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Issue overview

Issuer	Australian Unity
Issue ASX code	AYUPA
Face Value	\$100.00
Offer Price	\$103.00
Estimated offer size	\$160m
New securities (\$160m offer)	1.553m
Fully Franked Fixed Yield	4.85%
Grossed Up Fixed Yield	6.93%
Expected Franking	100%
Dividend payments	Half Yearly
Next dividend payment	15 Apr 2022
Call / Conversion Date	Perpetual
Minimum application	\$5,150

Timeline

Record date:	
Members Offer	23 Sep 2021
Securityholder Offer	23 Sep 2021
Lodgement of prospectus	11 Oct 2021
Bookbuild dividend rate	15 Oct 2021
Securityholder / members:	
Offer closes	29 Oct 2021
Issue date	3 Nov 2021
ASX listing (normal settlement)	8 Nov 2021

Additional Disclosure: Tribeca Private will receive a placement fee for the AYUPA issue.

Australian Unity Limited Mutual Capital Instruments (AYUPA)

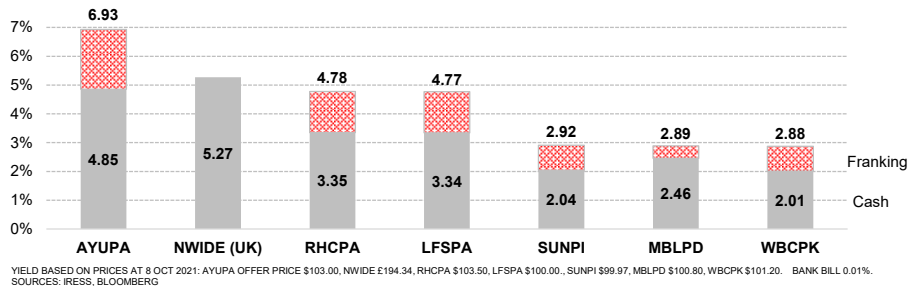
Secondary offer at \$103.00 versus 2021 trading \$104.50-\$110

After raising \$120m of Australian Unity Mutual Capital Instruments (AYUPA) in Dec 2020, a follow-on issue has been launched seeking to raise \$160m at a price of \$103.

While we see the potential for greater capital price volatility compared with a bank Additional Tier 1 Capital Note from the lack of a call or conversion date, as well as the fixed rate structure, we view the AYUPA offer to be attractive when considering:

- **Discount to historical trading price:** Since listing on 4 January 2021, the average price of AYUPA has been \$107.39, with a trading range of \$104.50-\$110.01.
- **Enhanced liquidity with issue size increasing from \$120m to >\$275m**
- **Income more than double the recent WBCPK offer:** AYUPA grossed up income of 6.93% is 141% higher than the 2.88% gross running yield for WBCPK (issue margin set at 2.90% in Aug 2021, current price \$101.20). This spread is higher than the 109% uplift on the first AYUPA offer (7.14% on AYUPA versus 3.42% on WBCPK - issue margin set at 3.40% in Nov 2020).
- **Attractive 6.93% grossed up yield vs 0.35% on best major bank term deposit:** NAB's term deposit book has declined \$49bn (35%) to \$93bn in the 2 years to March 2021, highlighting the potential for investors to bear incremental risk in moving from a Government Guaranteed term deposit to generate an uplift in yield.
- **CBAPE \$1.45bn redemption on 15 Oct 2021 likely to support hybrid demand**
- **Capacity to pay \$13.8m pa of AYUPA dividends via profits / retained earnings:** With status as a quality financial issuer in the ASX listed debt and hybrids market, since 2010, Australian Unity's annual net profit has averaged \$32m, with retained earnings growing from \$146m to \$487m, and member's equity up 138% to \$866m. Australian Unity's dividend policy provides capacity to pay AYUPA dividends from retained profits if scheduled dividends exceed the current year profit.

Figure 1: Income comparison with perpetual hybrids and recent AT1 issues



Key features

- **Fixed grossed up running yield of 6.93%** (4.85% fully franked): Cash top up required for partial / no franking. Australian Unity FY21 franking balance \$47.3m.
- **Discretionary non-cumulative dividends:** A key factor driving the decision to pay AYUPA dividends is Australian Unity's financial performance.
- **No trigger events:** As AYUPA is not an Additional Tier 1 hybrid, it has no Capital Trigger Event or Non Viability Trigger Event.
- **AYUPA is permanent capital (perpetual) with no conversion or call dates:** Mutuals do not have ordinary shares to facilitate conversion into equity.

Important Disclaimer

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Australian Unity Overview

One of Australia’s 5 oldest companies

Australian Unity is a national member-owned wellbeing company, delivering health, wealth and care products and services. With origins that date back as far as 1840, the Australian Unity brand was formed following the merger of ANA (Australian Natives’ Association) and Manchester Unity (Victoria) in 1993.

It is structured as a public, unlisted mutual company regulated by APRA, with over 400,000 members, including 174,827 private insurance policy holders, 26,000 Australian Unity Bank customers, and >7,000 staff at 30 June 2021. The mutual structure of the organisation does not distribute profits in the form of dividends to shareholders. Instead, profits are reinvested into programs and services benefitting the wellbeing of members, customers and the community. Australian Unity provides services to 700,000 customers across three major operating divisions.

Independent and Assisted Living (39.5% of FY21 EBITDA) - Operates 21 retirement communities with 2,496 independent living units (94% occupancy) and provides 786 aged care beds across 7 facilities (95% occupancy). Home Care Services delivered ~3m hours of care to over 38,000 customers by 3,021 care workers, while the Aboriginal Home Care business delivered 240,000 hours of care to 2,400 clients by 196 care workers.

Figure 2: Independent Living Units and Aged Care Beds

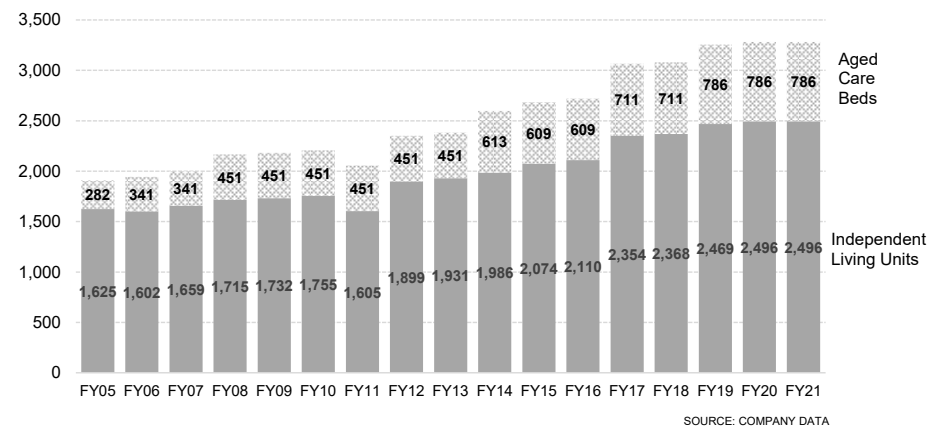
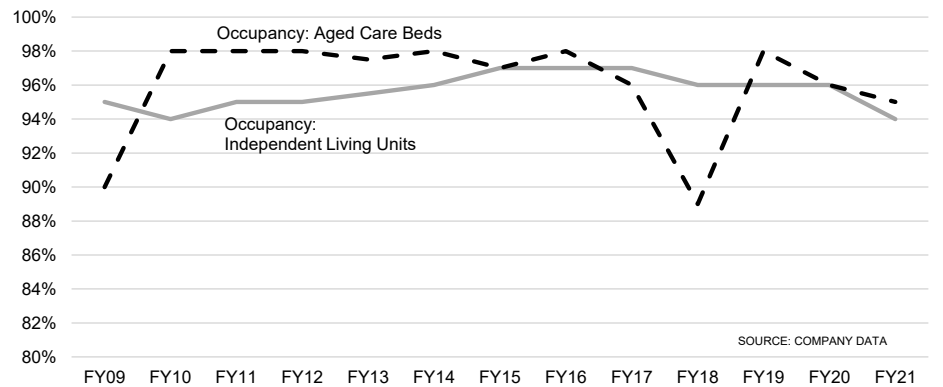


Figure 3: Occupancy: Independent Living Units and Aged Care Beds



Australian Unity Overview

Australian Unity overview

Retail (45.4% of FY21 EBITDA) - Australia's sixth largest private health insurance fund (behind Medibank, Bupa, HCF, nib and HBF) with ~175,000 policy holders, and ~3% market share. Australian Unity Bank has 26,000 customers with a loan book >\$900m.

Figure 4: Private Health Insurance Policy Holders

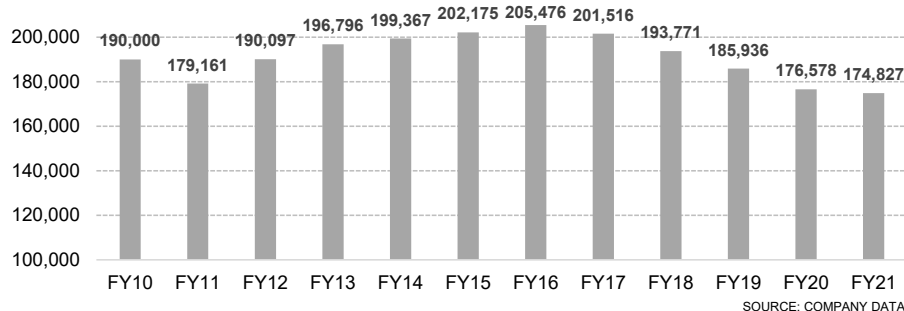
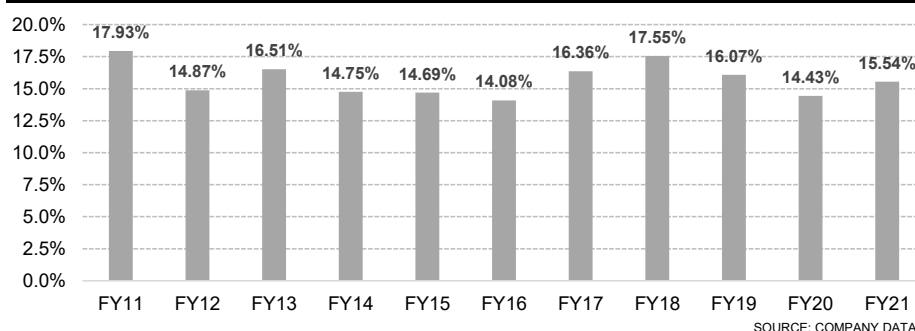


Figure 5: Australian Unity Bank Capital Adequacy Ratio



Wealth & Capital Markets (15.1% of FY21 EBITDA) - platform assisting Australians secure financial wellbeing, encompassing advice (171 advisers managing \$9.36bn funds under advice), investments (\$10.46bn investment funds under management and advice), life & super (\$2.51bn funds under management), property (\$4.10bn property under management plus \$1.25bn property under development) and trustee services (\$0.37bn funds under trusteeship).

Figure 6: Australian Unity Assets and Funds Under Management and Advice

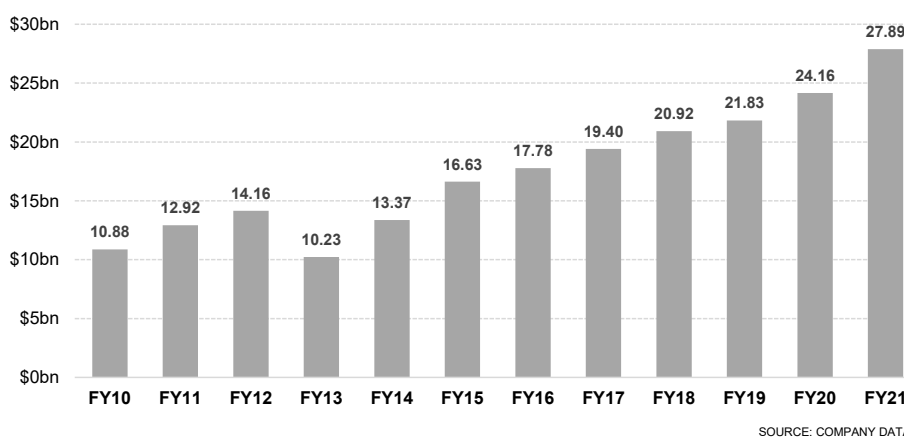


Figure 7: Australian Unity History

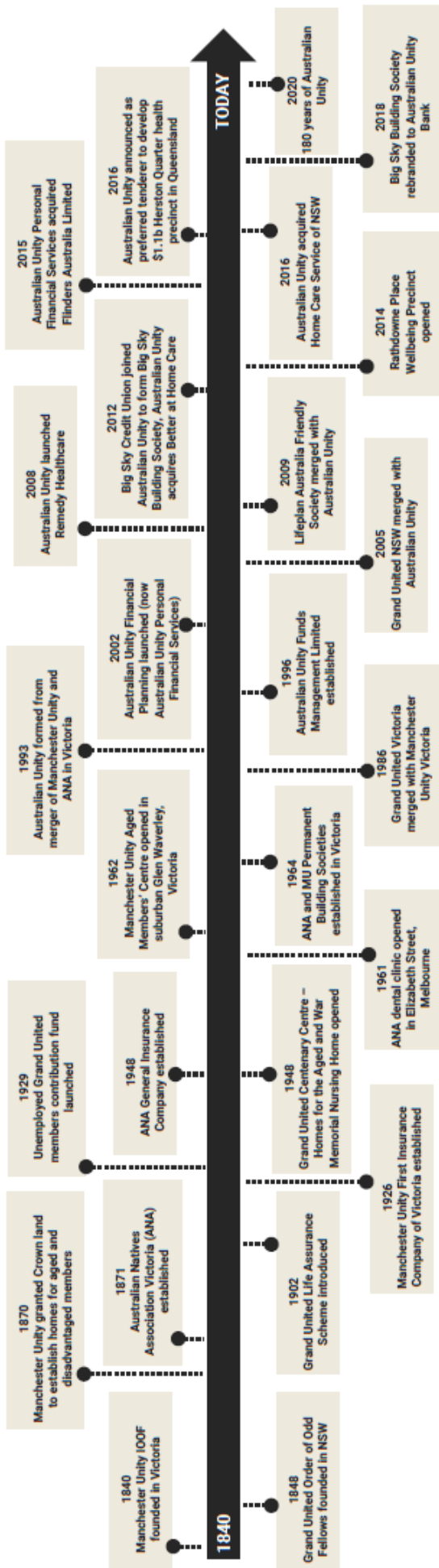


Figure 8: Australian Unity Net Profit 2002-2021

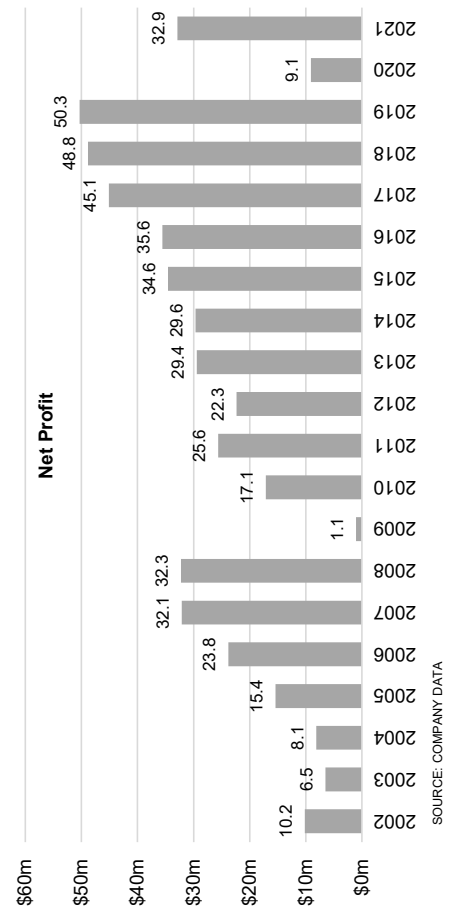


Figure 9: Australian Unity Retained Profits and Members' Equity



Strong capacity to pay discretionary dividends

Profits and retained earnings to pay dividend

Since 2010, Australian Unity's annual net profit has averaged \$32m, with retained earnings growing from \$146m to \$487m, and member's equity up 138% to \$866m. The dip in FY20 net profit to \$9m included COVID-19 revenue and cost impacts.

Australian Unity has established a dividend policy for AYUPA, which incorporates:

- The company's assets exceeding its liabilities before the dividend is declared (s254T)
- The payment of the dividend being fair and reasonable to the company's shareholders (s254T)
- The payment of the dividend does not materially prejudice the company's ability to pay its creditors (s254T)
- The ability to pay a dividend on a MCI mutual entity (s254WA) is not prevented, where a company limited by guarantee must not pay a dividend to its members (s254SA) (i.e. Australian Unity has amended its constitution to permit payment)
- The operating and financial conditions of Australian Unity
- The capital and liquidity position of Australian Unity, including future funding requirements and capital management initiatives
- The outlook for the Australian Unity businesses
- The consequences of not paying a dividend, and the damage to Australian Unity's issuer status, as well as its ability to access capital markets in the future.

Figure 10: Segment operating performance

Segment Analysis	FY17	FY18	FY19	FY20	FY21	% Group
	\$m	\$m	\$m	\$m	\$m	(excl corp)
Revenue						
Independent and Assisted Living	439.1	422.7	469.4	484.6	520.6	36.0%
Retail (incl Health Insurance)	728.1	726.1	722.1	709.5	704.6	48.7%
Wealth & Capital Markets	167.7	170.4	180.9	170.5	221.1	15.3%
Corporate / Other	-19.5	-22.1	-15.8	-15.8	-15.3	
Total Segment Revenue	1,315.3	1,297.0	1,356.5	1,348.8	1,431.0	
EBITDA						
Independent and Assisted Living	9.7	-3.3	48.2	57.4	71.1	39.5%
Retail (incl Health Insurance)	60.6	64.6	74.4	61.2	81.8	45.4%
Wealth & Capital Markets	29.4	39.9	50.5	32.8	27.3	15.1%
Corporate / Other	-38.3	-58.7	-80.0	-75.1	-81.3	
Total Segment EBITDA	61.5	39.5	93.0	76.4	98.9	
EBITDA Margins						
Independent and Assisted Living	2.2%	-0.8%	10.3%	11.8%	13.7%	
Retail (incl Health Insurance)	8.3%	8.9%	10.3%	8.6%	11.6%	
Wealth & Capital Markets	17.5%	23.4%	27.9%	19.3%	12.3%	

SOURCE: COMPANY DATA

Figure 11: Australian Unity reported interest cover and covenant gearing

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Interest Cover (pre AASB16)	2.64x	2.72x	2.03x	2.83x	2.93x	3.08x	3.80x	4.20x	7.40x	6.58x	3.53x	4.84x
Interest Cover (post AASB16)											2.32x	3.18x
Gearing (Covenant 50%)						33.7%	40.0%	39.9%	21.3%	21.9%	32.0%	29.0%

SOURCE: COMPANY DATA

Mutual Capital Instruments

First domestic issue of Mutual Capital Instruments

Australian Unity had spent several years pursuing the ability to issue MCIs, as a security to provide mutual entities a means of raising permanent capital without compromising their mutual status. The Australian Government also recognised the necessity to reduce barriers faced by mutual entities in raising new capital, in order to invest, innovate, grow and compete.

The steps preceding the AYUPA launch in November 2020 included:

- 2015: The Australian Government initiated a multi-stage process to create mutual capital instruments as a security in the Corporations Act, where Australian Unity participated in assisting with the development of the legislation.
- April 2019: The Treasury Laws Amendment (Mutual Reforms) Act 2019 came into effect, where legislation enacted to amend the Corporations Act enabled issuance of MCIs.
- October 2019: Australian Unity’s Constitution amended to permit the issuance of MCIs.

The MCIs are perpetual fully paid shares issued by Australian Unity, offering investors non-cumulative and discretionary fixed rate dividends. AYUPA ranks Preferred Equity, behind all credits of Australian Unity in the event of a winding-up, but ahead of the rights of Non Shareholder Members, to the value of any determined but unpaid dividends, and repayment of AYUPA face value. The mutual structure provides no ability for AYUPA to convert into equity. AYUPA will also permit one vote per investor, versus one vote for each of Australian Unity’s 344,778 non shareholder members.

Figure 12: Australian Unity Obligations

Ranking	Instrument	Australian Unity Obligations
Higher	Secured Debt	Employee Entitlements
↑ ↓	Unsubordinated and Unsecured Debt	Bank debt (\$40.6m) AYUHC (\$115m) AYUHD (\$207m)
	Subordinated Debt	None
	Preferred Equity	AYUPA (MCIs) (\$260m post offer)
	Lower	Ordinary Equity

NOTE: EXCLUDES INTEREST BEARING OBLIGATIONS OF AUSTRALIAN UNITY SUBSIDIARIES. SOURCE: COMPANY DATA

Figure 13: Comparison of Mutual Capital Instruments with senior debt, additional tier 1 hybrids, ordinary equity

	Senior Debt	Additional Tier 1 Capital Notes	Mutual Capital Instruments	Ordinary Equity
Security	Secured or unsecured	Unsecured and subordinated	None	None
Term	Typically up to 10 years	Perpetual, subject to call and mandatory conversion dates	Perpetual unless bought back or subject of a capital return	Perpetual unless bought back or subject of a capital return
Interest	Floating or fixed	Typically floating	Fixed	Variable
Franking	Unfranked	Franked (subject to franking availability)	Franked (subject to franking availability)	Franked (subject to franking availability)
Income Deferable	No	Discretionary and non-cumulative	Discretionary and non-cumulative	Discretionary and non-cumulative
Dividend Stopper	No	Yes	No ordinary equity paying dividends	n/a
Holder Redemption	Usually on change of control	None	None	None
Issuer Redemption	Tax event, change of control	Issuer calls, mandatory conversion, tax event, regulatory event, change of control	Tax event, regulatory event, demutualisation event	None
Voting Rights	No	No	One vote per holder	Yes - ownership interest

SOURCE: COMPANY DATA

Comparison with Nationwide’s comparable MCI

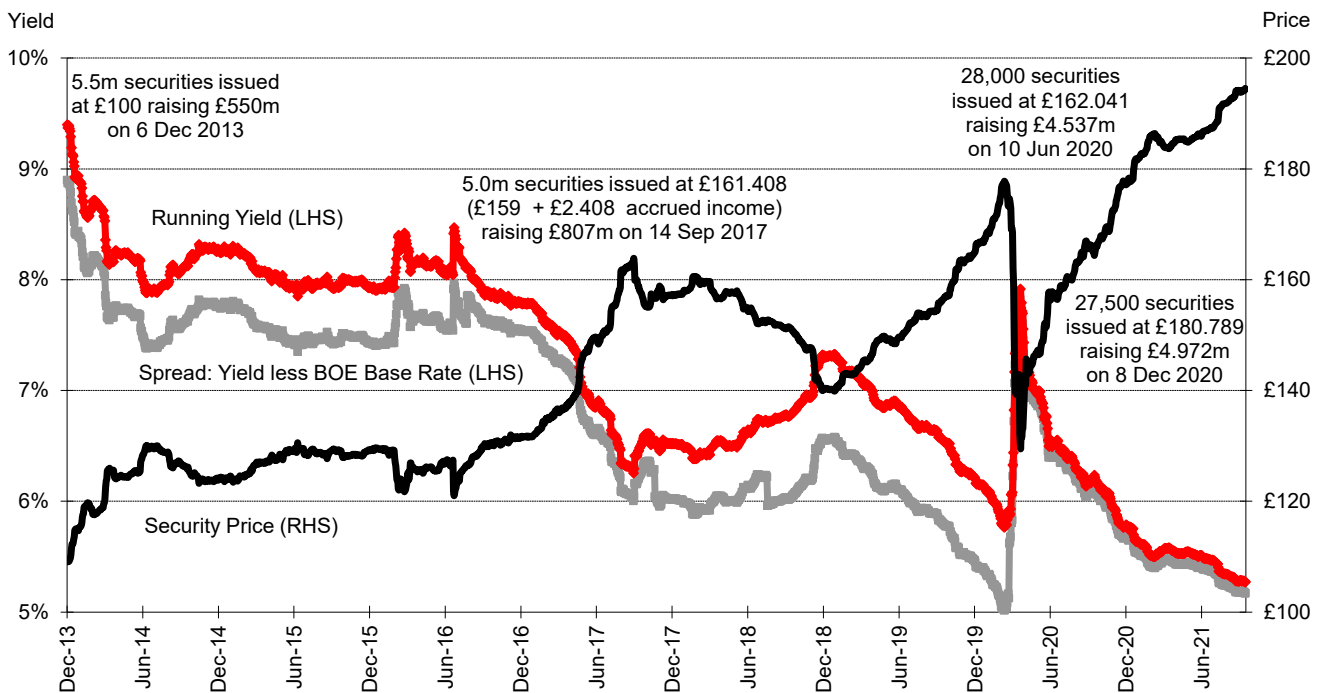
MCI style security issued by Nationwide Building Society

The closest comparable hybrid security to AYUPA is the Core Capital Deferred Shares (CCDS) issued by Nationwide Building Society in England in December 2013. This offer raised £550m via the issue of 5.5m securities, which ranks as Common Equity Tier 1. Nationwide exists as a Mutual, providing services to 15 million members who bank, save or have mortgages.

The initial yield on the CCDS was 10.25% unfranked, where Nationwide subsequently issued a further 5.0m securities in September 2017, at a price of £161.408m (£159 + £2.408 accrued income), raising £807m. The current security price of £194.34 reflects the compression in running yield from 10.25% to 5.27%. This security has not traded below £109.

Australian Unity has followed the path of Nationwide Building Society in conducting further issuance. Demand is likely to be enhanced by the positive investor experience in AYUPA over 2021. Australian Unity has a pipeline of opportunities to increase investment in social infrastructure, as well potential consolidation opportunities in mutual sectors such as private health insurance, banking and friendly societies.

Figure 14: Nationwide Building Society Core Capital Deferred Shares security price and running yield



SOURCES: BLOOMBERG, TRIBECA

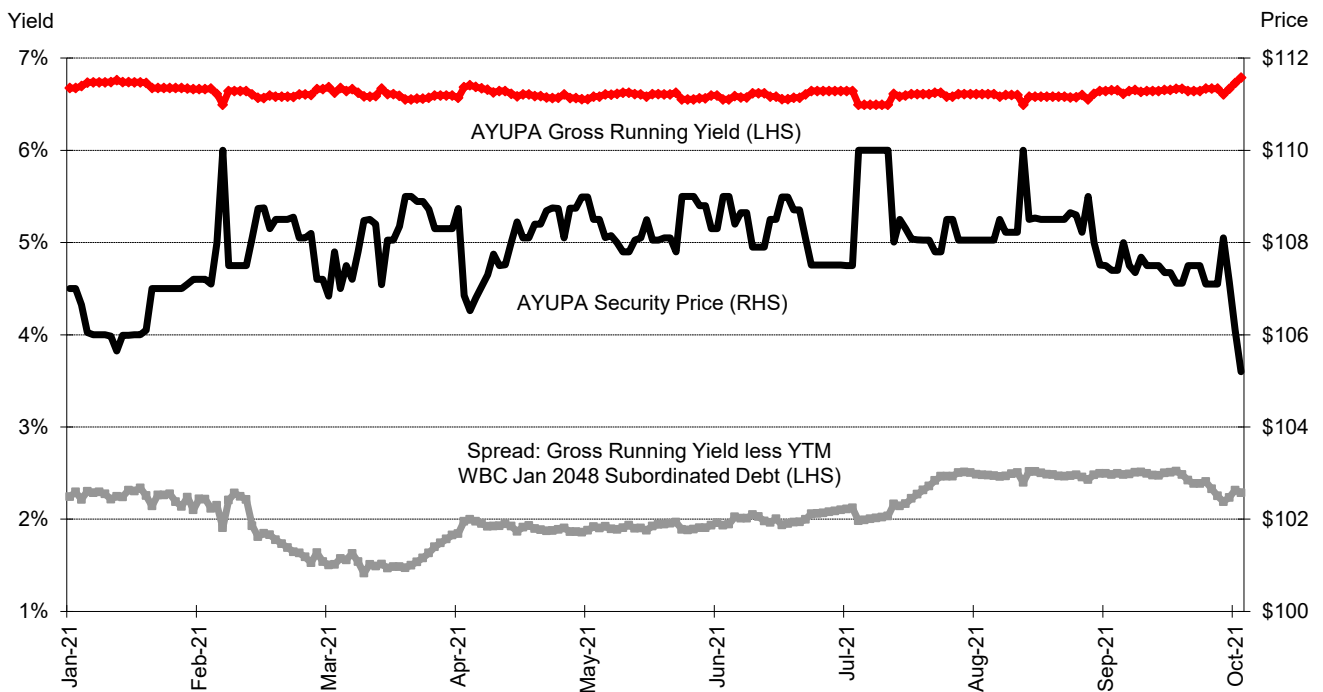
Pricing comparisons

Comparison with Westpac January 2048 subordinated debt

The best domestic valuation benchmark for AYUPA is the Westpac January 2048 wholesale fixed rate subordinated debt security. This security is currently on a Yield to Maturity of 4.50%, representing a spread of 2.43% to the grossed up yield of 6.93% on the AYUPA offer at \$103.00. This compares with an average spread of 2.08% since AYUPA listed on 4 January 2021.

As a perpetual fixed rate security, there is more capital price volatility than compared with a bank Additional Tier 1 Capital Note, which is priced for redemption at \$100 at a future Call Date. Despite this, we see scope for capital upside should AYUPA's yield compress relative to other hybrid securities over time. A re-rating of AYUPA from the 6.93% grossed up yield to Nationwide's 5.27% running yield equates to a security price of \$135.54, while a re-rating to the RHCPA running yield of 4.78% grossed up yield equates to a security price of \$149.43.

Figure 15: AYUPA historical spread to the YTM on WBC Jan 2048 fixed rate subordinated debt



SOURCES: BLOOMBERG, IRESS, TRIBECA

Figure 16: AYUPA pricing matrix for shift in running yields



SOURCE: BLOOMBERG, TRIBECA

Risks

Investment risks

Key Security Risks include:

- AYUPA is not a bank deposit protected by the Government guarantee scheme.
- In the event of a winding-up, AYUPA ranks for payment behind all creditors, including Australian Unity Bonds, but ahead of Non Shareholder Members.
- The capital price of a fixed rate perpetual security may come under downward pressure if interest rates rise.
- AYUPA dividends are non-cumulative and discretionary, where the Australian Unity Board has established a dividend policy to consider several factors before declaring a dividend on AYUPA.
- As Australian Unity is a mutual that does not pay dividends on ordinary shares, a Dividend Stopper on ordinary shares does not currently provide a protection mechanism to AYUPA dividends.
- Adverse movement in credit spreads as a result of a tightening in the availability and cost of credit.
- New issues may offer more attractive issue terms and margins, placing downward pressure on the security price.
- AYUPA may be Repurchased under certain circumstances.
- Australian Unity may incur further liabilities, including further issuance of MCIs.

Key Business Risks of Australian Unity include:

- Strategic and operational disruption due to the COVID-19 pandemic.
- Large exposure of revenue and cash flow from private health insurance, aged care, or in-home care services. These services may be subject to a mismatch between rising costs and the ability to fund the provision of these services.
- Australian Unity operations are weighted towards heavily regulated industries that may be impacted by heightened regulatory scrutiny and complexity.
- Reputational damage, sanctions and remediation costs, from poor customer outcomes, particularly in aged care and home and disability services.
- Australian Unity has no access to ordinary share capital.
- Excessive financial indebtedness.
- Poor performance of acquired businesses and investments.
- Operational risks.
- Increasing competition.
- Adverse regulatory changes.
- A material deterioration in global capital markets and the Australian economy.
- Funding and liquidity risk.
- Accounting mismatches and errors.
- Cyber security threats.
- Losses associated with counterparty exposures.

Refer page 41 (Section 4) of the prospectus dated 11 October 2021 for further information on risks.

Risks

Additional investment risk:

ASIC “Be wary of the risks” warning: Money Smart website

The ASIC publication should be used as guidance which may be relevant to your consideration of AYUPA – namely, information for retail investors who are considering investing in hybrid securities.

You can find this guidance by searching ‘hybrid securities’ at www.moneysmart.gov.au.

Basically, hybrid securities (including subordinated notes and convertible preference shares and Mutual Capital Instruments) may be from well-known companies but they are very different from ‘normal’ corporate bonds.

Some hybrid securities make investors take on ‘equity-like’ risks. Some also have terms and conditions that allow the issuer to exit the deal or suspend interest payments when they choose. Some are very long-term investments (for example, more than 20 years).

Hybrid securities may be unsuitable for you if you need steady returns or capital security typically from a bank term deposit style of investment.