22 August 2024

2024 full year results

Continued focus on customers, investment in the health transition and disciplined growth as a health company

"At a time when household budgets are under increasing pressure we have continued to provide our customers with more value.

"We have worked hard to keep our premiums as low as we can, with this year's average increase below inflation and wage growth.

"Our customers saved over $23 million using our Members' Choice Advantage network and our Live Better program delivered more than $25 million in rewards.

"We announced an additional $305 million in COVID give back to our customers, bringing our total customer support to a record $1.46 billion.

"And when it comes to our own costs, we delivered around $10 million in productivity savings which is important given the economic environment. Our management expense ratio continues to be one of the lowest in the industry, which helps us manage costs on behalf of our customers.

"Resident PHI industry growth remained strong, and we continued to grow despite the ongoing competitive environment, with net resident policyholders up more than 14,000. While this is not what we set out to achieve, given the competitive market we remained disciplined about the best way to grow for the long term.

"Momentum continued in our non-resident business, with net policy units up 69,000 or 25.1%. Standout growth in the student market reflects our strong university relationships – with Medibank the preferred provider of overseas student health cover for nearly half of Australian universities.

"Our growth in health has taken a big step this year. We delivered more than 4 million health interactions through our multi-disciplinary primary care network, which incorporates Amplar Health and Myhealth services.

"And we broadened our relationship with our customers, with almost half of Medibank policyholders now engaged with our health and wellbeing services.

"The challenges in healthcare are well known – waiting lists, ambulance ramping, delays to see a GP or specialist and a stretched workforce. These challenges are not specific to Australia. They are global trends, which are largely driven by changing demographics and more of us living with chronic conditions.

"We are currently over reliant on treatment in more expensive acute hospitals, rather than in other more fit for purpose settings.

"The health transition is advanced in other parts of the world, with Australia trailing many countries in the uptake of more contemporary models of care.

Customers

$6.3b
total claims paid

+14.4k +0.7%
net resident policyholder growth

+69.0k +25.1%
net non-resident policy unit growth

Medibank **46.0** +5.9
ahm **46.4** +3.7
customer advocacy (average Service NPS)

$1.46b
total COVID-19 financial support package to date

Financial

$570.4m +14.1%
underlying net profit after tax

20.7 cps +14.1%
underlying EPS

9.4 cps
final ordinary dividend fully franked

$63m
our one-off financial support for private hospitals over past 2 years

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.

"And we know the past few years have been tough for hospitals, with rising costs and COVID waves, and changes driven by increasing demand from consumers for shorter hospital stays and care delivered in the home and virtually.

"We want the private hospital sector to be strong, which is why we continue to support our hospital partners and fund them through the health transition.

"Over the last 2 years our one-off financial support for private hospitals has reached a substantial $63 million.

"This is in addition to higher indexation in our contracts and additional incentives to accelerate the health transition by providing our customers with greater choice, better access and more value in their healthcare.

"What we continue to think about is how we support the sustainability of hospitals in a way that doesn't push up premiums, making private healthcare unaffordable for customers.

"We are at the forefront of change in the way healthcare is delivered in Australia, and we can't move fast enough.

"While it's been another challenging year, our people have remained focused on our customers, and I thank them for that.

"We continue to strengthen the foundations of our business. Today's result again shows we are a resilient business, experienced at navigating changing economic and market dynamics.

"Our disciplined approach is what keeps us strong and sustainable and will support our long-term growth as a health company."

David Koczkar
Chief Executive Officer

Dividend

The Board has determined a fully franked final ordinary dividend of 9.4 cents per share.

The total FY24 fully franked ordinary dividend will be 16.6 cents per share, 13.7% above FY23.

The total FY24 ordinary dividend represents an 80.1% payout ratio of underlying NPAT, normalising for investment market returns and any movement in the COVID-19 equity reserve. This is within our target payout ratio range of between 75%-85% of underlying NPAT.

Dividend dates

Ex-dividend Date	4	Wednesday **September 2024**
Record Date	5	Thursday **September 2024**
Payment Date	26	Thursday **September 2024**

Performance in detail

Group

$699.8m +7.9%
Group operating profit

$182.2m +31.5%
net investment income

$492.5m +59.6%
NPAT attributable to Medibank shareholders

Group operating profit, which excludes the impacts of COVID-19, reflects 6.3% increase in Health Insurance operating profit, and strong growth in Medibank Health segment profit of 36.7% including the contribution of our increased investment in Myhealth.

Non-recurring cybercrime costs of $39.8m. This includes investment in the Medibank Uplift Program which focuses on managing our approach to information security risk across the Group.

Underlying NPAT, which adjusts for movement in the COVID-19 equity reserve and normalisation of investment returns, up 14.1% to $570.4m.

Health Insurance

-3.4k -0.2%
net resident policyholders (Medibank)

+17.8k +3.4%
net resident policyholders (ahm)

343.9k +25.1%
non-resident policy units

Resident customer growth

Industry growth remained buoyant with FY24 growth expected to be similar to FY23 (1.9%). The competitive environment continued with customers focused on price and value given cost of living pressures. This led to a modest increase in the level of customers switching funds and lapsing.

The cost of acquisition was also higher due to an increase in offers and sales through aggregators, with the share of joins through this channel up more than 15% compared to FY23.

Total net resident policyholder growth up 0.7% (+14.4k) over 12 months, including 11.0k increase in 2H24.

Acquisition rate up with improvement across both brands. Medibank's acquisition rate was back in line with pre-2022 cybercrime event levels while ahm's acquisition rate increased strongly.

Lapse rate up, reflecting higher switching levels in the market. Overall lapse increase was below the industry average, driven by performance in the Medibank brand. Higher lapse impact in ahm with customers more price sensitive, particularly when acquired through the aggregator channel.

Total hospital lives up 0.9% to 2.97m, 20 bps above policyholder growth with continued benefit of Adult Dependant Reform to quality of insurance pool given age mix of joins.

Non-resident customer growth

Continued strong policy unit growth in non-resident business particularly in student and workers segments.

$7,903.0m +4.0%
premium revenue

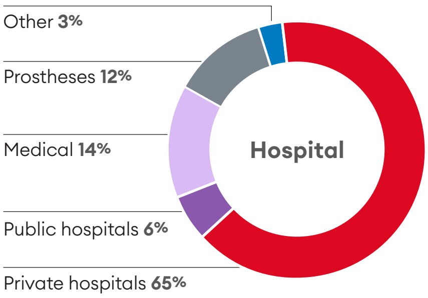
$6,420.6m +2.7%
net resident claims expense
(includes 10 bps risk equalisation benefit)

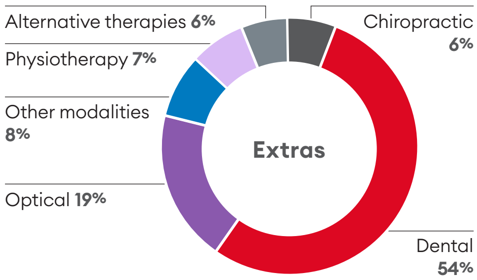
2.2% -20bps
resident claims growth
per policy unit

Hospital resident claims growth per policy unit up 10 bps to 2.4% reflects higher private hospital indexation, improved risk equalisation outcome and softness in non-surgical claims. Prostheses reform benefits in line with FY23.

Extras resident claims growth per policy unit down 100 bps to 2.1% reflects lower utilisation growth for services other than dental due to economic environment and investment in additional product benefits in the prior period.

Indicative composition of resident customer claims





$614.9m +8.1%
management expenses

7.8% +30bps
MER

c. **$10m**
productivity savings

Management expenses up 8.1%, reflecting higher sales commissions (particularly in 1H24) and impact of higher inflation on operating expenses.

Operating expenses up 6.7% with cost inflation of approximately 5.0% partially offset by productivity savings.

The increase also reflects $5m uplift in IT security costs and $3m statutory charges (including Victorian payroll tax) as well as volume impacts, particularly in non-resident.

Productivity savings from increasing use of digital channels, operational process improvements and technology support costs.

$1,307.2m +7.2%
gross profit

16.5% +40bps
gross margin

Gross margin remains below FY19 pre-COVID-19 level of 17.1%. Resident gross margin up 30 bps to 15.9% largely driven by lower claims per policy unit growth. Non-resident gross margin up 60 bps to 34.2% with benefits of stable tenure and mix.

Operating profit up 6.3% to $692.3m and **operating margin** up 20 bps to 8.8%.

Medibank Health

$60.4m +36.7%
segment profit

$204.4m +55.1%
gross profit

Medibank Health segment profit increase reflects strong organic growth and increase in Myhealth investment.

Myhealth operating profit of $11.6m, including virtual health.

Revenue (excluding Myhealth) up $13.3m driven by strong growth in health and wellbeing and diversified insurances, and improved homecare revenue in line with hospital industry activity.

Gross margin (excluding Myhealth) up 630 bps to 53.9% with strong growth in higher margin businesses, improved efficiency in homecare and higher telehealth margin following business optimisation in FY23.

Operating profit (excluding Myhealth) up 19.0% to $52.6m, with strong organic growth. This was offset by $4.8m loss in strategically important portfolio of short stay hospital investments with improved performance expected as the portfolio of hospitals matures.

Investment income

$182.2m +31.5%
net investment income

Growth portfolio income down $6.3m with lower returns in all asset classes other than property.

Defensive portfolio income up $43.5m reflecting $27.4m benefit from higher RBA cash rate and $9.6m benefit from narrowing credit spreads.

Capital

$1,161.6m
Health Insurance required capital
(at 30 June 2024)

Strong capital position maintained.

Health Insurance capital

Fund PCA coverage ratio maintained at 1.8x.

Health Insurance required capital ratio of 14.1%, above 10%-12% target range with additional capital held to offset $250m temporary APRA supervisory adjustment.

Unallocated capital increased to $186.2m.

Other capital employed of $447.6m (up $121.8m) includes the $52.0 million further investment in Myhealth and $25.0 million relating to the fit-out cost for new Melbourne head office.

Outlook

Customer value

Customer promise: any permanent net claims savings due to COVID-19 will be returned to customers

Customer give back program: expect the finalisation of our customer give back program to be announced in FY25

Resident health insurance

Industry growth: anticipate moderating industry growth in FY25 relative to FY24

Customer growth: we will remain disciplined as we aim to grow in line with market during FY25 (including volume growth in the Medibank brand), and aim to grow market share in FY26

Claims: expected claims per policy unit growth of around 2.7% in FY25

Management expenses: targeting $10m of productivity savings in FY25

Non-resident health insurance

Customer growth: expect solid policy unit growth to continue in FY25

Medibank Health

Organic growth: targeting average organic profit growth ≥15% per annum between FY24 and FY26 plus a 12-month contribution from Myhealth in FY25

Inorganic growth: aim to invest between $150m to $250m through further M&A between FY24 and FY26

Summary of financial results

Year ended 30 June ($m)	2023 (restated)[1]	2024	Change
Group revenue from external customers	**7,807.0**	**8,175.8**	**4.7%**
Health Insurance operating profit[2]	651.3	692.3	6.3%
Medibank Health segment profit	44.2	60.4	36.7%
Segment operating profit	**695.5**	**752.7**	**8.2%**
Corporate overheads	(47.1)	(52.9)	12.3%
Group operating profit	**648.4**	**699.8**	**7.9%**
Net investment income	138.6	182.2	31.5%
Other income/(expenses)	(12.6)	(19.7)	56.3%
Cybercrime costs	(46.4)	(39.8)	(14.2%)
Profit before tax, before movement in COVID-19 reserve	**728.0**	**822.5**	**13.0%**
Movement in COVID-19 reserve (excl. tax)	(290.1)	(110.8)	(61.8%)
Profit before tax	**437.9**	**711.7**	**62.5%**
Income tax expense	(129.3)	(215.3)	66.5%
Non-controlling interests	-	(3.9)	n.m.
NPAT attributable to Medibank shareholders	**308.6**	**492.5**	**59.6%**
Effective tax rate	29.5%	30.3%	80bps
Earnings per share (EPS) (cents)	11.2	17.9	59.6%
Normalisation for investment returns	(11.5)	0.3	(102.6%)
Normalisation for COVID-19 reserve movements	203.0	77.6	(61.8%)
Underlying NPAT[3]	**500.1**	**570.4**	**14.1%**
Underlying EPS (cents)[3]	18.2	20.7	14.1%
Dividend per share (cents)	**14.6**	**16.6**	**13.7%**
Dividend payout ratio[3]	80.5%	80.1%	(40bps)

1. The Group has adopted AASB 17 *Insurance Contracts* and has restated the comparative period. The impacts of adoption are detailed in Note 20 of the 2024 financial statements.
2. Health Insurance operating profit excludes the impacts of COVID-19.
3. Underlying NPAT is statutory NPAT normalised for growth asset returns to historical long-term expectations, credit spread movements, movement in COVID-19 reserve and one-off items. Dividend payout ratio based on underlying NPAT.

Further enquiries

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All figures are in Australian dollars unless stated otherwise. Some figures, amounts, percentages, estimates, calculations of value and fractions are subject to rounding. Accordingly, the actual calculations of these figures may differ from figures set out in this document. Further, some balances subject to rounding, may not add consistently throughout the document.