22 February 2024

medibank

2024 half year results

Solid result demonstrates our focus on our customers and continued strong growth as a health company

New $215 million COVID customer give back

CEO commentary

"Today we have delivered a solid result, which reflects our focus on our customers and disciplined approach to growth.

"Our Health Insurance business has remained resilient despite the challenging economic conditions. We delivered a strong performance in Medibank Health and made some substantial steps in our expansion in health.

"In our resident business, net resident policyholders grew by 3,400. This growth was driven by families and those taking out cover for the first time.

"We are pleased with our continued strong performance in the non-resident market – growing 33,800 policy units in the half and 34% over the last 12 months.

"With cost-of-living pressures ongoing we are delivering value for our customers who continue to prioritise their health and wellbeing.

"Today we are announcing a further $200 million cash back to Medibank customers as part of our COVID-19 support package and give back program.

"In addition, ahm customers will be given another year to use their unused extras limits, valued at up to $15 million.

"This will bring the total amount of support Medibank has provided to customers since the start of the pandemic to a record $1.37 billion – to date this is the largest financial give back from any Australian health insurer.

"Customers are using Live Better to look after their health and wellbeing, and getting value while they do – redeeming more than $10 million in rewards over the past 6 months. The program, now with 800,000 members, continues to be a real differentiator in the market.

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.

Customers

$3.1b
total claims paid

+3.4k +0.2%
net resident policyholder growth

+33.8k +12.3%
net non-resident policy unit growth

Medibank **46.4** +5.5

ahm **48.9** +6.2

customer advocacy (average Service NPS)
Change represents movement from first half of 2023

$1.37b
total COVID financial support package to date

Financial

$262.5m +16.3%
underlying net profit after tax

$17.6m
non-recurring cybercrime costs

7.2 cps
interim ordinary dividend fully franked

Financial summary

Group NPAT up 103.2% to **$343.2 million**

Group operating profit up 4.2% to **$319.4 million**

Health Insurance
- Operating profit up 4.3% to **$317.0 million**
- Premium revenue up 3.6% to **$3,925.3 million**
- Management expense ratio up 50bps to **7.6%**

Medibank Health
- Segment profit up 8.5% to **$26.7 million**

Net investment income up to **$83.6 million**

"So far this year our Members' Choice Advantage network has also saved customers more than $12 million.

"While health insurance remains our core business, it is our growth in health that differentiates us most.

"The health transition is underway. From overnight stays in expensive acute care hospitals to virtual, short stay and home care. From treatment to prevention and from general care to personalised health.

"We have been at the forefront of this transition by making targeted investments in growing health markets to better support our customers and improve the way healthcare is delivered in Australia.

"With the growth in Medibank Health, we are in a strong position to continue to grow as a health company.

"We increased our investment in Myhealth this year, and together with Medibank and our Amplar Health business, we have created one of Australia's largest multi-disciplinary primary care networks.

"Our new partnership with healthcare technology group Amwell will enable us to deliver virtual prevention programs at scale.

"Meanwhile the second iMH hospital, Hirondelle Private Hospital in Sydney, is open and accepting patients, The Orthopaedic Institute at Macquarie University Hospital in Sydney is now open, and East Sydney Private Hospital will add a new floor and two operating theatres in April.

"We remain a strong and resilient business, with a long track record of navigating competitive and economic challenges.

"By making disciplined choices in how and where we grow, we remain focused on achieving sustainable growth for the long term. This includes continuing to strengthen our business through our IT security uplift program.

"We have made significant steps this half in our expansion in health and we will continue to innovate and invest in the health transition, empowering our customers to give them more choice and control and to play our role to ensure the health system remains affordable and accessible into the future."

David Koczkar
Chief Executive Officer

Dividend

The Board has determined a fully franked interim ordinary dividend of 7.2 cents per share, up 14.3% compared to the 6-month period in the prior year. This dividend represents an 75.5% payout ratio of underlying NPAT, normalising for investment market returns.

There is no change to our annual target payout range of 75%-85% of underlying NPAT.

Dividend dates

Ex-dividend Date	29	Thursday **February 2024**
Record Date	1	Friday **March 2024**
Payment Date	20	Wednesday **March 2024**

Performance in detail

Medibank has adopted AASB 17 Insurance Contracts (AASB 17) from 1 July 2023 and has applied it retrospectively, resulting in the restatement of the financial results for comparative periods.

Group

This result demonstrates the resilience in our resident Health Insurance business, strong continued momentum in our non-resident Health Insurance business, and strong growth in Medibank Health.

Group operating profit increased 4.2% to $319.4 million, with Health Insurance operating profit up 4.3% and Medibank Health segment profit up 8.5%.

Investment income increased by $27.7 million, partly offset by $17.6 million of non-recurring costs associated with the 2022 cybercrime event. We expect non-recurring cybercrime costs to be between $30 million and $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.

Group NPAT increased 103.2% to $343.2 million, however this has been significantly impacted by the adoption of AASB 17, which has increased 1H24 statutory NPAT by $80.7 million due to the timing and value of COVID-19 claims savings and give backs. Underlying NPAT, which adjusts for any movement in the COVID-19 equity reserve as well as the normalisation of investment returns, increased 16.3% to $262.5 million.

Health Insurance

The resident health insurance market remained buoyant with estimated policyholder growth in the 12 months to 31 December 2023 expected to be similar to FY23 (1.9%). Overall, the resident health insurance market continues to be competitive, with customers seeking to offset cost of living pressures. This has resulted in a modest increase in the level of customers switching funds and lapsing, and higher cost of customer acquisition.

For the 12 months to 31 December 2023, the number of resident policyholders increased by almost 13,000 with a modest 0.3% decline in the Medibank brand and 3.4% growth in ahm. This includes growth of 3,400 policyholders in 1H24, noting that this is typically a seasonally weaker period of growth for the industry.

During the 6 months to 31 December 2023, the resident acquisition rate increased 30 basis points to 5.3%, with the Medibank acquisition rate back in-line with pre-cybercrime levels and ahm improving in-line with increased aggregator sales. The resident lapse rate increased by 20 basis points to 5.1%, indicative of higher industry switching levels across the industry.

Adult Dependant Reform (ADR), which allows eligible dependants to remain on their parents' policy up to and including 30 years of age, has increased the number of 25 to 30-year-olds insured overall, but reduced the growth in the number of single policies. The growth in hospital lives of 0.8% was 20 basis points above resident policyholder growth and skewed towards younger customers. We expect further benefit from this reform over the next four to five years.

For the remainder of the year, we will continue to focus on increasing policyholder growth through improving retention rates for both brands, investing further in differentiating the Medibank brand, and increasing our focus on priority segments.

In the non-resident business we saw momentum continue with policy units increasing by 34.3% to 308,700 with particularly strong growth in the student segment.

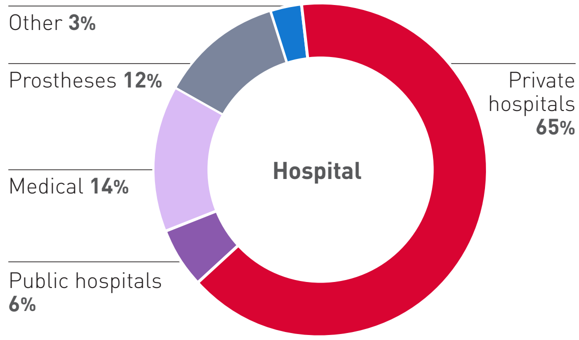
Premium revenue increased 3.6% to $3,925.3 million reflecting a 2.7% increase in resident revenue to $3,799.5 million and a 38.5% increase in non-resident revenue to $125.8 million.

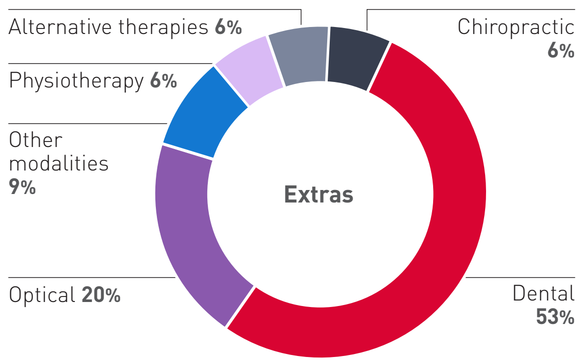
Total gross claims increased by 3.1% to $3,288.6 million and net claims, which includes risk equalisation, increased 2.9% to $3,309.4 million. Risk equalisation had a 20 basis point benefit to net claims growth this period, which compares to a 20 basis point cost in the prior corresponding period.

Resident claims growth per policy unit decreased 30 basis points to 2.0% with a 20 and 100 basis point decrease in hospital and extras claims growth respectively. The decrease in hospital claims growth includes the improved risk equalisation outcome with higher private hospital indexation largely offset by the benefit of continued lower rehab claims. For extras, in addition to the prior period including investment in additional benefits, there are early signs that the economic environment is impacting consumer spending, particularly in more discretionary services.

With the favourable risk equalisation outcome, continued low non-surgical claims growth and softness in extras claims, we expect full year resident claims growth per policy unit to be between 2.2% and 2.4%, which is lower than the 2.6% indicated at the 2023 full year result. However, we will closely monitor key claims trends including rehab referral rates, the mix of hospital admissions and demand for extras services claims.

Indicative composition of resident customer claims (per policy unit)





Gross profit increased 7.4% to $615.9 million and includes the benefit of a $5.7 million lower risk equalisation payment. Whilst this improved risk equalisation outcome was partly driven by impacts that we expect to unwind, it also reflects favourable changes of age claiming patterns, which we will monitor in 2H24.

Gross margin improved 60 basis points to 15.7%, with a 40 basis point increase in resident to 15.1% (continued revenue growth per policy unit remaining above claims growth per policy unit), and a 20 basis point increase in non-resident to 34.3% which has benefited from a stable tenure of policyholders and mix.

Management expenses increased 10.9% to $298.9 million, reflecting higher sales commissions and what we expect is the peak of the impact of the inflation cycle. Non-resident sales commissions increased by $5.3 million in-line with strong customer growth, while resident sales commissions increased by $6.3 million in-line with higher aggregator sales this period.

Operating expenses were up 7.9% with cost inflation of approximately 5%, and uplift in IT security ($2.5 million) and Victorian payroll tax ($1.5 million) costs and modest volume impacts. These increases, partially offset by $3.5 million of productivity savings, resulted in a 50 basis point increase in the management expense ratio to 7.6%.

Medibank Health

Medibank Health returned to a more normal operating environment with operating profit up 16.1% to $27.4 million, partially offset by a lower contribution from our healthcare investments due to initial losses in our growing investment portfolio in short stay hospitals.

Revenue of $141.4 million was up 1.4%, reflecting strong growth in health and wellbeing and diversified insurances, and improving homecare revenue in-line with increased hospital activity. Partially offsetting this was a reduction in telehealth revenue as we progressively optimise this business.

Gross profit was up 17.1% to $73.1 million and gross margin improved 700 basis points to 51.7% with strong growth in higher margin businesses, improved efficiency offsetting inflationary pressures in homecare, and a higher telehealth margin.

The $6.9 million increase in management expenses reflects business mix, inflation and investment in future growth. While the management expenses ratio increased, operating margin was up 250 basis points to 19.4%.

Net investment income

Net investment income of $83.6 million was up $27.7 million or 49.6%, driven by the increase of $28.1 million in the defensive portfolio which was partially offset by a $5.2 million decrease in the growth portfolio.

The increased income in the defensive portfolio reflects a $17.9 million benefit from higher RBA cash rate during the period and an improved but still below expected return on international fixed interest holdings. The decrease of $5.2 million in the growth portfolio investment income was largely due to a lower return across all asset classes other than international equities.

Capital

At 31 December 2023, Health Insurance required capital was $1,131.0 million and 1.9 times the PCA, with unallocated capital of $225.5 million.

The target health insurance capital ratio is between 10% and 12% of premium revenue, however, the current ratio of 14% sits above this range to offset the $250 million temporary APRA supervisory adjustment.

The $57.2 million increase in other required capital to $248.9 million includes the $50.8 million further investment in Myhealth.

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
Growth	Targeted organic and inorganic growth for Medibank Health and Health Insurance remain areas of focus
Resident policyholder growth Updated	We anticipate moderation in resident industry growth in FY24 relative to FY23 Aiming to achieve 1.2% - 1.5% resident policyholder growth in FY24, and expect a return to market share growth in 2H24
Resident claims Updated	Expected claims per policy unit growth has reduced from 2.6% to 2.2% - 2.4% for FY24 among resident policyholders We continue to monitor trends in rehab, hospital admission mix and extras
PHI management expenses New	FY24 management expenses expected to be $610m - $615m Targeting $20m of productivity savings across FY24 and FY25 including $10m in FY24
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

Summary of financial results

Six months ended 31 December ($m)	2023 (restated)[1]	2024	Change
Group revenue from external customers	**3,897.1**	**4,024.0**	**3.3%**
Health Insurance operating profit	303.8	317.0	4.3%
Medibank Health segment profit	24.6	26.7	8.5%
Segment operating profit	**328.4**	**343.7**	**4.7%**
Corporate overheads	(22.0)	(24.3)	10.5%
Group operating profit	**306.4**	**319.4**	**4.2%**
Net investment income	55.9	83.6	49.6%
Other income/(expenses)	(5.4)	(8.8)	63.0%
Cybercrime costs	(26.2)	(17.6)	(32.8%)
Profit before tax, before movement in COVID-19 reserve	**330.7**	**376.6**	**13.9%**
Movement in COVID-19 reserve (excl. tax)	(90.5)	115.3	n.m.
Profit before tax	**240.2**	**491.9**	**104.8%**
Income tax expense	(71.3)	(148.7)	108.6%
NPAT	**168.9**	**343.2**	**103.2%**
Effective tax rate	29.7%	30.2%	50bps
EPS (cents)	6.1	12.5	103.2%
Normalisation for investment returns	(6.6)	-	n.m.
Normalisation for COVID-19 reserve movements	63.4	(80.7)	n.m.
Underlying NPAT[2]	**225.7**	**262.5**	**16.3%**
Underlying EPS (cents)[2]	8.2	9.5	16.3%
Dividend per share (cents)	**6.3**	**7.2**	**14.3%**
Dividend payout ratio[2]	76.9%	75.5%	140bps

1 The Group has adopted AASB 17 *Insurance Contracts* and has restated the comparative period. The impacts of adoption are detailed in Note 9 of the 2024 half year financial statements.

2 Underlying NPAT is statutory NPAT normalised for growth asset returns to historical long-term expectations, credit spread movements, movement in COVID-19 reserve and one-off items. Dividend payout ratio based on underlying NPAT.

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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.