



Australian Unity Limited

Investor update

Financial results for the year-ended 30 June 2018

Australian Unity investor update

Australian Unity Limited is pleased to invite you to our investor presentation for the year-ended 30 June 2018

Date

Tuesday 4 September 2018

Time

2.30pm to 3.30pm AEST

Dial in details

Toll-free number: 1800 725 000

Local dial in: 02 8373 3582

Conference ID: 1038509

If you are unable to attend in person, 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.

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

Esther Kerr-Smith

Group Executive - Finance & Strategy



Darren Mann

Deputy Head of Finance & CFO



Steve Drummy

General Manager Commercial Financial
Strategy & IAL CFO



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 newly transformed 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
- Reset reporting from second half to align with new business structure



What are our priorities for FY19?



HDS operating model



Development pipeline for
retirement communities



Sustained efficiencies



PHI reforms



Herston Quarter
development 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

FY18: Investing for growth

Significantly advanced strategic development of the Group

- Extensive Group transformation program to streamline operations into customer-focused platforms incurred significant costs, impacting full-year results with benefits to come over following reporting periods
- Continued considerable investment in human services operations, such as integration and growth of Home & Disability Services (HDS)
- Progressed the realisation of real-property social infrastructure assets

Profit after tax up 10.0% to \$51.5 million (incl. sale impact of GUCH)

- Cash proceeds of \$155.7 million from sale of corporate health insurance subsidiary, Grand United Corporate Health Limited (GUCH), to nib holdings ltd with a gain on the sale of \$61.6 million
- Gain on sale offset partially by non-cash capital management initiatives
- Solid performance from Retail and Wealth & Capital Markets especially in Property and Investments businesses

Revenues¹ and other income of \$1.76 billion, down 6.4%

- Sound revenue growth in Wealth & Capital Markets platform in competitive and challenging environment
- Continuing operations business revenue declined primarily due to a \$79.7 million reduction in benefit fund revenue, and lower development revenue within the Independent & Assisted Living business

Continuing operations² loss of \$15.3 million

- Adversely impacted by \$14.7 million of costs arising from Group transformation program and \$35.9 million of capital management initiatives and the impairment of certain assets

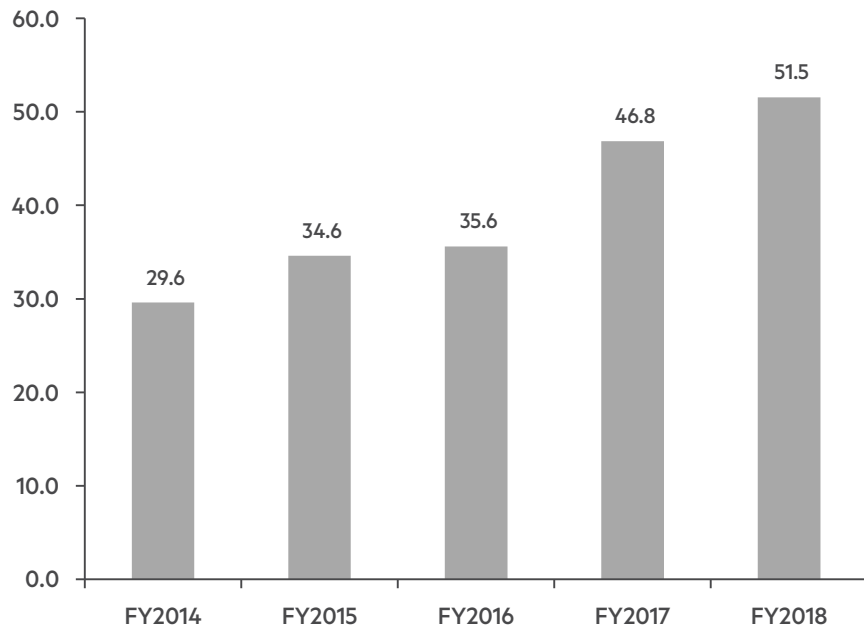
¹ Revenues: comprise revenue and other income receipts as shown in the statement of comprehensive income in the Annual Financial Report, excluding discontinued operations, plus life investment contract premium receipts. The latter receipts are recorded as movements in benefit fund policy liabilities in the balance sheet and not through the statement of comprehensive income.

² As disclosed in the Consolidated statement of comprehensive income in Australian Unity Limited's 2018 Annual Financial report.

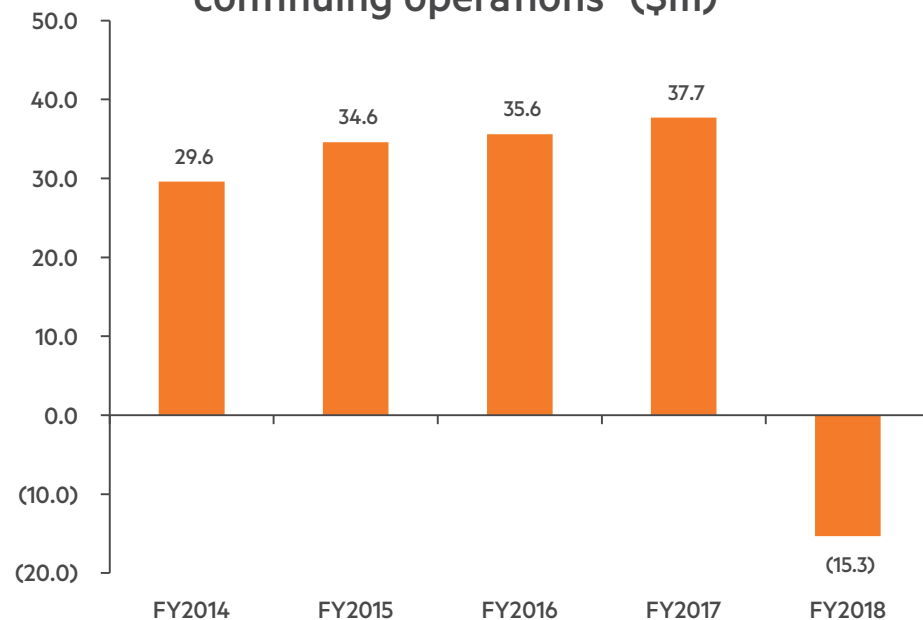
The Consolidated statement of comprehensive income itself contains note references which provide additional information to readers about the items concerned.

FY18 key metrics

Profit after income tax¹ (\$m)



Operating earnings/ (loss) from continuing operations² (\$m)

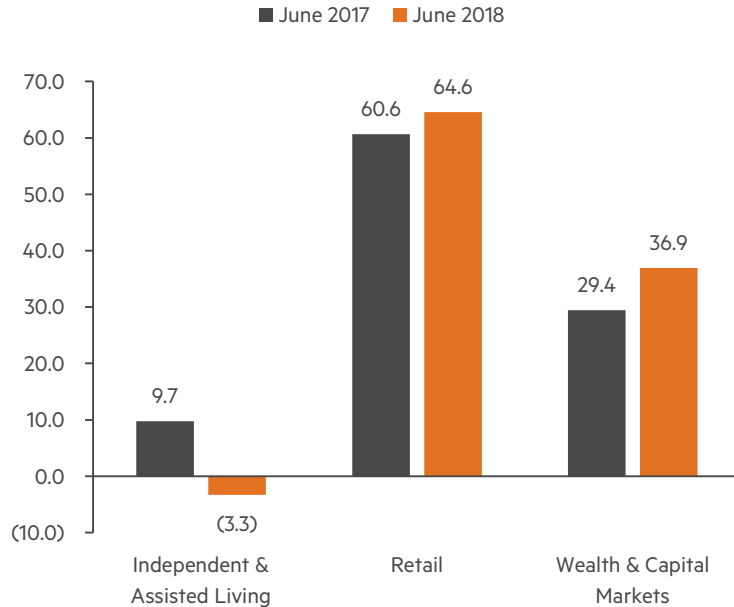


¹Included in the FY18 result was a gain on sale of \$61.6 million from the divestment of the Group's corporate health insurance subsidiary, Grand United Corporate Health Limited completed 31 October 2017.

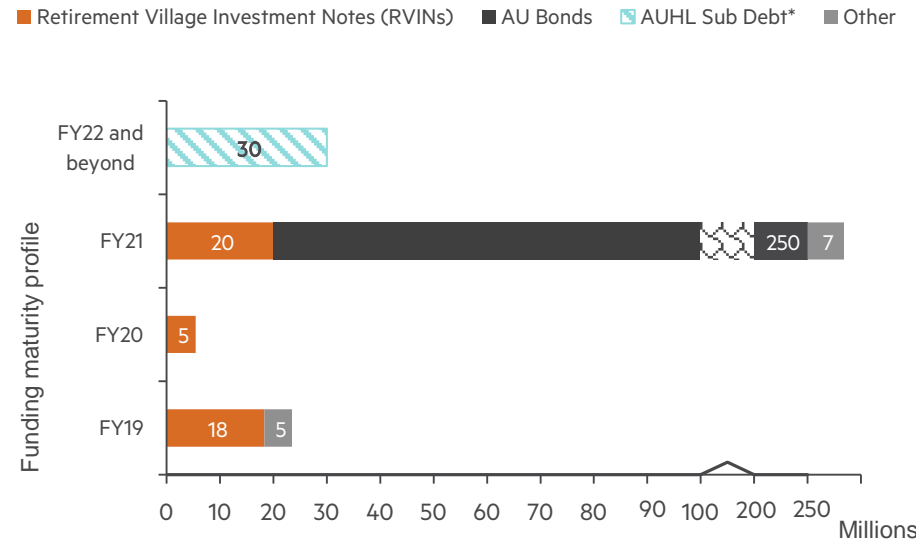
²The FY18 year includes the sale of the Group's Corporate health insurance business, Grand United Corporate Health, affecting the comparative results for FY17.

FY18 key metrics

Adjusted EBITDA¹ \$m



Funding maturity profile²



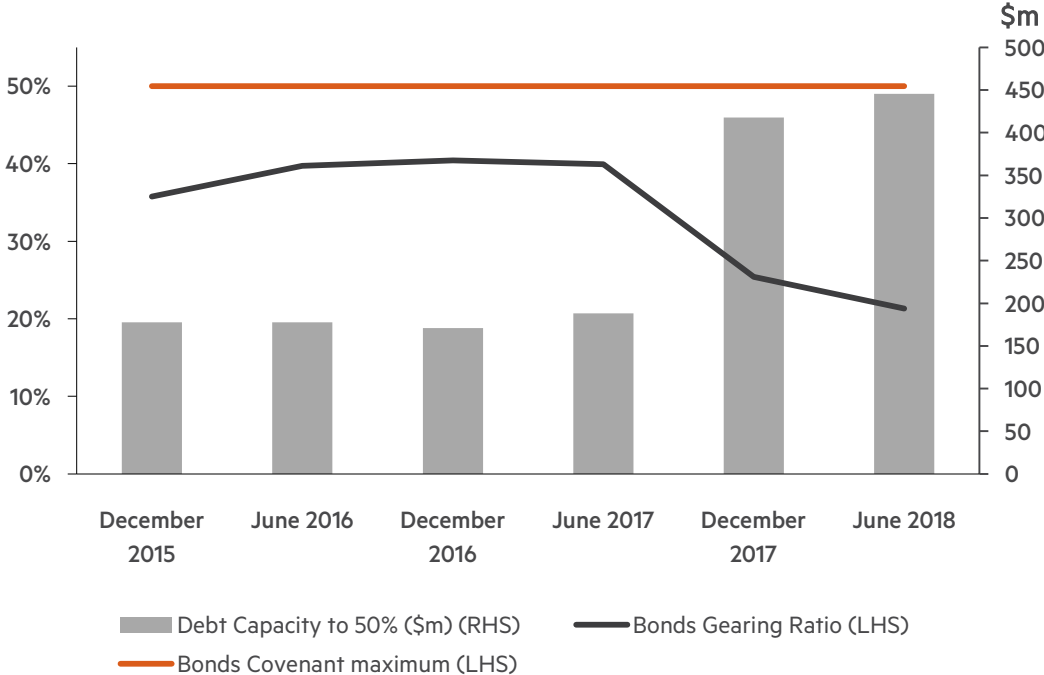
¹ Adjusted EBITDA: the measure the Group uses in assessing the operating performance of its business segments. This measurement basis excludes the effects of depreciation and amortisation, interest on external borrowings and investment income. It also excludes non-recurring expenditure. See note 1(c)(ii) to the Consolidated financial statements in Australian Unity Limited's 2018 Annual Financial Report.

² Funding maturity profile shows consolidated interest bearing liabilities that contribute to the gearing ratio, excluding ADI borrowings
 *Called and repaid on 11 July 2018

Gearing analysis and interest cover

Ratios for Australian Unity Bonds - Tranche 1 at 30 June 2018:

- Gearing at 21.3% based on covenant gearing calculations. Maximum covenant gearing ratio allowed is 50%
- Interest cover¹ at 7.4 times



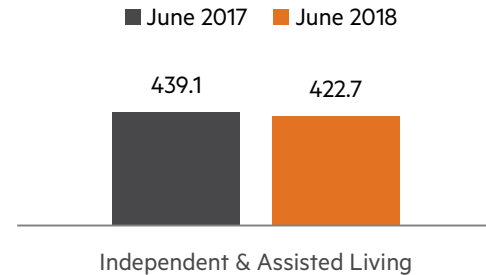
12 ¹Interest cover ratio is calculated on a rolling 12 month basis

Independent & Assisted Living

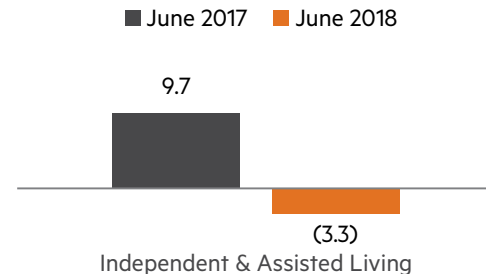
Integration and investment for future growth

- Independent & Assisted Living (IAL)** provides retirement communities, aged care, home care and disability services. It also offers preventative health and chronic disease management services through its wholly owned subsidiary Remedy Healthcare, and direct healthcare services through dental clinics
- Continued investment in supporting the integration and growth of the Home & Disability Services business contributed to a decline in financial performance
- Successful growth in market share during the year saw the HDS business record an adjusted EBITDA loss of \$25.4 million, an improvement of 29.6% compared to prior year (2017: \$36.1 million loss)
- Small decrease in revenue reflected the significant number of retirement and aged care properties brought into operation in 2017 (\$34.9 million) compared to the year in review (\$5.7 million)
- To address the specific needs of Australian Unity’s Indigenous home care customers, an Indigenous business unit was established—Aboriginal Home Care

Segment Revenue (\$m)



Adjusted EBITDA (\$m)



IAL highlights*



Home & Disability Services

- Revenue growth of 4.8% to \$269.7 million
- Transitioned 7,500 Home Care NSW disability customers to NDIS funding, of which 3,377 continue to receive services from Australian Unity with their new funding packages
- Aged care home care packages grew from 1% market share (1,170 packages), to approx. 4% market share (3,002 packages)
- Approx. 3,800 care workers serviced more than 52,000 customers by delivering ~4.2 million hours of care



Residential Communities

- Own and operate 19 retirement communities in Victoria and NSW with a portfolio of 2,370 independent living units (2017: 2,354)
- Retirement community occupancy remained greater than 95% while aged care was at 89% after the opening of Campbell Place in May 2017
- No change in the number of operational aged care beds from 2017 to 2018: 711
- Price growth of 3.9% in retirement village units



Development

- Construction either completed, substantially progressed or commenced in the following communities:
 - Drummond Place, Carlton, Victoria
 - 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
 - Campbell Place, Glen Waverley, Victoria



Remedy Healthcare

- Continued strong growth and diversification of customer portfolio and revenue sources
- Delivered more than 540,000 episodes of care across 18 treatment programs
- Awarded contract to run the Get Healthy Service on behalf of departments of health for South Australia, Queensland and NSW
- Recovery rates in the MindStep® program exceeded 55% again in second year of evaluation



Dental

- Growth in number of patients visiting Australian Unity dental clinics to 58,455 (2017: 58,113)
- Six dental clinics operating in Victoria

IAL outlook

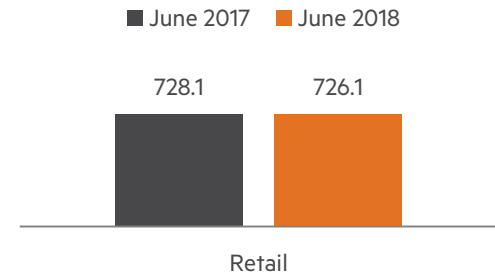
- With growing sectors, key challenge will be accessing the workforce required to deliver services safely and at the high quality required
- Develop an integrated care model that combines the capabilities and services in Home & Disability Services and Remedy Healthcare
- Prepare for the Commonwealth Home Support Package funding transition in the aged care, home care sector-scheduled for 2020
- With ongoing support from investor partners, continue to grow the development pipeline of new and integrated communities

Retail

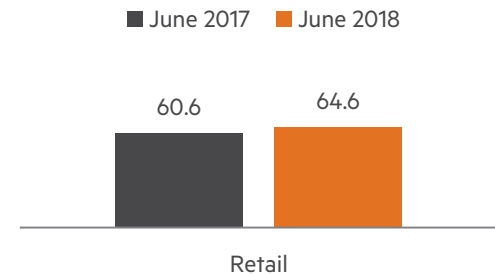
Successful year despite a range of economic, structural and regulatory challenges

- The **Retail** platform offers individuals and families a range of health insurance, banking, general insurance and mortgage broking services
- Corporate health insurance subsidiary, GUCH sold to nib holdings Ltd on 31 October 2017. This sale was undertaken to release capital for investment in strategic initiatives consistent with Australian Unity's goal of developing the Group's operations in areas that foster personal wellbeing and community value
- Small decline in revenue
- Adjusted EBITDA result principally driven by an improved underwriting experience for the retail health insurance business and an improvement in net interest margin for the banking business

Segment revenue (\$m)



Adjusted EBITDA (\$m)



Retail highlights*



Retail health insurance

- Policyholders decreased by 3.8 percent to 193,771 (2017: 201,516) reflecting declining industry participation and a considered strategy to review and curtail uncommercial means of distribution
- Delivered lowest average premium increase to members in 11 years, below weighted industry average
- Significant results achieved in call centre optimisation program—achieved service level improvements (reduced customer wait and handling times) at a lower ongoing cost
- Private health insurance industry reforms remained a key focus for the business. An outcome from prostheses pricing reforms, announced in May 2017, was a reduction in growth of hospital claims



Corporate health insurance (GU Health)

- Sold to nib holdings ltd on 31 October 2017. Cash proceeds from sale of GU Health \$155.7 million, while the gain on the sale after tax was \$61.6 million



Big Sky

- Big Sky's total assets at \$777.4 million were actively managed in light of market conditions (2017: \$827.4 million)
- Big Sky maintained its BBB/Stable rating from Standard & Poor's, a pleasing result given the many downgrades within the sector announced throughout the year
- Targeted lower levels of lending and a stable balance sheet size with a growing emphasis on digital delivery of services to better meet customers' needs
- Mobile and internet banking capability upgraded to provide access to real time payments
- The NextGen system, to support the third party distribution channel, successfully implemented

Retail outlook

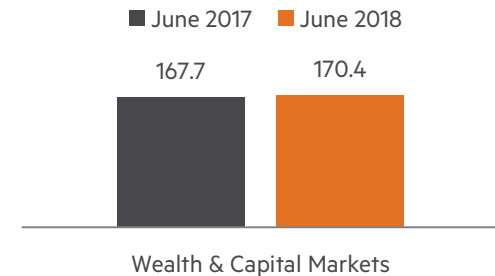
- Pressure on affordability and aging demography remain factors for private health insurance industry
- Latest industry reforms will remain a key focus, particularly the new Gold, Silver, Bronze and Basic classification system—new tiers of hospital products to be introduced in April 2019
- Continue engagement with sector participants and government to urge positive reforms to improve the quality, effectiveness and cost efficiency of the health care sector
- Develop a comprehensive health management strategy for the benefit of members by proactively working with the broader healthcare sector to create value-based and evidence-based healthcare solutions
- Big Sky to be rebranded to Australian Unity Bank in support of the Retail growth agenda and overall customer experience

Wealth & Capital Markets

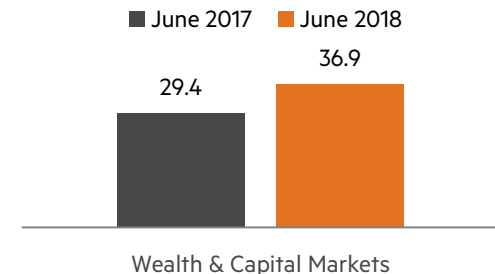
Centralised distribution achieves strong and sustainable growth

- **Wealth & Capital Markets** comprises the advice, investments, life & super, property and trustees business units
- Solid performance in a challenging and competitive environment with 25.5% increase in adjusted EBITDA and 1.6% increase in total segment revenue. Adjusted EBITDA positively impacted by streamlining operations
- Strong growth in the property and investment bonds segment*:
 - Healthcare Property Trust posted 12.8% return (2017: 14.0%)
 - Retail Property Fund delivered 14.5% return (2017: 32.9%)
 - Diversified Property Fund return of 15.0% (2017: 17.6%)
 - Australian Unity Office Fund (ASX: AOF) achieved 20.0% return, outperforming S&P/ASX 300 A-REIT Index by 6.8 percentage points

Segment Revenue (\$m)



Adjusted EBITDA (\$m)



Wealth & Capital Markets highlights*



Advice

- Acquisition of Bridgeport Financial Services (**Bridgeport**) business from Netwealth Group Limited in March 2018, added \$550 million of funds under advice
- Revenue decreased by 1.7% to \$54.8 million, largely due to a reduction in self-employed adviser numbers which was partially offset by the addition of Bridgeport
- Adviser numbers down to 172 (2017: 182)
- Funds under advice increased by 3.9% to \$6.42 billion (2017: \$6.18 billion)



Investments

- Investments under management and administration of \$5.91 billion (2017: \$6.08 billion)
- Strong investment returns - standout performer was Platypus Asset Management business with flagship portfolio returning 25.9% compared to benchmark return of 13.2% for S&P ASX 300 Accumulation Index
- Management of Group's investment portfolio achieved return of 2.8% (2017: 3.2%), above strategic benchmark of 2.0%



Life & Super

- Assets under management and administration increased to \$2.23 billion (2017: \$2.17 billion)
- Funds under management for education solutions increased by 15.3 percent to \$201.3 million (2017: \$174.6 million)
- Leading position in pre-paid funeral segment with more than \$639 million in funeral funds under management and 90,000 clients



Property

- Assets under management increased to \$3.10 billion (2017: \$2.42 billion); pipeline of development of \$1.25 billion
- Healthcare Property Trust increased total assets to \$1.51 billion (2017: \$1.25 billion), with a return of 12.8% for the year
- Construction of the \$340 million specialist public health facility, Herston Quarter precinct commenced in May 2018



Trustees

- Funds under management of \$361 million (2017: \$349 million)
- Secured a number of new tribunal and court appointments in Queensland, South Australia and Western Australia
- Growth of over 100% in Estate Planning
- Appointed as trustee of the Manus Island Settlement Trust. This relied on the business' capability to manage complex settlement trusts, with beneficiaries located across a number of regions internationally

Wealth & Capital Markets outlook

- Platform is well positioned to benefit from the impact of rising wealth accumulation, the challenges and opportunities presented by Australia's ageing population, and the constraints and constant changes in superannuation
- Herston Quarter project remains a key focus as it transforms Australian Unity's response to Australia's social infrastructure challenge and Australian Unity's profile in Queensland
- Continue to seek to deliver differentiated, higher-value products and services with valuable investment and financial opportunities
- Further extend key parts of the business geographically

Summary & Outlook

Customer-focused business shaped for future growth

- Launched substantial Group-wide transformation program that aims to capitalise on opportunities in large and rapidly growing markets in the Group's areas of operations in health, wealth and living. The transformation incurred significant front-end costs, which impacted results, and will require continuing investment. The benefits of the transformation will be derived progressively over coming reporting periods
- Purposefully addressing social infrastructure challenges with some of the most significant projects in the more than 175-year history of the company, including the Herston Quarter redevelopment in Brisbane
- Goal remains to build a commercial, sustainable portfolio of businesses that foster individual and community wellbeing

Questions



Health | Wealth | Living