

17 February 2017

FIRST HALF (1H17) RESULTS

Medibank net profit \$231.9 million Focus on enhancing customer experience progressing well

Medibank Private Limited (Medibank) (ASX: MPL) today announced its results for the six months ended 31 December 2016 (1H17).

Results Overview

- **Group NPAT of \$231.9 million, up 1.9% from \$227.6 million in 1H16**
- **Interim dividend of 5.25 cents per share, fully franked**
- **Health Insurance**
 - **\$2.6 billion in claims paid on behalf of our customers**
 - **Decrease in operating profit to \$249.4 million, reflecting increased investment in customer initiatives, new IT system amortisation and moderately higher growth in utilisation rates**
 - **Premium revenue growth of 1.2%**
 - **Gross margin at 16.9%**
 - **Management expense ratio (MER) at 8.9%**
- **Complementary Services operating profit up to \$17.3 million**
- **Net investment income up to \$76.8 million due to higher equity market returns**

Medibank Chief Executive Officer Craig Drummond said Medibank was absolutely committed to delivering improved products and service for its customers and strengthening the core of the business.

“In the first half we have reorientated Medibank to sharpen the focus on our customers. I’m encouraged by the early progress we have made, but we recognise there is more to do,” Mr Drummond said.

“We have given value back to Medibank customers, including 100% back on an annual dental check-up for extras customers, inclusion of accident coverage in all hospital policies, and unlimited emergency ambulance for all customers. Today we also announced two new products – Complete Hospital and Core Hospital. These new products will deliver additional value for our customers looking for competitively priced full hospital cover, or cover for common hospital procedures such as wisdom teeth or appendix removal.

“Our investment in customer service has resulted in improvements in our customers’ experience. We have added 60 new people in our customer contact centre and extended operations to Saturdays, launched 24/7 web chat, and reduced call wait times by 50% since the first quarter of 2017.

“We are seeing continued progress in embedding the new IT system, closing out the majority of the highest priority issues. We are also seeing a reduction in the number of new issues being raised.

As a result of improved stability in the platform, there have been fewer customer problems and fewer customer complaints related to IT issues.

“I’m pleased with the steady progress we have made during the half, and while challenges remain we are strengthening the business by delivering improved value for customers and better products and service,” he said.

Group

Group NPAT was up 1.9% to \$231.9 million (1H16: \$227.6 million), due primarily to the strong investment income result, offsetting a lower operating profit for the Health Insurance business.

Health Insurance

Health Insurance operating profit decreased to \$249.4 million, down from \$271.7 million in 1H16, reflecting increased investment in customer initiatives, new IT system amortisation and moderately higher growth in utilisation rates later in the half. Health claims rose 1.5% to \$2,589.9 million for the half, and gross margin decreased from 17.2% to 16.9%.

Health Insurance premium revenue was up 1.2% to \$3,117.9 million. Industry volume growth continued to slow, which is indicative of the challenging conditions currently being experienced. However, underperformance relative to the market in both customer acquisition and lapse impacted growth. Medibank brand volumes were down with customer experience negatively impacted by issues associated with the embedding of the new IT system. The ahm brand continued to grow.

Management expenses were up 8.3% to \$278.6 million with the MER up from 8.4% to 8.9%, reflecting continued investment in customer initiatives and commencement of amortisation of the new IT system.

Complementary Services

Complementary Services revenue declined 7.1% to \$279.3 million, however operating profit rose 88.0% to \$17.3 million, primarily due to the divestment of underperforming businesses in the prior comparative period (1H16).

Net Investment Income

Net investment income rose to \$76.8 million in 1H17 due to relatively higher equity market returns, as well as stronger credit markets, which more than offset the lower cash rate.

Capital

Health Insurance related capital as at 31 December 2016 was \$870.6 million, representing approximately 13.7% of premium revenue, which is within the Board’s stated target range of 12% to 14%.

Dividend

The Board has declared an interim dividend of 5.25 cents per share, fully franked. While this represents a first half dividend payout ratio of 65.9% of underlying NPAT, the Board remains committed to a full year target payout ratio between 70 to 80% of annual underlying NPAT. The dividend is payable on 29 March 2017 to the holders of ordinary shares on the register at the close of business on 8 March 2017. The ex-dividend date is 7 March 2017.

Health Insurance Outlook

Medibank reaffirms its previously stated outlook that Health Insurance operating profit for FY17 is expected to be approximately \$490 million.

Investor Briefing

Medibank will conduct an investor briefing on the 1H17 results today at 9.30am (AEDT). The associated investor presentation will be available, along with access to the webcast of the briefing, on Medibank's website at <http://www.medibank.com.au/about/investor-centre/results-reports>.

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APPENDIX:

SUMMARY OF FINANCIAL RESULTS

Six months ended 31 December (\$ million)	1H17	1H16	Change
Group:			
Revenue	3,397.2	3,380.6	0.5%
Health Insurance operating profit	249.4	271.7	(8.2%)
Complementary Services operating profit	17.3	9.2	88.0%
Segment operating profit	266.7	280.9	(5.1%)
Corporate overheads	(16.5)	(13.6)	21.3%
Total operating profit	250.2	267.3	(6.4%)
Net investment income	76.8	18.6	n.m.
Other income/(expenses)	(3.7)	(3.7)	-
Profit before tax	323.3	282.2	14.6%
Income tax expense	(91.4)	(54.6)	n.m.
Net profit after tax (NPAT)	231.9	227.6	1.9%
EPS (cents)	8.4	8.3	1.9%
Dividend	5.25	5.0	5.0%
Health Insurance:			
Premium revenue	3,117.9	3,080.0	1.2%
Net claims expense (incl. risk equalisation)	(2,589.9)	(2,551.1)	1.5%
Gross profit	528.0	528.9	(0.2%)
<i>Gross margin (%)</i>	<i>16.9%</i>	<i>17.2%</i>	<i>(30bps)</i>
Management expenses	(278.6)	(257.2)	8.3%
<i>MER (%)</i>	<i>8.9%</i>	<i>8.4%</i>	<i>50bps</i>
Operating profit	249.4	271.7	(8.2%)
<i>Operating margin (%)</i>	<i>8.0%</i>	<i>8.8%</i>	<i>(80bps)</i>