

16 February 2018

2018 HALF YEAR (1H18) RESULTS

Medibank net profit \$245.6 million Medibank announces \$20 million give back to customers

Medibank Private Limited (Medibank) today announced its results for the six months ended 31 December 2017 (1H18).

Results overview

- **Group NPAT of \$245.6 million, up 5.9% from \$231.9 million in 1H17**
- **Interim dividend of 5.5 cents per share, fully franked, up 4.8% from 1H17**
- **Health Insurance**
 - **\$2.6 billion in claims paid on behalf of customers**
 - **Premium revenue growth of 1.8%**
 - **Increase in operating profit to \$277.3 million**
 - **Adjusted health insurance profit of \$243.5 million¹**
 - **Management expense ratio (MER) at 8.6%**
- **Medibank Health operating profit rose to \$25.2 million**
- **Net investment income down 22.3% to \$59.7 million, due to lower market returns and a more defensive investment portfolio**

CEO commentary

Medibank Chief Executive Officer Craig Drummond said the company delivered a solid result due to the changes made to the business over the last 18 months as well as the initial benefit from its productivity program.

“Today’s result reflects the progress we have made in delivering our customers a better experience, better service, better products and more value. This half we have paid \$2.6 billion in claims on behalf of our customers, supporting them with their health and wellbeing,” Mr Drummond said.

“2018 marks a step change for Medibank. We are now positioning for growth which will allow us to leverage our scale to build the core business and transform into a broader health services company. Our progress means we are now in a position to pursue new initiatives, continue to invest in our chronic disease management programs and expand our in the home programs.

“Today we are announcing that this half we will launch our Priority program for Medibank customers. Priority is our way of formally recognising and thanking customers who have been with us for 10 years or more.

“Priority customers will have access to benefits such as a dedicated service line, health professionals to support them when they go to hospital and exclusive partner offers.

“To mark the launch of this program, we are also pleased to announce a \$20 million one-off loyalty bonus to our Medibank customers in June this year, starting with our Priority customers. For example, this means customers who have been with us for more than 10 years and have hospital

¹ After allowing for a higher claims provision release of \$33.8 million, the adjusted health insurance operating profit for 1H18 was \$243.5 million, an increase of 4.0% on a similarly adjusted 1H17 operating profit.

and extras cover, will be able to put the bonus towards increasing their extras limits or seeing a physiotherapist.

"One in every two Australians has private health insurance and they have it for peace of mind, but we know affordability is a key issue. That is why we have been focused on reducing our own costs to keep premium increases down. We are on track to deliver the commitment we made in August 2017 to reduce waste, with management expenses down 1.9% in our health insurance business this half.

"We have just delivered our lowest premium increase in 17 years, because of the work we have done to cut our own costs and because we passed on 100% of savings from prostheses reforms.

"There is urgency for further structural reform to the health system to maintain the downward pressure on health costs and premiums and we are looking forward to working with the committees established by the Federal Government into out of pocket costs and low value care.

"Improving affordability remains a key focus and we need to keep working even harder to deliver on this promise for our customers."

Group

Group NPAT increased 5.9% to \$245.6 million (1H17: \$231.9 million), with solid results from the Health Insurance and Medibank Health businesses more than offsetting lower net investment income.

Health Insurance

Health Insurance operating profit increased to \$277.3 million, up from \$249.4 million in 1H17. After allowing for a claims provision release from FY17 of \$33.8 million, the adjusted operating profit for 1H18 was \$243.5 million, an increase of 4.0% on a similarly adjusted 1H17 operating profit of \$234.2 million.

Health Insurance premium revenue was up 1.8% to \$3,175.1 million. Industry volume growth continued to slow, which is indicative of the challenging affordability conditions being experienced. Encouragingly, the Medibank brand showed an improvement in the customer acquisition rate and a lower lapse rate, reflecting the pleasing performance of new products and improved customer service and value. The ahm brand continued its significant growth in acquisition rate, partly offset by a higher lapse rate, which is closely aligned to its overall policyholder growth rate.

Health claims rose by 1.3% to \$2.6 billion for the half year, reflecting prostheses cost savings, moderating hospitalisation utilisation growth, a higher claims provision release and lower risk equalisation receipts.

Management expenses fell by 1.9% to \$273.2 million, with the MER down from 8.9% to 8.6%. Higher depreciation and amortisation charges were more than offset by a decline in operating expenses of 3.4%.

Medibank Health

Medibank Health revenue rose by 4.5% to \$291.9 million and operating profit increased by 45.7% to \$25.2 million, reflecting an improvement in operating performance across all businesses, including the acquisition of HealthStrong and an increased contribution from our diversified insurance businesses.

Investment income

Net investment income fell by 22.3% to \$59.7 million, principally due to lower equity and credit market returns and a more defensive portfolio position.

Capital

Health Insurance related capital as at 31 December 2017 was \$895.3 million, representing 14% of premium revenue, which is at the top end of the Board's stated target range of 12% to 14%.

Dividend

The Board has declared an interim dividend of 5.50 cents per share, fully franked. This represents a payout ratio of 64.6% of underlying NPAT. The Board remains committed to a full year target payout ratio between 70 to 80% of annual underlying NPAT. For the 2018 financial year the dividend payout is expected to be towards the top end of the stated target range.

2018 interim dividend dates:

Ex-dividend date	Tuesday, 6 March 2018
Payment date	Wednesday, 28 March 2018

Health Insurance outlook

Similar underlying revenue trends to the first half are expected for the FY18 result, adjusted for the 3.88% rate change on 1 April. No material change is expected in hospital utilisation growth in the second half, while ancillary utilisation growth is expected to be moderately lower. Management expenses are expected to be slightly higher in the second half, while full year management expenses are expected to be below those recorded in 2017.

Investor briefing

Medibank will conduct an investor briefing on the 1H18 results today at 9.30am (AEDT). The investor presentation will be available, along with access to the webcast of the briefing, on Medibank's website at <http://www.medibank.com.au/about/investor-centre/results-reports>.

Further enquiries

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APPENDIX:

SUMMARY OF FINANCIAL RESULTS

Six months ended 31 December (\$ million)	1H18	1H17	Change
Group:			
Revenue	3,467.0	3,397.2	2.1%
Health Insurance operating profit	277.3	249.4	11.2%
Medibank Health operating profit	25.2	17.3	45.7%
Segment operating profit	302.5	266.7	13.4%
Corporate overheads	(16.4)	(16.5)	(0.6%)
Group operating profit	286.1	250.2	14.3%
Net investment income	59.7	76.8	(22.3%)
Amortisation of intangibles	(3.5)	(3.5)	-
Other income/(expenses)	3.8	(0.2)	n.m.
Profit before tax	346.1	323.3	7.1%
Income tax expense	(100.5)	(91.4)	10.0%
Net profit after tax (NPAT)	245.6	231.9	5.9%
EPS (cents)	8.9	8.4	5.9%
Dividend per share (cents)	5.50	5.25	4.8%
Health Insurance:			
Premium revenue	3,175.1	3,117.9	1.8%
Net claims expense (incl. risk equalisation)	(2,624.6)	(2,589.9)	1.3%
Gross profit	550.5	528.0	4.3%
<i>Gross margin (%)</i>	17.3%	16.9%	40bps
Management expenses	(273.2)	(278.6)	(1.9%)
<i>MER (%)</i>	8.6%	8.9%	(30bps)
Operating profit	277.3	249.4	11.2%
<i>Operating margin (%)</i>	8.7%	8.0%	70bps
Amount over provided on central estimate	(33.8)	(15.2)	n.m.
Adjusted operating profit	243.5	234.2	4.0%
Adjusted operating margin	7.7%	7.5%	20bps