



## FY2022 an excellent year overtaken by events

<b>Company/ASX Code</b>	Medibank Private Ltd / MPL
<b>AGM date</b>	Wednesday 16 November, 2022
<b>Time and location</b>	10:30 am, Melbourne Exhib. Centre, 2 Clarendon St., South Wharf, Vic
<b>Registry</b>	Computershare
<b>Type of meeting</b>	Hybrid
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Peter Aird with Katja Bizilj
<b>Pre-AGM Meeting?</b>	Yes, with Chair Mike Wilkins & Colette Campbell (Investor Relations)

Monitor Shareholding: The individual involved in the preparation of this voting intention has a shareholding in this company.

### Summary of issues for meeting

Medibank's above target financial, premium growth and customer Net Promoter score performance in FY2022 has been vastly overshadowed by the October 12 hacking of its customer data, including customer health data.

The cyber-attack outcome is not yet resolved with reports indicating that it occurred after "the login credential of someone with high level systems access" were stolen (AFR, 24 October). Medicare has been forthcoming with respect to disclosing the breach and working with AFP and other government cyber response agencies (in addition to internal Medibank efforts and responses). Medibank has responded quickly to Customer concerns and offered ID monitoring and Mental Health services to those affected. Medibank will defer premium increases from 1 Nov 2022 to 16 January 2023 in recognition of the breach. They have revised their FY2023 outlook, including "withdrawing its FY2023 outlook for policy holder growth" which was 2.7%, due to the uncertainty of the attack's impact. Updates continue to be provided regularly on Medibank's website and by email to customers.

## Proposed Voting Summary

No.	Resolution description	
2	Election of Peter Everingham as a Director	For
3	Election of Kathryn Fagg as a Director	For
4	Re-election of David Fagan as a Director	For
5	Re-election of Linda Bardo Nicholls as a Director	For
6	Adoption of Remuneration Report	For
7	Grant to performance rights to the CEO David Koczkar	For
8	Amendments to constitution	For

## Summary of ASA Position

### Consideration of accounts and reports - No vote required

Medibank continues to provide high quality Annual, Sustainability and Remuneration reports which are easy to read and comprehensive. It was noted that there have been some changes in the Strategy headers which reflect changes in the CEO, a broader business base and extended outlook to 2030. Carbon emissions targets have been tightened, with net zero now by 2040 and Scope 1 and 2 emission net zero by 2025. The latter will be primarily achieved by the use of green electricity in all Medibank's sites. The purchase of green bonds and a move to a 6-star fully green Head office building in Melbourne.

### Governance and culture

Medibank continue to aim at being an employer of choice and have maintained a high employee engagement score (7.9/10) which is a little better than FY2021 (7.8) and a very good result in comparison to international standards. Internal evaluation survey responses remain high (76%) from which data on diversity is obtained and reported.

It is clear that Medibank take data security seriously, with three pages of their Sustainability report devoted to "Privacy and Data Security" (Pp 69-71). This includes details of a new security operations centre, more specialised roles and enhanced tools, staff culture and training, and data on breaches over the past 4 years.

### Financial performance

Whilst Net Profit after Tax shows a significant fall from 2021, this is primarily due to a loss in investment income due to the state of the market, with Group Operating Profit increasing by 12.5%. Dividend paid was up and is the highest for 5 years.

### Key events

Apart from the re-naming of Medibank's health services business to Amplar (to remove clear association to Medibank and broaden its appeal), there were no significant events during the FY2022. The events of October 2022 have been noted above.

### **Key Board or senior management changes**

Two Non-Executive Directors (NED's) retired after the FY2021 Annual Meeting. Two new NED's were appointed in March 2022, maintaining gender diversity and increasing the diversity and background experiences within the Board. There were no changes in the Senior Management group.

### **ASA focus issues**

Most issues have been addressed above. Medibank have published an improved Director's Skills Matrix, with assessment of collective strength against each measure. As in the past, it was noted that the Board's Technology skills were below Strong. The appointment of Mr Everingham will improve collective skills. The Chair has responded to ASA questions with details of the Board's use of external expertise (including some on retainers) to provide current advice as required in the fast moving cyber space.

### **Summary**

(As at FYE)	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
NPAT (\$m)	393.9	441.2	315.0	458.7	445.1
UPAT (\$m)	435.1	398.7	366.7	447.9	436.4
Share price (\$)	3.25	3.16	2.99	3.49	2.92
Dividend (cents)	13.4	12.7	12.0	13.1	12.7
Simple TSR (%)	7.1	9.9	-10.9	24.0	8.1
EPS (cents)	14.3	16.0	11.4	16.7	16.2
CEO total remuneration, actual (\$m)	2.6	4.1 [a]	3.2	2.8	2.3

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking) by the share price at the start of the year.

- a. Reflects previous CEO Craig Drummond's remuneration.

## **Election or re-election of directors**

Current NED's David Fagan and Linda Bardo Nicholls have nominated for re-election, having been appointed in 2014. Neither will exceed ASA's 12-year term for NED's and both will retire at the end of their terms in accordance with Medibank policy of 3 terms for NED's. Neither David nor Linda has a workload exceeding ASA guidelines and their re-election can be supported.

Mr Everingham's appointment to the Board is a significant departure from the background of previous and current NED's (insurance, finance, health) with his background in the digital sector, consumers and technology. His election adds significantly to the Board's Technology skills and can be supported.

Ms Fagg's appointment to the Board also adds new skills and experience with her background in engineering and manufacturing. Her workload as an NED (NAB, Djerriwarrh) and as Chair of the CSIRO as well as a number of Board positions in the not-for-profit sector is of concern, but Chair Mr Wilkins is satisfied that she has the capacity to undertake her role in Medibank.

## **Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO**

Apart from flagging an increase in Fixed pay for Executives and NED's, Medibank's remuneration structure remains the same as in past years and is substantially in line with ASA policies. KMP's have a high percentage of at-risk remuneration with a significant proportion paid as equity, which they are required to hold. Incentives face several gateways and hurdles are a mix of financial and external measures of the business' performance. In FY2022, the Board exercised its discretion to reduce the STI outcome for Executives from an average of 84% of the maximum to 72% in consideration of the challenging social and economic environment and stakeholder expectations.

Whilst the grant of performance rights and long-term incentive is based on a 3 year period, all other aspects of the grant are in line with ASA policies. There have been no changes to the measures from 2021.

On this basis, the ASA can support the Remuneration report and grant of performance rights.

## **Adoption of new or amended constitution**

The proposed amendments are not controversial and benefit shareholders. ASA can support the changes.

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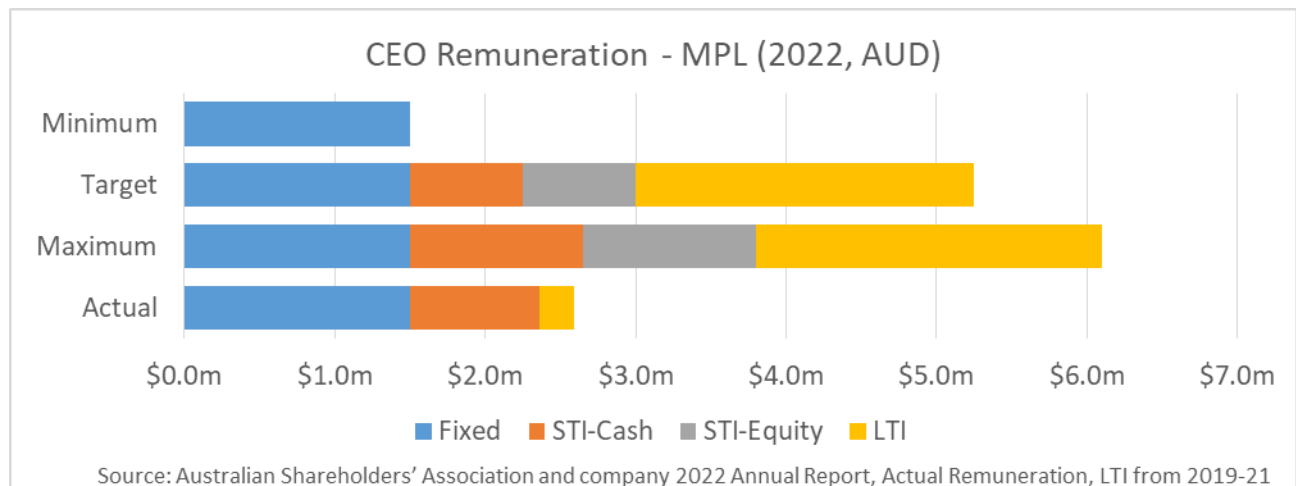
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## Appendix 1

### Remuneration framework detail



The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. \*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting. Medibank do not report a Target LTI.

The structure of KMP's remuneration has not changed in FY2022 and the changes proposed for FY2023 are limited to Fixed pay increases for Executive (averaging 3.7%) and for NED's at 3%, the latter being the first for 3 years. Medibank reports that these are in line with their market comparator group, which is confirmed by a comparison to Godfrey Remuneration Group data for a business with Market capitalisation between \$7.5b - \$12.5b.

The major features of Executive rewards are:

- A fixed pay based on a Market comparator group.
- Short Term Incentives with Target for the CEO of 100% of Fixed and a maximum of 150% of fixed. There are behaviour and financial gateways, 4 performance measures (operating profit, premium revenue growth, customer Net Promoter score and role specific measures. Half is paid in cash and half is paid as share rights (based on face value) deferred for 12 months.
- Long Term Incentive paid as share rights after 3 years. Performance measures are Earnings per Share compound annual growth rate (35%), Total shareholder return against a comparator group (35%) and Medibank PHI market share (30%). Rights are valued using face value of shares in the 10 days prior to 30 June

The final FY2020 LTI outcome awaits publication of PHI market share data by APRA, expected to be mentioned at the AGM and reported in the FY2023 Annual Report.

KMP's and Directors are expected to build a shareholding in the company over 5 years. Progress to satisfy this requirement is reported in the Remuneration report.

Medibank are currently in discussion with APRA regarding regulatory standards on remuneration (CPS511) that come into effect as of July 2023 to determine what changes will be required.

The remuneration report is clear and easy to read, showing the structure of KMP's fixed and at risk pay and including Actual and Statutory remuneration for KMP's.