

2022 half year results

A strong result demonstrating our strategy to grow as a health company is working

CEO commentary

“Today we have delivered a strong result showing that our focus on our customers and our strategy to grow as a health company is working.

“Health remains the key issue that concerns people in Australia. This focus has seen a positive shift in attitudes towards private health insurance and has seen continued policyholder growth across both the Medibank and ahm brands.

“Resident policyholders have grown by 3.3% over the last 12 months and 1.5% or 28,100 over the 6-month period. We grew a further 4,500 in January, in what is an extremely competitive market. Much of this growth continues to be driven by younger people and those who haven't held private health insurance previously. Pleasingly we are also now seeing sustained growth in the Medibank brand with 6 consecutive quarters of growth – the first time in almost 9 years.

“We continue to achieve high levels of customer advocacy, with Service NPS up for both Medibank (+8.9) and ahm (+2.2) compared to 30 June 2021. The increase over the period means that customer advocacy for the Medibank brand has never been stronger.

“As COVID restrictions continued to impact our customers' ability to access some of their hospital or extras services, in December 2021 we announced the next stage of our give back program – returning around \$135 million to customers by deferring premium increases for 5 months from April 2022. And today we're announcing we will extend the deferral by an additional month, to 1 October 2022, increasing this give back to around \$163 million.

“We've always committed to return all permanent net claims savings due to COVID. Our total support now stands at around \$463 million and we will continue to assess these permanent net claims savings and return them to our customers.

“And while we are pleased to be able to support our customers throughout the pandemic, now is the right time for governments to minimise future use of restrictions to elective surgery. These restrictions for surgeries have impacted the quality of life for our customers and increased the pressure in the health system. While some surgeries may be called elective, for our customers they are anything but. The recent easing of restrictions on some surgeries is welcome but we believe a plan is needed to avoid these restrictions for patients in the future.

“We've seen double-digit growth in Medibank Health segment profit with strong growth in telehealth and health and wellbeing.



Investor briefing

The investor briefing will be held today at 9.30am AEDT. The investor presentation and webcast will be accessible on Medibank's [investor centre](#). A video featuring CEO David Koczkar is available on our [newsroom](#).



Key numbers

\$2.9b

total claims paid

\$220.2m

Group net profit after tax

+28,100 ^{+1.5%}

net resident policyholder growth

6 months to 31 December 2021

Medibank

46.0 ^{+8.9}

ahm

45.2 ^{+2.2}

customer advocacy (average Service NPS)

Change represents movement from 30 June 2021

6.1 cents per share

interim ordinary dividend fully franked

c.\$463m

total COVID-19 financial support package to date

Financial summary

Group NPAT down 2.7% to **\$220.2 million**

Group operating profit up 12.3% to **\$286.5 million**

Health Insurance

- Operating profit up 10.3% to **\$280.9 million**
- Premium revenue up 3.8% to **\$3,452.0 million**
- Management expense ratio down 30bps to **7.2%**

Medibank Health

- Segment profit up 36.7% to **\$25.7 million**

Net investment income of **\$30.9 million**, down from \$71.8 million in 1H21

“Through our joint venture with Calvary we’ve provided COVID support to more than 130,000 people in the community and we’ve provided more than 40,000 hours of COVID contact tracing and assisted Federal and State governments with welfare checks, in-home COVID testing and mental health counselling services.

“As COVID continues to influence our lives, the way that people in Australia think about health continues to change.

“Our customers are looking to us to play a greater role in supporting their health. As attitudes towards the value of private health insurance shift significantly, we’ve recently seen the strongest industry-wide growth in people under 30 with hospital cover in almost 7 years.

“People’s expectations of healthcare have also changed. They want a better healthcare experience. As telehealth, virtual care and at-home care are embraced, more people are wanting to access healthcare differently and in a way that best suits them.

“It is this mandate that will shape our future. To achieve this – it is imperative that we work with our partners, with government and health professionals. While no one organisation can do this alone, before us is the opportunity for Medibank to be a leader of this change.

“We will continue to deliver for our customers, our people and the community and have set the foundations for future success.”

David Koczkar

Chief Executive Officer

Performance in detail

Group

Group operating profit was up 12.3% to \$286.5 million (1H21: \$255.2 million) with strong growth across both our Health Insurance and Medibank Health businesses. A decrease in net investment income impacted Group net profit after tax (NPAT), which was down 2.7% to \$220.2 million (1H21: \$226.4 million) following strong investment returns in 1H21. Underlying NPAT, which normalises for investment market returns, was up 4.4%.

Health Insurance

Health Insurance operating profit was up 10.3% to \$280.9 million (1H21: \$254.6 million), reflecting strong resident policyholder growth, a benign claims environment and the benefit of increasing scale.

Resident policyholders increased by 1.5% in the 6 months to 31 December 2021, with policyholder growth of 28,100 comprising 12,100 for Medibank and 16,000 for ahm. The acquisition rate of 5.6% remained in line with 1H21 with continued growth in both new to industry and younger customers. The lapse rate of 4.1% was up 70 basis points, driven by high retention in the prior corresponding period following the deferral of the 1 April 2020 premium increase.

On a reported basis, revenue was up 3.8% to \$3,452.0 million while gross claims and net claims expense were up 3.6% and 3.7% respectively. This resulted in gross profit increasing by 4.9% to \$530.0 million, with gross margin up 20 basis points to 15.4%. The risk equalisation payment, which increased by \$3.0 million to \$20.8 million, reflects the impact of recent lockdowns.

Our continued support for customers throughout the period reduced revenue by \$136.6 million. With this largely offset by \$133.7 million in permanent claims savings, COVID-19 had a modest \$2.9 million negative impact on financial performance. Adjusting for this impact, underlying gross profit increased 6.5% to \$532.9 million.

Dividend

The Board has determined a fully franked interim dividend of 6.1 cents per share, representing a 79.1% payout ratio of underlying NPAT which normalises for investment market returns. This is within the target payout ratio range of between 75%-85% of underlying NPAT. We expect the payout ratio to be towards the top end of the target range at full year.

Dividend dates

Ex-dividend Date **4** **Friday March 2022**

Record Date **7** **Monday March 2022**

Payment Date **24** **Thursday March 2022**

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Health Insurance

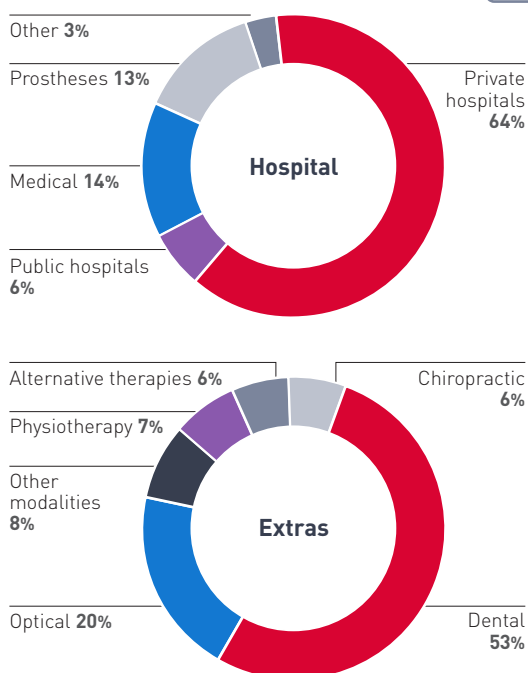
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Composition of resident customer claims



Underlying claims per policy unit, which adjusts for both outstanding claims provision movements and COVID-19 impacts, grew 2.6%. In the resident portfolio, underlying claims per policy unit grew 1.9% with hospital claims growth down 30 basis points and extras claims growth down 130 basis points. In the overseas portfolio, the combination of closed international borders reducing new customers and increased utilisation by existing customers was a key driver for the increase in claims per policy unit. This is consistent with the trend in the second half of FY21.

Our COVID-19 claims liability, which is in recognition of claims that have likely been deferred during the pandemic, increased to \$328.7 million (30 June 2021: \$223.8 million) as a result of ongoing lockdowns.

Management expenses were down 0.7% to \$249.1 million as a result of our ongoing cost discipline and our productivity agenda, along with lower non-cash costs over the period. Operating expenses were modestly lower with cost inflation of approximately 2% offset by approximately \$7 million in productivity savings. The combination of lower management expenses and increasing revenue resulted in a 30 basis point decrease in our management expense ratio to 7.2%.

Medibank Health

Medibank Health segment profit was up 36.7% to \$25.7 million (1H21: \$18.8 million), with strong demand for community-based healthcare and COVID-related services partially offsetting the impact of closed borders on our travel insurance business. Our healthcare investments including Myhealth Medical Group, East Sydney Private Hospital and joint venture with Calvary contributed \$2.3 million to this result, compared to a \$0.5 million loss in 1H21.

Medibank Health revenue increased 6.9% to \$155.7 million with strong demand in telehealth and health and wellbeing, and early signs of recovery in travel insurance. This was partially offset by a modest reduction in homecare which was impacted by elective surgery restrictions during the period. While the gross margin decreased by 70 basis points to 41.9% partly as a result of increased homecare labour costs, strong revenue growth led to a 250 basis point reduction in the management expense ratio and an improved operating margin of 15.0%.

Investment income

Net investment income decreased from \$71.8 million in 1H21 to \$30.9 million, with income from the growth and defensive portfolios down \$14.8 million and \$24.6 million respectively. This was driven by the strong performance of benchmark indices in the growth portfolio during 1H21 and liquidity and yield curve impacts in the defensive portfolio in the current period.

Capital

Our capital position remains strong with Health Insurance capital of \$960.8 million as at 31 December 2021. This represents 13.0% of premium revenue after the allowance for the dividend announced today and is at the top end of the Board's stated target range of 11.0%-13.0%.

FY22 outlook

Customer relief



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

Policyholder growth



Updated

Aiming to achieve 3.1-3.3% policyholder growth¹ in FY22, including continued growth in the Medibank brand

Claims



Updated

Underlying average net claims expense per policy unit is forecast to be c. 2.3% among resident policyholders

Management expense



Updated

FY22 Health Insurance management expenses are expected to be c. \$530m
FY22 productivity target of \$15m in Health Insurance management expenses

Growth



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

1. Assumes slowing industry participation growth in FY22 relative to FY21

Further enquiries



For media

Emily Ritchie

Senior Executive, External Affairs

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

For investors/analysts

Colette Campbell

Senior Executive, Investor Relations

+61 475 975 770 investor.relations@medibank.com.au

Summary of financial results

Six months ended 31 December (\$ million)	1H21	1H22	Change
Group:			
Revenue from external customers	3,442.2	3,581.2	4.0%
Health Insurance operating profit	254.6	280.9	10.3%
Medibank Health segment profit	18.8	25.7	36.7%
Segment operating profit	273.4	306.6	12.1%
Corporate overheads	(18.2)	(20.1)	10.4%
Group operating profit	255.2	286.5	12.3%
Net investment income	71.8	30.9	(57.0%)
Amortisation of intangibles	(3.4)	(1.0)	(70.6%)
Other income/(expenses)	(1.7)	(3.2)	88.2%
Profit before tax	321.9	313.2	(2.7%)
Income tax expense	(95.5)	(93.0)	(2.6%)
NPAT	226.4	220.2	(2.7%)
Effective tax rate	29.7%	29.7%	-
EPS (cents)	8.2	8.0	(2.7%)
Underlying NPAT¹	203.4	212.4	4.4%
Underlying EPS (cents) ¹	7.4	7.7	4.4%
Dividend per share (cents)	5.80	6.10	5.2%
Dividend payout ratio ¹	78.5%	79.1%	0.8%
Health Insurance:			
Premium revenue	3,324.5	3,452.0	3.8%
Net claims expenses (including risk equalisation)	(2,819.1)	(2,922.0)	3.7%
Gross profit	505.4	530.0	4.9%
Gross margin (%)	15.2%	15.4%	20bps
Management expenses	(250.8)	(249.1)	(0.7%)
Management expense ratio (%)	7.5%	7.2%	(30bps)
Operating profit	254.6	280.9	10.3%
Operating margin (%)	7.7%	8.1%	40bps

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