

# 2021 full year results

Focus on customer needs and support delivers strong result

## CEO commentary

"We have delivered a high-quality result underpinned by strong policyholder growth across both brands, our highest ever customer advocacy, growth in Medibank Health, and ongoing focus on management expenses.

"This result is a clear demonstration that focusing on our customers' needs and being disciplined in how we run our business delivers strong results.

"More people continue to prioritise their health and wellbeing and see greater value in private health, given the uncertainty around COVID and heightened pressure on the public system. The investments we have made over the last few years have enabled us to step up and provide broader support to our customers during this period, while accelerating our growth at the same time.

"Our ongoing focus on our customers has led to improved retention, and record customer advocacy levels with Service NPS increasing for both Medibank (+5.3) and ahm (+1.8).

"We grew resident policyholders by 82,500, including 29,600 for the Medibank brand. We've grown more in the past 12 months than we have in over 10 years, with our market share up 37 basis points.

"We've been there for our customers through COVID, providing around \$300 million in support to date, the largest support package in our 45-year history. This includes \$103 million in COVID permanent net claims savings we are returning to our customers in premium relief. We will continue to assess known claims savings and will return any permanent net claims savings due to COVID to our customers through additional support in the future.

"Our Medibank Health business continued to grow with COVID driving demand for in-home care and telehealth, the expansion of our short-stay program and the launch of My Home Hospital as well as the growth of our preventative health programs.

"Our people are engaged, inspired by our vision and purpose and optimistic about our future.



## 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

**\$5.6b**

total claims paid

**\$441.2m**

Group net profit after tax

**+82,500**

net resident policyholders (12 months to 30 June 2021)

Medibank

**37.1**

+5.3

ahm

**43.0**

+1.8

customer advocacy (average Service NPS)

**27.3%**

(+37 basis points)

market share (12 months to June 2021)

**6.9** cents per share

final ordinary dividend fully franked

## Financial summary

Group NPAT up 39.8% to **\$441.2 million**

Group operating profit up 14.6% to **\$528.3 million**

### Health Insurance

- Operating profit up 14.4% to **\$538.6 million**
- Premium revenue up 2.1% to **\$6,680.3 million**
- Management expense ratio down 40bps to **7.9%**

### Medibank Health

– Segment profit up 12.9% to **\$31.4 million**

**Net investment income** up from \$2.4 million to **\$120.0 million**, significantly higher than FY20 when markets were impacted by COVID

\*Numbers presented on a continuing basis unless otherwise indicated

“While we expect overall participation growth to slow compared to FY21, we plan to further strengthen our dual brand strategy by delivering differentiated and compelling products and services that respond to growing areas of customer demand.

“We know our customers want greater choice about where they can receive care and greater control over what they pay for it.

“We also have a critical role to play in driving change in Australia’s healthcare system and advocating for reforms to improve the affordability and value of private healthcare.

“This is why we will continue to invest in preventative health and building more partnerships with doctors, hospitals and governments. However, these changes will not come quickly nor will it be easy, but the sustainability of our health system is at stake.

“Responding to our customers’ needs has ultimately made our business stronger and more sustainable. In doing this, we are becoming a health company.”

**David Koczkar**

Chief Executive Officer



## Dividend

The Board has determined a fully franked final ordinary dividend of 6.9 cents per share, up 9.5% from FY20. The total FY21 ordinary dividend will be 12.7 cents per share, 5.8% above FY20. The total ordinary dividend represents an 87.7% payout ratio of underlying NPAT, normalising for investment market returns. This is marginally above the top end of our target payout ratio range of between 75%-85% of underlying NPAT.

### Dividend dates

<b>Ex-dividend Date</b>	<b>8</b>	<b>Wednesday September 2021</b>
<b>Record Date</b>	<b>9</b>	<b>Thursday September 2021</b>
<b>Payment Date</b>	<b>30</b>	<b>Thursday September 2021</b>

## Performance in detail

### Group

Group operating profit from continuing operations was up 14.6% to \$528.3 million (FY20: \$461.0 million), driven in large part by a solid performance in our Health Insurance business. This result, as well as an increase in investment income, resulted in a 39.8% increase in Group net profit after tax (NPAT) to \$441.2 million (FY20: \$315.6 million). Underlying NPAT, which normalises for investment market returns, was up 8.5% to \$398.7 million.

### Health Insurance

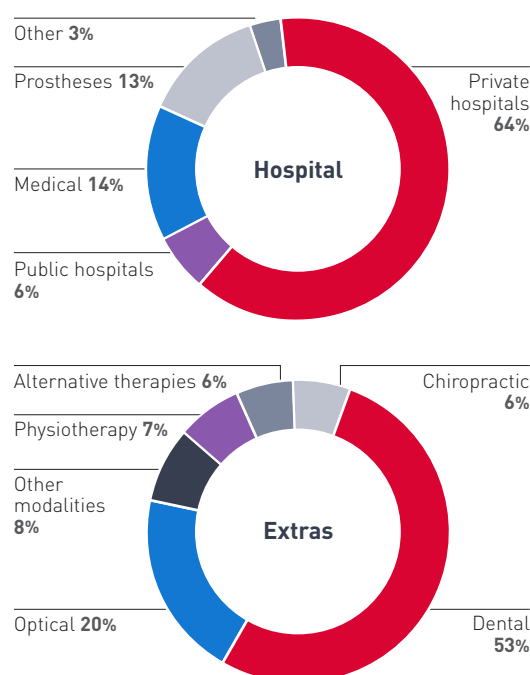
Health Insurance operating profit was up 14.4% to \$538.6 million, driven by strong policyholder growth, improved retention and ongoing cost control.

Net resident policyholders increased by 82,500 or 4.6%, up from 0.6% in FY20. When adjusted for COVID-related suspensions, policyholders increased by 3.5% with the Medibank and ahm brands growing 1.3% and 10.9% respectively. Our acquisition rate improved by 110 basis points, largely driven by strong growth in the new to industry customer segment within the Medibank brand. Our retention rate improved by 130 basis points at a fund level, reflecting improving customer advocacy across both brands, increasing product value and differentiation in the Medibank brand. These factors all contributed to an increase in premium revenue of 2.1% to \$6,680.3 million, and a 37 basis point increase in our market share, which stands at 27.3% as at 30 June 2021.

We paid \$5.6 billion in claims in FY21. On a reported basis, Medibank’s net claims increased by 1.4% and gross claims expense increased by 0.8% over the period. This includes a \$223.0 million reduction in claims expense due to lower than expected claims as a result of COVID, as well as a decrease in the COVID-19 deferred claims liability which is in recognition of claims likely to have been deferred during the pandemic. The decrease in the COVID-19 deferred claims liability from \$297.1 million to \$223.8 million was largely the result of the reduction in our aggregate hospital deferral assumption to 59%.



### Composition of resident customer claims



We announced a customer give back of \$103 million which will occur in September 2021, funded through the partial release of the COVID-19 deferred claims liability as well as permanent claims savings since 31 December 2020.

Risk equalisation was \$24.6 million payable in FY21 compared to \$7.9 million receivable in FY20, a result of our claims growth being below the industry's, as well as an increase in younger customers through the ahm brand. Underlying claims growth per policy unit, which adjusts for both COVID impacts and claims provisions, grew 3.1% at a fund level. While underlying claims per policy unit growth in the resident portfolio was down 20 basis points to 2.5%, it was up in the overseas portfolio due to the closure of international borders and increase in the use of some services.

Our productivity agenda and benefits of scale supported a 40 basis point decrease in our management expense ratio to 7.9%. Management expenses decreased by \$12.5 million or 2.3%, primarily due to lower overseas sales commissions and operating expenses. Overseas sales commissions were down by \$5.4 million or 41.2% with the closed international borders reducing the number of new overseas customers. Operating expenses were down by 1.4%, reflecting productivity savings of approximately \$20 million partially offset by cost inflation and volume impacts. We are targeting productivity savings of approximately \$40 million over the next three years, including \$15 million in FY22.

## Medibank Health

Medibank Health revenue was up 5.1% to \$283.8 million as a result of increased demand for homecare and telehealth services, offset in part by softer demand in travel insurance due to COVID-related border restrictions. Medibank Health operating profit, which excludes our share of Myhealth and other investments, was up 15.8% to \$32.2 million (FY20: \$27.8 million) and our operating margin improved 100 basis points to 11.3%. Segment profit, which includes our share of Myhealth and other investments, improved 12.9% to \$31.4 million.

## Investment income

Net investment income increased to \$120.0 million (FY20: \$2.4 million) with last year's performance significantly impacted by COVID. The increased income in the growth portfolio reflects strong equity markets, and in the defensive portfolio the benefit of narrowing credit spreads was offset by the lower interest rate environment.

## Capital

Our capital position remains strong, with Health Insurance related capital of \$942.0 million as at 30 June 2021. This represents 13.0% of premium revenue after the allowance for determined but unpaid dividends as at 30 June 2021, which is at the top end of the Board's stated target range of 11.0%-13.0%. The FY21 total ordinary dividend of 12.7 cents per share represents an 87.7% payout ratio of underlying NPAT, normalising for investment market returns. This is marginally above the top end of the target payout ratio range of between 75%-85% of underlying NPAT.

## FY22 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



Aiming to achieve c. 3% policyholder growth<sup>1</sup> in FY22, including continued growth in the Medibank brand

### Claims



Underlying average net claims expense per policy unit is forecast to be in line with 2H21 (2.4%) among resident policyholders

### Productivity



FY22 productivity target of \$15m in Health Insurance management expenses

### Growth



Targeted inorganic growth for Medibank Health and Health Insurance remain areas of focus

1. Assumes slowing industry participation growth in FY22 relative to FY21

## Further enquiries



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## Summary of financial results

Financial year ended 30 June (\$ million)	2021	2020	Change
<b>Group:</b>			
Revenue from external customers <sup>1</sup>	6,910.4	6,769.6	2.1%
Health Insurance operating profit	538.6	470.6	14.4%
Medibank Health segment profit <sup>1</sup>	31.4	27.8	12.9%
<b>Segment operating profit</b>	<b>570.0</b>	<b>498.4</b>	<b>14.4%</b>
Corporate overheads	(41.7)	(37.4)	11.5%
<b>Group operating profit – continuing operations</b>	<b>528.3</b>	<b>461.0</b>	<b>14.6%</b>
Net investment income	120.0	2.4	n.m.
Amortisation of intangibles	(4.6)	(9.0)	(48.9%)
AASB 16 Leases transition adjustment	-	3.3	n.m.
Other income/(expenses)	(11.4)	(7.5)	52.0%
<b>Profit before tax</b>	<b>632.3</b>	<b>450.2</b>	<b>40.4%</b>
Income tax expense	(191.1)	(134.6)	42.0%
<b>NPAT – continuing operations</b>	<b>441.2</b>	<b>315.6</b>	<b>39.8%</b>
Effective tax rate <sup>2</sup>	30.2%	29.9%	30bps
EPS (cents) <sup>2</sup>	16.0	11.4	39.8%
<b>Underlying NPAT<sup>3</sup></b>	<b>398.7</b>	<b>367.3</b>	<b>8.5%</b>
Underlying EPS (cents) <sup>3</sup>	14.5	13.3	8.5%
<b>Dividend per share (cents)</b>	<b>12.7</b>	<b>12.0</b>	<b>5.8%</b>
Dividend payout ratio <sup>4</sup>	87.7%	90.1%	(2.7%)
<b>Health Insurance:</b>			
Premium revenue	6,680.3	6,545.6	2.1%
Net claims expenses (including risk equalisation)	(5,610.8)	(5,531.6)	1.4%
<b>Gross profit</b>	<b>1,069.5</b>	<b>1,014.0</b>	<b>5.5%</b>
<b>Gross margin (%)</b>	<b>16.0%</b>	<b>15.5%</b>	<b>50bps</b>
Management expenses	(530.9)	(543.4)	(2.3%)
<b>Management expense ratio (%)</b>	<b>7.9%</b>	<b>8.3%</b>	<b>(40bps)</b>
Operating profit	538.6	470.6	14.4%
<b>Operating margin (%)</b>	<b>8.1%</b>	<b>7.2%</b>	<b>90bps</b>

1. Excludes discontinued operations.

2. Calculated on total operations.

3. Underlying NPAT, which adjusts NPAT for the normalisation of investment income, is from continuing operations.

4. Dividend payout ratio based on underlying NPAT from total operations.