

2020 full year results

Medibank delivers sound result

CEO COMMENTARY

“Despite the challenges of COVID-19 our business remains well positioned and we continue to work hard to support our customers, our people and the community.

“We are pleased that customer and employee advocacy has increased, that we’ve grown our resident policyholder numbers, and strong cost discipline has resulted in management expenses continuing to decline.

“Health has never been more important to Australians, and this is demonstrated by our ability to grow our resident policyholder numbers by 10,600 in FY20 at a time of significant uncertainty. Furthermore, as at 8 August 2020, we have seen resident policyholders grow by approximately 21,000 in FY21 so far.

“Customer advocacy has improved for both the Medibank (+7.0) and ahm (+2.7) brands over the year, while employee engagement increased to 91% in April 2020.

“We remain focused on differentiating and growing our private health insurance business through leveraging our dual brand strategy and transforming into a broader healthcare company.

“This has been the right strategy to navigate through COVID-19, and we have made good progress on our milestones in FY20.

“Health funds were among the first to act to assist customers in the pandemic. Medibank determined right from the beginning that we would support our customers as they were impacted by the changes that had to happen during COVID-19.

“We have responded quickly in our support for customers, with a support package of more than \$185 million. This included a 6-month postponement of premium increases and a financial hardship package including a 50% waiver on premiums for 6 months for those in financial hardship.

“While significant savings were projected by some commentators at the beginning of the crisis, this has not eventuated. The industry regulator APRA has said the vast majority of surgeries and extras services disrupted through COVID-19 will ultimately take place. In preparation for this, we have accrued a \$297 million balance sheet liability.

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



Key numbers

\$5.5b up 2.5%
benefits payable to customers

\$315.6m
Group net profit after tax

+10,600
net resident policyholders since 30 June 2019

Customer & employee advocacy

average Service NPS

31.8 +7.0 **41.2** +2.7
Medibank ahm

91% as at April 2020 (COVID-19 pulse, up 6 pts from FY19)
employee engagement

6.3 cents **per share** down 14.9%
fully franked final ordinary dividend

Financial summary

Group NPAT of \$315.6 million, down 27.9%

Group operating profit of \$461.0 million, down 12.8%

Health Insurance

- Operating profit of \$470.6 million, down 13.3%
- Premium revenue up 1.3%
- Management expense ratio of 8.3%, down from 8.7%

Medibank Health

Operating profit of \$27.8 million, up 25.8%

Net investment income of \$2.4 million, down from \$102.8 million, in line with the performance of benchmark indices

*Numbers presented on a continuing basis unless otherwise indicated.

“While claims have largely returned back to normal levels, albeit some elective surgery in Victoria is now paused, if there are additional permanent savings we will stick by our promise and return them to customers.

“As we continue to transform into a broader healthcare company, we have expanded our no gap joint replacement pilot from Melbourne to hospitals in Sydney, Brisbane and Adelaide and recently acquired a 49% minority shareholding in East Sydney Private Hospital. Our investment will fund the capital and operational costs required for the hospital and doctors to scale their short stay model of care.

“Medibank Health has continued to grow despite the impact of the pandemic on some areas of the business. Our telehealth team has played a major role in the government’s public response to COVID-19 which meant we needed to rapidly scale operations to meet demand. Furthermore, we expect rising demand from customers for in-home care.

“Today we have announced we will pay a fully franked final ordinary dividend of 6.3 cents per share, taking the total ordinary dividend to shareholders in FY20 to 12.0 cents per share, 8.4% below FY19. We have maintained a prudent approach to our capital management with the health fund capital at 30 June above the top end of the target range, positioning Medibank well to respond to the current environment.

“Despite the ongoing financial and health impacts of COVID-19, Medibank remains well positioned in the broader health industry. Strong customer and employee advocacy, a clear strategy and a sound financial position continue to buffer the company to the continuing uncertainty.”

CRAIG DRUMMOND
CHIEF EXECUTIVE OFFICER

Full year ordinary dividend

The Board has determined a fully franked final ordinary dividend of 6.3 cents per share, down 14.9% from FY19.

The total FY20 ordinary dividend will be 12.0 cents per share, 8.4% below FY19. The total ordinary dividend represents a 90% payout ratio of underlying NPAT, normalising for investment market returns. This is in line with the outlook statement provided at our half year financial results announcement, where we advised the market that the dividend payout ratio was expected to be at or above the top end of our annual payout ratio range of between 75% and 85% of underlying NPAT.

Dividend dates

Ex-dividend Date		Wednesday September 2020
Record Date		Thursday September 2020
Payment Date		Thursday September 2020

PERFORMANCE IN DETAIL

Group

Group operating profit was down 12.8% to \$461.0 million (from \$528.5 million in FY19) and Group NPAT was down 27.9% to \$315.6 million (from \$437.7 million in FY19), both on a continuing basis, reflecting the decline in Health Insurance operating profit and the significant fall in investment income.

Health Insurance

Health Insurance operating profit decreased 13.3% to \$470.6 million, with revenue growth of 1.3% offset by a 3.2% increase in net claims.

Premium revenue increased by 1.3% from \$6,464.7 million in FY19 to \$6,545.6 million in FY20. At a fund level, our resident policyholder numbers increased by 10,600 or 0.6%, down 20 basis points from the 0.8% growth in FY19. Improvement in retention rates were driven by lower premium rate rises and the 6-month postponement of our 1 April 2020 premium increase. It also reflects our increased focus on integrating health and wellbeing into our customers' experience, the Live Better rewards program and Members' Choice Advantage dental network. The ahm brand continued to grow, with policyholder growth of 7.3%.

Medibank's net claims expense increased by \$169.5 million, or 3.2%, to \$5,531.6 million, reflecting a 2.5% increase in claims expense, which includes a \$67 million COVID-19-related reduction in ancillary claims, alongside a significant reduction in risk equalisation receipts. Net claims expense also includes a \$297.1 million claims liability which is in recognition of claims from 2020 that have likely been deferred. In FY20, Medibank paid \$5,242 million in benefits to customers. After adjusting for the impact of provision movements and the COVID-19 claims liability, underlying claims growth was 3.0%.

Management expenses decreased by \$16.7 million or 3.0% as a result of reductions in both cash and non-cash expenses. There was a 40 basis point improvement in the management expense ratio from 8.7% in FY19 to 8.3% in FY20. On productivity savings, we delivered savings of approximately \$20 million and are targeting a further \$50 million in productivity savings across the next three years, including \$20 million in FY21.

Medibank Health

In 2020, Medibank Health revenue from continuing operations increased by 17.2%, or \$39.7 million, to \$270.0 million, reflecting strong growth across all business lines. Medibank Health operating profit from continuing operations increased by \$5.7 million, or 25.8%, to \$27.8 million in 2020, with the operating margin up 70 basis points to 10.3%.

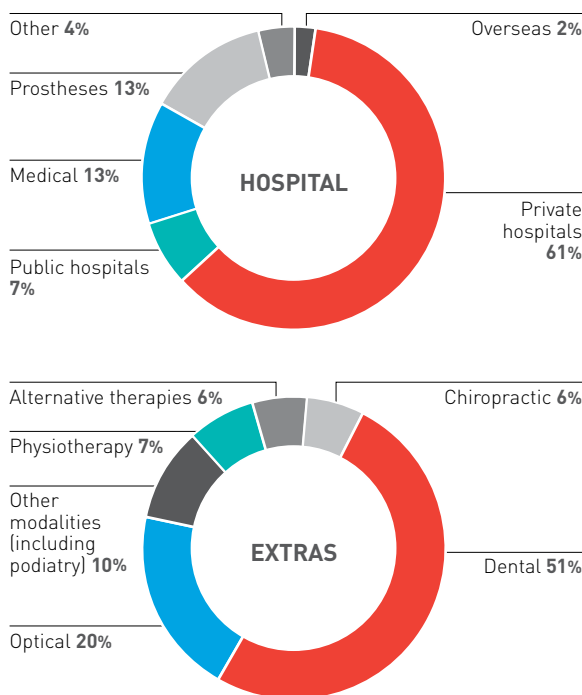
Investment income

Net investment income decreased by \$100.4 million to \$2.4 million in FY20, due to the negative impact on investment asset valuations across both our growth and defensive portfolios as a result of the heightened market volatility related to COVID-19.

Capital

We remain in a strong capital position. Health Insurance related capital as at 30 June 2020 was \$873.2 million. This represents 13.2% of premium revenue after the allowance for determined but unpaid dividends, as at 30 June 2020. This was marginally above the top end of Medibank's target range of 11%-13%. The FY20 total ordinary dividend represents a 90% payout ratio of underlying NPAT, normalising for investment market returns. This is in line with our outlook statement provided at our HY20 financial results where we advised the market that our dividend payout ratio was expected to be at or above the top end of our annual payout ratio range of between 75%-85% of underlying NPAT.

COMPOSITION OF CUSTOMER CLAIMS



OUTLOOK

- We aim to increase market share and achieve total policyholder growth¹ of >1% assuming a flat market, including an aspiration to grow the Medibank brand during FY21.
- Our underlying drawing rate growth or increase in annualised average net claims expense per policy unit for FY21 is forecast to be broadly in line with FY20.
- Targeting \$20 million in productivity savings in FY21 and an additional \$30 million during FY22-FY23.
- 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.

¹ Excluding the impact of policyholder suspensions due to COVID-19 financial hardship.

COVID-19: OUR RESPONSE



Customers



- **Postponed premium increases for 6 months** to 1 October 2020 for all customers.
- **Introduced a financial hardship policy**, giving eligible customers the option to suspend their cover for 3 months or access a 50% waiver on their premiums for up to 6 months.
- **Customers under financial stress will be able to access a 10% discount on their premiums from 1 October for 3 months**, if they are living in an area declared a state of disaster due to COVID-19 (currently Victoria) and not eligible for government support.
- **Extended extras** to include telehealth services for 7 allied health services such as psychology and physiotherapy, until further notice.
- **Paying benefits** towards chest, heart, lung and kidney hospital admissions, including those related to COVID-19, regardless of an existing customer's level of hospital cover – expanding coverage for 1 million Medibank and ahm customers.
- **Launched COVID-19 Health Assist**, a program of customised health and wellbeing support for customers, including the most vulnerable.
- **Extended access to Medibank's 24/7 nurse and mental health lines** to ahm customers.
- **A 12-month extension to most unused annual extras limits** for ahm customers as at 30 June.

People



- **Introduced 2 weeks paid COVID-19 leave** for all employees.
- **Launched the 24/7 Medibank Employee Mental Health Support line** which provides greater access and choice for our people in supporting their mental health and that of their family.
- To support our people and provide certainty, we have **made a commitment to work very hard to not stand down any employee as a result of COVID-19**.
- **Around 680 temporary frontline clinicians employed in response to increased demand** from government clients and other providers for telehealth services relating to COVID-19.
- The majority of our people are still working from home, and our Victorian retail stores are temporarily closed, with employees redeployed to online and digital channels.

Community



- **Donated \$5 million to Beyond Blue** for its new COVID-19 Mental Wellbeing and Support Service.
- Funded a number of projects researching the impact of COVID-19.
- **Medibank's telehealth team is providing support to the public** via a range of COVID-19 helplines.
- **Launched Live Better at Home** to give all Australians access to a free online program of work out videos, cooking demonstrations and guided meditations, and partnering with Smiling Mind on a program to help foster positive mental health habits among Australian families.
- **We have not accessed any taxpayer funded government relief.**
- **Supporting the Victorian Government during stage 4 lockdown measures** – facilitating in-home COVID-19 testing, assisting with contact tracing and providing services to hundreds of residents in aged care homes.

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.

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SUMMARY OF FINANCIAL RESULTS

Financial year ended 30 June (\$ million)	2020	2019	Change
Group:			
Revenue from external customers ¹	6,769.6	6,655.8	1.7%
Health Insurance operating profit	470.6	542.5	(13.3%)
Medibank Health operating profit ¹	27.8	22.1	25.8%
Segment operating profit	498.4	564.6	(11.7%)
Corporate overheads	(37.4)	(36.1)	3.6%
Group operating profit – continuing operations	461.0	528.5	(12.8%)
Net investment income	2.4	102.8	(97.7%)
Amortisation of intangibles	(9.0)	(8.7)	3.4%
Other income/(expenses)	(4.2)	(6.3)	(33.3%)
Profit before tax	450.2	616.3	(27.0%)
Income tax expense	(134.6)	(178.6)	(24.6%)
NPAT – continuing operations	315.6	437.7	(27.9%)
NPAT – discontinued operations	(0.6)	21.0	(102.9%)
NPAT – total operations	315.0	458.7	(31.3%)
Effective tax rate²	29.9%	29.0%	90bps
EPS (cents) ²	11.4	16.7	(31.3%)
Underlying NPAT³	366.7	447.9	(18.1%)
Underlying EPS (cents) ³	13.3	16.3	(18.1%)
Dividend per share (cents)	12.0	13.10	(8.4%)
Dividend payout ratio ³	90%	80%	12.5 %
Health Insurance:			
Premium revenue	6,545.6	6,464.7	1.3%
Net claims expenses (including risk equalisation)	(5,531.6)	(5,362.1)	3.2%
Gross profit	1,014.0	1,102.6	(8.0%)
Gross margin (%)⁴	15.5%	17.1%	(160bps)
Management expenses	(543.4)	(560.1)	(3.0%)
Management expense ratio (%)⁴	8.3%	8.7%	(40bps)
Operating profit	470.6	542.5	(13.3%)
Operating margin (%)⁴	7.2%	8.4%	(120bps)

1 Excludes discontinued operations.

2. Calculated on total operations.

3. Dividend payout ratio based on underlying NPAT, which adjusts NPAT for the normalisation of investment income.

4. Includes Australian residents and overseas customers. The gross margin for Australian residents only was 16.4% in FY19 and 14.3% in FY20, the MER for Australian residents only was 8.3% in FY19 and 8.0% in FY20, and the operating margin for Australian residents only was 8.1% in FY19 and 6.3% in FY20.