

24 February 2020

nib delivers strong member growth as claims impact margins

- Group underlying revenue \$1.3 billion (up 6.4%)
- Group claims expense¹ \$0.99 billion (up 10.2%)
- Group underlying operating profit \$83.2 million (down 27.2%)
- Net profit after tax² \$57.1 million (down 23.1%)
- Interim dividend of 10.0 cents per share fully franked (unchanged), with Dividend Reinvestment Plan available

nib Group (ASX: NHF) today announced all business segments grew membership and premium revenue in the six months to 31 December 2019 (1H20) lifting Group underlying revenue by 6.4% to \$1.3 billion compared to the corresponding period (1H19).

However, higher claims inflation across nib's insurance businesses³ as well as timing in the receipt and payment of claims impacted nib's "unpaid claims" reserves and resulted in a reported Group Underlying Operating Profit (UOP) of \$83.2 million, a 27.2% decline compared to 1H19.

In making comparisons between first half results it should be noted that UOP in 1H19 for nib's Australian residents health insurance (arhi) and international inbound health insurance (iihi) businesses benefited by a release from the unpaid claims reserve from the previous accounting period (i.e. an over reserving at the end of FY18). In contrast, the 1H20 result was disadvantaged by what has turned out to be an under reserving at the end of FY19. Using the most recent now paid claims results, the Group UOP result for 1H20 shows a decline of around only 2% compared to 1H19 and slight improvement within arhi.

nib Managing Director, Mark Fitzgibbon said the first half earnings result was disappointing even after allowing for the claims provisioning effect.

"We're not accustomed to seeing our earnings decline and it's especially frustrating when our revenue is actually growing right across the Group, including in our principal arhi business. Nevertheless and although insurance margins have been higher in recent years, they remain strong and represent a very good return on invested capital," he said.

Mr Fitzgibbon observed that in challenging market conditions, arhi is growing. "Sales were up more than 12% compared to first half last year with nib accounting for almost 38%⁴ of total industry policyholder growth for the half. Overall we grew membership 1.4% compared to just 0.3%⁴ for the industry as a whole," he added.

nib also singled out its growing net contribution to the industry risk equalisation pool as another frustration for the arhi business.

"nib indirectly paid other health insurers \$126.5 million in 1H20, an incredible 10.3% increase on 1H19. We're effectively being penalised for our success in growing the market and especially in attracting younger people who mainly foot the risk equalisation bill. Plus, as a compensation scheme for hospital claims, risk equalisation in its current design is holding back investment and effort in keeping people healthy and out of hospital," he said.

Mr Fitzgibbon noted that like arhi, nib's portfolio of adjacent businesses experienced significant market and revenue growth yet profitability mostly fell.

"Our New Zealand business delivered a stand-out operating performance growing both revenue and earnings. UOP was up 16.8% to \$11.1 million with net policyholder growth of 5.7%. That's not easy to do in New Zealand. We now have 225,536 people covered compared to just under 170,000 when we started in late 2012," Mr Fitzgibbon said.

nib's international students and workers businesses showed its usual good growth in 1H20 but with lower profit margins. UOP of \$12.3 million was down 31.3%.

"We've anticipated for some time the high margins we've achieved in our international students and workers businesses would come under competitive pressure and we're certainly seeing that now. Still, they're both terrific businesses with plenty of potential for further organic growth," he added.

Mr Fitzgibbon noted nib Travel also continues to grow sales and operating income however profitability was weak. He mentioned the acquisition and integration of QBE Travel had been a drag on performance in 1H20.

1 Total claims are underwriting segments only and exclude travel insurance claims.
2 NPAT attributable to owners \$57.3m, excludes nib charitable foundation \$(0.2)m.
3 Includes arhi, iihi, nib New Zealand and excludes travel insurance.
4 Source: APRA and/or nib figures.

“nib Travel is now Australia’s third largest travel insurer and meaningful changes are afoot to improve commercial performance. We’ve some clear targets in the business based upon our investment criteria and we’re every bit as confident of hitting them as we were when we acquired the business,” he said.

Outlook

nib reaffirmed FY20 Group UOP guidance of at least \$170 million (Statutory Operating Profit of at least \$150 million).

According to Mr Fitzgibbon the reported 1H20 UOP result belies what is fundamentally solid ongoing business performance and progress.

“We’re thinking about FY20 as a reset of sorts. We’ve embarked upon a major transformational effort to make our future value proposition much more about people’s better health rather than just responding to sickness or accident.”

“It’s a future being made real by amazing technological advances in predicting individual disease risk and then more precisely preventing, managing and treating the disease. Importantly, we’ve a well-developed strategy and we’re very clear about the capabilities necessary to fulfil the vision and create enterprise value. There’s no better evidence than our newly minted joint venture (Honeysuckle Health) with the large US health insurer Cigna. Companies with the scale and expertise of Cigna don’t invest without discipline and a big picture in mind,” he added.

nib and Cigna announced the joint venture in December 2019.

Mr Fitzgibbon said there were several other important initiatives well underway that would improve the attraction of private health insurance, reduce costs and member “out of pocket” expenses, as well as exploit new market opportunities.

“Increasingly we are helping members better understand treatment options and select a doctor. And they can now do it on their mobile devices. We’ve an initiative with a group of specialists that guarantees not only world class medical treatment but no out of pocket expense. We have several active health management programs in place to help manage risk such as heart disease and mental illness, with more to come” he said.

Mr Fitzgibbon said nib’s partnership in New Zealand with Maori tribe Ngāti Whātua Ōrākei was especially exciting. “It’s another perfect example of how we’re positioning ourselves to be a business as much about good health as we are sickness and how health insurers can play an expanded and effective role in our healthcare systems.”

Mr Fitzgibbon conceded the first half result and current forecast for FY20 did underscore the need for improved claims and operating cost management.

“nib is already investing significantly in programs and systems designed to slow growth in hospital utilisation and mitigate the risk of fraud and overpayments. Operationally and in order to lift efficiency, we recently restructured the Group to combine major functions such as contact centres and claims processing.”

“A concerted technological shift to digital member engagement, cloud computing, micro systems and software as a service is another major effort designed to improve both the member experience and reduce operating costs” he said.

Dividends

nib declared an interim FY20 fully franked dividend of 10.0 cents per share (1H19: 10.0 cents per share). The interim dividend has an ex-dividend date and record date of 5 March and 6 March 2020 respectively, with payment to be made to shareholders on 7 April 2020. The Board also confirmed the Dividend Reinvestment Plan (DRP) will be available for the interim dividend for eligible nib shareholders. Further information can be found by visiting nib.com.au/shareholders

Investor Briefing

nib will conduct an investor briefing on the FY20 interim result at 10am (AEDT) with teleconference details below. A webcast of the briefing is also available at nib.com.au/shareholders

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