

ASX ANNOUNCEMENT

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nib holdings limited (asx: nhf)

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nib announces strong first half operating profit result

Highlights:

- Total Group revenue of \$927.1 million (+15.2%)
- NPAT of \$43.1 million (+4.7%)
- Group underlying operating profit of \$66.4¹ million (+46.1%) and statutory operating profit of \$59.3 million (+41.0%)
- Australian Residents Health Insurance (arhi) business underlying operating profit¹ of \$51.7 million (+37.6%)
- arhi claims incurred of \$663.5 million (+8.3%)
- Earnings per share (underlying) of 11.0 cents per share (+10.6%), statutory earnings per share of 9.9 cents per share (+5.3%)
- Interim dividend of 5.75 cents per share fully franked (+4.5%)

nib holdings limited (ASX: NHF) today announced that it is on track to deliver a strong full year result, with underlying operating profit¹ for the six months to 31 December 2015 (1H16) of \$66.4 million; an increase of 46.1% on 1H15. Statutory operating profit increased 41.0% to \$59.3 million. Net profit after tax (NPAT) was up 4.7% to \$43.1 million.

The result was driven by a combination of increased 'top line' Group revenue and margin improvement, particularly in the Australia Residents Health Insurance (arhi) business.

nib's Managing Director, Mr Mark Fitzgibbon, said the first half result was pleasing with all business segments performing in line with or better than expected.

"Our arhi business improved sales and underwriting performance considerably for the period, with an underlying operating profit of \$51.7 million. arhi continues to be our core business accounting for almost 80% of total Group underlying operating profit for the period," Mr Fitzgibbon said.

"Net policyholder growth for the first half was 1.8%, which we expect will again be well above the industry average². Our ongoing growth and gains in market share in what is a highly competitive market is a real achievement," he added.

Underpinning nib's strong arhi performance was an improved gross underwriting result for 1H16 with gross margin moving to 15.1% compared to 13.4% in the corresponding period.

"The improvement in our gross margin can be attributed to several factors including lower claims utilisation at an industry level. However, it didn't stop us incurring \$663.5 million in claims an increase of 8.3% on the previous half year," Mr Fitzgibbon said.

nib's New Zealand operations almost tripled underlying operating profit in 1H16 to \$7.8 million (1H15: \$2.7 million).

"Our market growth and first half financial result in New Zealand was very positive. Organic growth coupled with the acquisition of the OnePath health insurance business in December last year means we now have 15% of the New Zealand market," he added.

¹ nib's statutory operating profit was up 41.0% to \$59.3 million, and includes \$7.1 million in amortisation of acquired intangibles and one-off (transactions and M&A) costs.

² At the time of finalising nib's 2016 half year results APRA had not published the comparable industry statistic.

World Nomads Group (WNG) recorded an underlying operating profit of \$4.2 million for 1H16, which is a five month result given the business was acquired on 31 July 2015.

According to Mr Fitzgibbon, the acquisition of the specialist travel insurance provider has gone smoothly with the business on track to deliver a full year underlying operating profit result of at least \$10 million.

“We continue to be excited about the growth opportunities in WNG. While we have seen some slowing in the Australian travel insurance market, the business has performed well with good growth in international markets,” he said.

“Investors can expect that we will continue to explore and invest in new markets to grow the WNG business and with that our earnings,” Mr Fitzgibbon added.

nib’s international (inbound) health insurance business provides cover for almost 100,000 international worker and student customers while in Australia and reported an underlying operating profit of \$5.4 million for 1H16. This was down from \$7.8 million in 1H15 explained by difficulties with a specific and significant insured group within nib’s international students business. The contract with this group is being discontinued and profitability of the International (Inbound) Health Insurance business is expected to rebound in FY17.

nib declared an interim 1H16 fully franked dividend of 5.75 cents per share (1H15: 5.5 cents per share). The interim dividend has an ex-dividend date and record date of 2 and 4 March 2016 respectively, with the interim dividend to be paid 1 April 2016.

Outlook and guidance

According to Mr Fitzgibbon, although there is a significant amount of “chatter” regarding the recent PHI Review, he believes any reform will ultimately be a net positive for private health insurers and consumers.

“With real health care spending expected to grow in the order of GDP plus 2%, it’s inevitable Government will shift funding to the private sector. As a nation we’re simply running short of the tax payers sufficient to fund ‘free’ healthcare to an increasing number of older retired Australians. We welcome the recent announcement by Health Minister Ley to look at reviewing prosthetic pricing arrangements and look forward to other reforms needed to redress market inefficiencies,” he said.

nib confirmed FY16 guidance with the result likely to be at the upper end of its underlying operating profit range of \$102 million to \$114 million (statutory operating profit of \$90 million to \$100 million).

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