

2021 half year results

Medibank returns to growth as Australians prioritise their health

CEO COMMENTARY

“Today we have delivered a high-quality result underpinned by strong policyholder growth.

“We’ve seen a real shift in Australians prioritising their health and wellbeing given COVID and heightened pressure on the public system. This has resulted in the private health insurance proposition becoming more compelling for many Australians, including those who were previously uninsured.

“While it’s far too early to say the decline in industry participation has definitively bottomed, the private health insurance market has proved increasingly resilient and we’ve seen a flight to quality that the Medibank and ahm brands offer.

“In the first 6 months of FY21, we have grown policyholders by 49,000, including 17,600 for the Medibank brand. This is the first time we have grown the Medibank brand in any 6-month period since 2013 and this trend has continued into February.

“With Medibank returning to growth, we are going to be bolder with our growth ambitions, with a new policyholder growth target in excess of 3% during FY21.

“We are also very pleased with our customer advocacy, with Service NPS at record highs for both Medibank (+7.2) and ahm (+6.1).

“Our ongoing support of customers throughout COVID has also resulted in a significant improvement in customer retention, with retention across both brands improving by approximately 30% over the past 12 months.

“Our company has emerged strongly from the disruption caused by COVID. We supported our customers and our people, and we did so without receiving any COVID-related government subsidies.

“As we’ve already promised our customers, we will continue to assess our COVID deferred claims liability every 6 months. Any permanent net claims savings due to COVID will be given back to our customers through additional customer support in the future.

“This half our Medibank Health business has performed strongly, with significant demand for homecare and virtual care including telehealth.

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 Craig Drummond is available on our [newsroom](#).



Key numbers

\$2.8b

benefits payable to customers

\$226.4m

Group net profit after tax

+49,000

net resident policyholders
in 6 months to 31 December 2020

Customer advocacy
average Service NPS

37.9

+7.2

Medibank

46.8

+6.1

ahm

27.22%

+28 basis points
(6 months to
December 2020)

market share

5.80

cents per share

interim ordinary dividend fully franked

Financial summary

Group NPAT of \$226.4 million, up 26.8%

Group operating profit of \$255.2 million, up 16.6%

Health Insurance

- Operating profit of \$254.6 million, up 13.6%
- Premium revenue of \$3.3 billion, up 0.3%
- Management expense ratio of 7.5%, consistent with the prior period

Medibank Health

Operating profit of \$18.8 million, up 41.4%

Net investment income of \$71.8 million,

up from \$38.5 million driven by the performance of benchmark indices

“Our short stay model of care is gaining traction, with our no gap joint replacement pilot expanding to 6 regions.

“We will continue to pursue more partnerships and investments in healthcare and are in advanced discussions with several well-known partners to expand our short stay model of care.

“Something we take very seriously is how we are, in part, responsible for the future of the healthcare system in Australia, which is why we are focused on improving the long-term value and relevance of private healthcare for our customers. Today more and more Australians want a health system designed to fit them. We are listening and responding to this.

“Medibank is now very well placed to continue to win in the market and grow the business. The time to be bolder is now, given the challenging market conditions.

“We will continue to focus on capitalising on the momentum in our business and further accelerating our private health insurance growth, while continuing our transformation into a broader healthcare company.”

CRAIG DRUMMOND
CHIEF EXECUTIVE OFFICER

Dividend

The Board has determined an interim ordinary dividend of 5.80 cents per share, fully franked. The interim dividend represents a 79% payout ratio of underlying NPAT from total operations, normalising for investment market returns. Consistent with the outlook statement provided at our FY20 financial results announcement, we expect the payout ratio for FY21 to be towards the top end of our 75%-85% target range.

Dividend dates

Ex-dividend Date	3	Wednesday March 2021
Record Date	4	Thursday March 2021
Payment Date	25	Thursday March 2021

PERFORMANCE IN DETAIL

Group

Group operating profit was up 16.6% to \$255.2 million (1H20: \$218.8 million) and Group NPAT was up 26.8% to \$226.4 million (1H20: \$178.6 million), driven by the growth in Health Insurance operating profit and the significant increase in investment income.

Health Insurance

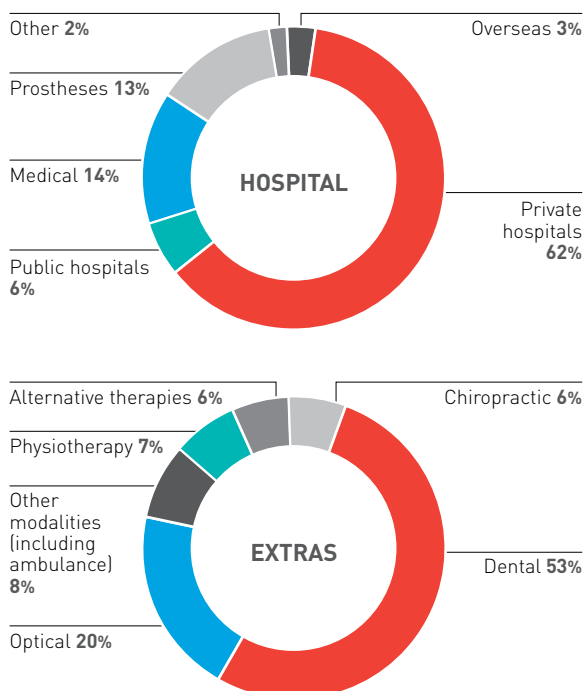
Health Insurance operating profit increased 13.6% to \$254.6 million, reflecting a 1.8% reduction in gross claims, partially offset by risk equalisation expense. Premium revenue was up 0.3% to \$3,324.5 million, with the increase moderated by the \$109 million cost from the 6-month postponement of premium increases and impact of suspensions, both which we introduced to support our customers.

At a fund level our customer policyholder numbers increased by 49,000, or 2.7%, over the 6-month period. When adjusted for suspensions and reactivations due to COVID, policyholder growth of 2.2% was still significantly higher than the growth of 0.7% experienced in 1H20. Both brands recorded strong customer retention, with our dual brand strategy and a renewed community focus on health and wellbeing contributing to an improvement in customer retention of approximately 30%.

Net claims expense decreased by \$24.1 million, or 0.8%, to \$2,819.1 million. This reflects a 1.8% decrease in gross claims expense which includes a \$99 million COVID-related reduction in claims and risk equalisation payable for the period. Underlying claims growth, which is adjusted for provision movements and COVID impacts, was 2.6%.

Management expenses increased by \$2.7 million or 1.1%, with flat non-cash expenses reflecting tight cost control. The management expense ratio (MER) remained flat at 7.5% (1H20: 7.5%). We remain on track to deliver productivity savings of \$20 million in FY21.

COMPOSITION OF CUSTOMER CLAIMS



Medibank Health

Medibank Health revenue was up 13.2% to \$145.6 million, reflecting increased demand for in-home care and telehealth services. This was partly offset by soft demand in travel insurance due to COVID-related restrictions. Medibank Health operating profit increased to \$18.8 million (1H20: \$13.3 million) with the operating margin improving 260 basis points to 12.9%.

Investment income

Net investment income increased to \$71.8 million (1H20: \$38.5 million) due to stronger returns in growth and defensive assets, driven by the performance of benchmark indices.

Capital

Our balance sheet remains strong, with Health Insurance related capital of \$908.6 million as at 31 December 2020. This represents 13.0% of premium revenue, which is at the top end of the Board's stated target range of 11.0% to 13.0%.

OUTLOOK

- We aim to increase market share and achieve total policyholder growth in excess of 3%, including an expectation of growing the Medibank brand by approximately 1% during FY21*
- Our underlying drawing rate growth or increase in annualised average net claims expense per policy unit for 2H21 is forecast to be in line with 1H21 (approximately 2.6%)
- Targeting \$20 million in productivity savings in FY21 and an additional \$30 million planned during FY22-FY23
- Management expenses are expected to be approximately \$530 million for FY21
- Dividend payout ratio expected to be towards the top end of our target range of 75%-85%
- Targeted inorganic growth for Medibank Health and Health Insurance remain areas of focus

* Excluding the impact of policyholder suspensions due to COVID-19 financial hardship.

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

Six months ended 31 December (\$ million)	1H20	1H21	Change
Group:			
Revenue from external customers ¹	3,421.5	3,442.2	0.6%
Health Insurance operating profit	224.2	254.6	13.6%
Medibank Health operating profit ¹	13.3	18.8	41.4%
Segment operating profit	237.5	273.4	15.1%
Corporate overheads	(18.7)	(18.2)	(2.7%)
Group operating profit – continuing operations	218.8	255.2	16.6%
Net investment income	38.5	71.8	86.5%
Amortisation of intangibles	(4.5)	(3.4)	(24.4%)
Other income/(expenses)	1.8	(1.7)	n.m.
Profit before tax	254.6	321.9	26.4%
Income tax expense	(76.0)	(95.5)	25.7%
NPAT – continuing operations	178.6	226.4	26.8%
Effective tax rate ²	29.9%	29.7%	(20bps)
EPS (cents) ²	6.5	8.2	27.3%
Underlying NPAT³	179.4	203.4	13.4%
Underlying EPS (cents) ³	6.5	7.4	13.4%
Dividend per share (cents)	5.70	5.80	1.8%
Dividend payout ratio ³	88%	79%	(10.2%)
Health Insurance:			
Premium revenue	3,315.5	3,324.5	0.3%
Net claims expenses (including risk equalisation)	(2,843.2)	(2,819.1)	(0.8%)
Gross profit	472.3	505.4	7.0%
Gross margin (%)⁴	14.2%	15.2%	100bps
Management expenses	(248.1)	(250.8)	1.1%
Management expense ratio (%)⁴	7.5%	7.5%	-
Operating profit	224.2	254.6	13.6%
Operating margin (%)⁴	6.8%	7.7%	90bps

1. Excludes discontinued operations.

2. Calculated on total operations.

3. Underlying NPAT adjusted to normalise growth asset returns to historical long-term expectations and credit spread movements. Dividend payout ratio based on Underlying NPAT.

4. Includes Australian residents, OSHC and OVHC. The gross margin for Australian residents only was 13.8% in 1H20 and 14.9% in 1H21, the MER for Australian residents only was 7.3% in 1H20 and 7.5% in 1H21, and the operating margin for Australian residents only was 6.5% in 1H20 and 7.5% in 1H21.