

21 August 2015

## Investor presentation

Presenters

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and Paul Koppelman - Chief Financial Officer

# medibank

## For Better Health



# 2015 FULL YEAR RESULTS

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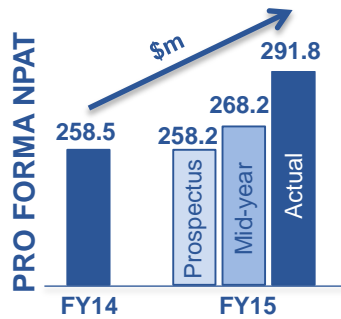




# 1 > EXECUTIVE SUMMARY

# FY15 RESULT SUMMARY

## NPAT ahead of Prospectus forecast



## HEALTH INSURANCE OPERATING PROFIT

**33.8%** ↑

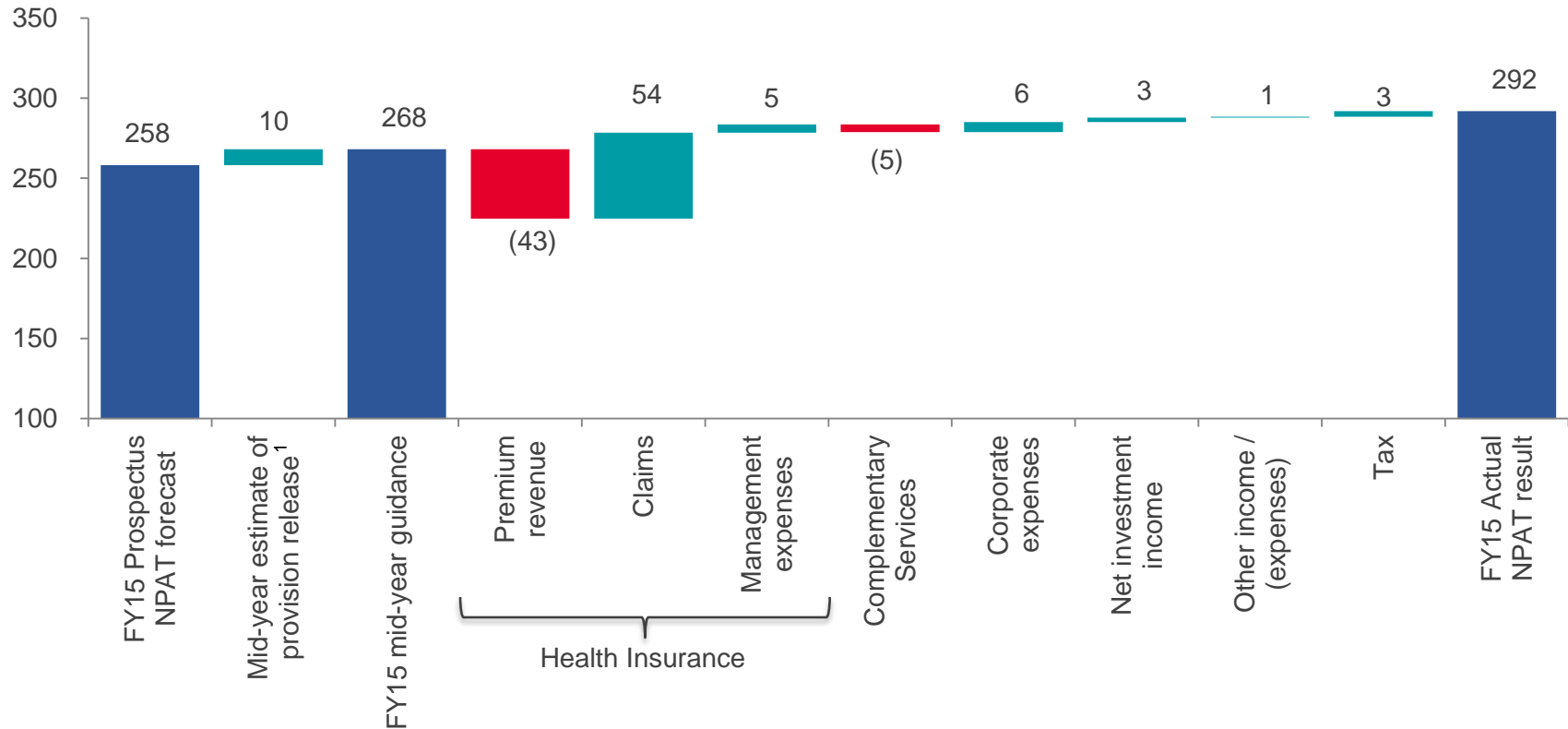
- Statutory Group net profit after tax (NPAT) \$285.3m up from \$130.8m in FY14<sup>1</sup>
- Pro forma Group NPAT \$291.8m up 13.0% on Prospectus forecast of \$258.2m and ahead of mid-year guidance of \$268.2m
- Inaugural dividend of 5.3 cents per share, ahead of Prospectus forecast of 4.9 cents per share
- Health Insurance: 33.8% increase in operating profit, ahead of Prospectus forecast – reflecting focus on health benefit claims management and management expense ratio improvements
  - Premium revenue of \$5.93bn grew 5.1%, below Prospectus forecast growth of 6.2%
  - Gross margin of 14.2% improved from 13.5% in FY14, ahead of Prospectus forecast of 13.6%
  - Management expense ratio improved to 8.6%, compared to FY14: 9.2%, Prospectus forecast: 8.7%
  - Strong improvement in net operating margin to 5.5%, compared to FY14: 4.4%, Prospectus forecast: 4.9%

<sup>1</sup> FY14 result was impacted by impairment and restructuring expenses .

# FY15: ACTUAL RESULT VS PROSPECTUS FORECAST

NPAT ahead of Prospectus forecast despite lower premium revenue

FY15 pro forma NPAT result analysis (\$m)



<sup>1</sup> Based on Note 4(d) of the 30 June 2015 consolidated financial report, \$28.4 million of the 30 June 2014 central estimate for outstanding claims was subsequently released to reflect the updated expectation of the outcome. Net of the estimated related reduction in risk equalisation, the amount was approximately \$18 million before tax (or \$13 million after tax). These amounts compare to earlier estimates as at 31 December 2014 of \$21.8 million, \$14 million and \$10 million, respectively.

# GROUP FINANCIAL SUMMARY

Financial year ended 30 June – Pro forma <sup>1</sup> (\$m)	2015	2014	Change (%)
Health Insurance premium revenue	5,934.8	5,648.7	5.1
Complementary Services revenue	641.2	718.4	(10.7)
<b>Revenue</b>	<b>6,576.0</b>	<b>6,367.1</b>	<b>3.3</b>
Health Insurance operating profit	329.3	246.2	33.8
Complementary Services operating profit	14.2	33.6	(57.7)
<b>Segment operating profit</b>	<b>343.5</b>	<b>279.8</b>	<b>22.8</b>
Corporate overheads	(23.5)	(24.5)	(4.1)
<b>Total operating profit</b>	<b>320.0</b>	<b>255.3</b>	<b>25.3</b>
Net investment income	93.8	113.9	(17.6)
Other income/(expenses)	(8.0)	(8.1)	(1.2)
<b>Profit before tax</b>	<b>405.8</b>	<b>361.1</b>	<b>12.4</b>
Income tax expense	(114.0)	(102.6)	11.1
<b>NPAT</b>	<b>291.8</b>	<b>258.5</b>	<b>12.9</b>
EPS <sup>2</sup> (cents)	10.6	9.4	12.9
<b>Dividend<sup>3</sup> (cents per share)</b>	<b>5.3</b>		

1 Consistent with the Prospectus, pro forma financial information is derived from the statutory consolidated income statement adjusted for the one-off costs of the IPO and certain significant and other items

2 Assumes 2,754,003,240 shares on issue for the entire period

3 The inaugural dividend for FY15 is payable in respect of the seven-month period from 1 December 2014 to 30 June 2015





# 2> HEALTH INSURANCE

# HEALTH INSURANCE RESULT

Operating profit increase driven by margin improvement

- Premium revenue growth slowed due to increased membership lapses, cover reductions and changes to sales mix
- Success of health benefit claims management and savings in management expenses underpinned 120 bps margin improvement
- In both FY14 and FY15, margins benefitted from actual claims being lower than provided at prior year ends

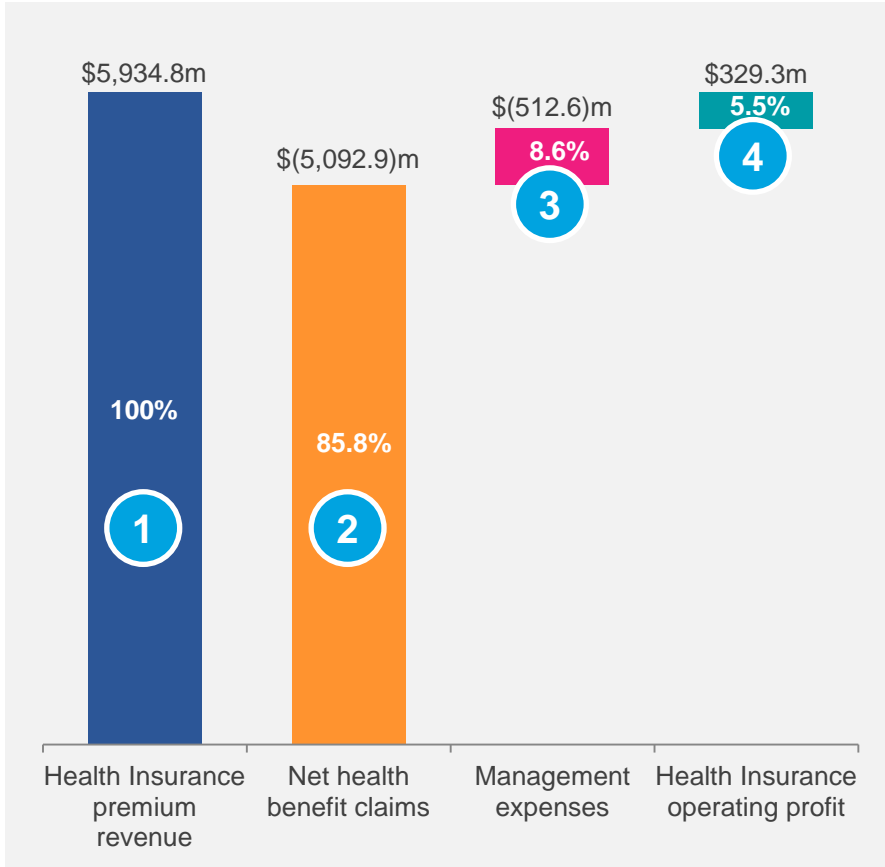
Financial year ended 30 June – Pro forma (\$m)	2015	2014	Change %
Premium revenue	5,934.8	5,648.7	5.1
Net claims expense (incl. risk equalisation)	(5,092.9)	(4,884.3)	4.3
Gross profit	841.9	764.4	10.1
Management expenses	(512.6)	(518.2)	(1.1)
Operating profit	329.3	246.2	33.8
<b>Gross margin<sup>1</sup> (%)</b>	<b>14.2%</b>	<b>13.5%</b>	<b>70bps</b>
<b>MER<sup>1</sup> (%)</b>	<b>8.6%</b>	<b>9.2%</b>	<b>(50bps)</b>
<b>Operating margin<sup>1</sup> (%)</b>	<b>5.5%</b>	<b>4.4%</b>	<b>120bps</b>

<sup>1</sup> Numbers may not add due to rounding. Includes Australian residents, OSHC and OVHC. The gross margin for Australian residents only was 13.1% in FY14 and 13.6% in FY15, the MER for Australian residents only was 8.7% in FY14 and 8.2% in FY15, and the operating margin for Australian residents only was 4.4% in FY14 and 5.4% in FY15.



# MEDIBANK IS DRIVING PROFITABLE GROWTH

## FY15 pro forma Health Insurance operating profit



## Drivers of Health Insurance result

## FY15 pro forma Health Insurance metrics

1	<b>Premium revenue growth</b> <ul style="list-style-type: none"> <li>Population growth</li> <li>Policyholder retention and growth</li> <li>Premium rate rises</li> <li>Cover reductions / rebate erosion</li> </ul>	Premium revenue growth of 5.1%
2	<b>Health benefit claims management</b> <ul style="list-style-type: none"> <li>Product design</li> <li>Contract procurement</li> <li>Benefit utilisation</li> <li>Cost inflation</li> </ul>	Gross margin up to 14.2% Net health benefit claims up 4.3%
3	<b>Managing expenses</b> <ul style="list-style-type: none"> <li>Operational efficiencies</li> <li>Cost reductions</li> </ul>	Management expenses down 1.1% MER down to 8.6%
4	<b>Operating profit</b>	Operating profit up 33.8% Operating margin up to 5.5%

# PREMIUM REVENUE AND POLICYHOLDERS

Growth moderated by lapse, cover reductions and sales mix movements

- Challenging industry conditions, including slowing market growth
- Volume growth slightly below market
- Medibank volumes down marginally:
  - Medibank-driven product management impacted lapse
  - Being addressed through product optimisation and customer engagement activities
- ahm continued strong volume and share growth
- Revenue per member lower than approved rate change due to sales mix and cover reductions

Financial year to 30 June	2015	2014	Change (%)
<b>Policyholders<sup>1</sup> (thousand):</b>	<b>1,846.0</b>	<b>1,830.0</b>	<b>0.9</b>
- Medibank policies	1,572.1	1,604.5	(2.0)
- ahm policies	273.9	225.5	21.5
<b>Acquisition rate (%)<sup>2</sup></b>	<b>11.9%</b>	<b>11.4%</b>	<b>50bps</b>
- Medibank policies	8.9%	9.1%	(20bps)
- ahm policies	35.0%	32.3%	270bps
<b>Lapse rate (%)<sup>2</sup></b>	<b>11.0%</b>	<b>10.0%</b>	<b>100bps</b>
- Medibank policies	10.9%	9.8%	110bps
- ahm policies	15.6%	14.5%	110bps
<b>Policyholder growth (%)</b>	<b>0.9%</b>	<b>1.5%</b>	<b>(60bps)</b>
Total members <sup>1</sup> (thousand)	3,899.4	3,886.0	0.3
Total PSEUs <sup>1,3</sup> (thousand)	4,872.1	4,846.8	0.5
Annualised average revenue per member (\$)	1,525	1,461	4.4
Annualised average revenue per PSEU <sup>3</sup> (\$)	1,221	1,169	4.5

1 Consistent with reported industry data, Policyholder numbers only include resident business whereas total members and total PSEUs includes both resident and non-resident business (i.e. OSHC and OVHC)

2 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

3 Policy single equivalent units (PSEUs) – refer glossary for definition

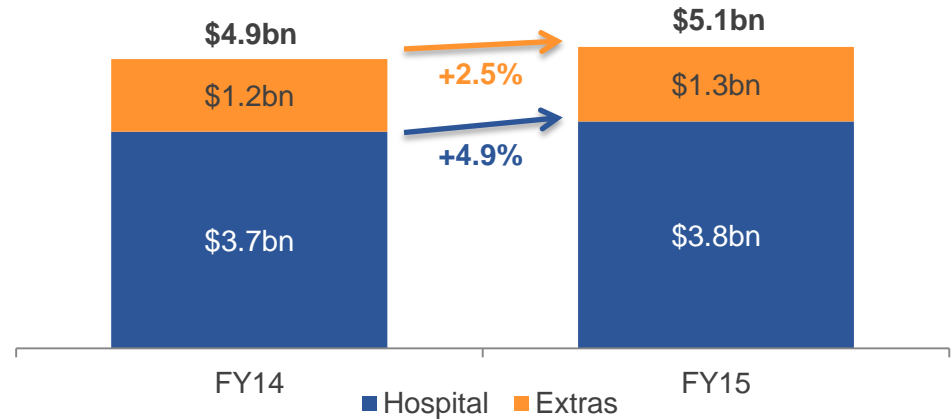
# HEALTH BENEFIT CLAIMS

Managing sustainable claims growth a key focus

- Health benefit claims management program delivering results
- Significant improvement in targeted areas from payment integrity program (e.g. dental, remedial massage)
  - Offsetting the impact of increased switching and cover reductions
- Gross margin improvement to 14.2%
- Hospital contracting: focus on quality outcomes and affordability for members

Financial year ended 30 June – Pro forma (\$m)	2015	2014	Change (%)
Claims expense	(5,170.3)	(5,001.0)	3.4
Risk equalisation	77.4	116.7	(33.7)
Net claims expense (incl. risk equalisation)	(5,092.9)	(4,884.3)	4.3
Annualised net claims expense per PSEU (\$)	(1,045.3)	(1,007.7)	3.7
<b>Gross margin (%)</b>	<b>14.2%</b>	<b>13.5%</b>	<b>70bps</b>

Net claims expense (incl. risk equalisation)



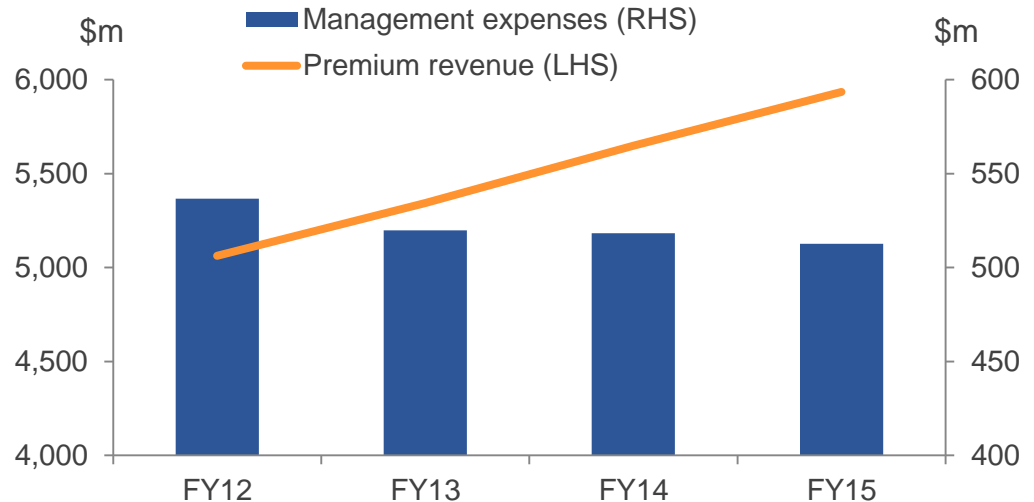
# MANAGEMENT EXPENSES

## Further improvement in management expense ratio

- MER down to 8.6% – better than Prospectus forecast notwithstanding lower than expected revenue performance
  - Improved efficiency
  - Timing of project spend and marketing accentuated the second half skew in FY15
    - MER: 1H 8.0%; 2H 9.3%
- Continued focus on sustainable management expense reduction, while continuing to invest to enhance capability
  - Health benefit claims management
  - DelPHI: customer relationship management

Financial year ended 30 June – Pro forma (\$m)	2015	2014	Change (%)
Premium revenue	5,934.8	5,648.7	5.1
Management expenses	(512.6)	(518.2)	(1.1)
<b>MER (%)<sup>1</sup></b>	<b>8.6%</b>	<b>9.2%</b>	<b>(50bps)</b>

Health Insurance premium revenue and management expenses



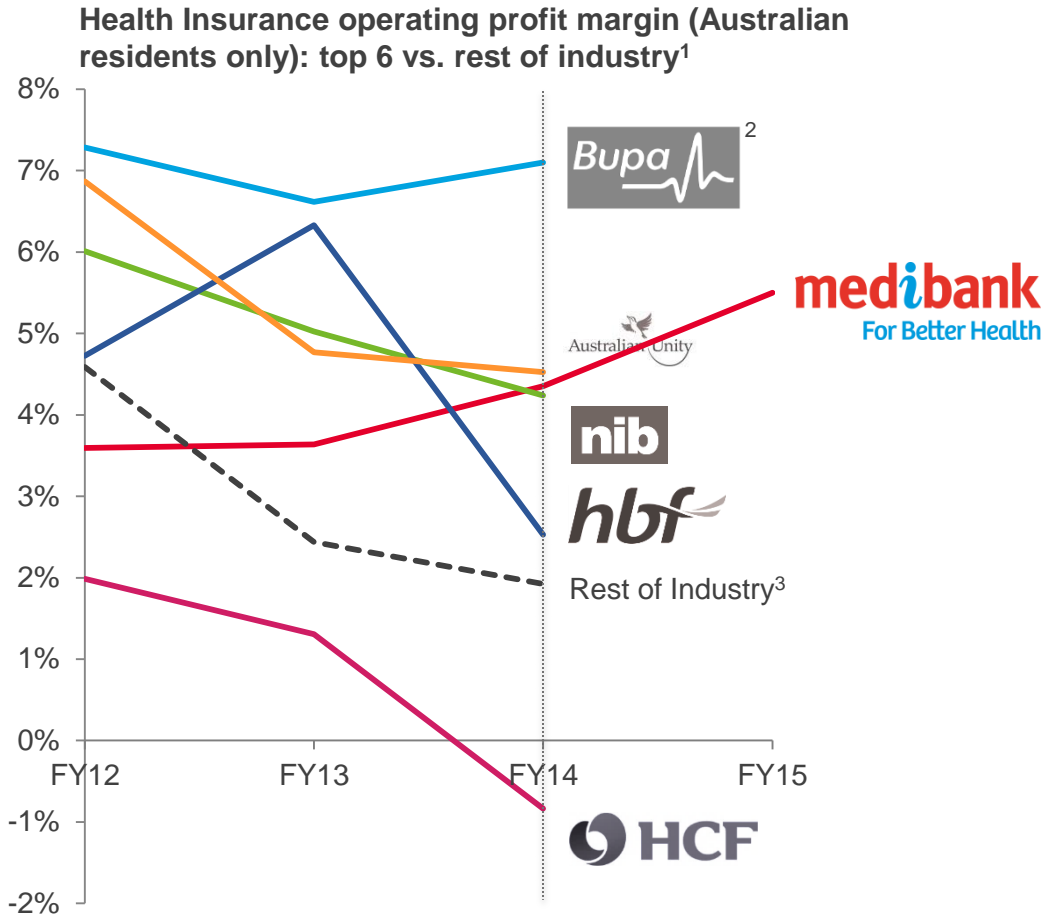
<sup>1</sup> Numbers may not add due to rounding.



# INDUSTRY MARGINS

## Significant operating profit margin improvement

- Operating margin of 5.5%, up 120 bps
  - Opportunities to further improve margins
  - Increasingly efficient operating base
  - Strong focus on health benefit claims management and quality outcomes to reduce affordability pressures on members
  - **Pursuing best in class**



Source: APRA (formerly PHIAC), Medibank

<sup>1</sup> The operating profit margin includes Australian residents only.

<sup>2</sup> Bupa FY14 margin has been adjusted to reflect the estimated impact of the provision release resulting from the reduction in its risk margin.

<sup>3</sup> Rest of industry represents the aggregate of all private health insurers in Australia excluding the top 6.



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# COMPLEMENTARY SERVICES



# COMPLEMENTARY SERVICES

## Strategic review completed

- Strategic review
  - Completed, and driving further performance improvements
  - Ongoing role is to strengthen core health insurance business and benefit members
- Anywhere Healthcare sold; Workplace Health and Travel Doctor to be sold (but yet to complete)
- Excluding the impact of non-renewal of the Immigration Contract, operating profit up 17.4%
- Improvement largely driven by operating efficiencies in the key ongoing businesses
  - ADF Health Services Contract, Telehealth, Diversified Consumer Businesses represent 88% of FY15 revenue

Financial year ended 30 June – Pro forma (\$m)	2015	2014	Change (%)
Revenue	641.2	718.4	(10.7)
Gross profit	131.6	184.6	(28.7)
Management expenses	(117.4)	(151.0)	(22.3)
Operating profit	14.2	33.6	(57.7)
Operating margin (%)	2.2%	4.7%	(250bps)
<b>Revenue excluding Immigration Contract</b>			
Revenue excluding Immigration Contract	638.5	648.9	(1.6)
Operating profit excluding Immigration Contract	13.5	11.5	17.4





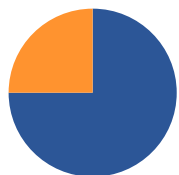
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# INVESTMENT PORTFOLIO & CAPITAL

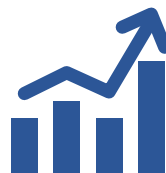


# INVESTMENT PORTFOLIO

## Increased allocation to growth assets



Revised strategic asset allocation implemented during the period



Growth asset allocation target increased from 17% to 25%



FX hedge on international equities reduced to 50%

As at 30 June 2015	Balance (\$m)	Portfolio composition	Current target asset allocation	Previous target asset allocation (as at 30 Jun 2014)
Australian equities	163.3	6.8%	6.0%	5.5%
International equities	185.0	7.8%	8.0%	3.5%
Property	148.7	6.2%	8.0%	5.0%
Infrastructure	71.0	3.0%	3.0%	3.0%
<b>Growth</b>	<b>568.0</b>	<b>23.8%</b>	<b>25.0%</b>	<b>17.0%</b>
Fixed income	1,165.7	48.9%	50.0%	38.0%
Cash <sup>1</sup>	652.3	27.3%	25.0%	45.0%
<b>Defensive</b>	<b>1,818.0</b>	<b>76.2%</b>	<b>75.0%</b>	<b>83.0%</b>
<b>Total</b>	<b>2,386.0</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>1</sup> Excludes cash held for day to day operations of the business of \$26.0m

# INVESTMENT INCOME

Investment returns affected by lower equity markets and interest rates

- Investment income below FY14 due to lower interest rates and lower returns from growth assets
- Ahead of Prospectus forecast of \$89.7m:
  - Average investment assets higher than forecast due to better than expected cash flows and timing of equity market movements
  - Outperformance from unhedged international equities (Growth) given AUD decline
  - Underperformance primarily in relation to absolute return funds (Defensive) and lower interest rates

Financial year ended 30 June – Pro forma (\$m)	2015	2014	Change (%)
<b>Average monthly balance:</b>			
Growth	496.3	378.0	31.3
Defensive	1,649.5	1,675.1	(1.5)
<b>Total average monthly balance</b>	<b>2,145.8</b>	<b>2,053.1</b>	<b>4.5</b>
<b>Net investment income:</b>			
Growth	46.2	49.2	(6.1)
Defensive	52.5	68.9	(23.8)
Investment expenses	(4.9)	(4.2)	16.7
<b>Total net investment income</b>	<b>93.8</b>	<b>113.9</b>	<b>(17.6)</b>
<b>Net return:</b>			
Growth	9.3%	13.0%	(370bps)
Defensive	3.2%	4.1%	(90bps)
<b>Total net return</b>	<b>4.4%</b>	<b>5.5%</b>	<b>(110bps)</b>

# CAPITAL

Health Insurance capital within Medibank target range of 12-14%

(\$m)	30 June 2015	30 June 2014
<b>Total equity</b>	<b>1,442.0</b>	<b>1,393.9</b>
Less: Intangible and illiquid assets	(393.7)	(356.0)
<b>Total tangible and liquid assets</b>	<b>1,048.3</b>	<b>1,037.9</b>
Less: Allowance for declared but unpaid dividends	(146.0)	(180.0)
Less: Allowance for approximate cost of product bonus additions <sup>1</sup>	(20.0)	-
<b>Total tangible and liquid capital after allowance for declared but unpaid dividends</b>	<b>882.3</b>	<b>857.9</b>
Comprises:		
Health Insurance	774.0	745.0
Other capital	108.3	112.9
<b>Health Insurance (%)</b>	<b>12.3%<sup>(2)</sup></b>	<b>12.4%</b>

1 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

2 Calculated as \$774.0m of Health Insurance related capital divided by an estimate for the next 12 months Health Insurance premium revenue

# DIVIDEND

## Inaugural dividend ahead of Prospectus forecast

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- Inaugural dividend of 5.3 cents per share fully franked (Prospectus forecast of 4.9 cents per share)
- Implied full year dividend of 7.4 cents per share<sup>1</sup> (inclusive of pre-IPO dividend to Commonwealth) represents payout ratio of 70%
- Target payout ratio of 70-80% of annual underlying NPAT confirmed

<sup>1</sup> Assumes 2,754,003,240 shares on issue for the entire period

# 5.3

cents per share  
fully franked

# 70-80%

target payout ratio  
confirmed





# 5 > OTHER FINANCIAL INFORMATION

# FINANCIAL SUMMARY: GROUP

## Corporate overheads, other expenses, tax

- Corporate overheads decreased slightly due to operational improvements
- Other income/expenses mainly comprise ongoing amortisation of customer contracts and acquired software (\$8.5m)
- Effective tax rate 28.1%

Financial year ended 30 June – Pro forma (\$m)	2015	2014	Change (%)
<b>Segment operating profit</b>	<b>343.5</b>	<b>279.8</b>	<b>22.8</b>
Corporate overheads	(23.5)	(24.5)	(4.1)
<b>Total operating profit</b>	<b>320.0</b>	<b>255.3</b>	<b>25.3</b>
Net investment income	93.8	113.9	(17.6)
Other income/(expenses)	(8.0)	(8.1)	(1.2)
<b>Profit before tax</b>	<b>405.8</b>	<b>361.1</b>	<b>12.4</b>
Income tax expense	(114.0)	(102.6)	11.1
<b>NPAT</b>	<b>291.8</b>	<b>258.5</b>	<b>12.9</b>

# BALANCE SHEET

## Strong, debt free balance sheet

- Significant cash decrease primarily due to change in strategic asset allocation
- Non-current other payables increase primarily due to lease incentive with respect to new Melbourne head office
- Increase in current unearned premium liability higher than increase in premium revenue due to higher rate of customer prepayments
- Balance sheet remains debt free

(\$m)	30 June 2015	30 June 2014	Change (%)
Cash and cash equivalents	408.7	708.0	(42.3)
Financial assets at fair value through profit or loss	1,971.8	1,490.6	32.3
Trade and other receivables	301.2	338.6	(11.0)
Deferred acquisition costs	22.4	11.3	98.2
Other	22.5	9.0	150.0
<b>Current assets</b>	<b>2,726.6</b>	<b>2,557.5</b>	<b>6.6</b>
Property, plant and equipment	106.1	138.0	(23.1)
Intangible assets	261.8	243.5	7.5
Deferred acquisition costs	45.3	26.7	69.7
Other	1.1	8.6	(87.2)
<b>Non-current assets</b>	<b>414.3</b>	<b>416.8</b>	<b>(0.6)</b>
<b>Total assets</b>	<b>3,140.9</b>	<b>2,974.3</b>	<b>5.6</b>
Trade and other payables	383.0	345.4	10.9
Claims liability	387.5	380.6	1.8
Unearned premium liability	668.4	621.4	7.6
Other	96.1	116.5	(17.5)
<b>Current liabilities</b>	<b>1,535.0</b>	<b>1,463.9</b>	<b>4.9</b>
Claims liability	23.1	26.5	(12.8)
Unearned premium liability	57.2	43.5	31.5
Provisions	41.9	45.2	(7.3)
Other	41.7	1.3	n.m.
<b>Non-current liabilities</b>	<b>163.9</b>	<b>116.5</b>	<b>40.7</b>
<b>Total liabilities</b>	<b>1,698.9</b>	<b>1,580.4</b>	<b>7.5</b>
<b>Net assets</b>	<b>1,442.0</b>	<b>1,393.9</b>	<b>3.5</b>

# CASH FLOW

## Operating cash flow up, consistent with pro forma operating profit

- Net cash flow from operations increase broadly in line with pro forma total operating profit increase of 25.3%
- Increase in income taxes paid due to the lagged effect of the significant increase in taxable profit in 2014
- Majority of capex in FY15 due to IT renewal program (FY14 majority due to building fitout)

Financial year ended 30 June (\$m)	2015	2014	Change (%)
<b>Operating profit<sup>1</sup></b>	<b>305.5</b>	<b>111.1</b>	<b>175.0</b>
Changes in working capital <sup>2</sup>	85.2	43.6	95.4
Customer acquisition costs	(29.7)	(25.5)	16.5
Changes in other operating assets & liabilities	42.2	197.9	(78.7)
Depreciation and amortisation	40.8	46.7	(12.6)
Fit out reimbursement	30.4	-	n.m.
<b>Net cash flows from operations</b>	<b>474.4</b>	<b>373.8</b>	<b>26.9</b>
Income tax	(97.3)	(61.0)	59.5
Capital expenditure	(52.9)	(111.7)	(52.6)
Proceeds from sale of assets	4.0	4.5	n.m.
<b>Net cash flows before investment related items and dividends</b>	<b>328.2</b>	<b>205.6</b>	<b>59.6</b>
Net realised investment income	41.4	48.8	(15.2)
(Purchase) / sale of investments	(430.1)	0.2	n.m.
<b>Net cash flows before dividends</b>	<b>(60.5)</b>	<b>254.6</b>	<b>(123.8)</b>
Dividends paid	(238.8)	(441.7)	(45.9)
Net decrease in cash and cash equivalents	(299.3)	(187.1)	60.0

<sup>1</sup> Operating profit is the statutory profit before tax adjusted to remove net investment and other income and the amortisation of acquired intangible assets

<sup>2</sup> Working capital comprises trade and other payables, trade and other receivables, other current assets and other current liabilities





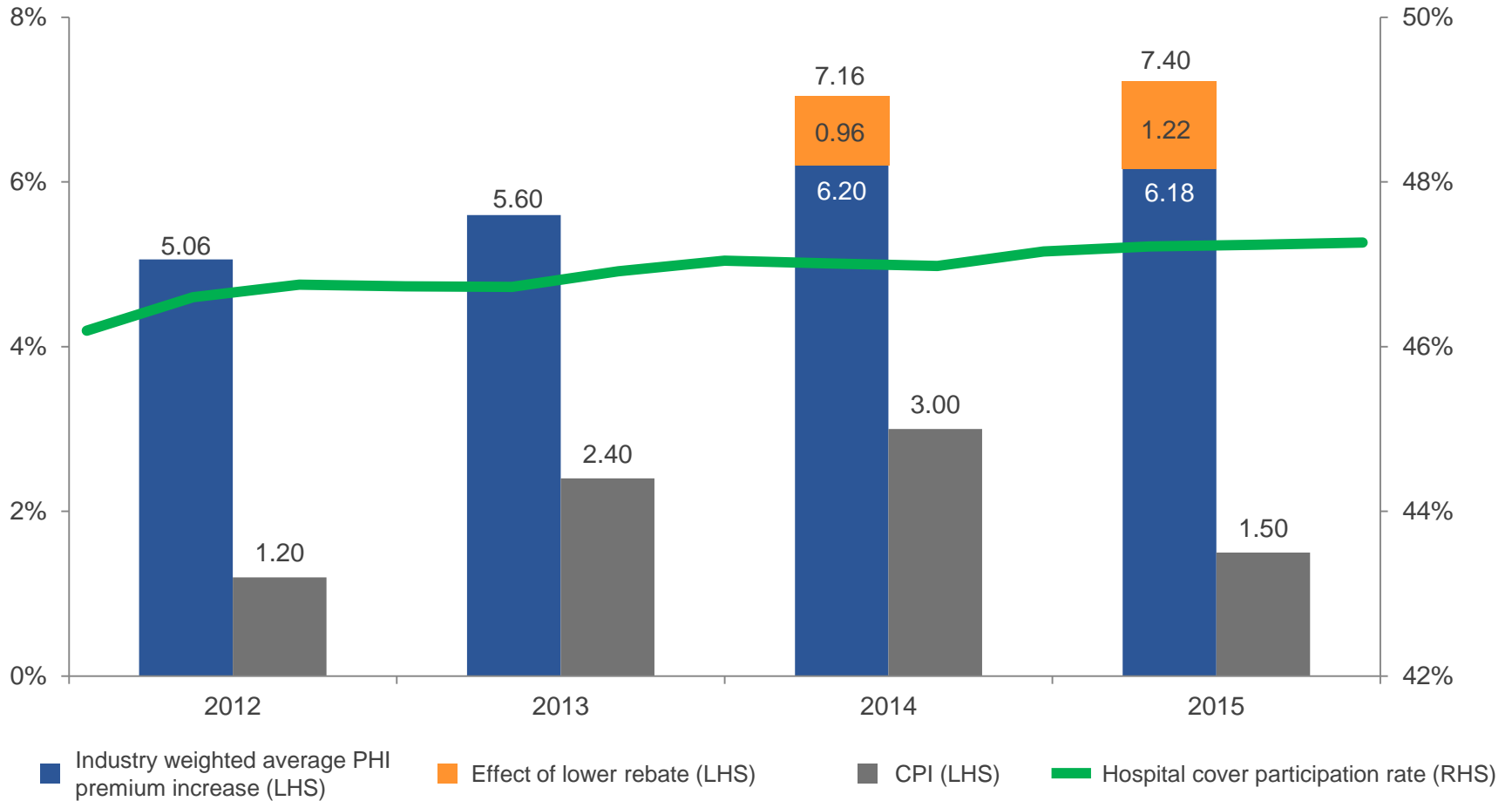
# 6 > STRATEGY & OUTLOOK



# INDUSTRY CONTEXT

Participation remains strong; affordability pressures rising

Private health insurance industry premium increases, inflation and hospital cover participation rate



Sources: Premium increases & hospital cover participation rate – APRA (formerly PHIAC);  
CPI - Australian Bureau of Statistics, using June data

# OUR STRATEGY

Medibank's approach to sustaining profitable growth



## Optimise core Health Insurance business

Product performance  
Marketing & sales effectiveness  
Health cost leadership

## Build Health Assurance capability

Health & wellbeing  
Value-based purchasing  
Extended customer experience

## Leverage Complementary Services

Enhance core business  
Stand-alone return on investment

## Deliver operational excellence

Core systems renewal  
DelPHI – customer relationship management  
Digital service delivery  
Straight-through processing

## Enhance people capability

Health professionals  
Data and analytics expertise  
Commercial contracting

### The 'Core'

Medibank Consumer

Medibank Corporate

Medibank Overseas

ahm

### Complementary Services

Population Health

Diversified

Telehealth

### Supported by

People

Processes

Systems

# HIGH PERFORMANCE HEALTH INSURANCE

Optimising the current business: short to medium term focus

Focus areas	Strategic programs	Key FY15 actions
<b>Product performance</b>	<ul style="list-style-type: none"> <li>Introducing new products and benefits to drive growth</li> <li>Addressing underperforming products</li> </ul>	<ul style="list-style-type: none"> <li>Addressed underperforming products (e.g. mid-Hospitals)</li> <li>Introduced Top Hospitals Essentials product</li> <li>Introduced new member benefits</li> <li>Launched new corporate product offer</li> <li>Improved extras product offering</li> </ul>
<b>Marketing &amp; sales effectiveness</b>	<ul style="list-style-type: none"> <li>Improving brand positioning and customer segmentation – stronger value proposition</li> <li>Increasingly targeted approach to member retention to reduce lapse</li> <li>Growing presence in corporate market</li> </ul>	<ul style="list-style-type: none"> <li>Deepened research on current brand perceptions</li> <li>Refined customer segmentation</li> <li>Expanded specialist team to focus on retaining customers</li> <li>Revamped call centre</li> </ul>
<b>Health cost leadership</b>	<ul style="list-style-type: none"> <li>Negotiating hospital contracts to focus on quality outcomes and long-term affordability for members</li> <li>Expanding payment integrity program to address improper health benefit claims</li> </ul>	<ul style="list-style-type: none"> <li>Enhanced quality metrics introduced</li> <li>Continued implementation of 28 day readmission rule</li> <li>Contract renewals – various</li> <li>Dental cost growth mitigated</li> </ul>
<b>Operational excellence</b>	<ul style="list-style-type: none"> <li>Continuing the core system upgrade (e.g. DelPHI) to enhance customer service to improve advocacy and retention</li> <li>Continuing to drive overhead efficiency and cost discipline</li> </ul>	<ul style="list-style-type: none"> <li>Mapped core customer journey and identified key challenges</li> <li>Streamlined operations structure</li> <li>Renegotiated major IT contracts</li> <li>Rationalised property footprint</li> </ul>

Enhanced member engagement and experience

Profitable revenue growth

Increased efficiency and productivity

Margin enhancement

# HEALTH INSURANCE OUTLOOK

## Driving performance

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- Premium revenue growth target above 5.5% in FY16
- Management expense ratio target of 8.3% in FY16 and below 8.0% in FY17
- Health Insurance operating profit target above \$370m in FY16

# Q&A

2015 Full Year Results





# APPENDIX

2015 Full Year Results



# GROUP NPAT RECONCILIATION

## Statutory to pro forma

Financial year ended 30 June (\$m)	2015	2014	Change (%)
<b>Statutory NPAT</b>	<b>285.3</b>	<b>130.8</b>	<b>118.1</b>
Impairment expenses <sup>1</sup>	-	96.4	-
Net IPO transaction costs <sup>2</sup>	5.6	2.4	133.3
Reorganisation expenses <sup>3</sup>	-	24.6	-
Other <sup>4</sup>	0.9	4.3	(79.1)
<b>Pro forma NPAT</b>	<b>291.8</b>	<b>258.5</b>	<b>12.9</b>

1 Primarily in relation to write-down of goodwill associated with the Telehealth business

2 IPO transaction costs net of IPO reimbursement income (post tax)

3 The adjustment in FY14 reflects the removal of the costs incurred in relation to the reorganisation within Complementary Services primarily due to the non-renewal of the Immigration Contract.

4 Melbourne premises establishment costs, accounting change in deferred acquisition costs, public company costs, removal of dental and eyecare loss

# FY15 ACTUAL RESULT VS PROSPECTUS FORECAST

Financial year ended 30 June – Pro forma (\$m)	2015 Prospectus forecast		2015 Actual	2015 Actual vs. Adjusted <sup>1</sup>	
	Original	Adjusted <sup>1</sup>		(\$m)	(%)
<b>Health Insurance</b>					
Premium revenue	5,996.7	5,996.7	5,934.8	(61.9)	(1.0)
Net claims expense (incl. risk equalisation)	(5,183.5)	(5,169.5)	(5,092.9)	76.6	(1.5)
Gross profit	813.2	827.2	841.9	14.7	1.8
Management expenses	(519.9)	(519.9)	(512.6)	7.3	(1.4)
<b>Health Insurance operating profit</b>	<b>293.3</b>	<b>307.3</b>	<b>329.3</b>	<b>22.0</b>	<b>7.2</b>
<b>Complementary Services operating profit</b>	<b>21.1</b>	<b>21.1</b>	<b>14.2</b>	<b>(6.9)</b>	<b>(32.7)</b>
<b>Segment operating profit</b>	<b>314.4</b>	<b>328.4</b>	<b>343.5</b>	<b>15.1</b>	<b>4.6</b>
Corporate overheads	(32.4)	(32.4)	(23.5)	8.9	(27.5)
<b>Total operating profit</b>	<b>282.1</b>	<b>296.1</b>	<b>320.0</b>	<b>23.9</b>	<b>8.1</b>
Net investment income	89.7	89.7	93.8	4.1	4.6
Other income/(expenses)	(8.9)	(8.9)	(8.0)	0.9	(10.1)
<b>Profit before tax</b>	<b>362.9</b>	<b>376.9</b>	<b>405.8</b>	<b>28.9</b>	<b>7.7</b>
Income tax expense	(104.7)	(108.7)	(114.0)	(5.3)	4.9
<b>NPAT</b>	<b>258.2</b>	<b>268.2</b>	<b>291.8</b>	<b>23.6</b>	<b>8.8</b>
<b>Dividend (cents per share)<sup>2</sup></b>	<b>4.9</b>	<b>4.9</b>	<b>5.3</b>	<b>0.4cps</b>	<b>8.2</b>

- 1 2015 Prospectus forecasts adjusted to reflect the impact of outstanding claims release as per the mid-year guidance provided at 1H15 results.  
 2 The inaugural dividend for FY15 is payable in respect of the seven-month period from 1 December 2014 to 30 June 2015

# GROUP FINANCIAL SUMMARY: HALF BY HALF

Pro forma (\$m)	1H15	2H15	FY15	1H14	2H14	FY14
Revenue	3,269.7	3,306.3	6,576.0	3,148.5	3,218.6	6,367.1
Health Insurance operating profit	173.5	155.8	329.3	126.5	119.7	246.2
Complementary Services operating profit	7.2	7.0	14.2	14.5	19.1	33.6
<b>Segment operating profit</b>	<b>180.7</b>	<b>162.8</b>	<b>343.5</b>	<b>141.0</b>	<b>138.8</b>	<b>279.8</b>
Corporate overheads	(10.9)	(12.6)	(23.5)	(11.8)	(12.7)	(24.5)
<b>Total operating profit</b>	<b>169.7</b>	<b>150.3</b>	<b>320.0</b>	<b>129.1</b>	<b>126.2</b>	<b>255.3</b>
Net investment income	43.4	50.4	93.8	64.7	49.2	113.9
Other income/(expenses)	(0.4)	(7.6)	(8.0)	(2.9)	(5.2)	(8.1)
<b>Profit before tax</b>	<b>212.6</b>	<b>193.2</b>	<b>405.8</b>	<b>190.9</b>	<b>170.2</b>	<b>361.1</b>
Income tax expense	(61.4)	(52.6)	(114.0)	(54.4)	(48.2)	(102.6)
<b>NPAT</b>	<b>151.2</b>	<b>140.6</b>	<b>291.8</b>	<b>136.5</b>	<b>122.0</b>	<b>258.5</b>

# HEALTH INSURANCE RESULT: HALF BY HALF

Pro forma (\$m)	1H15	2H15	FY15	1H14	2H14	FY14
Premium revenue	2,943.3	2,991.5	5,934.8	2,797.4	2,851.3	5,648.7
Net claims expense (incl. risk equalisation)	(2,535.1)	(2,557.8)	(5,092.9)	(2,413.9)	(2,470.4)	(4,884.3)
Gross profit	408.2	433.7	841.9	383.5	380.9	764.4
Management expenses	(234.7)	(277.9)	(512.6)	(257.0)	(261.2)	(518.2)
Operating profit	173.5	155.8	329.3	126.5	119.7	246.2
<b>Gross margin<sup>1</sup> (%)</b>	<b>13.9%</b>	<b>14.5%</b>	<b>14.2%</b>	<b>13.7%</b>	<b>13.4%</b>	<b>13.5%</b>
<b>MER<sup>1</sup> (%)</b>	<b>8.0%</b>	<b>9.3%</b>	<b>8.6%</b>	<b>9.2%</b>	<b>9.2%</b>	<b>9.2%</b>
<b>Operating margin<sup>1</sup> (%)</b>	<b>5.9%</b>	<b>5.2%</b>	<b>5.5%</b>	<b>4.5%</b>	<b>4.2%</b>	<b>4.4%</b>

<sup>1</sup> Numbers may not add due to rounding. Includes Australian residents, OSHC and OVHC. The gross margin for Australian residents only was 13.1% in FY14 and 13.6% in FY15, the MER for Australian residents only was 8.7% in FY14 and 8.2% in FY15, and the operating margin for Australian residents only was 4.4% in FY14 and 5.4% in FY15.



# CHANGE IN POLICYHOLDERS

Financial year ended 30 June (thousand)	2015	2014	Change (%)
Opening balance (Policyholders <sup>1</sup> )	1,830.0	1,803.7	1.5
Acquisitions <sup>2</sup>	218.0	207.5	5.1
Lapses <sup>2</sup>	(202.0)	(181.2)	11.5
Closing balance	<b>1,846.0</b>	<b>1,830.0</b>	<b>0.9</b>
– Acquisition rate <sup>3</sup>	11.9%	11.4%	50bps
– Lapse rate <sup>3</sup>	11.0%	10.0%	100bps
<b>Medibank policies:</b>			
Opening balance	1,604.5	1,615.0	(0.6)
Acquisitions	141.4	146.8	(3.7)
Lapses	(173.8)	(157.3)	10.5
Closing balance	<b>1,572.1</b>	<b>1,604.5</b>	<b>(2.0)</b>
– Acquisition rate <sup>3</sup>	8.9%	9.1%	(20bps)
– Lapse rate <sup>3</sup>	10.9%	9.8%	110bps
<b>ahm policies:</b>			
Opening balance	225.5	188.7	19.5
Acquisitions	87.4	66.9	30.6
Lapses	(38.9)	(30.1)	29.2
Closing balance	<b>273.9</b>	<b>225.5</b>	<b>21.5</b>
– Acquisition rate <sup>3</sup>	35.0%	32.3%	270bps
– Lapse rate <sup>3</sup>	15.6%	14.5%	110bps

1 Policyholder numbers only include resident business whereas total members and total PSEUs includes both resident and non-resident business (i.e. OSHC and OVHC)

2 Consolidated acquisition and lapse volumes will differ to the aggregation of the brands due to the elimination of intrabrand transfers

3 Lapse and acquisition rates are based on the average of the opening and closing balances for the period

# GLOSSARY

<b>ADF Health Services Contract</b>	The contract between the Commonwealth and Medibank Private Limited for the provision of a national integrated healthcare service to the Australian Defence Force
<b>bps</b>	Basis points (1.0% = 100 bps)
<b>Commonwealth</b>	The Commonwealth of Australia
<b>EPS</b>	Earnings per share
<b>FY14, FY15, FY16, FY17</b>	Financial year ended/ending 30 June 2014, 30 June 2015, 30 June 2016, 30 June 2017
<b>Immigration Contract</b>	The contract between the Commonwealth and Medibank Private for the provision of pre-migration visa health screening services to prospective Australian migrants on behalf of the Commonwealth which expired with effect from July 2014 (with a transition period to November 2014)
<b>Member</b>	A Policyholder and any other individuals covered under the same PHI policy
<b>MER</b>	Management expense ratio
<b>MPL</b>	Medibank Private Limited
<b>NPAT</b>	Net profit after tax
<b>n.m.</b>	Not meaningful

<b>OSHC</b>	Overseas students hospital cover
<b>OVHC</b>	Overseas visitors hospital cover
<b>PNIC</b>	Provider Networks & Integrated Care
<b>Policyholder</b>	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
<b>Pro forma</b>	Consistent with the Prospectus, pro forma financial information is derived from the statutory consolidated income statement adjusted for the one-off costs of the IPO and certain significant and other items
<b>Prospectus</b>	The Medibank Private Limited Prospectus dated 20 October 2014
<b>PSEU</b>	Policy Single Equivalent Units take into account the number of adults on a policy, and whether they have Hospital Cover or Extras Cover or both
<b>RE</b>	Risk equalisation