Start of Transcript

Ed Close: Well good morning and thank you for joining us today for nib's FY25 full-year results. I'm Ed Close, nib Group CEO and Managing Director, and I'm joined here in Newcastle by our Group Chief Financial Officer, Nick Freeman. We're pleased to share a positive set of results today. They reflect our continued focus on sustainable growth in key markets, delivering value for our customers and excelling in operational and digital transformation.

Before we begin, I'd like to acknowledge the Traditional Custodians of the land we're joining you from today, the Awabakal people and pay my respects to Elders past and present.

At nib, our purpose remains clear, your better health and wellbeing. Our vision and mission continue to guide our strategy and our people every day, ensuring we deliver value to our customers, our partners, our communities and our shareholders. So, turning to slide 6 and looking at the FY25 highlights, in FY25, we delivered a strong Group operating performance in line with guidance, with UOP of $239.2 million and NPAT of $198.6 million.

Our core arhi business continues to perform, achieving 3.2% net policyholder growth and maintaining stable net margins well within the 6% to 7% target range. Our digital-first, customer-led approach supported a group NPS of plus 34, with more than 70% of Australian PHI policies now digitally connected.

Long-term hospital partnerships and enhanced provider networks are delivering real value to customers and providers, improving access and affordability to quality healthcare. Our adjacent businesses are building positive momentum, contributing a solid $45.3 million in UOP to the Group result.

Notably, New Zealand returned to profitability in the second half of ‘25. Our International Students and Workers portfolio grew UOP by 23% and Honeysuckle and Midnight Health losses were halved. We also accelerated our productivity agenda, delivering $18 million in savings with over 50 AI and machine learning initiatives now in production across the Group.

Our refreshed strategy is delivering results with a primary focus on our core PHI businesses, whilst also scaling Health Services and in-plan management. The nib Travel strategic review is progressing well and remains on track.

So, if we turn to slide 7, looking a little deeper at some of our key performance metrics, we delivered strong results in line with guidance, as I mentioned earlier. Looking at Group revenue, which rose 7.8% to $3.6 billion, our PHI portfolio now covers nearly two million people, up 3.2% on the last 12 months.

We're also pleased with our ongoing productivity focus and this progress is reflected in our Group operating expense ratio, improving by 50 basis points to 17.7%. Net investment income rose 28.9% to $79 million and the group maintained a fully franked dividend of $0.29 per share in line with FY24.

So taking a look in slide 8, in our flagship arhi business, our consistent track record of growing well above system continued, where we outpaced the market with 3.2% net policyholder growth and 3.9% growth in combined policies. FY25 marked our best ever sales year, up 13%, driven by a high-performing multi-channel distribution strategy targeted towards high-value segments. We attracted 52,000 new-to-industry customers and remained a net gainer from switching behaviour.

Net margins remained stable and were guided into our 6% to 7% target range as we expected, supported by disciplined pricing, optimised product design and tight cost control. With 1.4 million Australians now covered and a 9.7% market share in arhi, we see high potential for continued growth in our priority markets, with our product, pricing and value proposition well positioned across our various brands and channels.

If we turn to slide 9, we continue to prioritise value for our customers and providers, supporting a healthcare system in transition. Innovative care models are reshaping healthcare delivery in Australia, improving access and making high-quality care more affordable for consumers. In FY25 nib supported over 121,000 health interactions through wellbeing offerings and telehealth support and we enrolled more than 22,000 customers in health management programs in partnership with Honeysuckle Health.

Our prevention and in-home care initiatives saved more than 24,000 hospital bed days and we expanded our no-gap dental and optical networks to over 500 providers, saving customers $40 million in out-of-pocket costs. Our known gap model now covers more than 40,000 medical specialists across the country and one in four major joint procedures is now delivered through our no out-of-pocket clinical partners program with leading specialists across Australia.

We also continue to actively support the wider healthcare system. We've secured multi-year partnerships with some of Australia's largest hospital groups and we provided nearly $28 million in additional private and public hospital funding over the past two years, including support for the New South Wales public health system and importantly, our arhi hospital claims ratio remains in line with historical levels.

If we take a look at slide 10, our adjacent businesses made strong progress in FY25, contributing $45.3 million to the Group UOP result. International saw revenue growth of 14.4% and UOP was up 23%. With more than 46,000 PALM lives supported, those direct employer relationships strengthened and new growth opportunities emerging from commission reforms.

Across in New Zealand, our recovery plan is gaining positive traction. Price increases are now aligned with inflation, product and network changes are taking effect and we returned to profitability in the second half of 2025 as inflation stabilised. We also welcomed our new New Zealand CEO, Skye Daniels, who arrived in August.

Our Health Services strategy is progressing well, with Honeysuckle and Midnight Health now fully owned and consolidated. Losses halved and we're on track for profitability in FY26. In Travel, we posted our best monthly sales in two years in June, supported by strong distribution and disciplined cost control. The strategic review is well advanced and remains on track.

Thrive is now at scale, following our inorganic growth strategy. The Instacare acquisition boosted performance across the year and service levels remain strong with 96% of claims processed within one day and 85% of calls now answered within 90 seconds. The UOP of $16.9 million was up 10.5%.

So turning to slide 11, in FY25 we commenced a multi-year productivity program and in the last 12 months, as I mentioned, this has delivered $18 million in savings. Our Group operating expense ratio reduced by 50 basis points to 17.7%. This was achieved while containing non-marketing expenses to just 3.4% growth in an inflationary environment and pleasingly, we saw customers per FTE improved by 7.7%.

We're accelerating our digital first agenda to drive better customer, employee and efficiency outcomes. Over 50 AI initiatives are now in production, including nibGPT, an internal knowledge management tool, our AI summarization strategy, supporting more than 500 contact centre agents, which has cut after-call work by 60%, our chatbot nibby handled more than five million interactions in the last 12 months and helped to streamline customer service and reduce response times and we're now straight-through processing nearly one in two Thrive invoices using AI, with a rapid expansion underway to arhi in New Zealand.

Finally, we've completed a Group-wide simplification across our operations. We've combined Australian PHI operations, we've consolidated Health Services, and we're refocusing our New Zealand and Travel businesses to their core markets. These changes have been supported by our new Group operating model and capital allocation framework to ensure disciplined focus and execution of our revised strategy.

With that, I'd now like to pass to Nick, who will go through the financial results in a bit more detail. Thanks, Nick.

Nick Freeman: Thanks, Ed and as Ed has pointed out, Group UOP landed at $239.2 million, which was within our guidance range of $235 million to $250 million. It was driven by continued top-line growth with arhi growing once again above system and expense management was a highlight with our operating expense ratio reducing from 18.2% to 17.7%.

arhi claims inflation continues to moderate during the year on a like-for-like basis and New Zealand was ahead of expectations, recording a profit during the second half. We'll talk a bit about those businesses more in a moment. A few other things worth noticing, strong performance in our International Students and Workers business, with UOP growing 23%. The Health Services losses halved and Honeysuckle Health did achieve its first break-even month in the fourth quarter as expected.

Investment income was strong and in line with market performance and I think as some of you already noted, we did have a low effective tax rate and $13 million in Midnight Health historical tax losses were recognised after we moved to 100% ownership.

Moving now to arhi, we've already talked about the growth and we'll talk a bit more about claims inflation on the following slide. Net margin was 7.3%, with an underlying margin at 6.5% being managed back into our target range. Gross margins reduced and are now back in line with historical margins down from the elevated post-COVID levels. The Group-wide expense efficiencies flowed into reduced operating expense ratios in arhi and allowed further investment into our no-gap and known-gap offerings.

Downgrading increased from 0.3% to 1%, which is in line with historical averages and there was limited gross margin impact as the downgrading tended to occur in the lower margin segments as we actively managed the pricing and product design.

Okay, have a bit of a look, a deeper dive into inflation and margin. In this slide, the key highlights are that nib continues to have an industry-leading margin position and similar to industry, is seeing margins come back to pre-COVID levels. Inflation continued to moderate, reducing from 5.9% to 4.5% on a like-for-like basis. Actual inflation was 4.9%, including the New South Wales hospital bed rate changes.

Our pricing averaged 4.52% during FY25 against an average inflation of 5.4%, so it's not surprising that gross margin declined. But with current pricing at 5.79%, settings are once again realigned to promote margin stability. You can see in the bottom-right chart that most of the inflation has been driven by increased hospital indexation and, to some degree, medical inflation which is in the hospital other. Utilisation, length of stay and extras inflation have been settling at expected levels.

Turning now to margins, we reported a net margin of 7.3% and an underlying margin of 6.5% and the only significant factor in the difference were claims development and LIC movements. There were two impacts in this regard. Firstly, we did reduce the probability of sufficiency in the risk margin from 98% to 95% in the first half as the claims inflation started to stabilise. I would highlight that 95% is still a very confidence level with the APRA minimum for capital being 75%.

Secondly, we saw significantly faster claims processing speeds which reduced by about five days. In the bottom-left-hand box we show the average payment percentage relating to the current month. In the bottom right, we outline the gap between the claims inflation and also where our pricing is. As I continue to mention, the accommodating – or the settings are a little more stable right now with 5.79% pricing against the 4.9% inflation.

There'll be further continued net margin stability through targeted pricing and product design, the network controls and also their ongoing focus reducing the MER. Worth noting that our LIC provisioning and risk margins are now in line with pre-COVID levels, aided again by the moderating inflation and more stable claims processing.

If we now move to slide 17, and I'll try and run through some of these segments a little more quickly so we can run through to Ed and some questions. As I mentioned before, International Students and Workers performed very well with the UOP growing at 23%.

We'll go to New Zealand, where I might linger a little bit longer. New Zealand has experienced challenging circumstances, making a loss in the first half and while we made a profit in the second half, it was still a loss for the full year. Claims inflation reached unprecedented levels, especially in early Q3 and while it's still high, we are seeing some moderation in the inflation. As claims have developed, we're seeing inflation now around 21% and of this 21%, 6% is service cost, which has reduced, however, the utilisation remains high at 15%.

The reduction in inflation in New Zealand allowed it to return to a reasonable profit level in the second half, however I just want to caution at the moment around the working days impact, which we still expect to be present in the first half of '26 and also the challenging conditions continued with that utilisation. Having said that, our claims in inflation recovery program is still well-progressed and will continue into FY26.

Turning now to slide 19 and this slide just provides a little more insight on pricing and aligning with inflation trends. So on the left-hand side, what we can see is that, I don't know what to call it, salmony-pink I'll go, salmony-pink line is the applied increase at renewal and as that runs through the book, as it progresses through the book every month, the average renewal increase, which is the dark green line, has been trending up. We can now see that that's starting to intersect with the inflation line, which is the lighter green line.

On the right-hand side, I should also highlight that there were nine pure working days in the second half of 2025 and that obviously helped the profitability and that impact continues – the first-half/second-half impact continues in FY26 and we've provided some more details of that in the appendices.

Okay, zipping through the other segments, let's go to slide 20, Travel. The only thing I'd just highlight is the second half being much stronger than the first half at $4.8 million, GWP up 6.7%, that's probably about all on that. I'll go to Thrive. Thrive grew its UOP by 10.5% and that was mainly driven by the successful acquisition of Instacare in December 2024.

Then Health Services, might just linger a little bit on this, so Health Services, you can see that the profitability trend continues to trend towards breakeven, which we expect in the full year. Honeysuckle Health had its first break-even month in Q4. I'd also highlight that we did make some further investments in the Health Services segment as we moved to 100% ownership of Honeysuckle Health, 100% ownership of Midnight Health, as well as an investment in ItsMy Group, which is a market-leading private health insurance sales and service and technology company, powering more than 20 Australian health insurance brands.

Turning now to capital management and cash flow. Our balance sheet remains strong with Group gearing and leverage remaining stable and at low levels, despite our debt increasing modestly as we invested in the purchase of Instacare and in the Health Services segment.

In terms of cash flow on the next page, it was pleasing to see the expected bounce back in second half cash flow occur, with cash flow 19% higher than the prior corresponding period and operating cash inflow growth exceeding operating cash outflow growth in that half. I think the more stable margin environment in both New Zealand and Australia, along with stable claims processing speed should be positive for cash flows moving forward.

I'll now hand back to Ed.

Ed Close: Thanks, Nick. So turning to our strategy, our refreshed strategy focuses on four core areas. Our highest priority focus is to drive above-system growth and consistent sustainable earnings across our core PHI businesses in Australia and New Zealand through our multi-brand multi-channel approach, disciplined pricing and innovation across products and provider networks.

Our health management strategy, in partnership with Honeysuckle, will continue to scale up with the aim of improving health outcomes and access to affordable care for customers alongside optimising our claims performance. Secondly, we're expanding Health Services and our insurance partnerships to deliver greater value to our PHI businesses and our strategic B2B clients.

With Honeysuckle and Midnight now consolidated, we're positioned to drive operating leverage as they transition towards profitability and we'll focus on scaling our offerings in health management, corporate and virtual health and injury support. We continue to expand our relationships with PHI and non-PHI brands across Australia in partnership with ItsMy Group, a market-leading PHI technology and services business. Thirdly, in NDIS plan management, we will strengthen our growth profile through a multi-brand strategy targeting key geographies and distribution channels. A big focus is around enhancing participant and provider experience and capturing efficiencies through the integration of private health insurance and digital infrastructure across the operating model.

Underpinning those three pillars, we're unlocking Group productivity through AI and digital-first capabilities, a big focus on simplification of our business model. This growth strategy is underpinned by disciplined capital allocation to support long-term value creation and return to shareholders.

So turning to the all-important FY26 outlook slide, looking ahead, we expect a positive uplift in group UOP, driven by continued strength in Australian PHI, an expected return to full-year profitability in New Zealand and solid momentum across our other adjacent businesses.

In arhi, we're targeting above-system policyholder growth of around 3% and maintaining stable margins in the 6% to 7% range. International Students and Workers will continue to contribute strongly and our New Zealand recovery plan is progressing well. In non-PHI, nib Health Services, as we mentioned, is on track for full-year profitability. Thrive remains focused on organic growth and further efficiency gains following the removal of set-up fees by the NDIA more recently.

Our multi-year productivity program will continue to underpin our Group performance, with further ongoing reductions in our Group operating expense ratio and capital expenditure and one-off costs also expected to reduce materially over the next 12 months.

So FY25 marked a year of disciplined strategy execution with positive momentum across our core, PHI and adjacent businesses. We have a clear focus on sustainable growth, on operational excellence and digital-first customer experiences. We are well positioned to deliver consistently strong outcomes in FY26 and beyond.

With that I'd like to now open up the Q&A.

Operator: Thank you. As a reminder, to ask a question, please press star one and one on your telephone keypad and wait for your name to be announced. To withdraw your question, please press star one and one again. Please stand by as we compile the Q&A roster. First question comes from Julian Braganza from Goldman Sachs. Please go ahead.

Julian Braganza: (Goldman Sachs, Analyst) Good morning, guys. Thanks so much for taking our questions. Just a first question on the New Zealand business, you're putting through price increases in the order of 15% to 20%, but the revenue growth that's coming through is mid to high single digit, around 8%. I just want to be clear what the difference is there, around what's happening with volumes, what's happening with downgrading and what's the expectation for revenue growth into ‘26 as well, given the rate increases that you're pushing through?

Ed Close: Thanks, Julian. I'll kick off with some high-level remarks and then pass to Nick. So there's definitely a timing element to what you're seeing there come through in the FY25 revenue uplift of circa 8%.

We guided you to the 12-month portfolio pricing as they're coming through on a quarterly basis. What I would say – and we talked to this – is that our pricing is now matching inflation, but that will take some time to wash through the portfolios. I'm sure you can appreciate, we've got different channels and different cohorts that have their different renewal periods and those anniversary dates are still playing through.

But I guess we have high confidence when you think about that pricing matching inflation piece that we're now on top of that previously significant challenge. So really, when you think about the FY26 piece, I think you can have high confidence that our ability to match the inflation is good. I guess you're seeing that timing aspect that's flowing through the '25 results versus our expectation moving forward. Nick?

Nick Freeman: I think that that's right. I mean we did see our residents book decline a little bit in FY25, but we'd expect the pricing to compensate that into the FY26.

Ed Close: Yes and maybe a final comment just on the growth outlook, you mentioned volume, Julian. We are seeing strong resilience from that portfolio around the ability to absorb those significant premium increases. There are several factors that are quite different in the New Zealand market to Australia around switching and portability of policies between funds. I guess the piece is that given this is an industry-wide challenge that insurers are facing, that we are seeing competitors also consistently lift premiums as well, so competitive positioning remains strong.

Julian Braganza: (Goldman Sachs, Analyst) Okay, great, thanks so much for that. Just a second question on the RI net margins into FY26, it looks like you're guiding to about stable margins, underlying margin, 6.5%, call this from '25 into '26, with I guess second half '25 probably around 6.3% a touch softer. Maybe if you can just talk a little bit about the moving parts into next year. I know from a rate inflation perspective you're saying that should be more aligned, but just in terms of downgrading, given how material that was in the second half from what I can calculate and also just in terms of expenses, just those two key features in particular, how should be thinking about adding to next year? Thanks.

Ed Close: Yes, so as we've stated, we're guiding to underlying margins in that 6% to 7% range across the full year. The components, you're breaking that down a little bit. You're obviously aware of the premium increase that was announced in April and that's largely – the benefit of that will flow into the '26 period, so that's something that you can look to.

We've also shared the claims inflation per customer per workday at 4.9% including New South Wales bed rate impact. We've also showed you what that looks like when we back that out, so I think you can take that as another data point. Industry claims is tracking around circa 5%, so you can triangulate those pieces there as well. Then we've talked about ongoing opportunity from a productivity perspective as well. So if you think of the components around the confidence that we have around the underlying net margin being within that 6% to 7% range, I think you can triangulate those data points as a good guide.

We talked previously around 4% to 6% as an inflation assumption that we think about at nib moving forward and there's nothing that suggests that we're moving away from that broader range as well. Anything that you'd like to add there, Nick?

Nick Freeman: Yes, I think also, when the hindsight flows through, Julian, the second half margins are

probably a little more positive than 6.3% as well.
Julian Braganza: (Goldman Sachs, Analyst) Okay, thanks. Just on downgrading and expenses, expectations into next year, given your experience over the second half?
Ed Close: With the downgrading, Julian, we talk about 1% being more in line with historical levels. Certainly, we saw elevated downgrading and also some lapse impact coming through from absorbing that premium increase. We took the opportunity to deliberately make sure that the portfolio was optimised in those higher value segments. Some of that downgrading, we're seeing minimal to immaterial gross margin impact as a result of that revenue downgrading as we tilted our portfolio to those higher value segments. We're actually quite comfortable with that level of downgrading that's playing through at the moment.
The piece on lapse, we do have a large proportion of our cohort on lower value policies, which means, whilst the downgrading would be occurring at the top end, obviously there's not that alternative available to those individuals that reside on the basic and bronze level covers. Again, there are some factors around that. Pleasingly, and we obviously talked to the full year 3.2% on the policyholder growth, but we saw really positive momentum in the last quarter as we made those pricing and product changes, and the progress year to date is also pleasing.
Julian Braganza: (Goldman Sachs, Analyst) Okay, great. Thanks so much for that, guys. Much appreciated.
Operator: Thank you. Next question comes from Andrei Stadnik from Morgan Stanley. Please go ahead.
Andrei Stadnik: (Morgan Stanley, Analyst) Good morning. Can I ask my first question around lapse rates? It looks like lapse rates went up and might have hit an all-time high at almost 15%. But looking into next year, do you think that can improve? What have you baked into that 3% and that policyholder growth plan?
Ed Close: Morning, Andrei. We haven't guided to any explicit composition around sales lapse scenario for ‘26, but we have obviously talked to the around 3% ongoing target. A big part of our business model, as everyone's well aware, is that continued ability to outpace market growth, so we have high confidence around that ongoing. There's a couple of elements I should point out on lapse.
Certainly, that higher sales rate, and we talked to record sales in ‘25, does drive some increased churn as a result of that. Roughly a third of some of those - that lapse increase would be attributable to the higher sales period, and it does come with the business model that we've always had that long-standing ability to unlock.
The second piece I talked about was that proportion of cohort on those lower tier products. Again, not unsurprising to us. If you look back to historical levels, you will see that lapse is generally something that does come with the policyholder distribution strategy that we go after.
That said, and you've touched on this, retention is a big priority for us in the arhi business moving forward, so the investments that we've made in our No Gap and Known Gap network enhancements, the investments that we've made more generally around programs like Clinical Partners, the work we're doing with Honeysuckle Health, and several other loyalty and retention initiatives are in full flight. So, we are deliberately focused on improving that lapse rate moving forward.

Andrei Stadnik: (Morgan Stanley, Analyst) Thank you. For my second question, can I ask you to expand a little bit on what happened in Thrive during the year? Because I think it was subject to a compliance notice for a period of time that might have slowed some of the growth there. How do you view your aspirations going forward in terms of what might be possible in terms of supporting what the government wants to do with the NDIS, and how confident are you that you've got a tight grip on operational issues?

Ed Close: Touching on the last 12 months in Thrive, yes, we did encounter some temporary service disruption as a result of the integration of five of our plan management businesses back in November. Those businesses came in under the nib Thrive umbrella, and that did cause some short-term delays in processing and service levels across our participant and provider community. We were disappointed with that outcome, and certainly, the team have worked very hard to get back on track in terms of our operational excellence there.

We talk about some of the service level that - 96% of claims now being processed same day, 85% of calls being answered within 90 seconds. We aspire to a best-in-class participant and provider experience, and we were disappointed that temporary reduction in those service levels, but we're pleased with the progress that's been made over the past six to nine months and certainly are comfortable with the servicing levels. That did also, and you would see this in the numbers, but that did impact our participant growth for a period of time. But again, we've worked hard, and with the addition of Instacare, we've got that breadth of brand distribution and geographic stretch now to give us confidence around our growth projections moving forward. We remain actively engaged in constructive dialogue with industry partners around future navigator models and the important role that the intermediary sector, that plan management role as well as support coordination play in driving participant experience but also scheme sustainability. We're quite buoyed about the projections there in Thrive.

Andrei Stadnik: (Morgan Stanley, Analyst) Thank you.

Operator: Thank you. Just a moment for our next question please. Next, we have Nigel Pittaway from Citi. Please go ahead.

Nigel Pittaway: (Citi, Analyst) Good morning, guys. Just first of all, I think at the half year you said central estimate was around about 10%-ish of claims. Presumably, that's a bit lower now, so can you give us a feel for where about that currently sits?

Nick Freeman: I think, Nigel - I'm just trying to get to the slide - we have that on slide 32.

Nigel Pittaway: (Citi, Analyst) Do you? All right. It's always in those back slides that I never quite get to in time. I'll take that for the moment. Just in terms of, obviously, you're reiterating your 3% policyholder growth for next year. Are you expecting the system to grow at similar rates, or are you expecting any downward pressure on the rate of growth of the system in setting that guidance?

Ed Close: Industry was tracking at about 2.3% for the 12 months to March, based on the APRA data, Nigel. We're anticipating similar levels. We are seeing, obviously, with easing cost of living pressures as rate reductions start to flow through, that one indicator of ongoing support for participation and the relevance of private health insurance - also, notwithstanding ongoing public pressure around wait times, it gives us confidence that industry will remain at similar levels, maybe modestly lower than that 2.3% mark. As I mentioned, we've tilted product pricing and our distribution certainly in the back half of ‘26 and gives us high confidence that around that 3% mark is achievable.

Nigel Pittaway: (Citi, Analyst) Okay, fair enough. Then, maybe a bit more on the inflation components. Again, I think when - you previously were saying that things like rehab and gyno were quite elevated within hospital. Is that still the case, or have other modalities come to the fore? Can you give us a bit of a flavour of what's happening there?

Ed Close: On a modality basis, Nigel, fairly broad-based, it would be our view now, within that hospital and medical category. Nothing that's jumping out that has caused us any surprise or questioning as to why there's been a significant uplift. I know coming out of the temporarily benign COVID period, we did see certain modalities jump around a little bit, but largely for us, we're seeing pretty consistent growth and stabilisation across those hospital categories.

Nick Freeman: I think probably the big call out would be more on the hospital indexation side, the impact of that, and also the medical inflation as well. They'd be the two main drivers.

Nigel Pittaway: (Citi, Analyst) Do you think we've reached peak indexation now?

Ed Close: I won't try and crystal ball how all of that plays out, Nigel. What I would say for nib is that, and we've been quite transparent around this, that securing those multi-year agreements with all the major hospital groups gives us confidence and clarity around our forward-looking indexation levels into ‘26 and beyond. With that, we're guiding back to those 6% to 7% margins as really the best indicator around our projections around that. Certainly, we talked about the arhi hospital payout ratio being in line with historical levels. We're feeling that that's going to be well supported as we move into the next premium round.

Nigel Pittaway: (Citi, Analyst) Okay, thank you.

Operator: Thank you. Next question comes from Andrew Buncombe from Macquarie. Please go ahead.

Andrew Buncombe: (Macquarie Group, Analyst) Hi, guys. Thanks for taking my questions. Just the first one, it would be interesting to get some insight into what is happening with the PALM contract going forward. Thank you.

Ed Close: Good morning, Andrew. Can't say too much on PALM at this point, given conversations are still commercial in confidence and that process is still playing out. What I would say, though, is that nib has had a long-standing track record of delivering exceptional outcomes for those PALM participants and the employers that are directly engaged in supporting that seasonal worker program. We've strengthened our relationships over the last few months.

We remain very positive about the outlook of that PALM offering, and those direct agreements that we have struck with those approved employers, remembering that this is a non-exclusive arrangement that nib has and there are other insurers that actively play in that space, but we've been able to forge a dominant market share through the conviction that we have, working really closely with those employers and participants. Outlook, I would say, is positive. What I can't say is anything that's commercial in confidence at this stage. Sorry, Andrew.

Andrew Buncombe: (Macquarie Group, Analyst) That's okay, thank you. The next one, sticking with international, it sounds like there's currently a portfolio in that market currently up for sale. Given how NHF has had mixed success in travel, NDIS and currently in New Zealand, how would you convince investors that nib are the best stewards of reinvesting that excess capital to double down on that market? Thank you.

Ed Close: I'm not fully aware of inorganic growth opportunities in the international segment, Andrew. It's not the highest priority on our radar at this point. Probably all I'd say on that one at this point.

Andrew Buncombe: (Macquarie Group, Analyst) No, that's good. The final question from me, it looks like your risk equalisation contribution in the second half of '25 was very low. This period, just any colour around whether you think that the go-forward rate would be helpful. Thank you.

Nick Freeman: I'll jump in there. Probably payment speed related, given it's on a cash basis. I think that there were some interesting ins and outs in the second half in terms of the cash, and which players paid more cash versus less cash, so I'd like to see that play out a little bit, Andrew, before we'd have any comment.

Andrew Buncombe: (Macquarie Group, Analyst) Excellent. That's it from me. Thank you.

Operator: Thank you. Next, we have Siddharth Parameswaran from JP Morgan. Please go ahead.

Siddharth Parameswaran: (JP Morgan, Analyst) Good morning, gentlemen. A couple of questions, if I can. Firstly, just on the arhi division. I just wanted to check firstly on the inflation numbers you've given us, 4.5% FY25 on an incurred basis and 4.9%, including New South Wales, bed rate changes.

I just wanted to make sure - clarify what it is on a paid basis, because I think the number suggests it's reasonably higher. I was wondering if you could just help us understand that and which one we should be using. Does that 4.5% include any changes in reserving assumptions?

Nick Freeman: The 4.5% does include the changes in reserving assumptions. In terms of the paid, we'll talk about that in the afternoon, because again, we had that five days improvement in claim processing speed.

Siddharth Parameswaran: (JP Morgan, Analyst) Okay, thank you. Maybe I'll just clarify, just a follow up to Julian's question earlier, starting with an underlying margin of 6.5%, if I just take into account the rate increase that you've got and the inflation that you're flagging, it would suggest that the margins may inch above the target range. I'm just wondering if there's - and particularly given that you're also flagging some efficiency gains, I'm just wondering if you could maybe just bridge the gap.

Nick Freeman: There's a lot of moving parts in that one, Sid. If we work forward, there's still the indexation to play fully out, you've got whatever the pricing assumption is going to be in 1 April next year, and you've got that industry inflation at around 5%. Our average inflation is still, and pricing, are still catching each other up. They've aligned on a point basis, but as we highlighted, they were still catching up.

We're pretty comfortable with the guidance that we've provided, but depending on if you want to move some of those assumptions to 20 or 30 basis points one way or another, I can see where you'd come from there. But again, I think that's why we're pointing to where we're pointing, because there's still a few things playing out.

Siddharth Parameswaran: (JP Morgan, Analyst) Okay, that's helpful. One final question. Ed, you said you had a strong outlook for international. I was just keen to clarify that. Is that driven by pricing changes you're making? Because we do have some potential adverse outcomes on student numbers and maybe migration flowing as well. I was just keen to understand, is that pricing led or is it also you're positive on volumes?

Ed Close: Sid, we talked to ongoing strong contribution from our international segment. You've touched on a couple of important points. Migration settings have evolved since those COVID peaks, or those post-COVID peaks, I should say. So, they are normalising to more consistent levels with pre-COVID. From a volume perspective, we remain alert to that. We do see opportunity to selectively pursue some segments that we haven't historically played within, so the university sector, and the Commission reforms allow us to take a look at that.

Things like tourist visas and working holidaymakers, but we want to be really deliberate and disciplined about which of those markets we enter and why, because each of them comes with a differing risk profile. Pricing, yes, we've put through sustainable premium increases over the past 12 months across that portfolio, and we've also seen some of the COVID effect wash out, particularly in our Students portfolio, where those students were staying in country for much longer than they typically would, and with that comes of claims and benefits profile that we wouldn't have usually seen in that book.

So, there's a few factors to - if you think about system volume, headwinds and pieces that we need to be alert to around migration settings, but equally then the disciplined approach we've taken to pricing and gross margin has been pleasing. Then, again, underpinned by that productivity agenda gives us confidence that the ongoing contribution from international will be solid.

Siddharth Parameswaran: (JP Morgan, Analyst) Okay, thank you.

Operator: Thank you. Just a moment for our next question, please. Next, we have Freya Kong from Bank of America.

Freya Kong: (Bank of America, Analyst) Hi, morning. Thanks for taking my questions. Just following up on international, is there anything we should read into your, there's no guidance for margin, and historically, it's been around 10% to 15%. Are you just being cautious there or any reason for this?

Ed Close: Morning Freya. No, no specific reason as to why we haven't stated an explicit guidance range - sorry, a margin range in that guidance. But I think that historical data points would be a fair assumption moving forward.

Freya Kong: (Bank of America, Analyst) Okay, thanks. Then, on the Group operating expense ratio, which was down 50 basis points this year, where do you see this tracking over the next two to three years? Should we expect similar annual improvements because of the productivity and simplification initiatives that you have ongoing?

Ed Close: We definitely see ongoing improvements. To the order of the magnitude of the last 12 months, it's not something that we are guiding to at this point. But what I would say, within that Group operating expense, we also need to be mindful that there's a large contribution of acquisition and growth-related expenditure there. Again, coming back to the fundamentals of our business model, we want to make sure that we preserve and continue to strengthen that growth model. So, yes, directionally lower, but we won't be guiding at this point to specific reductions in the next 12 months.

Freya Kong: (Bank of America, Analyst) Okay, great. Then, final question on New Zealand. Historically, you've had that 8% to 9% target margin. Obviously, we've fallen well below that. But now that you're seeing pricing, [unclear] inflation, do you think this is still an achievable mid-term target?

Ed Close: It's too early to make a call around the long-term or even medium-term margin achievability in that market. There are a lot of structural changes that are playing through. If you think about the broader economy at the moment in the New Zealand market, different players coming from different perspectives around the competitive dynamics in health insurance in New Zealand.

So, again we won't be talking to getting back to that long-term average, certainly not in the next 12 months, but clearly, we are seeing some early positive signs in New Zealand, but a little bit too early to make that call, Freya.

Freya Kong: (Bank of America, Analyst) Okay. All right. Thanks.

Operator: Thank you. Next, we have Vanessa Thomson from Jefferies. Please go ahead.

Vanessa Thomson: (Jefferies, Analyst) Good morning, team, and thank you for taking my questions. I just wanted to return to some of that discussion around modalities for claims and [unclear] hospital claims. We've seen through and post-pandemic that non-surgical claims had declined in certain categories. I wondered if that had persisted into FY25, second half? Thank you.

Ed Close: Morning, Vanessa. It was a little bit hard to hear you, but I think you were talking about just some further insight around the modalities and the drivers of the claims inflation. Again, fairly broad-based and general from our perspective. Ancillary remains stable. Hospital with that indexation is higher. But certainly nothing that's been emerging of note for us, Nick, at this point.

Nick Freeman: No. I think it's a fair question. Not really noticing that. If there was a small trend this year, I think last year we called out that things like rehab had come back. This year, it might be a little bit more in the discretionary areas. But again, I think [we're fairly] broad-based. Things that were noticeable because – last year rehabilitation, because it's a relatively large category and it grew, it was worth calling out. But in this case, I'd say more even.

Vanessa Thomson: (Jefferies, Analyst) So, the previous - sorry about the sound - the previous patterns where we've seen less respiratory, less inpatient psych and less inpatient rehab, have they continued? It sounds like perhaps not for rehab.

Nick Freeman: No. Rehab had its growth spurt last year. In terms of - sorry, what was the other area that you were looking at?

Vanessa Thomson: (Jefferies, Analyst) Respiratory and inpatient psychiatric.

Nick Freeman: Again, no, I wouldn't be noticing those things as much this year.

Vanessa Thomson: (Jefferies, Analyst) Okay, thank you. Also – sorry…

Ed Close: I would just add there, just around the broader context, length of stay is stable at this point and has been on that moderately decreasing trend for some time now, as we know that there's different care models that are evolving and the role of short stay, same day and the work we've done around hospital minimisation, hospital substitution and some of the work we're doing with health management programs with Honeysuckle, all of those things are aiding the ability - we talk to bed days saved as a good proxy for the effectiveness of those - our health management strategy.

Good to be able to look at those aspects when you're trying to get a feel for what are the controlling mechanisms that we have around improving health outcomes and managing claims.

The other piece I would just note there, and we do talk to this in the investor pack, is that we've also made deliberate decisions around investments in some areas that do have an inflationary impact, particularly our known gap and medical specialist networks, which we recognised needed to be amplified over the last 12 to 18 months, and that has also had an inflationary impact, but the benefit of out-of-pocket certainty and better provider relationships has significantly outweighed that inflationary impact.

Vanessa Thomson: (Jefferies, Analyst) Okay, thank you. Second question, just on hospital contracts, and I appreciate commercial sensitivity, but you've mentioned that you've locked in the three contracts with the largest hospital providers. Do those contracts allow for indexation? We've seen ongoing wage pressure for hospitals still persisting, and I just wondered about that. Thank you.

Ed Close: Those contracts, Vanessa, under a partnership model enable dynamic indexation throughout the period. Won't get in all the detail, but it gives us good predictability and forecast accuracy around our trajectory, and it also gives those large hospital groups clarity and certainty around those indexation levels for them as well.

Vanessa Thomson: (Jefferies, Analyst) Okay, thank you. My last question, just on Thrive. You said in your comments that the lapse rate has stabilised [post-service interruptions]. The set-up fees are now being eliminated for new plans. If those people come back, presumably - are they lapsing because of the interruption or is that just something you generally see in the Thrive portfolio? Thank you.

Ed Close: I think there were two parts there, Vanessa, if I heard that correctly. The service disruptions did exacerbate that participant lapse for a period of time, and we have seen improving stability around that, particularly in the last quarter and into FY26. The reduction or the removal of set-up fees has no impact to the participant themselves. This was a fee that the plan manager took to support the establishment and then the renewal of those fees, so no impact from a participant perspective around the reduction of that fee. The opportunity ahead for us is if you think about the Thrive business with circa 10% market share in plan management, I talked to this earlier, our commitment is around staying really focused on being an exceptional plan manager and supporting those participants and providers with processing, accuracy, processing speed, wraparound services and certainly making sure our service levels are best in class. With that, getting back to really solid growth numbers and unlocking further efficiency remain well in front of us.

Vanessa Thomson: (Jefferies, Analyst) Thank you.

Operator: Thank you. Just a moment for our next question, please. Next we have Kieren Chidgey from UBS. Please go ahead.

Kieren Chidgey: (UBS, Analyst) Morning, Ed and Nick. Just a couple of follow up questions to start on the arhi margin. There's obviously been a very significant shift in your payment processing times that's caused a lot of distortion between your paid inflation per person and the incurred.

I'm just keen for a little bit more detail there. (a) Is that done in your view, and (b) how are you adjusting for that in terms of getting back to this view of 6.5% underlying net margin in 2025.

Ed Close: Yes, well I think that - I mean we've tried to provide that graph on slide 16 to give you an indication of the size of it. You can see back in - the scale of the improvement from FY23.

I think as we look to it now and we compare what our backlogs are, what our claims processing speeds are and the nature of those speeds back to FY18 and FY19, we're starting to see similarities.

So that gives us the confidence around, I guess, the settings to be more supportive of margin stability going forward, along with our pricing versus that inflation. But essentially, we've got a couple of systems that we process claims through. We have good insight into those claims and we've been able to historically track back on both volume and nature of them.

Kieren Chidgey: (UBS, Analyst) Okay. You made a comment earlier today that, I guess, given you said 6.8% underlying margin first half would imply something closer to 6.3% in second half. But you said in hindsight, that might prove conservative.

Can you just explain what you meant by that comment? I mean it sounds like you're talking about conservative reserving at the end of the period but your earlier comment suggests you reflected all these payment changes already in reserving.

Ed Close: It's more the 6.3, and I can get the analytics and maths of how you arrive at 6.3%. But what I'm saying is that if you take the ups and downs between the first half and the second half - sorry, so just to clarify. What I was just saying is that the 6.3 may be a little bit, I guess, pessimistic.

Between the margin profile saying 6.7, 6.3 goes to 6.5. So if your exit rate is 6.3, what does that mean for FY26? I was trying to say, well, that could be a little bit conservative or pessimistic, given that we're regarding…

[Over speaking]

Ed Close: But the…

Kieren Chidgey: (UBS, Analyst) Is there seasonality in your margins?

Ed Close: Well, there is, as we've talked about, in terms of both the workdays and the marketing. But then if you look at the LIC, you really only need about 20 basis points difference between halves to get - that could occur through hindsight that would get you to a 6.5, 6.5, 6.5 type profile between the halves.

So it's really not very much change that needs to occur in hindsight that would then, instead of going 6.7, 6.3, 6.5, you'd go 6.5, 6.5, 6.5. As you know, the last couple of months of every half are not fully developed, so as those develop, those sorts of tens of basis points can occur.

Kieren Chidgey: (UBS, Analyst) Okay. I might have missed a comment on this, but did you confirm the tax rate outlook moving ahead is just more of a normalised 30% and the benefit this period is one off?

Ed Close: I didn't make a comment, but yes, that would be our expectation to a normalised tax rate.

Kieren Chidgey: (UBS, Analyst) Okay, thanks. Just a final question, a bit of a niche one. But your

corporate or I guess other unallocated area had quite a lot of cost growth in the second half of '25.
Can you talk about what fed into that? I think you show on slide 35 about $16 million of non-marketing expenses for the year, but I think from memory it was $4 or $5 million in the first half. So it seemed to double in the second half.

Ed Close: Yes, I mean, no, I think that's a really fair question. So I guess there's a couple of drivers. The first is - I don't know how to put this any other way. But on my righthand side there's a new chief executive, and there's a run-off of the old chief executive. So we've got, for a little bit of time, some double up in executive costs that are flowing through.

The second is that there's been some reallocation back into the corporate office because we stood up a Group strategy and development division which now sits in the corporate office. So there's been a bit of a reallocation back into that central area.

Kieren Chidgey: (UBS, Analyst) Okay. In terms of expectation into '26, is it a similar number then? I mean it does sound like it on the strategy side, but maybe less so in...

Ed Close: Yes, a bit reduced as some of the duplication goes out during the year.

Kieren Chidgey: (UBS, Analyst) Okay. All right. Thank you.

Operator: Thank you. I see no further questions at the time. That concludes today's Q&A session.

Ed Close: Well thank you, everybody, for joining us and great to be with you and look forward to following up in the weeks ahead. So we'll leave it there. Thanks a lot.

End of Transcript