

ASX ANNOUNCEMENT

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nib holdings limited (asx: nhf)

20 February 2017

nib delivers strong first half result, updates full year guidance

Highlights:

- Total Group revenue of \$995.0 million (+7.3%)
- Net Profit After Tax (NPAT) of \$71.1 million (+65.0%)
- Group underlying operating profit (UOP) of \$95.2¹ million (+43.4%) and statutory operating profit of \$90.9 million (+53.3%)
- Earnings per share (underlying) of 17.1 cents per share (+55.5%), earnings per share (statutory) of 16.4 cents per share (+65.7%)
- Interim dividend of 8.50 cents per share fully franked (+47.8%)

nib holdings limited (ASX: NHF) today announced an underlying operating profit (UOP) of \$95.2 million for the six months to 31 December 2016 (up 43.4% on the previous year's first half).

Total Group revenue increased 7.3% to \$995.0 million with NPAT up 65.0% to \$71.1 million.

nib's Managing Director, Mr Mark Fitzgibbon, said the first half result reflects strong momentum across the nib Group.

"Our core Australian Residents Health Insurance (arhi) led the way with net policyholder growth of 2.1% for the six months. This meant nib accounted for over half of all industry policyholder growth² for the period. It's a fantastic result achieved through a combination of factors including our ongoing investment in the nib brand, price competitiveness, customer insight and new partnerships with Qantas and Suncorp," Mr Fitzgibbon said.

"Equal effort is being made to keep a lid on claims inflation and thereby premium growth. Our recently announced average premium increase of 4.48% is the lowest in 14 years, was below the industry average and is indicative of this effort. We're naturally very sensitive to the pressure upon private health insurance affordability and determined to improve business and market efficiency," he added.

The arhi business reported UOP for the first half of \$73.0 million up an impressive 41.2% on last year's comparable result.

Mr Fitzgibbon explained that while he expected arhi would likely achieve even better policyholder growth in the second half of the financial year he didn't expect profitability would be as strong as in the first half with a full year net underwriting margin landing at the upper end of nib's 5% to 6% target range.

"Our first half arhi result benefited from fairly benign claims experience compared to the past. There are however, some signs that claims inflation could now be moving higher towards longer term trend lines. We are also ramping up our investment in organic growth across our sales channels in the second half which will impact near term profit," he added.

nib's adjacent businesses, which includes international (inbound) health insurance (international students and workers), nib New Zealand and World Nomads Group (WNG) travel insurance, continue to grow their contribution to Group earnings with UOP of \$25.7 million up 56.7% on first half 2016.

¹ nib's statutory operating profit includes \$4.3 million in amortisation of acquired intangibles and one-off (transactions and M&A) costs.

² Source: APRA

International inbound health insurance grew UOP almost 150% to \$13.3 million, while nib New Zealand increased UOP by 39.7% to \$10.9 million. Specialist travel insurance distributor WNG, which was acquired in July last year, delivered a first half UOP of \$3.1 million, down from \$4.2³ million the previous half. The first half result was impacted by investment to expand into new markets, currency fluctuations (impacting sales particularly in the UK) and soft domestic sales.

"We are very pleased with the progress of our new WNG business. Most of our focus has been upon getting the right leadership in place, understanding the market and transitioning the business into the nib Group. We are however, now looking more deliberately at investment opportunities to grow the business especially in international markets which are showing amazing potential. As with its customers, WNG is a business which is already traveling," Mr Fitzgibbon said.

nib declared an interim 1H17 fully franked dividend of 8.50 cents per share (1H16: 5.75 cents per share). The interim dividend has an ex-dividend date and record date of 2 and 3 March 2017 respectively, with the interim dividend to be paid on 3 April 2017.

Outlook and guidance

According to Mr Fitzgibbon overall private health insurance participation rates are likely to remain steady at around 50% of the population.

"Affordability is clearly a factor but so too is a relatively weak retail environment generally with high competition for discretionary consumer spending. Affordability is a relative concept and beyond managing costs easing the pressure on premiums we need to look towards ways we can also give consumers more value for the premiums they pay. Industry initiatives like the 'Trip Advisor' style 'Whitecoat' is a great example of how we can help consumers make more informed choices about treatment, doctors and dentists," he said.

Mr Fitzgibbon said he was confident new Health Minister, The Hon. Greg Hunt understands the crucial role private health insurance has to play in funding future healthcare demand.

"Rising healthcare spending and an increasing ratio of taxpayers to retired, often high cost Australians, means as a nation we're simply running short of taxes sufficient to fund 'free' healthcare. As such, Government policy more than ever needs to encourage private health insurance participation. And there are real prospects to improve system efficiency such as further reforms to prosthetic pricing, risk equalisation and community rating," Mr Fitzgibbon added.

nib updated its FY17 guidance with UOP result expected to be in the range of \$140 million to \$150 million (statutory operating profit of \$137 million to \$147 million).

Investor Briefing

nib will conduct an investor briefing on the 1H17 result at 10am (AEDT) with teleconference details below. A webcast of the briefing is also available at <http://www.nib.com.au/shareholders/financial-results>.

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³ First half FY16 is a 5 month result with WNG business acquired on 31 July 2015