medibank

2022 full year results

Medibank delivers strong result with standout customer growth

CEO commentary

"Today we have delivered another strong result driven by continued policyholder growth, double-digit growth in Medibank Health and remaining disciplined in how we grow and run our business.

"We have been able to deliver these results because of the hard work of everyone at Medibank and their unwavering focus on our customers.

"The pandemic has triggered a new focus on health and wellbeing, which we expect to continue. A record number of Australians continue to take out private health insurance, especially younger customers.

"Our customer growth has been a standout, with the number of resident policyholders up 3.2% or almost 61,000 over the 12-month period. Last month this momentum continued with growth of around 5,800 policies. Our customer retention over the past 2 years is higher than at any point in the decade previously. Despite a challenging backdrop we expect the market to continue to grow.

"This growth suggests that PHI is defying recent predictions and also shows the impetus on the sector to maintain a focus on costs to ensure that the private system is accessible to all.

"We continue to deliver for our customers, with high levels of customer advocacy and our highest ever brand advocacy results, with Medibank Group leading the top health insurers.

"As we grow as a health company, so does our focus on providing our customers with more choice, value and control. Around 568,000 customers engaged with our Live Better and preventative programs during the year, our Health Concierge team provided personalised support to around 27% of Medibank customers admitted to hospital, and we helped 1 in 4 Medibank customers undergoing a joint replacement to have their rehab at home. We also delivered around 3.5 million virtual health interactions to our customers and the community.

"This year we also continued to grow our investments in health and we more than doubled our no gap network, with 64% of Medibank customers to live within 25km of a no gap site by October.

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.

Key numbers

$5.4b
total claims paid

$393.9m -10.7%
Group net profit after tax

+60,900
net resident policyholder growth
(12 months to 30 June 2022)

Medibank	ahm
45.3 +8.2	42.4 -0.6

customer advocacy (average Service NPS)
Change represents movement from 30 June 2021

7.3 cents per share
final ordinary dividend fully franked

c. $682m
total COVID financial support package to date

Financial summary

Group NPAT down 10.7% to **$393.9 million**

Group operating profit up 12.5% to **$594.1 million**

Health Insurance
- Operating profit up 10.0% to **$592.6 million**
- Premium revenue up 2.7% to **$6,859.8 million**
- Management expense ratio down 10bps to **7.8%**

Medibank Health
- Segment profit up 44.9% to **$45.5 million**

Net investment income down from a $120.0 million gain to a **$24.8 million loss**

"We've continued to do the right thing to support our customers meeting our commitment to not profit from COVID, with our support package now standing at around $682 million, which includes the 7-month deferral of premium increases.

"We remain committed to return all permanent net claims savings due to COVID. We will of course continue to assess these permanent net claims savings and return them to our customers.

"We are delivering this result at a time when Australians are doing it tough, with the rising cost of living a challenge for many households and with many making difficult choices about where their money goes. This is something that we continue to monitor closely.

"As a nation we are also grappling with how we sustain the quality of life we expect in a challenging economic environment. We need a health system fit for the future.

"But health is lagging other industries in productivity – with the health sector below the national average.

"There are opportunities for further reform. Prostheses is a prime example of how difficult it is to deliver real change to our health system. Despite all the vested interests, there is an agreement from all parties that Australians should no longer pay some of the highest prices in the world for medical devices. There is now a way forward to achieve this once in a lifetime opportunity to deliver more than $900 million in savings to private health consumers over the next 4 years.

"To ensure we can keep premium increases low we need to maintain a commitment to the process and a commitment to move with pace.

"The known issues in health can no longer be ignored; our health system is fatigued, and the pace of change is not keeping up with our growing health needs. We are at a critical juncture as we emerge from the pandemic and it's widely recognised that we all need to move with greater urgency.

"That's why as a health company we will continue to advocate for and invest in the change that is needed. Our customers expect nothing less from us.

"As we look ahead, there will be challenges, but just as we have done in the past we are well positioned to manage through uncertainty. We remain optimistic about the future, with multiple avenues for us to grow our core business and in health, and we understand the role we will play to support the health of Australia and to ensure the sustainability of our health sector."

David Koczkar
Chief Executive Officer

Dividend

The Board has determined a fully franked final ordinary dividend of 7.3 cents per share, up 5.8% compared to the 6-month period in the prior year. The total FY22 ordinary dividend will be 13.4 cents per share, 5.5% above FY21. The total FY22 ordinary dividend represents an 84.8% payout ratio of underlying NPAT, normalising for investment market returns. This is at the top end of our target payout ratio range of between 75%-85% of underlying NPAT.

Dividend dates

Ex-dividend Date	7	Wednesday **September 2022**
Record Date	8	Thursday **September 2022**
Payment Date	29	Thursday **September 2022**

Performance in detail

Group

Group operating profit increased 12.5% to $594.1 million (FY21: $528.3 million), reflecting continued momentum in our Health Insurance business and strong growth in Medibank Health, including a meaningful uplift in the contribution from our healthcare partnerships.

Volatility in financial markets drove a $24.8 million loss in net investment income compared to a $120.0 million gain in FY21, resulting in Group NPAT decreasing 10.7% to $393.9 million (FY21: $441.2 million). Underlying NPAT, which adjusts for the normalisation of investment returns, was up 9.1%.

Health Insurance

Health Insurance operating profit of $592.6 million (FY21: $538.6 million) was up 10.0%, or 9.5% on an underlying basis (which excludes COVID impacts). This was driven by our continued focus on customers and ongoing cost control.

This cost discipline and the benefit of increasing scale contributed to an improved operating margin, which was up 50 basis points to 8.6% on a reported basis and up 40 basis points to 8.2% on an underlying basis.

Health Insurance revenue grew 2.7% to $6,859.8 million, with strong policyholder growth and improved downgrading. When adjusted for our COVID customer support measures of $369.4 million in FY22 and $226.0 million in FY21, underlying revenue grew 4.7%.

Our reported net resident policyholders increased by 60,900 or 3.2%, with strong growth in new to industry and younger customers reflecting continued buoyancy in the market. The Medibank and ahm brands were positioned well and grew 1.9% and 7.3% respectively.

A 30 basis point improvement in the Medibank brand acquisition rate reflects strong growth in the corporate segment and through digital channels, while the lapse rate was stable. The ahm brand continued its strong growth trajectory to exceed more than 500,000 policyholders, although the acquisition rate was less than the prior period due to declining sales through aggregator platforms and the increased policyholder base. An increase in ahm's lapse rate in part reflects the retention benefits of the extras annual limit rollover in the prior period. For both brands, the lapse rate was lower in the second half compared to the corresponding period in FY21.

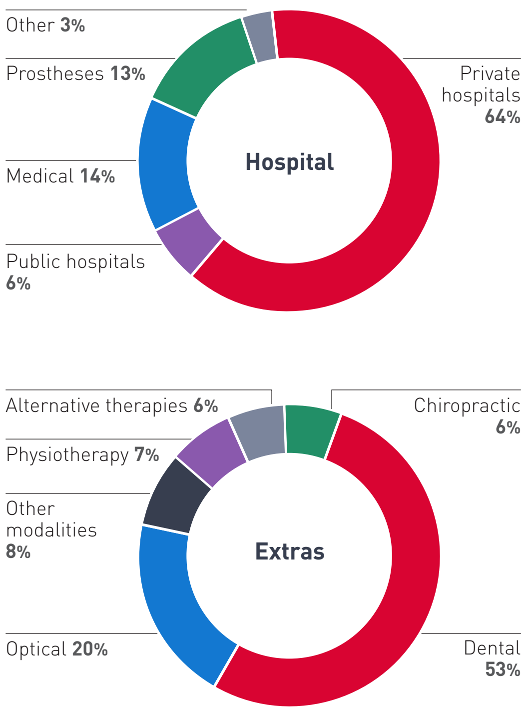
The total claims expense in FY22 was $5.7 billion, with gross claims expense up 1.9% and net claims expense, which includes risk equalisation, up 2.1%. The risk equalisation payment increased by $11.5 million, reflecting our continued below-industry claims growth and strong policyholder growth in ahm, which has a younger and lower claiming customer demographic.

In the resident portfolio, underlying claims growth per policy unit was 2.3%, with lower extras claims growth following investment in additional product benefits in the prior period and a modest increase in hospital claims growth.

Our COVID claims liability, which is in recognition of claims that have likely been deferred during the pandemic, increased $224.5 million to $448.3 million due to the impact of elective surgery restrictions and staff shortages on hospital volumes. COVID had a modest impact of $0.6 million on reported results, with the cost of our customer give back offset by further permanent claims savings. Removing these COVID impacts, underlying gross profit increased 5.3%.

Reported gross profit was up 5.5%, with improving revenue and lower claims growth per policy unit in the resident portfolio more than offsetting a decline in the non-resident portfolio. The second half saw a material improvement in gross profit and gross margin in the non-resident portfolio as student intake increased with the opening of international borders.

Indicative composition of resident customer claims



Management expenses were up 1.0% to $536.1 million, with approximately $15 million of productivity savings and lower non-cash costs largely offsetting cost inflation of approximately 2.5%, additional statutory costs and growth in non-resident commissions following the reopening of international borders in the second half. With the increase in management expenses lower than the increase in revenue, the management expense ratio improved 10 basis points to 7.8%, or 7.4% on an underlying basis.

Medibank Health

Medibank Health segment profit, which includes our share of Myhealth and other investments, was up 44.9% to $45.5 million (FY21: $31.4 million). This was driven by strong revenue growth, an uplift in the contribution from our healthcare investments, and the cost benefits of our increasing scale.

Revenue increased 13.4% to $321.8 million, driven by strong growth in our COVID-related services, telehealth and health and wellbeing services, and a strong second half of travel insurance sales following the reopening of international borders. This was offset by closed borders in the first half impacting travel insurance sales and the impact of COVID lockdowns on homecare patient numbers.

Gross margin was down 110 basis points to 40.1%, reflecting the impact of constrained labour availability in the health sector on labour costs and capacity in homecare, transition out of telehealth contracts, and mix impacts. Management expenses increased 4.2% due to telehealth contract exits and other one-off costs, however the management expense ratio improved 240 basis points to 27.5% due to strong revenue growth and reinforces the opportunity to create scale in this business.

Investment income

Volatile investment markets significantly impacted investment income, with a loss of $24.8 million compared to a $120.0 million gain in FY21. In the growth portfolio, the decrease in income reflects a significant correction across equity markets. In the defensive portfolio, the decrease in income includes a $26.5 million loss due to widening of credit spreads, compared to a gain of $16.1 million in FY21.

Capital

Our capital position remains strong, with our total Health Insurance business-related capital of $983.7 million as at 30 June 2022, equivalent to 13.0% of premium revenue after the allowance for determined but unpaid dividends as at 30 June 2022. This is at the top end of the Board's stated target range of 11.0%-13.0%. Unallocated capital of $148.0 million provides flexibility to fund future inorganic growth and we will consider further capital management if suitable opportunities do not arise.

FY23 outlook

Customer relief	We continue to assess claims activity and any permanent net claims savings due to COVID will be given back to customers through additional support in the future
Policyholder growth	c. 2.7% assuming a modest decline in industry participation growth in FY23 relative to FY22
Claims	Given risk equalisation volatility, we expect underlying net claims expense per policy unit growth in FY22 of 2.3% to be the best indicator of growth in FY23 among resident policyholders
Management expense in PHI	Productivity $40m in FY22-FY24 (including c. $15m delivered in FY22) Inflation expected to be largely offset by productivity
Growth	Targeted organic and inorganic growth for Medibank Health and Health Insurance remain areas of focus, supported by a strong capital position

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)	2022	2021	Change
Group:			
Revenue from external customers	7,128.5	6,910.4	3.2%
Health Insurance operating profit	592.6	538.6	10.0%
Medibank Health segment profit	45.5	31.4	44.9%
Segment operating profit	**638.1**	**570.0**	**11.9%**
Corporate overheads	(44.0)	(41.7)	5.5%
Group operating profit	**594.1**	**528.3**	**12.5%**
Net investment income/(expense)	(24.8)	120.0	n.m.
Amortisation of intangibles	(2.0)	(4.6)	(56.5%)
Other income/(expenses)	(7.3)	(11.4)	(36.0%)
Profit before tax	**560.0**	**632.3**	**(11.4%)**
Income tax expense	(166.1)	(191.1)	(13.1%)
NPAT	**393.9**	**441.2**	**(10.7%)**
Effective tax rate	29.7%	30.2%	(50bps)
EPS (cents)	14.3	16.0	(10.7%)
Underlying NPAT[1]	**435.1**	**398.7**	**9.1%**
Underlying EPS (cents)[1]	15.8	14.5	9.1%
Dividend per share (cents)	**13.4**	**12.7**	5.5%
Dividend payout ratio1	84.8%	87.7%	(3.3%)
Health Insurance:			
Premium revenue	6,859.8	6,680.3	2.7%
Net claims expense (including risk equalisation)	(5,731.1)	(5,610.8)	2.1%
Gross profit	**1,128.7**	**1,069.5**	**5.5%**
Gross margin (%)	***16.5%***	***16.0%***	***50bps***
Management expenses	(536.1)	(530.9)	1.0%
Management expense ratio (%)	***7.8%***	***7.9%***	***(10bps)***
Operating profit	592.6	538.6	10.0%
Operating margin (%)	***8.6%***	***8.1%***	***50bps***

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.