

20 August 2018

STRONG GROUP OPERATING RESULT DELIVERS FULL YEAR EARNINGS IMPROVEMENT

- Total Group underlying revenue of \$2.2 billion (+11.5%)
- \$1.5 billion in Australian residents health insurance (arhi) claims, funding over 280,000 hospital admissions and 3.7 million dental and ancillary visits
- Group underlying operating profit of \$184.8 million (+20.2%) and statutory operating profit¹ of \$169.0 million (+12.2%)
- Full year dividend of 20.0 cents per share fully franked (+5.3%). Dividend Reinvestment Plan (DRP) announced

nib holdings limited (ASX: NHF) today announced a full year underlying operating profit (UOP) of \$184.8¹ million for the 12 months to 30 June 2018 (FY18), an increase of 20.2% on the previous financial year. Net profit after tax (NPAT) grew 11.1% to \$133.5 million and statutory earnings per share by 8.0% to 29.4 cents per share.

nib's Managing Director, Mark Fitzgibbon, said the full year result reflected ongoing solid growth across the Group and strong execution of nib's business strategy.

nib's Australian residents health insurance (arhi) business on the back of organic growth and the acquisition of GU Health (GU) in October 2017 achieved a 12.1% increase in premium revenue to \$1.9 billion, with UOP up 22.1% to \$130.7 million. nib's portfolio of adjacent businesses also grew their revenue by 8.1% to almost \$358.9 million and UOP by 8.3% to \$61.1 million.

"Our core arhi business once again grew organically at a rate well ahead of the industry average and we welcomed the GU business. Our net policyholder growth excluding GU was 3.0% compared to industry average of 0.5%, with the GU business adding approximately an additional 29,000 policyholders for the year. And while in arhi we paid 4.0%² more in claims compared to FY17, our net margin grew 50bps to 6.9%," he said.

Mr Fitzgibbon explained the 6.9% net margin in arhi was higher than nib targeted and simply reflected a year of lower than expected claims growth.

"As we reported in last week's market update nib and private health insurers generally are currently experiencing historically low levels of claims inflation," Mr Fitzgibbon said

"It's a welcome development and is being driven by a number of factors. One of these factors is the significant reduction in the price insurers pay for medical prosthetics. Prosthetic savings were passed on in full to members with our average premium increase of 3.93% this year our lowest increase in 15 years," he said.

Mr Fitzgibbon added that although improving cost containment and affordability were top priorities for all Group businesses, so too were efforts to improve transparency and the member experience.

"We're pursuing multiple initiatives across the business such as directly helping our members better manage their health and choose a doctor, dentist or other healthcare provider, especially in order to avoid or limit out-of-pocket expenses," he said.

"Today, about one in four arhi members are contacting us before going to hospital in order to check their cover or help choose a doctor. We're also seeing 25% of dental and more than 40% of optical services occurring within our arhi "First Choice Network", with reduced gaps for members and there are now almost 700,000 patient reviews to read online at Whitecoat. During the year we also saw over 10,000 members enrol in health management programs across the Group including our first ever Maori population health trial in New Zealand where we now help manage the health of Ngāti Whātua Ōrākei," he added.

¹ nib's statutory operating profit includes \$15.8 million in amortisation of acquired intangibles, one-off transactions (integration of acquired business, establishment of business costs as well as extraordinary legal fees), and merger and acquisition costs.

² Excludes GU Health

Mr Fitzgibbon said there's clear evidence apart from growth and profitability that these efforts were having a positive effect.

"Our arhi² Net Promotor Score improved to 28.7% from 23.2% the year before and although still more than we'd like, our lapse rate dropped 60bps to 12.9%. It's the first time in nine years we've actually seen our annual lapse rate drop compared to the previous year," he said.

Mr Fitzgibbon also observed that important as it is, affordability is a relative concept and that nib is very determined to do more for members especially given the possibilities of this digital age.

"Powered by "big data", artificial intelligence and amazing advancements in medical science we are certain the future will be much more about disease prevention than it is cure and as a business we plan to be at the vanguard of the transformation," Mr Fitzgibbon said.

"Financial protection and rapid access to doctors and hospitals will always remain crucial for when we get sick or need medical treatment but increasingly our members will look to us to help them better manage their wellbeing and known health risks. For example, there's a future much closer than many think whereby members will be provided with the means to literally edit their DNA to wipe out a potential disease," he added.

Adjacent Businesses

nib's adjacent businesses, which include travel insurance, international workers and students health insurance, and nib's New Zealand operations, grew full year UOP by 8.3% to \$61.1 million.

"We're very pleased with the performance of all of our adjacent businesses. They accounted for almost 30% of our Group earnings this year and highlight the success in leveraging key capabilities and skills across the nib Group to grow and diversify our earnings profile," Mr Fitzgibbon said.

nib's international students and workers business surpassed more than 160,000 persons covered, lifting revenue by 24.7% to \$93.3 million. UOP increased by 16.5% to \$29.6 million.

nib New Zealand delivered a solid result despite the loss of a large corporate group client in the last quarter of FY17. While the business grew net policies by 2.8%, UOP was down slightly by 0.4% to \$23.4 million although negatively impacted by NZD/AUD exchange rates (on a NZD basis the business grew premium revenue by 1.9% and UOP by 3.8%).

nib's travel insurer, World Nomads Group, delivered a strong result with total sales up 7.3% for the year and international sales up 16.5%. Gross written premium rose 7.7% to \$142.0 million, with UOP up 8.0% to \$8.1 million. nib remains committed to further investment in the travel insurance sector. The post-balance date acquisition of QBE Travel (announced 3 August 2018) will consolidate the business' domestic market position.

Dividends

nib declared a full year dividend of 20.0 cents per share, fully franked (FY17: 19.0 cents per share) which includes a final dividend of 11.0 cents per share (FY17: 10.5 cents per share). The full year dividend represents a payout ratio of 68.5% of FY18 NPAT. The final dividend has an ex-dividend date and record date of 6 and 7 September 2018 respectively, and will be paid on 5 October 2018.

The Board also today announced the introduction of a Dividend Reinvestment Plan (DRP) for eligible nib shareholders. The DRP will be available to shareholders for the FY18 final dividend. Shareholders can participate in the DRP by completing the application form which will be sent to them from 20 August 2018 or alternatively by visiting nib.com.au/shareholders

Outlook & Guidance

Market conditions in the Australian (arhi) and New Zealand market continue to be difficult with modest growth prospects due to macroeconomic factors including affordability and negligible growth in discretionary spending.

In the core arhi business, nib is pursuing annual organic growth of 3% to 4% but anticipates net margin contraction from 6.9% in FY18 towards the top end of its target range of 5% to 6% in FY19.

The prospects for growth in nib's international students, international workers and travel insurance businesses look positive and in collaboration with our JV partner, Tasly, nib expects to start selling health insurance in China in the second half of FY19, subject to regulatory approval.

nib has an appetite for industry rationalisation within each market sector it operates, including arhi, and is actively assessing opportunities.

Capital management remains a high priority especially given mooted changes to private health insurance prudential standards by APRA. nib is confident it can navigate its way to meet any additional requirements for regulatory capital while acknowledging the uncertainty around the question.

nib anticipates for FY19 a Group UOP of at least \$180 million (statutory operating profit of at least \$159 million).

Investor Briefing

nib will conduct an investor briefing on the FY18 result at 10am (AEST) with teleconference details below. A webcast of the briefing is also available at nib.com.au/shareholders

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