

18 February 2019

nib announces strong Group first half result, increases full year guidance

- Total Group underlying revenue \$1.2 billion (+10.9%)
- Group underlying operating profit \$114.3 million (+18.6%)
- Net profit after tax¹ \$74.3 million (+4.8%)
- Member satisfaction remains high with Net Promoter Score² of 33.7% (+280bps)
- Interim dividend of 10.0 cents per share fully franked (+11.1%)

nib holdings limited (ASX: NHF) today announced an underlying operating profit (UOP) of \$114.3 million (statutory operating profit³ of \$107.2 million) for the six months to 31 December 2018, an increase of 18.6% on the previous first half result. Total Group underlying revenue rose 10.9% to \$1.2 billion, with net profit after tax¹ (NPAT) up 4.8% to \$74.3 million.

Full year UOP guidance is now expected to be at least \$195 million (statutory operating profit of at least \$178 million).

nib Managing Director Mark Fitzgibbon said the strong first half result defied industry headwinds and was indicative of the good progress nib is making on a number of fronts such as better managing healthcare provider fees and helping members manage health risk and sickness.

“Our core business Australian Residents Health Insurance (arhi) funded more than 151,000 hospital admissions and over 1.8 million ancillary treatments with claims rising 7.8% to over \$800 million. It highlights the growing and vital role private health insurance plays in our nation’s healthcare. However, a combination of pricing, organic growth, an increased contribution from our new GU Health⁴ business and improved claims management saw our net profit margin increase,” Mr Fitzgibbon said.

Mr Fitzgibbon said it was an enormous credit to the arhi business that it was able to post net membership growth in such difficult market conditions. Although low by nib’s standards, arhi membership grew by almost 6,400 or 1.1%, while in stark contrast, membership across the industry as a whole only grew 0.3%⁵.

“Unfortunately consumer sentiment is running against most forms of discretionary spending including private health insurance. It underscores the task we have as a business and industry in not only better promoting the importance of private health insurance but in finding new ways to further lift its attraction,” Mr Fitzgibbon said.

“We also need the community and policymakers to better appreciate how private health insurance must play a more significant role in our healthcare system given the extreme pressure on our tax-funded Medicare and public hospitals,” he said.

“It is especially frustrating that we have members incurring large out-of-pocket expenses when they see a doctor outside a hospital which we just can’t help the member with. That’s because of antiquated regulations that limit private health insurers to only paying for doctors inside a hospital,” he said.

Mr Fitzgibbon added despite the “noise” the private health insurance industry deserves some credit for the progress it is making in reducing premium increases.

“nib’s 2019 premium increase of 3.38% was our lowest in 16 years and it is the fifth consecutive year we’ve delivered an increase lower than the previous year. It may still be above CPI, but CPI simply measures cost inflation and rising health insurance premiums reflect a combination of cost inflation and growing demand for treatment. The inconvenient truth is communities worldwide are spending more on healthcare relative to other goods and services and it comes at a cost,” he said.

Mr Fitzgibbon acknowledged that the Federal Government’s PHI Reforms would make private health insurance more affordable for many members and easier to understand. From 1 April this year, nib members

1 NPAT attributable to owners \$74.5m, excluding nib charitable foundation \$0.2m

2 arhi business only

3 nib’s statutory operating profit includes \$7.1 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.

4 GU Health business acquired 31 October 2017

5 Source: APRA

6 Persons covered

will be able to reduce premiums through choosing a higher deductible, or if under 30, take advantage of new additional discount rules. “The extra opportunity for people under 30 is especially welcome as the private health insurance system relies upon constant attraction of younger, typically healthier, members. It’s a good move all round,” Mr Fitzgibbon said.

Although down on the same period last year, our adjacent businesses within the nib Group continued to make a significant contribution to earnings with combined UOP of \$29.7 million.

“It was a mixed bag for our adjacent businesses in the first half year. Our international students and workers business produced another stellar performance with UOP rising 15.5% to \$17.9 million. We now provide health insurance to more than 170,000⁶ international students and workers in Australia and actually sold our first students policies into the USA,” Mr Fitzgibbon said.

“In New Zealand, we grew our membership base and top line, yet UOP was down to \$9.5 million largely because of an increase in claims expense. However, margins and return on invested capital remain very good and there is a strong pipeline of new opportunities,” he said.

Mr Fitzgibbon said the World Nomads Group travel insurance result was a little disappointing but the investment nib is making across international markets is showing promise and the current challenge is centered upon the domestic business and market.

“World Nomads Group sales globally were up 14.4% compared with the same time last year, we’re moving up the supply chain to capture more value and it’s a fantastic brand. However, domestic sales were down about 22% and combined UOP of \$2.3 million was unsatisfactory giving rise to concerted remedial action,” Mr Fitzgibbon added.

Dividends

nib declared an interim FY19 fully franked dividend of 10.0 cents per share (1H18: 9.0 cents per share). The interim dividend has an ex-dividend date and record date of 28 February and 1 March 2019 respectively, with payment to be made to shareholders on 2 April 2019.

Outlook & Guidance

nib does not anticipate the second half of FY19 to be as strong as the first. Key factors expected are unfavorable claims seasonality, the fact that the first half was boosted by a claims provision release within arhi and likely weak market conditions affecting parts of the Group.

Mr Fitzgibbon said private health insurance was facing a fascinating period ahead, especially with a Federal election imminent.

“As for any business, and as we’ve been doing for a long time, we have to navigate whatever policy shifts may come our way and not let them become an excuse for not doing as well as we should for our members and shareholders,” he said.

“Unavoidably, Australia needs more private sector involvement and investment in our healthcare system especially if we want to deliver throughout the community amazing technologies that are emerging globally. Inspired by Artificial Intelligence, these technologies have the power to predict and prevent disease and help doctors ensure treatment is much more personalised and precise. They’ll allow us to shift from being overwhelmingly a ‘sick care’ system to a genuine ‘healthcare system’,” he said.

Full year UOP guidance is now expected to be at least \$195 million (previously at least \$190 million), with statutory operating profit of at least \$178 million (previously at least \$168 million).

Investor Briefing

nib will conduct an investor briefing on the FY19 half year result at 10am (AEDT) with teleconference details below. A webcast of the briefing is also available at nib.com.au/shareholders

Dial: 1800 558 698 or +61 2 9007 3187

Passcode: 978543

MEDIA AND INVESTOR RELATIONS

Matthew Neat

Head of Corporate Affairs & Investor Relations

Tel: 0411 700 006 (+61 411 700 006)

Email: m.neat@nib.com.au