

# 2019 full year results

## Investor Presentation

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i choose better

**medibank**  
For Better Health

# Highlights

Craig Drummond – Chief Executive Officer

# Results summary

Good result balancing better outcomes for customers and shareholders

## Group operating profit

Continuing	\$528.5m	+1.9%
Total <sup>1</sup>	\$558.7m	+1.8%

## Group NPAT

Continuing	\$437.7m	+3.2%
Total <sup>1</sup>	\$458.7m	+3.1%

## Final ordinary dividend

7.40cps +2.8%

## Special dividend

2.50cps

- Strong customer advocacy with record levels for both Medibank Service NPS of 24.8 (+9.5) and ahm Service NPS of 38.5 (+10.4)
- Group operating profit of \$528.5m and Group NPAT of \$437.7m (continuing basis) up 1.9% and 3.2% respectively
- Health Insurance operating profit of \$542.5m (+1.3%) reflects a 2.3% increase in premium revenue, \$5.4 billion in benefits paid to customers, a management expense ratio of 8.7% (8.8% in FY18) and operating margin of 8.4%
- Solid volume growth of 15,100 net resident policyholders and five basis points of market share growth since June 2018 reflecting our dual brand strategy, improvement in acquisition and retention and our aspiration for growth at a reasonable margin
- Medibank Health operating profit of \$22.1m on a continuing basis is in line with FY18 adjusting for Home Support Services
- Net investment income \$102.8m, up from \$95.6m in FY18 is in line with the performance of benchmark indices
- Target capital range reduced from 12%-14% to 11%-13% of premium revenue in line with LAGIC framework. This release of capital will be returned to shareholders as a fully franked special 2.50cps dividend
- Increase in target dividend payout ratio to 75%-85% of underlying NPAT from FY20

<sup>1</sup> Includes discontinued operations profit of \$30.2m; NPAT of \$21.0m. Refer to reconciliation of Group operating profit in appendix.

# Milestone scorecard update

Good progress across all milestones. Revised milestones reflect raising the bar on PHI growth, Medibank Health and productivity

## Objectives

### 1. Customer advocacy

Drive Service and Customer NPS for Medibank and ahm to be best in class<sup>1</sup>

### 2. Health interactions

By 2020 every Medibank customer<sup>3</sup> has at least one health interaction<sup>4</sup> through the year with our company

### 3. PHI growth

To grow market share in FY19

### 4. Medibank at Home

More than double the number of customers receiving Medibank at Home<sup>5</sup> services in FY19

### 5. Medibank Health

More than double Medibank Health's segment share of operating profit from FY16 to FY19

### 6. Productivity

3 year target of \$60m from FY18 to FY20

## FY19 update

### Customer NPS (gap to peers)

Continued improvement

### Avg Service NPS

	FY18	FY19
Medibank	15.3	24.8
ahm	28.1	38.5

### PHIO complaints

FY19: 22.4% share at March 2019

### Customer cover check-ins<sup>2</sup>

FY19: circa 519,200 (500,000 target)

FY17	FY18	FY19	FY20 <sup>3</sup>
<100k	c. 500k	c. 1.57m	target c.1.8m

## Revised milestones

### Policyholder growth

For FY19  
+0.8% / +15,100

### Market share

2H18	1H19	2H19
up 5bps	up 2bps	up 3bps

Medibank brand volumes to stabilise by end of FY20 and grow during FY21

FY18	1H19	FY19
936 customers	1,004 customers	2,144 customers

Virtual hospital beds more than 300 by end of FY22<sup>6</sup>

FY16	FY17	FY18	FY19 <sup>7</sup>
4.6%	6.7%	8.1%	9.6%

By FY22 organically replace the reported FY18 \$30m operating profit of Garrison

FY18 – FY19  
\$40.4m productivity delivered

FY20 productivity target of \$20m and additional \$30m during FY21-FY22

<sup>1</sup> Against major private health insurance peers (Bupa, HCF, nib) by the end of CY19

<sup>2</sup> Inbound or outbound conversations with customers about the appropriateness of their cover

<sup>3</sup> Based on number of policyholders that consent to contact for marketing purposes, some exclusions may apply. Excludes new joins and customer lapses over the period. FY20 will include Live Better

<sup>4</sup> Includes CareComplete, Medibank at Home, Health Concierge, Health Advice Line, and personalised health communications

<sup>5</sup> Excludes Home Support Services (HSS) which was acquired by Medibank in August 2018

<sup>6</sup> Virtual beds equals the number of people receiving hospital care at home by Medibank Health on any given day. The calculation is total days of hospital at home service / 365. FY19 number of virtual beds was approximately 200

<sup>7</sup> FY19 MHS operating profit calculation includes discontinuing operations and an adjustment for excluding one off \$5m exit costs

# Strategy and FY20 priorities

Medibank's strategy remains unchanged – focus on growing PHI and transforming into a broader healthcare company

## Better Health for Better Lives

Strategic pillar	Deliver differentiated products and services for customers	Continue to improve healthcare value for customers	Expand the offering for customers and grow the business
FY20 priorities	<ul style="list-style-type: none"><li>• Personalise and integrate health into our customers' experience</li><li>• Simplify and enhance our cover options</li><li>• Enhance loyalty offering to recognise and reward membership</li></ul>	<ul style="list-style-type: none"><li>• Focus on reducing low value care and improving customer health outcomes by providing greater choice and transparency</li><li>• Drive reform in the near term to target lower premium increases</li><li>• Facilitate a shift to alternative ways of delivering care to enhance patient experience and reduce costs</li></ul>	<ul style="list-style-type: none"><li>• Strengthen and broaden our partnerships</li><li>• Grow corporate, non-resident and diversified portfolios</li><li>• Health services expansion – build scale and grow capability in conjunction with health providers and payors</li><li>• Expand the scope and commercialise our payor services including payment integrity program</li></ul>
Enablers	People   Data   Simplicity		

# Medibank – from funder to healthcare company

Medibank is in a strong position to differentiate and deliver greater value and choice for customers

Differentiation	Value	Growth
<p><b>Personalising customer experience with targeted engagement, rewards and health services</b></p> <ul style="list-style-type: none"><li>• Technology has enabled more personalised customer engagement with My Medibank logins up 21% to 3.8m; the introduction of tap and go claims</li><li>• Analytics capability targeting preventative health support and Right Cover conversations</li><li>• Medibank's Priority program is recognising and rewarding our most loyal customers</li><li>• Scale Live Better to recognise and reward customers for healthy choices and improved retention</li><li>• Expanded Health Concierge and Hospital Assist tools to include additional services and channels</li><li>• 24/7 Medibank Nurse, CareComplete, 24/7 Mental Health line – differentiated services to support customers' health and wellbeing</li></ul>	<p><b>Customer offering enhanced to counter affordability concerns</b></p> <ul style="list-style-type: none"><li>• Live Better is changing the nature of our relationship with customers</li><li>• Members' Choice Advantage dental network delivering value for our customers who have saved \$3m in out-of-pocket costs</li><li>• Members' Choice Advantage optical network to be launched in first half of FY20</li><li>• Progressing value based purchasing with healthcare providers to deliver the best customer outcomes</li><li>• Working with government, providers and private payors to drive health system changes</li></ul>	<p><b>Leveraging our competitive advantage</b></p> <ul style="list-style-type: none"><li>• Positive momentum continues with Medibank and ahm brands</li><li>• Continue dual brand retention program, considering additional brand support</li><li>• Leverage and grow extensive Live Better partnership network which already comprises nine leading health and wellbeing partners including Apple products</li><li>• Continued diversified insurance growth with Medibank customers</li><li>• Corporate and non resident strategy to differentiate through service, product (health and wellbeing) and partnerships</li><li>• Selected by Latrobe University to be their strategic health partner as part of the \$5bn masterplan vision for a world class university city of the future in Bundoora, Victoria</li></ul>

# Medibank Health – alternative ways of delivering healthcare



Work with public and private payors to create greater choice for customers to have care at home

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## **Medibank in-home care capability:**

- Medibank at Home has provided or facilitated care in the home to over 2,000 customers in FY19
- With the acquisition of HealthStrong and Home Support Services, Medibank's in-home care capability has been strengthened creating more choice in the market for Medibank as well as for other payors
- Planned expansion of in-home care services will drive further growth and scale, providing customers choice and affordability

## **Expansion of Medibank Health division:**

- Medibank Health now provides approximately 200 virtual beds<sup>1</sup> within Australia's healthcare system, with an aspiration to increase to more than 300 by the end of FY22. This reflects a key aspect of the future of healthcare delivery
- Medibank Health is uniquely placed to leverage our capabilities to lead the in-home care market

## **Working with government and private payors to lower industry healthcare costs:**

- Working collaboratively with other payors to grow our multi payor model to lower industry health care costs
- Medibank is working with public payors including Department of Veterans' Affairs & SA Health to learn and co-create models of care for improvements in patient outcomes and experiences at an overall lower cost to the health system
- Working with healthcare providers and payors to build hospital avoidance programs - right care, right settings

1. Virtual beds equals the number of people receiving hospital care at home by Medibank Health on any given day. The calculation is total days of hospital at home service / 365



# Medibank Health – alternative ways of delivering healthcare

Customers to have choice and zero out-of-pocket costs in hip and knee early to home trial with Nexus Hospitals

- In partnership with Nexus and doctors, Medibank is funding a new way of delivering doctor led and designed care to provide customers with more choice, affordable care and better clinical outcomes
- The surgeons and Nexus Hospitals have commenced trialling hip and knee replacements shifting to early to home care where clinically appropriate
- Based on ongoing advancement in surgical techniques and pain management, patients will undergo prehabilitation prior to surgery and rehabilitation post surgery through our Medibank at Home program or an alternative rehabilitation pathway, if clinically appropriate
- Doctors retain full clinical autonomy and choice over the appropriate care setting
- The 2-year trial has commenced at a Nexus hospital in Melbourne, with a proposal to expand the arrangement to other locations

## Customer benefits:

- The aims of the Nexus trial with early to home discharge are:
  - Positive patient experiences and outcomes
  - A decrease in the cost of care
  - Zero out-of-pocket costs for any medical services associated with the hospital admission (customer PHI excess still applies)

## Current state



## Future state

Greater choice & affordability



# Financial results

Mark Rogers – Chief Financial Officer

# Group financial summary

Financial year ended 30 June (\$m)	2019	2018	Change
Group revenue from external customers <sup>1</sup>	6,655.8	6,468.8	2.9%
Health Insurance operating profit	542.5	535.6	1.3%
Medibank Health operating profit	22.1	17.4	27.0%
<b>Segment operating profit</b>	<b>564.6</b>	<b>553.0</b>	<b>2.1%</b>
Corporate overheads	(36.1)	(34.1)	5.9%
<b>Group operating profit – continuing operations</b>	<b>528.5</b>	<b>518.9</b>	<b>1.9%</b>
Net investment income	102.8	95.6	7.5%
Amortisation of intangibles	(8.7)	(7.6)	14.5%
Other income/(expenses)	(6.3)	(8.5)	(25.9%)
<b>Profit before tax</b>	<b>616.3</b>	<b>598.4</b>	<b>3.0%</b>
Income tax expense	(178.6)	(174.2)	2.5%
<b>NPAT - continuing operations</b>	<b>437.7</b>	<b>424.2</b>	<b>3.2%</b>
NPAT - discontinued operations	21.0	20.9	0.5%
<b>NPAT - total operations</b>	<b>458.7</b>	<b>445.1</b>	<b>3.1%</b>
Effective tax rate <sup>2</sup>	29.0%	29.2%	(20bps)
EPS (cents) <sup>2</sup>	16.7	16.2	3.1%
<b>Underlying<sup>3</sup> NPAT</b>	<b>447.9</b>	<b>436.4</b>	<b>2.6%</b>
Underlying <sup>3</sup> EPS (cents)	16.3	15.8	2.6%
<b>Dividend per share (cents)</b>	<b>13.10</b>	<b>12.70</b>	<b>3.1%</b>
Dividend payout ratio <sup>3</sup>	80%	80%	-

<sup>1</sup> Excludes Discontinued Operations. Discontinued operations relate to the Garrison Health Services contract (FY19 operating profit of \$30.2m), which ceased on 30 June 2019. Refer to slide 17 for breakdown

<sup>2</sup> Calculated on total operations

<sup>3</sup> Dividend payout ratio based on Underlying NPAT

# Health Insurance result

Operating profit up 1.3% to \$542.5 million

Financial year ended 30 June (\$m)	2019	2018	Change
Premium revenue	6,464.7	6,319.5	2.3%
Claims expense	(5,404.6)	(5,281.1)	2.3%
Risk equalisation	42.5	54.4	(21.9%)
Net claims expenses (including risk equalisation)	(5,362.1)	(5,226.7)	2.6%
<b>Gross profit</b>	<b>1,102.6</b>	<b>1,092.8</b>	<b>0.9%</b>
Management expenses	(560.1)	(557.2)	0.5%
<b>Operating profit</b>	<b>542.5</b>	<b>535.6</b>	<b>1.3%</b>
Gross margin <sup>1</sup>	17.1%	17.3%	(20bps)
MER <sup>1</sup>	8.7%	8.8%	(10bps)
Operating margin <sup>1,2</sup>	8.4%	8.5%	(10bps)

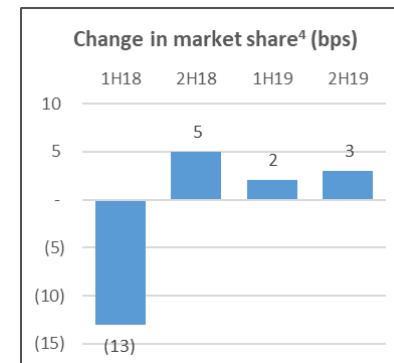
1 Includes Australian residents, OSHC and OVHC. The gross margin for Australian residents only was 16.6% in FY18 and 16.4% in FY19, the MER for Australian residents only was 8.4% in FY18 and 8.3% in FY19, and the operating margin for Australian residents only was 8.2% in FY18 and 8.1% in FY19

2 The reported result includes the benefit of a \$9.7m provision release relating to the FY18 provision. By way of comparison, in FY18, the benefit relating to the FY17 release was \$42m partially offset by the one-off \$20m loyalty investment

# Health Insurance – policyholders

Encouraging net resident policyholder growth of 0.8% over the last 12 months

Financial year ended 30 June	2019	2018	Change
<b>Policyholders<sup>1</sup> (thousand):</b>			
Opening balance	1,780.9	1,776.1	0.3%
Acquisitions	206.2	204.8	0.7%
Lapses	(191.1)	(200.0)	(4.5%)
<b>Closing balance</b>	<b>1,796.0</b>	<b>1,780.9</b>	<b>0.8%</b>
- Medibank	1,406.0	1,419.6	(1.0%)
- ahm	390.0	361.3	7.9%
<b>Acquisition rate<sup>2</sup></b>	<b>11.5%</b>	<b>11.5%</b>	-
- Medibank	8.9%	8.5%	40bps
- ahm	23.5%	26.9%	(340bps)
<b>Lapse rate<sup>2</sup></b>	<b>10.7%</b>	<b>11.2%</b>	<b>(50bps)</b>
- Medibank	9.9%	10.7%	(80bps)
- ahm	15.8%	16.3%	(50bps)
<b>Policyholder growth</b>	<b>0.8%</b>	<b>0.3%</b>	<b>50bps</b>
<b>Total Policy Units<sup>1,3</sup> (thousand)</b>			
Closing balance	4,696.2	4,668.0	0.6%
Average balance	4,683.3	4,669.2	0.3%
<b>Average revenue per policy unit<sup>1,3</sup> (\$)</b>	<b>1,380.4</b>	<b>1,353.4</b>	<b>2.0%</b>



Ex-loyalty (\$20m)

1.7%

- Consistent with reported industry data, policyholder numbers only include resident business whereas total policy units include both resident and non-resident policyholders (i.e. OSHC and OVHC)
- Consolidated lapse and acquisition rates exclude transfers of policyholders between ahm and Medibank at a combined brand level. Figures at brand level include these transfers. Lapse and acquisition rates are based on the average of the opening and closing balances for the period
- Refer to glossary for definition of policy units
- APRA market share data – Medibank Group

# Health Insurance – claims

Average net claims expense per policy unit up 2.3%, or 2.0% adjusted for provision releases

- Hospital claims up 3.1% reflecting:
  - Utilisation of 0.9% in line with FY18
  - Savings from Medibank at Home program and improved hospital contracting outcomes partially offset by slightly more acute case mix
- Risk equalisation
  - Reduction in receipts due to lower than industry claims growth
  - Slowing rate of decline as Medibank policyholder numbers stabilise
- Extras claims growth reduced to 1.0%:
  - Elevated claims growth in FY18 due to:
    - Investment in additional product benefits
    - Introduction of live limits

Financial year ended 30 June (\$m)	2019	2018	Change	Change Per PSEU adjusted for provision release
Claims expense	(5,404.6)	(5,281.1)	2.3%	
Risk equalisation	42.5	54.4	(21.9%)	
<b>Net claims expense (including risk equalisation)</b>	<b>(5,362.1)</b>	<b>(5,226.7)</b>	<b>2.6%</b>	
- Hospital	(4,036.6)	(3,914.3)	3.1%	2.1%
- Extras	(1,325.5)	(1,312.4)	1.0%	1.7%
<b>Average net claims expense per policy unit<sup>1</sup> (\$)</b>	<b>(1,144.9)</b>	<b>(1,119.4)</b>	<b>2.3%</b>	<b>2.0%</b>
Resident hospital utilisation growth <sup>2</sup>	0.9%	0.9%	-	
Resident extras utilisation growth	1.4%	2.4%	(100bps)	

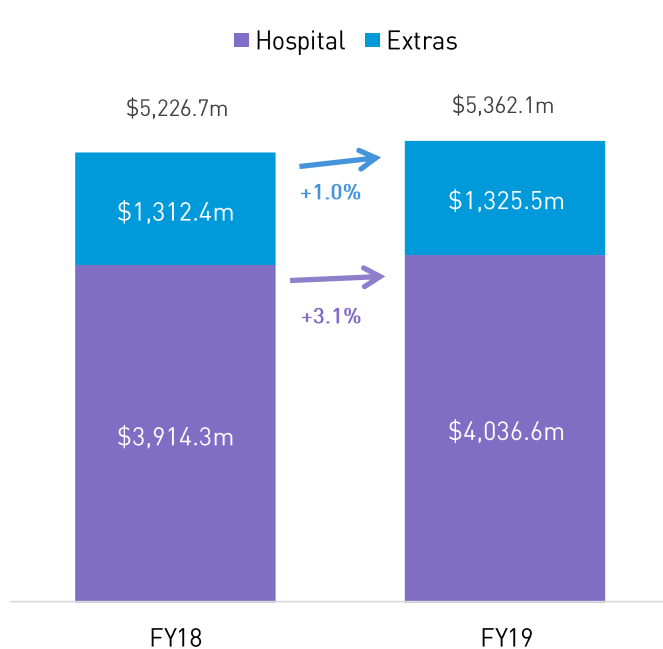
<sup>1</sup> Refer to glossary for definition of policy units. Policy units include both resident and non-resident business (i.e. OSHC and OVHC). Based on average of the month-end balances over the reporting period

<sup>2</sup> Estimated hospital utilisation is defined as the number of hospital admissions per hospital policy unit and includes a provision for IBNR. Actual utilisation growth of 0.9% for FY18 compares to the previous estimate of 1.1% as at 30 June 2018. Estimated utilisation differs from actual utilisation largely as a result of the claims provision releases

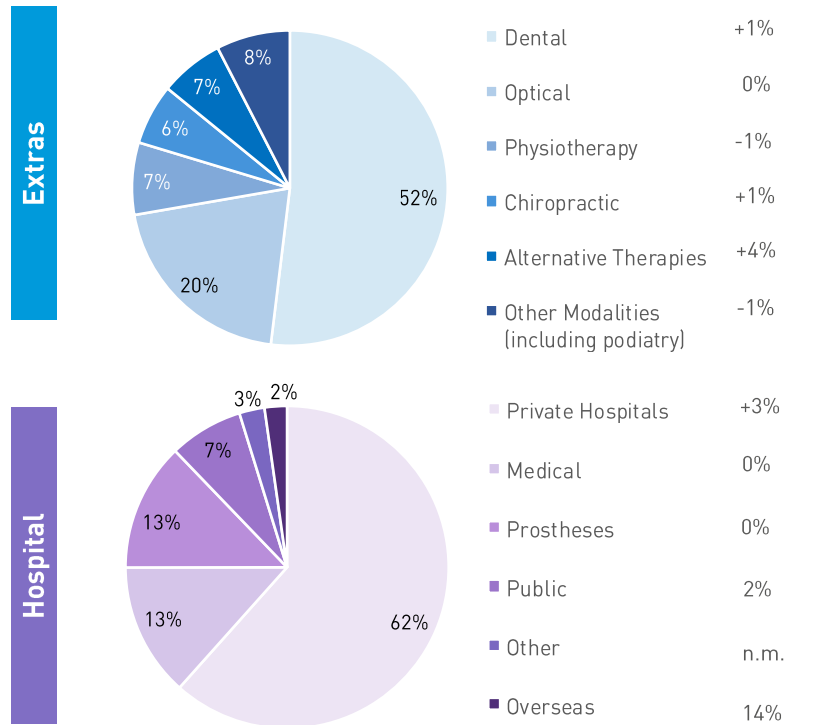
# Health Insurance – claims

Private hospital outlays up 3% – reflecting subdued utilisation growth

**Net claims expense  
(including risk equalisation)**



**Indicative composition and movement in dollar value vs. FY18**



# Health Insurance – management expenses

Continued discipline on costs results in decrease in management expense to 8.7%

## Non cash costs

- D&A up 13.9%
  - Up \$6.1m on FY18 largely reflecting full year impact of ERP commissioning
  - Extending SAP useful life from 7 to 10 years: FY20 D&A expected to be approximately \$5m below FY19
- DAC amortisation stabilised, reflecting continued shift in ahm customer acquisition towards direct channels

## Cash costs

- Operating expenses decreased by 0.7%
  - Underlying inflation of circa 2.5%
  - Productivity savings of \$20.4m from procurement, consulting spend, technology and automation
- Targeting a further \$50m in productivity across the next 3 years
  - \$20m in FY20 and \$30m of savings across FY21-22
  - Savings from business simplification, technology modernisation and process improvement

Financial year ended 30 June (\$m)	2019	2018	Change
Premium revenue	6,464.7	6,319.5	2.3%
<b>Management expenses</b>	<b>(560.1)</b>	<b>(557.2)</b>	<b>0.5%</b>
- Depreciation and amortisation	(50.0)	(43.9)	13.9%
- DAC amortisation	(40.0)	(39.7)	0.8%
- Operating expenses <sup>1</sup>	(470.1)	(473.6)	(0.7%)
<b>MER</b>	<b>8.7%</b>	<b>8.8%</b>	<b>(10bps)</b>

<sup>1</sup> FY18 operating expenses includes \$11.0m relating to customer remediation initiatives



## Continuing businesses result reflects contribution from Home Support Services

- 10 months revenue and operating profit contribution from Home Support Services (HSS) of \$30.3m and \$4.8m, respectively
- Increase in continuing businesses operating profit reflects contribution from HSS
- HealthStrong and Telehealth impacted by operational factors
  - HealthStrong impacted by market conditions in the residential aged care sector
- Operating margin down slightly
  - Gross margin down 350 basis points offset by 330 basis improvement in MER
  - Reflects change in business mix
- On track to organically replace approximately \$30m of lost Garrison operating profit by FY22
  - Expansion of HSS
  - Cost savings of \$8m in FY20
  - Growth in diversified insurance

Financial year ended 30 June (\$m)	Medibank Health total		Discontinuing business <sup>1</sup>		Continuing businesses <sup>2</sup>		
	2019	2018	2019	2018	2019	2018	Change
Revenue <sup>3</sup>	684.2	616.3	453.9	437.6	230.3	178.7	28.9%
Gross profit	154.3	136.3	53.8	52.2	100.5	84.1	19.5%
Management expenses	(102.0)	(89.0)	(23.6)	(22.3)	(78.4)	(66.7)	17.5%
Operating profit	52.3	47.3	30.2	29.9	22.1	17.4	27.0%
Gross margin	22.6%	22.1%	11.9%	11.9%	43.6%	47.1%	(350bps)
MER	14.9%	14.4%	5.2%	5.1%	34.0%	37.3%	(330bps)
Operating margin	7.6%	7.7%	6.7%	6.8%	9.6%	9.7%	(10bps)

<sup>1</sup> Discontinued operations relate to the Garrison Health Services contract, which ceased on 30 June 2019

<sup>2</sup> Includes Telehealth, in-home care, CareComplete, Health Concierge and Diversified Insurance

<sup>3</sup> FY18 restated based on gross revenue

# Investment portfolio & investment income

Higher investment income driven by credit and interest rate market returns

- Growth portfolio investment income impacted by weaker property sector returns; process commenced to diversify existing property exposure
- Defensive portfolio investment income was higher, principally due to a contraction in credit spreads and lower interest rates on offshore holdings

Financial year ended 30 June (\$m)	2019	2018	Change
<b>Closing balance:</b>			
Growth	514.5	520.2	(1.1%)
Defensive <sup>1</sup>	2,180.8	2,161.5	0.9%
<b>Total balance<sup>1</sup></b>	<b>2,695.3</b>	<b>2,681.7</b>	<b>0.5%</b>
<b>Average monthly balance:</b>			
Growth	497.7	501.6	(0.8%)
Defensive <sup>1</sup>	2,047.3	2,059.6	(0.6%)
<b>Total average monthly balance</b>	<b>2,545.0</b>	<b>2,561.2</b>	<b>(0.6%)</b>
<b>Net investment income:</b>			
Growth	37.1	48.5	(23.5%)
Defensive	70.3	51.5	36.5%
Investment expenses	(4.6)	(4.4)	4.5%
<b>Total net investment income<sup>1</sup></b>	<b>102.8</b>	<b>95.6</b>	<b>7.5%</b>
Total net investment income– underlying <sup>2</sup>	87.5	83.2	5.2%
RBA cash rate (average)			
<b>Underlying premium over RBA cash rate</b>			

- Each 25bps cash rate cut is estimated to reduce interest investment income by circa \$5m per annum
- Normalisation adjustment to investment income of -\$15.3m pre-tax (-\$10.8m after tax) for the full year
- Underlying portfolio return of 3.44% is a 1.96% premium above the RBA cash rate – within our target range of 1.50% – 2.00% above the benchmark
- Domestic and International equities have now transitioned to low carbon investments

Investment Returns <sup>3</sup>		
2019	2018	Change
7.45%	9.67%	(222bps)
3.43%	2.50%	93bps
-	-	-
<b>4.04%</b>	<b>3.73%</b>	<b>31bps</b>
3.44%	3.25%	19bps
1.48%	1.50%	(2bps)
<b>1.96%</b>	<b>1.75%</b>	<b>21bps</b>

<sup>1</sup> Net investment income includes interest income from non health fund investments and operational cash

<sup>2</sup> Adjusted to normalise equity returns and credit spread movements

<sup>3</sup> Reported and underlying returns are calculated using total average monthly balances

# Cash flow

Our capital position remains strong and balance sheet debt free

- Change in other operating assets and liabilities reflects the FY18 \$20m one-off loyalty bonus
- Capital investment continues to be lower than D&A
- Deferred acquisition cost balance reduced by more than \$5m
- HSS acquired August 2018
- Purchase of investments reflects rebalancing from short-dated investments into cash

Financial year ended 30 June (\$m)	2019	2018	Change
<b>Profit before net investment income and income tax</b>	<b>543.7</b>	<b>532.7</b>	<b>11.0</b>
Changes in working capital	20.4	32.3	(11.9)
Customer acquisition costs	5.3	2.5	2.8
Changes in other operating assets and liabilities	0.2	16.2	(16.0)
Depreciation and amortisation	64.3	55.6	8.7
<b>Net cash flows from operations</b>	<b>633.9</b>	<b>639.3</b>	<b>(5.4)</b>
Income tax	(217.8)	(231.0)	13.2
Capital expenditure	(49.5)	(43.8)	(5.7)
(Purchase) / sale of business	(70.1)	(37.5)	(32.6)
<b>Net cash flows before investment related items and dividends</b>	<b>296.5</b>	<b>327.0</b>	<b>(30.5)</b>
Net realised investment income	38.3	35.7	2.6
(Purchase) / sale of investments	210.4	(145.2)	355.6
Purchase of shares to settle share-based payment	(3.5)	(4.6)	1.1
<b>Net cash flows before dividends</b>	<b>541.7</b>	<b>212.9</b>	<b>328.8</b>
Dividends paid	(355.3)	(337.4)	(17.9)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>186.4</b>	<b>(124.5)</b>	<b>310.9</b>
Cash and cash equivalents at beginning of the period	470.1	594.6	(124.5)
Cash and cash equivalents at end of the period	656.5	470.1	186.4

## Capital range

- Well progressed in aligning health insurance capital framework with LAGIC
- Reduced target capital range to 11% – 13% of premium revenue (from 12% – 14%), effective from FY20
- Change in capital range reduces required capital by approximately \$66m, returned to shareholders as a special dividend of 2.50 cents per share, fully franked

## Sources of capital

- Eligible capital base currently comprises 100% shareholders funds
- Intention is to diversify the sources of eligible capital
  - Balance sheet efficiency
  - Supports resilience
- Investigating potential for subordinated debt issuance

## Dividend settings

- Target dividend payout range increased to 75% – 85% (from 70% – 80%) of underlying NPAT normalising for investment market returns, effective from FY20, supported by:
  - Strong capital position
  - Strong level of capital generation
    - including DAC / capitalised software balances reducing
  - Lower premium increases and target capital range reduces profit retention requirement
  - Lower target capital range

## Next steps

- APRA expected to release its consultation paper during the second half of calendar 2019

# Capital

Our capital position remains strong and balance sheet debt free

- Pro forma capital position reflects:
  - New target capital range of 11%-13% of premium revenue from FY20
  - Special dividend of 2.50 cents per share
- Health Insurance capital movement reflects premium revenue growth offset by change in target capital range
- Other capital
  - Acquisition of HSS during FY19 increased intangible assets and was funded from unallocated capital
  - Expect approximately \$20m reduction in required capital during 1H20 post exit of Garrison contract
- Pro forma unallocated capital of \$157.1m, up \$13.8m versus 30 June 2018

(\$m)	30 Jun 2019 Pro-forma	30 Jun 2019	30 Jun 2018
<b>Total equity</b>	<b>1,935.4</b>	<b>1,935.4</b>	<b>1,829.2</b>
Less: Intangible and illiquid assets	(497.2)	(497.2)	(448.0)
<b>Total tangible and liquid assets</b>	<b>1,438.2</b>	<b>1,438.2</b>	<b>1,381.2</b>
Declared but unpaid ordinary dividend	(203.8)	(203.8)	(198.3)
Declared but unpaid special dividend	(68.9)	-	-
Cost of product bonus additions <sup>1</sup>	(15.8)	(15.8)	(14.8)
<b>Total tangible eligible capital</b>	<b>1,149.7</b>	<b>1,218.6</b>	<b>1,168.1</b>
Required Capital			
- Health Insurance	861.3	927.6	895.3
- Other	131.3	131.3	129.5
Unallocated capital	157.1	159.7	143.3
<b>Health Insurance (%)<sup>2</sup></b>	<b>13.0%</b>	<b>14.0%</b>	<b>14.0%</b>

<sup>1</sup> Policies that include a product bonus receive an entitlement every 1 January to spend on otherwise uncovered expenses. The allowance is booked on 1 January each year

<sup>2</sup> Calculated as required Health Insurance related capital post dividends divided by the last 12 months' Health Insurance premium revenue inflated by the growth rate in Health Insurance premium revenue over the same 12 month period

# Dividend

Full year ordinary dividend increased by 0.40 cents to 13.10 cents per share and special dividend of 2.50 cents per share

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- Final ordinary dividend of 7.40 cents per share for the six month period ending 30 June 2019, bringing the full year FY19 dividend to 13.10 cents per share (fully franked)
- Full year ordinary dividend represents a payout ratio of 80% of Underlying NPAT, normalising for investment market returns
- Special dividend of 2.50 cents per share (fully franked)
- Payment date for final ordinary and special dividend; 26 September 2019 (ex-dividend date 4 September 2019, record date 5 September 2019)
- For FY20 we expect to pay towards the top end of our revised target 75% – 85% payout range of Underlying NPAT, normalising for investment market returns

Final ordinary dividend

7.40cps

Full year ordinary dividend

13.10cps

Special dividend

2.50cps

FY19 payout ratio

80%

# Navigating a lower premium environment

Broad response across four levers

1. Claims	2. Customer Growth
<ul style="list-style-type: none"><li>• Hospital contracting:<ul style="list-style-type: none"><li>– Re-contract in-line with premium rate rise environment</li><li>– Leverage capability</li></ul></li><li>• Expand / invest in payment integrity program</li><li>• Accelerate and enhance services to improve outcomes and experience for consumers in lower cost settings</li><li>• Agitate for further regulatory reform</li></ul>	<ul style="list-style-type: none"><li>• Policyholder growth:<ul style="list-style-type: none"><li>– Grow Medibank brand volumes during FY21</li><li>– Continuation of dual brand retention strategy</li><li>– Consider future PHI M&amp;A in a stressed operating environment</li></ul></li><li>• Enhanced portfolio management</li><li>• Potential favourable impact of lower rate rises on level of downgrading</li></ul>
3. Management expenses	4. Growth outside of resident PHI
<ul style="list-style-type: none"><li>• Productivity program:<ul style="list-style-type: none"><li>– Deliver \$50m in savings between FY20 and FY22</li></ul></li><li>• Improve cost per acquisition by optimising channel mix</li><li>• Stabilise DAC and D&amp;A</li></ul>	<ul style="list-style-type: none"><li>• Continue to grow non-resident PHI business</li><li>• Medibank Health organic growth of approximately \$30m by FY22 from:<ul style="list-style-type: none"><li>– Expansion of HSS</li><li>– Cost savings of \$8m in FY20</li><li>– Growth in diversified insurance</li></ul></li><li>• Consider M&amp;A opportunities to build health services capability</li></ul>

# Conclusion

Craig Drummond – Chief Executive Officer



# Driving change & ensuring a sustainable future

Protecting the future of our dual public private health system

## Medibank

### Driving change in the health system

- Medibank at Home
- Health Concierge & CareComplete
- Early to home trial
- Strongly advocating for, and then implementing, Government reform
- Funding hospital avoidance and rewarding customers for health and wellbeing

### Meeting the affordability challenge

- Reducing our own costs
- Introducing youth discounts for 150,000 customers
- New dental and optical networks lowering out-of-pocket costs
- Leading payment integrity expertise
- Collaboratively working with doctors to fund no gap procedures

## Government

### Opportunities for reform

- Further prostheses reform  
Around \$500m in industry savings still to be realised
- Lift industry participation  
Index the rebate, encourage employer funded PHI
- Private patients in public hospitals  
Ensure customers can make fully informed choices
- Out-of-pocket transparency  
Work in progress but key concern for customers
- Out-of-hospital care  
Potential for changed funding model for rehabilitation and better mental health service coordination
- Low value care  
Potential implementation of MBS Review recommendations – around \$90m/year in industry savings by expediting removal of low value procedures such as arthroscopic surgery for knee osteoarthritis

## For customers

Sustainably lower premiums



More choice



New healthcare settings



- Expect flat overall PHI market volumes
- On the current policyholder trajectory we expect to see Medibank brand volumes stabilise by the end of FY20 and grow during FY21
- Hospital and extras utilisation growth to remain around current levels for FY20, with prostheses expenditure expected to add modestly to claims growth compared to FY19
- Management expenses for FY20 are targeted to be below those recorded in FY19, with:
  - Modestly lower cash costs and
  - Depreciation expense approximately \$5m lower
- Dividend payout ratio expected to be at the top end of our revised target range of 75%-85% for FY20
- Targeted inorganic growth for Medibank Health and PHI remain areas of focus
- We will continue to optimise our capital settings
- Our intention is to continue to aspire for stronger growth in volumes at a reasonable margin, while retaining ongoing tight control of our management expenses

# Appendix

# Reconciliation of Group operating profit and Underlying NPAT

## Group operating profit – total operations

(\$m)	FY19	FY18	Change
Group operating profit – continuing operations	528.5	518.9	1.9%
Operating profit – discontinued operations <sup>1</sup>	30.2	29.9	1.0%
<b>Group operating profit – total operations</b>	<b>558.7</b>	<b>548.8</b>	<b>1.8%</b>

## Underlying NPAT

(\$m)	FY19	2H19	1H19	FY18	2H18	1H18
NPAT – total operations	458.7	251.0	207.7	445.1	199.5	245.6
Normalisation of equity returns	(7.9)	(28.6)	20.7	(8.6)	0.4	(9.0)
Normalisation for credit spread movement	(2.9)	(7.3)	4.4	(0.1)	2.1	(2.2)
<b>Underlying NPAT</b>	<b>447.9</b>	<b>215.1</b>	<b>232.8</b>	<b>436.4</b>	<b>202.0</b>	<b>234.4</b>
Dividend payout ratio	80%	95%	67%	80%	98%	65%

1. Discontinued operations relate to the Garrison Health Services contract, which ceased on 30 June 2019

# Balance sheet

[\$m]	30 June 2019	30 June 2018	Change
Cash and cash equivalents	656.5	470.1	39.7%
Financial assets at fair value through profit or loss	2,130.7	2,276.5	(6.4%)
Trade and other receivables	283.9	292.2	(2.8%)
Deferred acquisition costs	35.2	36.2	(2.8%)
Other	24.2	16.0	51.3%
<b>Current assets</b>	<b>3,130.5</b>	<b>3,091.0</b>	<b>1.3%</b>
Property, plant and equipment	49.3	53.6	(8.0%)
Intangible assets	405.9	350.1	15.9%
Deferred acquisition costs	44.4	48.7	(8.8%)
Other	0.7	1.5	(53.3%)
<b>Non-current assets</b>	<b>500.3</b>	<b>453.9</b>	<b>10.2%</b>
<b>Total assets</b>	<b>3,630.8</b>	<b>3,544.9</b>	<b>2.4%</b>
Trade and other payables	370.0	350.6	5.5%
Claims liability	364.2	365.6	(0.4%)
Unearned premium liability	682.8	689.5	(1.0%)
Other	100.5	128.3	(21.7%)
<b>Current liabilities</b>	<b>1,517.5</b>	<b>1,534.0</b>	<b>(1.1%)</b>
Trade and other payables	33.9	41.0	(17.3%)
Claims liability	13.4	14.2	(5.6%)
Unearned premium liability	87.8	83.4	5.3%
Other	42.8	43.1	(0.7%)
<b>Non-current liabilities</b>	<b>177.9</b>	<b>181.7</b>	<b>(2.1%)</b>
<b>Total liabilities</b>	<b>1,695.4</b>	<b>1,715.7</b>	<b>(1.2%)</b>
<b>Net assets</b>	<b>1,935.4</b>	<b>1,829.2</b>	<b>5.8%</b>

# Group financial summary – half by half

(\$m)	2H19	1H19	2H18	1H18	Change		
					2H19 vs 2H18	2H19 vs 1H19	1H19 vs 1H18
Group revenue from external customers <sup>1</sup>	3,325.0	3,330.8	3,221.0	3,247.8	3.2%	(0.2%)	2.6%
Health Insurance operating profit	261.0	281.5	258.3	277.3	1.0%	(7.3%)	1.5%
Medibank Health operating profit	9.5	12.6	8.3	9.1	14.5%	(24.6%)	38.5%
<b>Segment operating profit</b>	<b>270.5</b>	<b>294.1</b>	<b>266.6</b>	<b>286.4</b>	<b>1.5%</b>	<b>(8.0%)</b>	<b>2.7%</b>
Corporate overheads	(18.7)	(17.4)	(17.7)	(16.4)	5.6%	7.5%	6.1%
<b>Group operating profit – continuing operations</b>	<b>251.8</b>	<b>276.7</b>	<b>248.9</b>	<b>270.0</b>	<b>1.2%</b>	<b>(9.0%)</b>	<b>2.5%</b>
Net investment income	98.7	4.1	35.9	59.7	n.m.	n.m.	n.m.
Amortisation of intangibles	(4.9)	(3.8)	(4.1)	(3.5)	19.5%	28.9%	8.6%
Other income/(expenses)	(3.4)	(2.9)	(12.3)	3.8	n.m.	17.2%	n.m.
<b>Profit before tax</b>	<b>342.2</b>	<b>274.1</b>	<b>268.4</b>	<b>330.0</b>	<b>27.5%</b>	<b>24.8%</b>	<b>(16.9%)</b>
Income tax expense	(100.8)	(77.8)	(78.5)	(95.7)	28.4%	29.6%	(18.7%)
<b>NPAT – continuing operations</b>	<b>241.4</b>	<b>196.3</b>	<b>189.9</b>	<b>234.3</b>	<b>27.1%</b>	<b>23.0%</b>	<b>(16.2%)</b>
NPAT – discontinued operations	9.6	11.4	9.6	11.3	-	(15.8%)	0.9%
<b>NPAT – total operations</b>	<b>251.0</b>	<b>207.7</b>	<b>199.5</b>	<b>245.6</b>	<b>25.8%</b>	<b>20.8%</b>	<b>(15.4%)</b>
EPS (cents) <sup>2</sup>	9.1	7.5	7.2	8.9	25.8%	20.8%	(15.4%)
<b>Underlying NPAT<sup>3</sup></b>	<b>215.1</b>	<b>232.8</b>	<b>202.0</b>	<b>234.4</b>	<b>6.5%</b>	<b>(7.6%)</b>	<b>(0.7%)</b>
Underlying EPS (cents) <sup>3</sup>	7.8	8.5	7.3	8.5	6.5%	(7.6%)	(0.7%)
<b>Dividend per share (cents)</b>	<b>[7.40]</b>	<b>5.70</b>	<b>7.20</b>	<b>5.50</b>	<b>[2.8]%</b>	<b>[29.8]%</b>	<b>3.6%</b>
<b>Dividend payout ratio</b>	<b>[95%]</b>	<b>67%</b>	<b>98%</b>	<b>65%</b>	<b>[(3.1)]%</b>	<b>[28.6]%</b>	<b>3.1%</b>

1 FY19 excludes discontinued operations

2 Calculated on total operations

3 Dividend payout ratio based on underlying NPAT

# Health Insurance policyholders – half by half

	2H19	1H19	2H18	1H18	Change		
					2H19 vs 2H18	2H19 vs 1H19	1H19 vs 1H18
Premium revenue (\$m)	3,224.4	3,240.3	3,144.4	3,175.1	2.5%	[0.5%]	2.1%
<b>Policyholders<sup>1</sup> (thousand):</b>							
Opening balance	1,787.3	1,780.9	1,771.9	1,776.1	0.9%	0.4%	0.3%
Acquisitions	111.3	94.9	116.5	88.3	(4.5%)	17.3%	7.5%
Lapses	(102.6)	(88.5)	(107.5)	(92.5)	(4.6%)	15.9%	(4.3%)
Closing balance	1,796.0	1,787.3	1,780.9	1,771.9	0.8%	0.5%	0.9%
- Medibank	1,406.0	1,410.8	1,419.6	1,431.9	(1.0%)	(0.3%)	(1.5%)
- ahm	390.0	376.5	361.3	340.0	7.9%	3.6%	10.7%
<b>Acquisition rate<sup>2</sup></b>	<b>6.2%</b>	<b>5.3%</b>	<b>6.6%</b>	<b>5.0%</b>	<b>(40bps)</b>	<b>90bps</b>	<b>30bps</b>
- Medibank	4.8%	4.1%	4.9%	3.6%	(10bps)	70bps	50bps
- ahm	12.4%	11.0%	15.0%	12.0%	(260bps)	140bps	(100bps)
<b>Lapse rate<sup>2</sup></b>	<b>5.7%</b>	<b>5.0%</b>	<b>6.1%</b>	<b>5.2%</b>	<b>(40bps)</b>	<b>70bps</b>	<b>(20bps)</b>
- Medibank	5.2%	4.8%	5.8%	5.0%	(60bps)	40bps	(20bps)
- ahm	8.9%	6.9%	8.9%	7.5%	-	200bps	(60bps)
<b>Policyholder growth</b>	<b>0.5%</b>	<b>0.4%</b>	<b>0.5%</b>	<b>(0.2%)</b>	<b>-</b>	<b>10bps</b>	<b>60bps</b>
<b>Total policy units<sup>3,4</sup> (thousand):</b>							
Closing balance	4,696.2	4,678.4	4,668.0	4,662.9	0.6%	0.4%	0.3%
Average balance	4,685.8	4,680.0	4,665.7	4,671.8	0.4%	0.1%	0.2%
<b>Annualised average revenue per policy unit<sup>1,3</sup> (\$)</b>	<b>1,376.2</b>	<b>1,384.8</b>	<b>1,347.9</b>	<b>1,359.3</b>	<b>2.1%</b>	<b>(0.6%)</b>	<b>1.9%</b>

<sup>1</sup> Consistent with reported industry data, policyholder numbers only include resident business whereas total policy units include both resident and non-resident business (i.e. OSHC and OVHC)

<sup>2</sup> Consolidated lapse and acquisition rates exclude transfers of policyholders between ahm and Medibank at a combined brand level. Figures at brand level include these transfers. Lapse and acquisition rates are based on the average of the opening and closing balances for the period

<sup>3</sup> Policy units or Policy Single Equivalent Units (PSEUs) – refer to glossary for definition

<sup>4</sup> Average of the month-end balances over the reporting period

# Investment portfolio

As at 30 June 2019	(\$m)	Portfolio composition	Target asset allocation
Australian Equities	132.2	5.1%	5.0%
International Equities	169.8	6.5%	6.0%
Property	156.7	6.0%	7.0%
Infrastructure	55.8	2.1%	2.0%
<b>Growth</b>	<b>514.5</b>	<b>19.7%</b>	<b>20.0%</b>
Fixed income <sup>1</sup>	1,335.2	51.3%	52.0%
Cash <sup>2</sup>	757.3	29.0%	28.0%
<b>Defensive</b>	<b>2,092.5</b>	<b>80.3%</b>	<b>80.0%</b>
<b>Total Fund</b>	<b>2,607.0</b>	<b>100.0%</b>	<b>100.0%</b>
Non health fund investments <sup>3</sup>	88.3		
<b>Total Investment Portfolio</b>	<b>2,695.3</b>		

1 Target asset allocation comprises floating rate notes and asset-backed investments (32.0%) and other fixed income (20.0%). Average credit duration is approximately [2.6] years, interest rate duration is approximately 0.8 years and the average credit rating is [A]

2 For investment portfolio purposes, cash comprises cash and cash equivalents (\$656.5m), cash with maturities between 3-12 months (\$281.0m) less non health fund investments (\$88.3m) less operational cash (\$91.9m)

3 The fund's asset allocation does not apply to the non health fund investments which are all invested in cash



Term	Definition
1H	Six months ended/ending 31 December of the relevant financial year
2H	Six months ended/ending 30 June of the relevant financial year
APRA	Australian Prudential Regulation Authority
Brand NPS	A measure of the likelihood of an existing customer to recommend the brand
bps	Basis points (1.0% = 100 bps)
DAC	Deferred acquisition costs
Central estimate	Estimate of the level of claims liability
cps	Cents per share
EPS	Earnings per share
FY	Financial year ended/ending 30 June
IBNR	Incurred but not reported
MER	Management expense ratio
MPL	Medibank Private Limited
n.m.	Not meaningful
NPAT	Net profit after tax
NPS	Net promoter score
OSHC	Overseas students hospital cover
OVHC	Overseas visitor hospital cover
PHI	Private Health Insurance

Term	Definition
PHIO	Private Health Insurance Ombudsman
Policyholder	The primary person who is insured under a private health insurance policy (other than in relation to overseas students or visitors), who is not a dependent child, and who is responsible for paying the premium
PSEUs or policy units	Policy Single Equivalent Units are used by Medibank as a standard measure of income units. They take into account the number of adults on a policy, and whether they have Hospital Cover or Extras Cover or both. For example, a household with two parents and three children, all of which had both Hospital and Extras Cover, would represent four policy units (2 adults x 2 types of Cover = 4; no premium payable in relation to children). This measure includes residents and non-resident policies
Service NPS	A measure of the likelihood of an existing customer to recommend the brand immediately following a service interaction
Underlying NPAT	Underlying NPAT is calculated based on statutory NPAT adjusted for short-term outcomes that are expected to normalise over the medium to longer term, most notably in relation to the level of gains or losses from equity investments and movements in credit spreads, and for one-off items, especially those that are non-cash, such as asset impairments
Working capital	Working capital comprises trade and other receivables, other assets, trade and other payables other than balances relating to customer acquisition costs and operating assets and liabilities