ASX Announcement

9 September 2020

Australian Unity reports $15.0 million profit after income tax for FY20

Health, wealth and care group Australian Unity (the Group) has reported a profit after income tax of $15.0 million for the 12 months to 30 June 2020.

Despite the challenges presented by the COVID-19 pandemic, the Group maintained positive momentum with its strategic agenda as a provider of health, wealth and care products and services that meet the wellbeing needs of its members and customers, while delivering community and social value.

The Group delivered a profit after income tax of $15.0 million in the 2020 financial year, compared to $53.0 million in the prior year.

It estimated that direct and indirect COVID-19 impacts reduced the year's net profit before income tax by approximately $26 million. These impacts included the implementation of extraordinary measures to seek to protect aged care residents, home care customers and the employees who support them, the provision of hardship relief for health insurance and banking customers, and the effect of tightened economic circumstances and the equity market downturn on the financial position of many who invest with Australian Unity.

In the year under review, the Group's total revenue and other income decreased to $1,412.7 million (2019: $1,608.7 million). Despite the pressures of COVID-19, the Group's operating businesses generated overall revenue growth, up $10.4 million on the prior year. This was offset by lower investment returns, down $18.9 million, and a $187.5 million decrease in benefit fund revenue, principally due to reduced benefit fund investment earnings.

Total expenses, excluding financing costs, were $1,382.1 million (2019: $1,493.7 million). A 2.2 percent or $28.7 million increase in overall operating expenses included higher health insurance net claims (up $4.6 million), increased debt provisioning (up $6.5 million) and higher client care costs (up $7.1 million), while benefit fund expenses were $140.2 million lower than in 2019.

In addition to the estimated COVID-19 impact discussed above, the result was impacted by costs associated with the Group's corporate office

ASX code:
AYU

Securities on Issue:
AYUHB – 713,257
AYUHC – 1,150,192
AYUHD – 2,070,000

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moving to leased premises ($7.0 million), as well as some $5.4 million in additional, timing-related costs due to the inception of the new accounting standard on leases. Further, there was no equivalent to the legal settlements received in the Life & Super business in the prior year.

The overall outcome represented a decline in the aggregate trading position, with operating earnings for the year of $38.4 million–a decrease of $23.4 million on the 2019 financial year.

Group Managing Director Rohan Mead said:

"Despite the unprecedented challenges that emerged as the year unfolded, we continued to progress our strategic ambition of developing a portfolio of valued health, wealth and care services for members and customers.

"We delivered or progressed several initiatives aligned to this agenda, including the launch of Ramsay Connect—a joint venture through our subsidiary company Remedy Healthcare—and the ongoing development of Brisbane's Herston Quarter health precinct with the Queensland Government.

"We launched both the Australian Unity Green Bond Fund to invest in green, social and sustainable fixed interest securities, and a Specialist Disability Accommodation fund to invest in a portfolio of assets that will provide accessible accommodation for Australians with disability."

"With COVID-19 and other challenges in our operating environment in the year under review—most notably the earnings headwinds manifesting in a private health insurance sector already impacted by a standstill on broader healthcare reform—the Group undertook a prudent reshaping of its cost structure to increase financial resilience. This included the introduction of cost containment measures in recruitment, professional fees, marketing and other areas of discretionary expenditure.

"We announced and then deferred a below-industry average premium increase and then implemented a material set of COVID-19 hardship support provisions for our health insurance, banking and other services. We continued to grow our human services and social infrastructure activities, while making concerted efforts to protect the customers and employees of these activities from COVID-19. While the financial performance of the underlying business portfolio was resilient in many regards, there were nonetheless significant revenue and cost impacts on the financial results.

"In addition to the other responses to the pandemic, the board considered the position of the board and senior staff. The board determined that it would forgo 10 percent of director fees from 1 July through to December 2020—at which time it will review the situation. In relation to senior staff, we determined that there would be no payments of variable remuneration in relation to the 2019–20 financial year.

"Another priority for the Group was the maintenance of a solid balance sheet position in support of operational resilience and agility. To this end, in October 2019 the Group took advantage of capital market and investor support, along with attractive market settings, and acted to spread the maturity of its borrowings through the issue of $322.0 million of Series C and D Australian Unity Bonds. Of this amount, $178.7 million was used to refinance previously issued Series B Australian Unity Bonds. This allowed the Group to continue to operate decisively and effectively despite the emergence of COVID-19.

"Moving forward, the Group will seek to maintain balance sheet resilience and operational flexibility as it continues to pursue the development of our business portfolio and the realisation of strategic ambitions. It will also continue the important work of refining and delivering value to members, customers, employees and the broader community–value that is based on our 180 years of delivering real wellbeing."

Strategic and financial performance of the three business platforms

Independent & Assisted Living (IAL) ended the year under review with an adjusted EBITDA[1] of $66.1 million, which was an increase of 37.2 percent ($17.9 million) on the prior year—or 64.8 percent ($23.6 million excluding the Development portfolio). This increase reflected a continued focus on improving the sustainability of IAL's Home Care Services business. IAL also focused on its development pipeline of aged care and retirement communities during the year under review, acquiring The Heritage retirement village in Hunters Hill, NSW, in February 2020.

Retail had a challenging year in mixed operating conditions, with adjusted EBITDA of $61.2 million, a decrease of $13.2 million (17.7 percent) on the prior year. This result was driven principally by the growth in private health insurance claims expenses exceeding revenue growth for the year. Higher claims expenses were partly due to an

[1] Adjusted EBITDA: the measure the Group uses in assessing the operating performance of its business segments. This measurement basis excludes the effects of tax, 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 2020.

underestimation of claims in the prior year and reflected similar experience across the sector. The platform's banking business, Australian Unity Bank, experienced strong lending growth that enabled the banking business to offset the impact of lower interest rates on its revenue.

Wealth & Capital Markets (W&CM) recorded an adjusted EBITDA of $32.8 million, which was a $17.7 million (35.0 per cent) decrease on the prior year. The platform recorded a 5.8 percent decrease in total segment revenues compared to the previous period. However, after adjusting for one-off legal settlements received in the Life & Super business in the prior period, the platform delivered revenue growth across most of its business segments, despite the unfolding global health crisis. The comparative decrease in adjusted EBITDA was also affected by the legal settlements in the 2019 financial year. Platform highlights included continued progression of the Herston Quarter development, as well as the launch of the green fund and disability housing fund mentioned above-all initiatives that contribute to the company's long-term sustainability, while delivering community and social value outcomes for members, customers and the broader Australian community.

Key financial metrics by business

Independent & Assisted Living

For period ended:	30/06/20 $M	30/06/19 $M	CHANGE %
Total segment revenue	496.4	469.4	5.8
Adjusted EBITDA	66.1	48.2	37.2
Other results:	**30/06/20 $M**	**30/06/19 $M**	**CHANGE %**
Home Care Services revenue	320.5	305.7	4.9
Remedy Healthcare revenue	28.4	25.9	9.7
	30/06/20 Number	**30/06/19 Number**	**CHANGE Number**
Retirement village ILUs	2,496	2,469	27
Aged care beds	786	786	0

Retail

For period ended:	30/06/20 $M	30/06/19 $M	CHANGE %
Total segment revenue	709.5	722.1	(1.7)
Adjusted EBITDA	61.2	74.4	(17.7)
Gross claims paid	626.2	612.3	2.3
Other results:	**30/06/20 $M**	**30/06/19 $M**	**CHANGE %**
Bank gross loan portfolio	928.2	751.2	23.6
Australian Unity Bank total assets	1,133.9	886.0	28.0
	30/06/20 Number	**30/06/19 Number**	**CHANGE %**
Policyholders (AUHL)	176,578	185,936	(5.0)
Australian Unity Bank customers	~24,500	~24,300	0.6

Wealth & Capital Markets

For period ended:	30/06/20 $M	30/06/19 $M	CHANGE %
Total segment revenue	170.5	180.9	(5.8)
Adjusted EBITDA	32.8	50.5	(35.0)
Other results:	**30/06/20 $B**	**30/06/19 $B**	**CHANGE %**
Investments funds under management or advice	8.22	7.12	15.4
Property under management	3.52	2.99	17.6
Property under development	1.29	1.26	2.4
Debt facilities under management	1.37	1.59	(13.6)
Funds under advice	7.14	6.20	15.2
Funds under trusteeship	0.35	0.33	7.0
Life & Super funds under management	2.27	2.34	(3.1)
Total	**24.16**	21.83	**10.7**

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This announcement has been authorised for distribution to the ASX by:

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