

24 August 2020

nib FY20 results impacted by COVID-19

- Total Group revenue \$2.5 billion (up 3.4%)
- Group claims expense¹ including deferred claims provision \$1.9 billion (up 6.7%)
- Group underlying operating profit \$150.1 million (down 25.6%)
- Net profit after tax² \$89.2 million (down 40.3%) with net investment income down 54.0%
- Final dividend 4.0 cents per share fully franked (down from 13 cents per share), with DRP available
- Group Net Promoter Score of 34.8 (up 2.3)
- COVID-19 member and community support package valued at more than \$45 million

nib Group (ASX: NHF) today announced its annual operating performance for the 12 months to 30 June 2020 (FY20).

nib's Managing Director, Mark Fitzgibbon said COVID-19 factors had blurred what were otherwise some good results, with nib's health insurance businesses all growing membership and revenue in the face of very tough market conditions.

"So far, we've navigated the COVID-19 crisis well with the nib Group in very good shape and well positioned to meet a range of future scenarios," Mr Fitzgibbon said.

"At the centre of our efforts has been our members, employees and the community in which we operate with our COVID-19 support package to date valued at more than \$45 million.

"This includes a range of measures, such as the six month postponement of approved premium increases, waivers and suspensions for financial hardship, and expanded cover for COVID-19 related treatment, at no additional cost to members. And today we've announced we're extending this support to waive the 1 October 2020 premium increase for six months for arhi members on JobSeeker and JobKeeper."

"We've also provided \$1.5 million in funding for community and clinical initiatives, including donating 100,000 face masks to healthcare workers and \$500,000 to support Lifeline's crisis counselling service," he said.

Mr Fitzgibbon said while the full year Underlying Operating Profit (UOP) of \$150.1 million was on the surface disappointing, the result accommodates a provision for deferred claims of \$98.8 million. These are claims that nib estimates were delayed during FY20 as a result of COVID-19.

"We expect over the course of FY21, this provision will unwind as our members receive treatment they delayed during FY20. We've done the best we can to estimate the "catch up" but only time will tell just how much we'll experience," he added.

Mr Fitzgibbon said a softer UOP result, combined with volatile equity markets, significantly impacted investment income (down 54.0% to \$16.6 million) with NPAT of \$89.2 million (down 40.3%). The full year dividend is 14 cents per share, fully franked being 71% of FY20 NPAT and down from 23.0 cents per share.

"In arriving at the final dividend, the Board closely considered a number of scenarios and the Group's capital position. Acknowledging ongoing COVID-19 uncertainty and shareholder expectations we believe the final dividend constitutes a prudent and balanced position," Mr Fitzgibbon added.

Australian residents health insurance business (arhi)

nib's "flagship" arhi business, delivered a solid result despite challenging operating conditions. Premium revenue grew 2.9% to \$2.1 billion. And notwithstanding the \$90.4 million COVID-19 claims provision, arhi's UOP of \$133.6 million still represented a net profit margin of 6.4%, ahead of our internal target.

"In what are almost unprecedented economic headwinds, we grew policyholders by 1.9%, well ahead of 0.4% for the industry. We actually accounted for more than 41% of total industry growth for the year. Our thinking is that the pandemic has heightened community awareness of the risk of disease, the need for protection and the valued role private health insurance plays," Mr Fitzgibbon said.

"We've also helped more than 9,000 of our arhi members in financial hardship in the form of cover suspensions and waivers. Pleasingly, the experience so far is that the significant majority of these members are electing to resume their policy."

Mr Fitzgibbon observed that while the arhi net profit margin of 6.4% was slightly above the target range, claims inflation was a watch point.

"COVID-19 aside, well-known factors such as an ageing population, our ever-increasing appetite for healthcare, new

¹ Total claims are underwriting segments only and exclude travel insurance claims.
² NPAT attributable to owners \$90.1m, excludes nib charitable foundation \$(0.9)m.

technologies and the loss of younger insured members are placing huge pressure on claims costs. At the same time there are regulatory and affordability pressures that won't go away" he said.

"It all means we just have to become all the more creative in improving the value proposition for consumers, helping our members manage the risk of disease and reducing cost. And we're making good progress."

"For example, initiatives such as our Clinical Partners program guarantees members have no out-of-pocket costs for knee and hip replacement surgery. Our "Honeysuckle Health" joint venture with Cigna means members can look forward to a future in which health related behaviour and choices are more reliably informed by personalised data science and insight," Mr Fitzgibbon added.

Other Group businesses

nib's adjacent businesses delivered mixed results, with COVID-19 a key factor.

"Not unlike arhi, nib New Zealand appears to be benefiting from increased consumer awareness, brought on by the pandemic, of the importance of health cover. Premium revenue grew an impressive 11.4% to \$240.1 million, aided by very strong net policyholder growth of 7.4%," Mr Fitzgibbon said.

"Overall, our New Zealand business continues to show very good earnings momentum reflecting the investment we're making to grow the market as well as leverage the capability of the nib Group."

nib New Zealand UOP grew to \$23.4 million, up 18.2%, and includes a \$8.4 million COVID-19 deferred claims provision.

"An abrupt slowdown in Australia's international student and workers intake due to COVID-19 border restrictions meant our international inbound health insurance (iihi) business did not contribute as much as expected to FY20 Group earnings, with UOP of \$22.2 million down 36.4%," Mr Fitzgibbon said.

"While growth eased during the year, the iihi business still delivered net policyholder growth of 6.3% surpassing 200,000 persons covered. And we have every confidence the business will bounce back once the pandemic passes or we will adapt."

nib's travel insurance business, nib Travel, was significantly impacted by COVID-19, making a UOP loss of \$19.7 million.

"Without question global and domestic leisure travel has been one of the sectors hardest hit by the coronavirus. Our focus remains on reducing operational expenses with an expected prolonged downturn in travel assumed," Mr Fitzgibbon said.

Dividends

nib declared a full year dividend of 14.0 cents per share, fully franked (FY19: 23.0 cents per share) which includes a final dividend of 4.0 cents per share. The final dividend has an ex-dividend date and record date of 3 September and 4 September 2020 respectively, and will be paid on 6 October 2020. The Board also confirmed the Dividend Reinvestment Plan (DRP) will be available for the final dividend for eligible nib shareholders. Further information can be found by visiting nib.com.au/shareholders

Outlook

nib continues to target net organic policyholder growth of 2% to 3% in arhi and although the company is wary about macroeconomic threats, current market conditions look conducive. The sector outlook in New Zealand is similar. Market conditions in other businesses remain challenging however longer-term fundamentals are good.

"COVID-19 remains a confounding factor in our planning and forecasting. It's implication for sales, claims, expenses, investment income and earnings is enormous. Nevertheless, we have cause to have confidence in our arhi and New Zealand businesses and we're adjusting strategy in other parts of the Group to adapt to current circumstances," Mr Fitzgibbon said.

Investor Briefing

nib will conduct a virtual investor briefing on the FY20 full year result at 10am (AEST) with teleconference details below. The webcast of the briefing is available at nib.com.au/shareholders

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This announcement has been authorised for release by Roslyn Toms, nib Company Secretary.