

Medibank 2018 full year results

Medibank back on track

CEO COMMENTARY

“The progress in our company is pleasing. We are now positioned for growth with a focus on leveraging our dual brands, building competitive advantage in health insurance and transforming into a broader health services company.”

“The highlight for the year has been a substantial turnaround in customer advocacy and retention, driven by consistently delivering a better customer experience, more value and recognising customer loyalty. These improvements have seen market share grow 5 basis points over the past 6 months. This is the first time in a decade we have experienced growth over a 6-month period.

“This result demonstrates that our core health insurance business is back on track and in the coming year we will continue to transform our relationship with our customers and deliver a more personalised and proactive experience.

“Customer feedback has been very positive on the Priority program we launched this year and the \$20 million one-off loyalty bonus. The next step will be the launch of our Live Better loyalty offering which will reward customers for taking healthy actions.

“Transforming into a broader health services company is a core part of our strategy. We have made progress in scaling Medibank at Home, providing customers with choice over how and where their healthcare is delivered. Medibank at Home trials have expanded to include dialysis, in addition to chemotherapy and palliative care. In its first year of national rollout, rehabilitation in the home delivered services to 850 customers, ahead of our target, while HealthStrong has had good momentum since joining Medibank 12 months ago.

“We are pleased to be able to confirm that we are advancing our strategic agenda, which we have discussed in prior reporting periods, through an acquisition we expect to complete in the near term. This is an opportunity to add scale and capability to our in home offering, through a national in home care business with clinical experience and capability. The acquisition is expected to cost around \$70 million, and will accelerate our health services expansion strategy to provide care services to Australians in their own home.”

CRAIG DRUMMOND
CHIEF EXECUTIVE OFFICER

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

\$5.3b

benefits paid to customers (excluding risk equalisation)

\$445.1m

Group net profit after tax

5 basis points

market share growth over the past 6 months

7.20 cents per share

final dividend

\$35m

additional value to customers

Financial summary

Group NPAT of \$445.1 million, down 1.0% from \$449.5 million

Group operating profit \$548.8 million, up 9.7%

Full year dividend 12.70 cents per share fully franked

Health Insurance

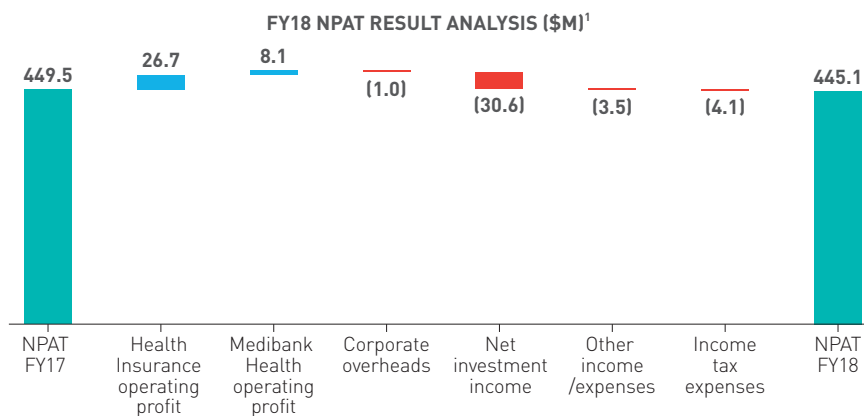
- Operating profit \$535.6 million, up 7.7%
- Premium revenue growth 1.2%
- Management expense ratio 8.8%, down 30 basis points

Medibank Health

Operating profit up by \$11.6 million (32.5%) to \$47.3 million

Net investment income \$95.6 million, down 31.4% principally due to lower market returns

PERFORMANCE IN DETAIL



Group

Group NPAT decreased 1.0% to \$445.1 million (FY17: \$449.5 million). This was largely due to net investment income which fell by \$30.6 million after tax in FY18, principally driven by lower equity and credit market returns.

1. For all items other than tax, amount is based on pre-tax movement less 30% allowance for tax

Health Insurance

Health Insurance operating profit increased by \$38.1 million to \$535.6 million. This reflects the benefits from our productivity program and a higher claims provision release, partially offset by the one-off \$20 million investment in the launch of our customer loyalty program.

Health Insurance premium revenue was up 1.2% to \$6,319.5 million. At a Group level, policyholders grew by 4,800 in FY18, compared to a 24,200 reduction in FY17. The Medibank brand saw an improvement in acquisition rates alongside reduced lapse rates over the period. Medibank is well placed to maintain this improving trend with our recent investment in loyalty and ongoing focus on customer health.

Health claims (excluding risk equalisation) paid on behalf of customers rose by 0.1% to \$5.3 billion. Overall, the Health Insurance gross margin increased from 17.1% to 17.3% in FY18.

Management expenses fell by 2.0% to \$557.2 million, with the management expense ratio (MER) down from 9.1% to 8.8%. This reflects the progress made on Medibank's productivity program which has delivered savings of approximately \$20 million during the year. The increase in depreciation and amortisation reflects amortisation of the new payroll, procurement and finance systems. Amortisation of deferred acquisition costs increased by \$5.8 million, consistent with the strong sales performance in ahm.

Medibank Health

Medibank Health revenue rose by 6.9% to \$615.9 million, reflecting a 12-month contribution from HealthStrong, as well as growth in our Diversified business which includes the sale of travel, life and pet insurance products. Operating profit increased by \$11.6 million or 32.5%, with a 110 basis point improvement in gross margin reflecting further diversification of Medibank Health.

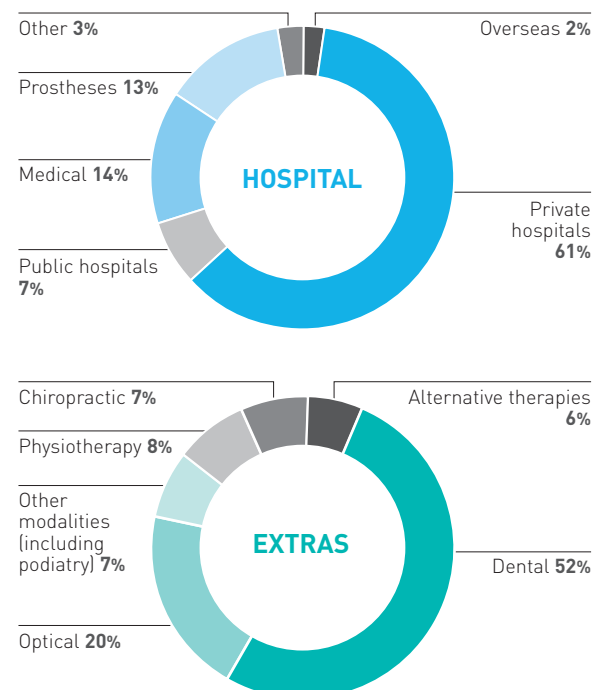
Investment income

Net investment income fell by 31.4% to \$95.6 million, reflecting lower returns across both growth and defensive portfolios and a more conservative asset allocation.

Capital

Health Insurance related capital as at 30 June 2018 was \$895.3 million, representing 14.0% of premium revenue, which is at the top end of the Board's stated target range of 12.0% to 14.0%.


COMPOSITION OF CUSTOMER CLAIMS



Dividend

The Board has declared a final dividend of 7.20 cents per share, bringing the full year FY18 dividend to 12.70 cents per share, fully franked. This represents a full year payout ratio of 80% of underlying NPAT. The Board remains committed to a target payout ratio between 70 to 80% of annual underlying NPAT.

2018 final dividend dates

Ex-dividend date	Payment date
 Wednesday September 2018	 Thursday September 2018

HEALTH INSURANCE OUTLOOK

- Expect flat overall PHI market volume to persist.
- Targeting modest market share growth in FY19.
- Expect hospital utilisation growth to remain subdued and ancillary utilisation growth to be slightly lower.
- Increased productivity target by \$10 million to \$60 million during FY18-20. Management expenses are targeted to be modestly above those recorded in FY18.

SUMMARY OF FINANCIAL RESULTS

Financial year ended 30 June (\$ million)	2018	2017	Change
Group:			
Revenue	6,906.4	6,797.0	1.6%
Health Insurance operating profit	535.6	497.5	7.7%
Medibank Health operating profit	47.3	35.7	32.5%
Segment operating profit	582.9	533.2	9.3%
Corporate overheads	(34.1)	(32.7)	4.3%
Group operating profit	548.8	500.5	9.7%
Net investment income	95.6	139.3	(31.4%)
Amortisation of intangibles	(7.6)	(7.0)	8.6%
Other income/(expenses)	(8.5)	(4.1)	107.3%
Profit before tax	628.3	628.7	(0.1%)
Income tax expense	(183.2)	(179.2)	2.2%
Net profit after tax (NPAT)	445.1	449.5	(1.0%)
EPS (cents)	16.2	16.3	(1.0%)
Dividend per share (cents)	12.70	12.00	5.8%
Health Insurance:			
Premium revenue	6,319.5	6,244.9	1.2%
Net claims expense (incl. risk equalisation)	(5,226.7)	(5,179.0)	0.9%
Gross profit	1,092.8	1,065.9	2.5%
<i>Gross margin (%)</i>	17.3%	17.1%	20bps
Management expenses	(557.2)	(568.4)	(2.0%)
<i>MER (%)</i>	8.8%	9.1%	(30bps)
Operating profit	535.6	497.5	7.7%
<i>Operating margin (%)</i>	8.5%	8.0%	50bps

FURTHER ENQUIRIES

For media:

Emily Ritchie – Head of Media, External Affairs

☎ +61 429 642 418 ✉ emily.ritchie@medibank.com.au

For investors/analysts:

Peter Kopanidis – General Manager, Corporate Finance

☎ +61 3 8622 5451 ✉ investor.relations@medibank.com.au