24 August 2023

medibank

2023 full year results

Solid result – momentum has returned and Medibank is growing again

CEO commentary

"Today we have delivered a solid result. Momentum has returned to our business by focusing on our customers and managing the business well.

"We have worked really hard to regain the trust of our customers and while there is more to do, pleasingly we are growing again.

"The strength of our Health Insurance business, strong underlying profit growth of Medibank Health and ongoing strong capital position support our future growth.

"In what was a very challenging year for our customers and our people, policyholder growth is back on track following the cybercrime event. Health insurance customers have surpassed 4 million for the first time in our 47-year history, and they continue to prioritise their health and wellbeing by using their cover more than in recent years.

"While consumers are paring back their spending in many areas, health is not one. People are still opting for private health insurance in record numbers.

"Net resident policyholders grew by almost 11,000, a 0.6% increase. Growth came from families, younger people and those taking out cover for the first time.

"We expect further policyholder growth in FY24 in what will continue to be a highly competitive market.

"We recorded our largest increase in non-resident policyholders in 7 years, with policy unit growth of almost 40% bringing the total number to nearly 275,000.

"Despite the resilience of the industry, delivering greater choice and value to our customers is crucial, particularly as households continue to manage cost of living pressures.

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. A video featuring CEO David Koczkar is available on our newsroom.

Customers

$6.0b
total claims paid

+10.9k +0.6%
net resident policyholder growth
12 months to 30 June 2023

+78.4k +39.9%
net non-resident policy unit growth

Medibank
40.1 -5.2

ahm
42.7 +0.3

customer advocacy (average Service NPS)
Change represents movement from 30 June 2022

c. $1.15b
total COVID financial support package to date

Financial

$511.1m +29.8%
Group net profit after tax

$46.4m
non-recurring cybercrime costs

8.3 cps
final ordinary dividend fully franked

Financial summary

Group NPAT up 29.8% to **$511.1 million**

Group operating profit up 9.0% to **$647.5 million**

Health Insurance
- Operating profit up 9.8% to **$650.4 million**
- Premium revenue up 4.2% to **$7,148.7 million**
- Management expense ratio up 20bps to **8.0%**

Medibank Health
- Segment profit down 2.9% to **$44.2 million**

Net investment income up to **$138.6 million**

CEO commentary continued

"This year our customers saved more than $25 million in out-of-pocket costs through our Members' Choice Advantage network of dentists and optical providers.

"We continue to increase the level of health support for our customers. Around 700,000 customers engaged in Live Better, one of the leading health and wellbeing programs in the country. We also supported 64% more customers through our 9 preventative health programs.

"The number of virtual health advice and navigation interactions with Medibank customers grew by 30% in FY23. Amplar Health is also directly supporting more customers alongside its work in the community, providing more than 1.6 million calls and online interactions during the year.

"We need to change the way healthcare is delivered in this country if we are to sustain patient outcomes, increase affordability and access, and ultimately improve productivity.

"The challenges in the health system mean we can't go fast enough.

"Investment in health innovation is the answer and we are taking a lead by supporting new care models.

"Around 30% of Medibank customers are now choosing rehab at home following a joint replacement, up from 24% last year.

"Our no gap network has expanded to 34 hospitals nationally, with customers saving an average of $1,600 in out-of-pocket costs as part of our no gap joint replacement program.

"Our joint venture with Calvary to deliver the My Home Hospital service in South Australia freed up more than 19,000 hospital bed days in the public system during the year.

"We are also on track to grow our iMH joint venture, which offers a new mental health model in the private system that extends care beyond the hospital to the home and community. The first iMH hospital opened in Canberra this year, with the second hospital to open in Sydney in the coming months.

"We remain a strong business and the investments we have made over several years position us well in the current economic environment. Our unique dual brand strategy, our products and services and our health innovation set us apart from others and gives us confidence we will continue to grow.

"We are a resilient organisation with great people. While it has been a very challenging year we have listened and learnt, and we continue to strengthen our business.

"We're in good shape and while there is more work to do our eyes are firmly focused on the needs of our customers and continuing to improve the way healthcare is delivered in Australia."

David Koczkar
Chief Executive Officer

Dividend

The Board has determined a fully franked final ordinary dividend of 8.3 cents per share.

The total FY23 ordinary dividend will be 14.6 cents per share, 9.0% above FY22.

The total FY23 ordinary dividend represents an 80.5% payout ratio of underlying NPAT, normalising for investment market returns. This is at the midpoint of our target payout ratio range of between 75%-85% of underlying NPAT.

Dividend dates

Ex-dividend Date	13	Wednesday **September 2023**
Record Date	14	Thursday **September 2023**
Payment Date	5	Thursday **October 2023**

Performance in detail

Group

This result reflects the resilience of our Health Insurance business, strong underlying profit growth in Medibank Health and continued strong capital generation.

Group operating profit increased 9.0% to $647.5 million, reflecting strong growth in Health Insurance operating profit of 9.8%, partly offset by a 2.9% decrease in Medibank Health segment profit.

In addition to the increase in Group operating profit, there was also a significant increase in net investment income of $163.4 million resulting in a 29.8% increase in net profit after tax to $511.1 million.

We have incurred $46.4 million of non-recurring costs associated with the cybercrime, largely related to our incident response and the customer support package and we expect $30 million to $35 million in FY24 for further IT security uplift and legal and other costs related to regulatory investigations and litigation. This does not include the impacts of any potential findings or outcomes from regulatory investigations or litigation.

Underlying NPAT, which adjusts for the normalisation of investment returns, increased 14.8% to $499.6 million.

Health Insurance

The strong performance in our Health Insurance business was driven by continued policyholder growth and subdued cover downgrading more than offsetting claims growth in the resident business, and strong policy unit growth and margin recovery in the non-resident business.

Premium revenue grew 4.2% to $7,148.7 million on a reported basis, while underlying revenue – which adjusts for the COVID give back initiatives in FY23 ($451.7 million) and FY22 ($369.4 million) – increased 5.1% to $7,600.4 million.

The resident market remained buoyant with industry policyholder growth of 1.9% only modestly below FY22. Our reported net resident policyholders increased by almost 11,000 or 0.6% in FY23, with a modest 0.4% decline in the Medibank brand and 3.4% growth in ahm.

With business operations post the cybercrime event normalising during the third quarter, retention progressively improved despite premium increases during the second half. Acquisition also improved in-line with additional marketing activity and increased ahm aggregator sales.

Adult Dependant Reform (ADR) allows eligible dependants to remain on their parents' policy up to 30 years of age. This has increased the number of overall insured people aged 25-30 years, however it has reduced growth in single policies.

Aided by ADR, the 0.9% growth in hospital lives insured was 30 basis points above our policyholder growth and skewed towards younger customers. We expect further benefits from this reform over the next 5 years, and given our strong position in the family market we expect to increase the percentage of lives insured under 30 years of age. These customers typically have a lower claiming profile and we expect this will positively impact our overall claims mix.

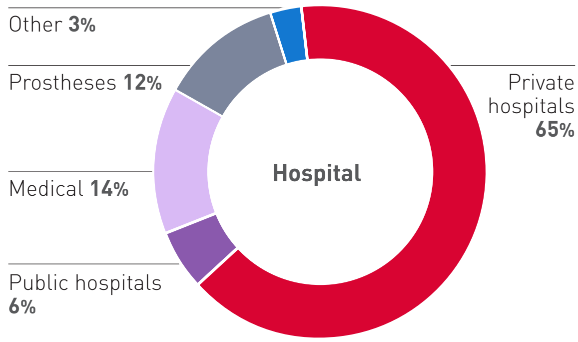
In FY24 we will continue to focus on growing market share by capitalising on our dual brand strategy, increasing our focus on growing in the corporate market and investing in target markets while remaining disciplined in how and where we grow.

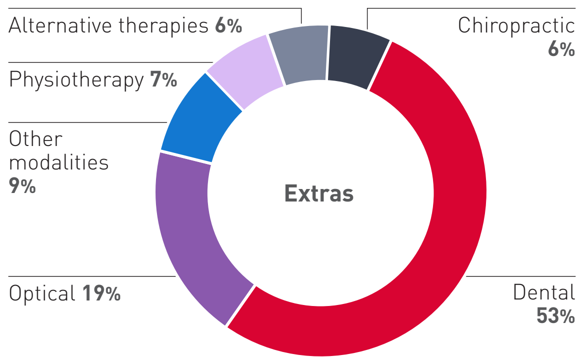
In the non-resident business we saw continued strong momentum with policy units increasing 39.9% to 274,900. Strong policy unit growth continued in the first 2 months of FY24. We expect ongoing growth in FY24.

The total claims expense during the period was $5.9 billion with gross claims up 3.4%. Net claims also increased 3.4%, with risk equalisation having minimal impact on claims growth over the period with the return to more normal resident age claiming patterns.

The COVID deferred claims liability, which is in recognition of claims that have likely been deferred since the commencement of COVID restrictions, decreased $194.5 million to $253.8 million. This will be transferred to an after tax equity reserve to offset future customer give backs, recovery of deferred hospital procedures and other temporary claims impacts under the new accounting standard AASB17 *Insurance Contracts* which applied from 1 July 2023.

Indicative composition of underlying resident customer claims (per policy unit)





Gross profit increased 8.3% to $1,222.8 million. Permanent net claims savings due to COVID of $451.4 million were returned to customers through $451.7 million of give back initiatives resulting in COVID having a modest $0.3 million negative impact on profit. Adjusting for this impact, underlying gross profit increased 8.3% to $1,223.1 million.

Underlying gross margin increased 50 basis points to 16.1%. This was driven by a 20 basis point increase in the underlying resident gross margin, and non-resident underlying gross margin increasing from 25.5% to 33.6%, reflecting a continuation of the favourable tenure and mix impacts we have seen since borders re-opened.

Management expenses increased 6.8% to $572.4 million with growth in non-resident sales commissions and inflation, partially offset by savings from our productivity program.

As a result of significant growth in non-resident policy numbers, sales commissions (which are expensed upfront) increased $18.8 million to $32.7 million.

Operating expenses were up 3.4%, with cost inflation of approximately 4% and modest volume impacts partially offset by approximately $7 million of productivity savings. The underlying management expense ratio remains among the lowest in the private health insurance market, despite a slight increase of 10 basis points to 7.5%. We will continue to leverage our productivity program and the benefits of scale to target modest improvement in this ratio while balancing the need to invest for growth.

Medibank Health

Medibank Health operating profit increased 8.3% and segment profit, which includes the contribution from our investment in Myhealth and other healthcare investments, decreased 2.9% to $44.2 million.

Excluding the impacts of the 1800RESPECT and Beyond Blue contracts in FY22, operating profit increased 17.2% and segment profit increased 4.2%. The remaining commentary on Medibank Health excludes the impact of these 2 contracts in FY22.

Revenue of $277.1 million was modestly lower with growth in health and wellbeing and travel sales offset by a reduction in telehealth revenue.

Gross profit increased 9.2% to $131.8 million and gross margin improved by 450 basis points to 47.6% with business mix and improved utilisation and business efficiency, partially offset by higher labour costs and inflation.

Management expenses increased $4.6 million reflecting inflationary impacts and investment in future growth, and with the modest decline in revenue, the management expense ratio increased 190 basis points to 31.6%.

Investment income

Investment income was $138.6 million compared to a loss of $24.8 million in FY22, due to stronger equity markets, higher interest rates and narrowing credit spreads.

The $40.3 million increase in growth portfolio income was due to significantly improved returns in both domestic and international equity markets, partially offset by a lower return in property investments.

The defensive portfolio had a gain of $69.4 million compared to a loss of $23.5 million in FY22 largely due to higher RBA cash rates, a $9.7 million benefit from narrowing credit spreads versus a $26.5 million cost last period, and a more stable yield curve resulting in an improved but still below expectation return on international fixed interest holdings.

Capital

On 1 July 2023, accounting standard AASB17 *Insurance Contracts* and the new APRA capital standards became effective. The following commentary is based on the 2023 pro forma capital position which reflects the impacts of these new standards.

The introduction of these new standards has increased our eligible capital position by $87.0 million. The total capital benefit increases to $167.0 million after reflecting the reduction in the Health Insurance target required capital ratio to 10%-12% of premium revenue (from 11%-13%).

In June 2023 APRA announced an additional capital adequacy requirement of $250 million on Medibank, with effect from 1 July 2023, following a review of the cybercrime event. As a result, we have temporarily increased Health Insurance business-related capital to offset this supervisory adjustment. After this increase, the Group remains well capitalised with 1.8 times coverage of the Health Insurance prescribed capital amount (PCA) after adjusting for the supervisory adjustment, and unallocated capital of $175.4 million. We continue to have strong capital generation, and with the level of unallocated capital and the ability to issue Tier 2 debt we remain well placed to fund our M&A aspirations.

Our total Health Insurance business-related capital was $1,168.0 million, equivalent to 14.6% of premium revenue after the allowance for determined but unpaid dividends. This is above the target range of 10%-12%. Non-fund required capital increased $4.5 million to $191.7 million and unallocated capital increased $27.4 million to $175.4 million.

FY24 outlook

Customer relief

We continue to assess claims activity. Any permanent net claims savings due to COVID-19 will be given back to customers through additional support in the future.

Resident policyholder growth

We anticipate further moderation in resident industry growth in FY24 relative to FY23.

Aiming to achieve 1.5%-2.0% resident policyholder growth in FY24.

Resident claims

Underlying claims per policy unit growth of 2.6% for FY24 among resident policyholders.

PHI management expenses

Targeting $20m of productivity savings across FY24 and FY25.

Cybercrime costs

Expect costs of between $30m-$35m in FY24 for further IT security uplift and legal and other costs related to regulatory investigations and litigation.

- Excludes the impacts of any potential findings or outcomes from regulatory investigations or litigation.

Growth

Targeted organic and inorganic growth for Medibank Health and Health Insurance remain areas of focus.

Summary of financial results

Financial year ended 30 June ($ million)	2023	2022	Change
Group:			
Revenue from external customers	**7,355.3**	**7,128.5**	**3.2%**
Health Insurance operating profit	650.4	592.6	9.8%
Medibank Health segment profit	44.2	45.5	(2.9%)
Segment operating profit	**694.6**	**638.1**	**8.9%**
Corporate overheads	(47.1)	(44.0)	7.0%
Group operating profit	**647.5**	**594.1**	**9.0%**
Net investment income	138.6	(24.8)	n.m.
Other income/(expenses)	(12.6)	(9.3)	35.5%
Cybercrime costs	(46.4)	-	n.m.
Profit before tax	**727.1**	**560.0**	**29.8%**
Income tax expense	(216.0)	(166.1)	30.0%
NPAT	**511.1**	**393.9**	**29.8%**
Effective tax rate	29.7%	29.7%	-
EPS (cents)	18.6	14.3	29.8%
Underlying NPAT[1]	**499.6**	**435.1**	**14.8%**
Underlying EPS (cents)[1]	18.1	15.8	14.8%
Dividend per share (cents)	**14.6**	**13.4**	**9.0%**
Dividend payout ratio[1]	80.5%	84.8%	(430bps)
Health Insurance:			
Premium revenue	7,148.7	6,859.8	4.2%
Net claims expense (including risk equalisation)	(5,925.9)	(5,731.1)	3.4%
Gross profit	**1,222.8**	**1,128.7**	**8.3%**
Gross margin (%)	***17.1%***	***16.5%***	***60bps***
Management expenses	(572.4)	(536.1)	6.8%
Management expense ratio (%)	***8.0%***	***7.8%***	***20bps***
Operating profit	650.4	592.6	9.8%
Operating margin (%)	***9.1%***	***8.6%***	***50bps***
Medibank Health segment profit:			
Continuing businesses	44.2	42.4	4.2%
Beyond Blue/1800RESPECT	-	3.1	n.m.
Total	**44.2**	**45.5**	**(2.9%)**

1. Underlying NPAT is statutory NPAT, normalised for growth asset returns to historical long-term expectations, credit spread movements and one-off items. Dividend payout ratio based on underlying NPAT.

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.