

25 August 2017

FULL YEAR (FY17) RESULTS

Medibank net profit \$449.5 million Delivering on customer improvements and driving a good financial result

Medibank Private Limited (Medibank) today announced its results for the year ended 30 June 2017 (FY17).

Results overview

- Group NPAT of \$449.5 million, up 7.6% from \$417.6 million in FY16
- Final dividend of 6.75 cents per share, bringing the full year dividend to 12.0 cents per share fully franked
- Health Insurance
 - Record \$5.2 billion in claims paid on behalf of our customers
 - Decrease in operating profit to \$497.5 million was modestly ahead of guidance, and reflected the cost of increased investment in customer benefits, customer initiatives and new IT system amortisation
 - Premium revenue growth of 1.2%
 - Gross margin at 17.1%
 - Management expense ratio (MER) at 9.1%
- Medibank Health (formerly Complementary Services) operating profit up to \$35.7 million
- Net investment income up 134.9% to \$139.3 million due to higher equity market returns and stronger credit markets

Medibank Chief Executive Officer Craig Drummond said that 2017 was important for the company, after a year of dedicated focus on improving service and products for Medibank customers.

"I'm pleased with the strong signs of progress, and the significant improvements we have made to our customer service over the past 12 months," Mr Drummond said.

"In 2017 we have overhauled our service standards, launched new products and provided increased value for customers.

"We have paid a record \$5.2 billion in benefits to our customers, supported more than 1.3 million hospital admissions, 500,000 surgical procedures, and around 23.5 million extras services.

"Affordability for customers has been a real focus for us, with household budgets under increasing pressure. The challenge is to get the balance right between meeting the rising costs of healthcare in Australia and ensuring that our products remain affordable while meeting the health needs of our customers. This year our premium change was the lowest in 15 years, and 24 basis points below the industry average. For our customers the change in prostheses pricing resulted in a \$24 million benefit which we passed on in full.

"The investment in our contact centre has contributed to the improved experience of our customers, reducing call wait times by more than 80% since the last quarter of FY16.

"The implementation of new complaint resolution processes has seen our share of customer complaints with the Ombudsman almost halve, from 60.7% in the quarter ending September 2016, to 35.6% in the June 2017 quarter, and our share of disputes was the lowest in almost four years at 16.8%. Our focus on resolving customer complaints quickly is making a difference and we expect our complaint numbers to continue to drop over the period ahead.

"We've also bedded down our new IT system, successfully getting through some of our busiest times of the year, and we are now starting to leverage that investment to deliver benefits to customers.

"Beyond the private health insurance business, we have a clear strategy to diversify the business, developing new health service capabilities, and bringing those services to our customers in their homes. We recently acquired HealthStrong, Australia's leading provider of mobile allied health services such as physiotherapy and podiatry, growing our health services business to around 1,200 health professionals.

"2017 was an important year for our company. We had to focus on the core of our business and get the basics right. The work that we have done means that we are now able to lift our eyes and build on our competitive advantage and position our company for growth. We can, and will be doing more for our customers," Mr Drummond concluded.

Group

Group NPAT was up 7.6% to \$449.5 million (FY16: \$417.6 million), due primarily to net investment income increasing by \$80.0 million, more than offsetting a lower operating profit for the Health Insurance business.

Health Insurance

Health Insurance operating profit decreased to \$497.5 million, down from \$510.7 million in FY16, reflecting higher management expenses from investment in customer focussed initiatives and IT system amortisation.

Health Insurance premium revenue was up 1.2% to \$6,244.9 million. Industry volume growth continued to slow, which is indicative of the challenging conditions being experienced. Medibank brand volumes were down. Acquisition improved slightly in the second half, driven by strong performance in new products. The lapse rate was up slightly in line with industry. The ahm brand growth accelerated, driven by a significant improvement in both customer acquisition and lapse.

Health claims rose to a record \$5.2 billion for the year. Gross margin increased from 16.6% to 17.1%, in part due to shifts in the mix of the customer portfolio. There were also a range of Medibank-specific initiatives that impacted the outcome, especially Medibank's payment integrity program which reduces improper claims.

Management expenses were up 10.2% to \$568.4 million with the MER up from 8.4% to 9.1%, reflecting continued investment in customer initiatives and IT system amortisation. Excluding the increase in depreciation and amortisation, and \$21 million in additional customer initiatives, other management expenses rose just 1.6%.

Medibank Health

Medibank Health revenue declined 3.0% to \$552.1 million, however, operating profit rose 44.0% to \$35.7 million, primarily due to the divestment of underperforming businesses in 2016 and a solid result from ongoing businesses.

Investment income

Investment income rose to \$139.3 million in FY17 due to higher equity market returns, as well as stronger credit markets, which more than offset the lower cash rate.

Capital

Health Insurance related capital as at 30 June 2017 was \$878.7 million, representing approximately 13.9% 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 a final dividend of 6.75 cents per share, bringing the full year FY17 dividend to 12.0 cents per share, fully franked. This represents a final payout ratio of 79% of underlying NPAT, at the top end of the full year target payout ratio of 70-80% of underlying NPAT.

Health Insurance outlook

The FY18 Health Insurance operating result is anticipated to be impacted by a variety of factors, including:

- Flat overall market volumes expected due to further declines in the participation rate
- Continued improvement expected in market share trajectory (stabilisation targeted by the end of 2019)
- No material change expected in the hospital utilisation growth rate from FY17 levels
- Management expenses expected to be lower, including the benefit of \$20 million in productivity savings
- The regulatory environment is expected to be supportive with a focus on affordability and industry sustainability

Investor briefing

Medibank will conduct an investor briefing on the FY17 results today at 9.30am (AEST). The associated 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>

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APPENDIX:

SUMMARY OF FINANCIAL RESULTS

Financial year ended 30 June (\$ million)	2017	2016	Change
Group:			
Revenue	6,797.0	6,741.8	0.8%
Health Insurance operating profit	497.5	510.7	(2.6%)
Medibank Health operating profit	35.7	24.8	44.0%
Segment operating profit	533.2	535.5	(0.4%)
Corporate overheads	(32.7)	(30.0)	9.0%
Group operating profit	500.5	505.5	(1.0%)
Net investment income	139.3	59.3	134.9%
Amortisation of intangibles	(7.0)	(7.6)	(7.9%)
Other income/(expenses)	(4.1)	(10.9)	(62.4%)
Profit before tax	628.7	546.3	15.1%
Income tax expense	(179.2)	(128.7)	39.2%
Net profit after tax (NPAT)	449.5	417.6	7.6%
EPS (cents)	16.3	15.2	7.6%
Dividend per share (cents)	12.0	11.0	9.1%
Health Insurance:			
Premium revenue	6,244.9	6,172.5	1.2%
Net claims expense (incl. risk equalisation)	(5,179.0)	(5,145.8)	0.6%
Gross profit	1,065.9	1,026.7	3.8%
<i>Gross margin (%)</i>	<i>17.1%</i>	<i>16.6%</i>	<i>50bps</i>
Management expenses	(568.4)	(516.0)	10.2%
<i>MER (%)</i>	<i>9.1%</i>	<i>8.4%</i>	<i>70bps</i>
Operating profit	497.5	510.7	(2.6%)
<i>Operating margin (%)</i>	<i>8.0%</i>	<i>8.3%</i>	<i>(30bps)</i>