

2019 full year results

Good result balancing better outcomes for customers and shareholders

CEO COMMENTARY

“This is a good quality result, demonstrating that the investment we have made to improve the value and service proposition for our customers is making our business stronger and more sustainable in a challenging market environment.

“The ongoing strong recovery of the Medibank brand has seen policyholder growth in all four quarters of the financial year for the first time in four years. Net resident policyholders have grown by 15,100 since 30 June 2018.

“It is pleasing that our market share has grown 5 basis points over the year, driven by our dual brand strategy and improved customer acquisition and retention. This is the first time in a decade we have grown market share over a full year.

“Additionally, we are delighted we have achieved record levels in our Service NPS across both brands, with an increase of +9.5 for Medibank and +10.4 for ahm compared to full year 2018.

“As we continue to transform into a broader healthcare company, in 2019 we exceeded our goal to double the number of customers utilising Medibank at Home services and we are now looking to accelerate the growth of our in-home care business for the benefit of all Australians.

“We are also looking at alternative ways to deliver healthcare to our customers. Which is why we have joined an innovative trial with Nexus Hospitals where we are funding early to home or short stay knee and hip replacements, where clinically appropriate. Nexus is offering participating Medibank customers a zero out-of-pocket medical experience, which is a win for patients.

“Affordability for customers continues to be a critical focus for us.

“Driving reform in a collaborative way to promote affordability, increased participation and added choice is essential for the sustainability of the industry.

“We will remain active and at the forefront of promoting reform initiatives, with our focus on additional reform that will drive meaningful savings to be passed through to customers.

“In recognition of the importance of managing costs within the health system we have maintained strong cost discipline.

Investor briefing

The investor briefing will be held today at 9.30am AEST. The investor presentation and webcast will be accessible on Medibank's [investor centre](#). Video interviews with CEO Craig Drummond and CFO Mark Rogers are available on our [newsroom](#).



Key numbers

\$5.4b

benefits paid to customers

\$458.7m

Group net profit after tax – total operations

+15,100

net resident policyholder growth since 30 June 2018

7.40

cents per share

final ordinary dividend fully franked

2.50

cents per share

special dividend fully franked

Record customer advocacy

24.8

Medibank Service NPS

38.5

ahm Service NPS

Financial summary

Group NPAT – total operations of \$458.7 million, up 3.1% from \$445.1 million

Group operating profit \$528.5 million, up 1.9%

Health Insurance

- Operating profit \$542.5 million, up 1.3%
- Premium revenue growth 2.3%
- Management expense ratio 8.7%, down from 8.8% in FY18

Medibank Health

Operating profit up 27.0% to \$22.1 million

Net investment income \$102.8 million, up 7.5% due to improved investment market returns

*Numbers presented on a continuing basis unless otherwise indicated

“We have delivered \$40.4 million of productivity savings over the last two years. We are also targeting a further \$50 million in productivity savings across the next three years, including \$20 million next financial year.

“Today we have announced we will pay a final ordinary dividend of 7.40 cents per share and also a special dividend of 2.50 cents per share, both fully franked. The special dividend is reflective of a reduction of our capital range from 12%-14% to 11%-13% of premium revenue. We are well progressed in aligning our health insurance capital framework with the Life and General Insurance Capital standards.

“Looking forward to 2020, the Health Insurance business is positioned to grow, and we are well placed to become a leader in the in-home care market.

“Our strategy is unchanged and remains driven by the needs of our customers. We continue to pursue opportunities to differentiate and deepen our offer for customers and transform into a broader healthcare company.”

CRAIG DRUMMOND
CHIEF EXECUTIVE OFFICER

Dividend

FULL YEAR ORDINARY DIVIDEND
The Board has determined a final ordinary dividend of 7.40 cents per share fully franked, bringing the full year ordinary dividend to 13.10 cents per share fully franked. This represents a payout ratio of 80% of underlying NPAT, in line with the Board’s FY19 target payout ratio of 70%-80% of underlying NPAT.

SPECIAL DIVIDEND
The move to a lower target capital range in FY20 has resulted in a release of capital which will be returned to shareholders as a special fully franked dividend of 2.50 cents.

2019 final & special dividend dates

Ex-dividend date		Wednesday September 2019
Payment date		Thursday September 2019

PERFORMANCE IN DETAIL

Group

Group NPAT – total operations increased 3.1% to \$458.7 million (FY18: \$445.1 million), driven by the increase in Health Insurance operating profit and net investment income.

Health Insurance

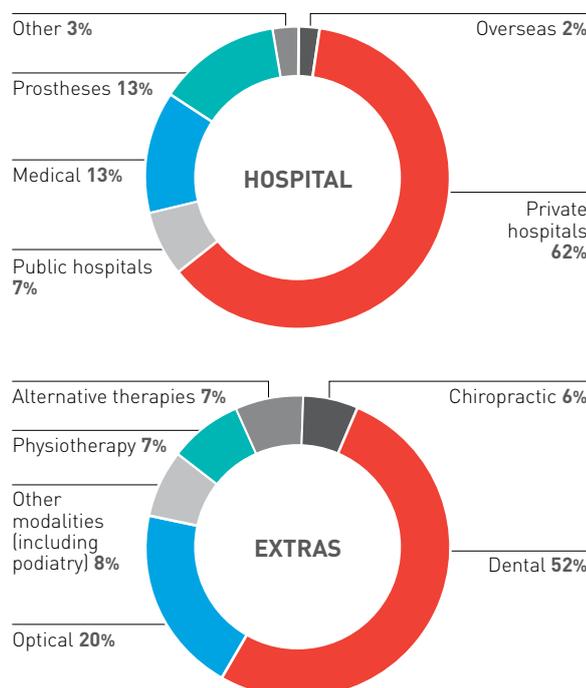
Health Insurance operating profit increased by 1.3% to \$542.5 million. At a fund level we grew net resident policyholder numbers by 15,100, or 0.8%.

Driven by a stable acquisition rate and a 50 basis point improvement in retention, policyholder growth was approximately three times that of FY18. This positive trajectory reflects the benefit of our dual brand strategy and aspiration for growth at a reasonable margin. Our market share also improved 5 basis points to 26.9% as at 30 June 2019. Acquisition was stable for our Medibank brand, with improvements in retention supported by the launch of our Live Better rewards program. For our ahm brand, the number of policyholders grew 7.9% despite the subdued conditions, particularly in the switching market in the June quarter of 2019 following implementation of the recent regulatory reform package.

Net claims increased by 2.6% to \$5.4 billion, reflecting a 2.3% increase in gross claims and 21.9% reduction in risk equalisation receipts. We expect the rate of decline in risk equalisation receipts to continue to slow as Medibank policyholder numbers stabilise.

Management expenses increased by \$2.9 million or 0.5% in FY19, with our management expense ratio (MER) improving from 8.8% to 8.7%. Medibank’s productivity program delivered \$20.4 million of savings in FY19 and we are on track to deliver an additional \$20 million in savings in FY20. We are targeting a further \$30 million in productivity savings across FY21-FY22.

COMPOSITION OF CUSTOMER CLAIMS



Medibank Health

Medibank Health operating profit increased \$4.7 million to \$22.1 million. This result reflects the 10-month contribution of Home Support Services (HSS). We are on track to organically replace the FY18 operating profit of Garrison Health Services by FY22 through expansion of HSS, further cost savings and growth in our diversified insurance business.

Investment income

Net investment income increased by 7.5% to \$102.8 million, driven by stronger investment market returns in the second half of the year.

Capital

Our Health Insurance related capital as at 30 June 2019 was \$927.6 million. This represents 14% of premium revenue which is at the top end of the Board's stated target range of 12%-14%. In line with the expected harmonisation of health insurance capital requirements with life and general insurance, for FY20 we have reduced our target capital range to 11%-13% of premium revenue. The lower target capital range, continued strong capital generation and the impact of the lower premium rise environment on the required level of capital have enabled us to increase our target dividend payout ratio from FY20 to 75%-85% of underlying NPAT, normalising for investment market returns.

OUTLOOK

- Expect flat overall PHI market volumes
- On the current policyholder trajectory, we expect to see Medibank brand volumes stabilise by the end of FY20 and grow during FY21
- Hospital and extras utilisation growth to remain around current levels for FY20 with prostheses expenditure expected to add modestly to claims growth compared to FY19
- Management expenses for FY20 are targeted to be below those recorded in FY19 with:
 - Modestly lower cash costs
 - Depreciation expense approximately \$5 million lower
- Dividend payout ratio expected to be at the top end of our revised target range of 75%-85%
- Targeted inorganic growth for Medibank Health and PHI remain areas of focus
- We will continue to optimise our capital settings
- Our intention is to continue to aspire for stronger growth in volumes at a reasonable margin, while retaining ongoing tight control of our management expenses

FURTHER ENQUIRIES

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All figures are in Australian dollars unless stated otherwise. Some figures, amounts, percentages, estimates, calculations of value and fractions are subject to rounding. Accordingly, the actual calculations of these figures may differ from figures set out in this document. Further, some balances subject to rounding, may not add consistently throughout the document.

SUMMARY OF FINANCIAL RESULTS

Financial year ended 30 June (\$ million)	2019	2018	Change
Group:			
Revenue from external customers	6,655.8	6,468.8	2.9%
Health Insurance operating profit	542.5	535.6	1.3%
Medibank Health operating profit	22.1	17.4	27.0%
Segment operating profit	564.6	553.0	2.1%
Corporate overheads	(36.1)	(34.1)	5.9%
Group operating profit – continuing operations	528.5	518.9	1.9%
Net investment income	102.8	95.6	7.5%
Amortisation of intangibles	(8.7)	(7.6)	14.5%
Other income/(expenses)	(6.3)	(8.5)	(25.9%)
Profit before tax	616.3	598.4	3.0%
Income tax expense	(178.6)	(174.2)	2.5%
NPAT – continuing operations	437.7	424.2	3.2%
NPAT – discontinued operations ¹	21.0	20.9	0.5%
NPAT – total operations	458.7	445.1	3.1%
EPS (cents) ²	16.7	16.2	3.1%
Underlying³ NPAT	447.9	436.4	2.6%
Underlying ³ EPS (cents)	16.3	15.8	2.6%
Dividend per share (cents)	13.10	12.70	3.1%
Dividend payout ratio ³	80%	80%	-
Health Insurance:			
Premium revenue ⁴	6,464.7	6,319.5	2.3%
Net claims expense (incl. risk equalisation)	(5,362.1)	(5,226.7)	2.6%
Gross profit	1,102.6	1,092.8	0.9%
Gross margin (%)⁵	17.1%	17.3%	(20bps)
Management expenses	(560.1)	(557.2)	0.5%
Management expense ratio (%)⁴	8.7%	8.8%	(10bps)
Operating profit	542.5	535.6	1.3%
Operating margin (%)^{4,6}	8.4%	8.5%	(10bps)

1 Discontinued operations relate to the Garrison Health Services contract, which ceased on 30 June 2019.

2 Calculated on total operations.

3 Dividend payout ratio based on underlying NPAT, which adjusts NPAT for the normalisation of investment income.

4 Health Insurance premium revenue is after \$6.0 million (2018: nil) of transfers between the Group's other operating segments.

5 Includes Australian residents, OSHC and OVHC. The gross margin for Australian residents only was 16.6% in FY18 and 16.4% in FY19, the MER for Australian residents only was 8.4% in FY18 and 8.3% in FY19, and the operating margin for Australian residents only was 8.2% in FY18 and 8.1% in FY19.

6 The reported result includes the benefit of a \$9.7 million provision release relating to the FY18 provision. By way of comparison, in FY18, the benefit relating to the FY17 release was \$42 million partially offset by the one-off \$20 million loyalty investment.