remains to build a commercial, sustainable portfolio of businesses that foster individual and community wellbeing

