

21 May 2015

The Manager  
Company Announcements  
Australia Securities Exchange Limited  
Level 4, Bridge Street  
SYDNEY NSW 2000

**Presentation to the Goldman Sachs Small and Mid Cap Conference– May 2015**

Attached presentation delivered by nib at the Goldman Sachs Small and Mid Cap Conference on 21 May 2015. All information contained within this presentation has been previously disclosed to the ASX.

Yours sincerely



Michelle McPherson  
Company Secretary/Chief Financial Officer



# Goldman Sachs Small & Mid Cap Conference

Mark Fitzgibbon  
Managing Director & CEO

21 May 2015

*All figures in this document are represented in Australian dollars unless otherwise stated*



## Agenda

- Investment thematic
- nib strategy and results to date
- Overview by segment
  - Australian Residents Health Insurance
  - International Students Health Insurance
  - International Workers Health Insurance
  - nib New Zealand
  - Adjacent businesses
- Whitecoat and digital capability
- Capital
- Key risks
- FY15 guidance
- Questions & Answers

1. We're spending more and more on our healthcare.
2. Government's relative funding contribution cannot be sustained (including New Zealand).
3. Inevitably, the private sector will play an increased role although there are challenges.
4. Accelerating international cross border health care and insurance coverage.

**1**

Grow our Australian residents health insurance business (arhi) organically at circa 10% annual premium growth (4-5% policyholder growth) through national brand presence and an ongoing emphasis on <40 market (Virgin Green), growing >55 market share (Virgin Silver), other tactical niche opportunities and improved policyholder retention

**2**

Grow our international worker's and student's market share and earnings.

**3**

Position and develop our new business in New Zealand as a challenger and grow the market and our market share.

**4**

Leverage other core business capability to diversify and pursue additional business opportunities and earnings (e.g. "other insurance lines" and cosmetic/dental travel business "nib Options").

**5**

Ensure across the nib Group that the design, payment and management of benefits better meets the needs of our policyholders as well as our commercial objectives.

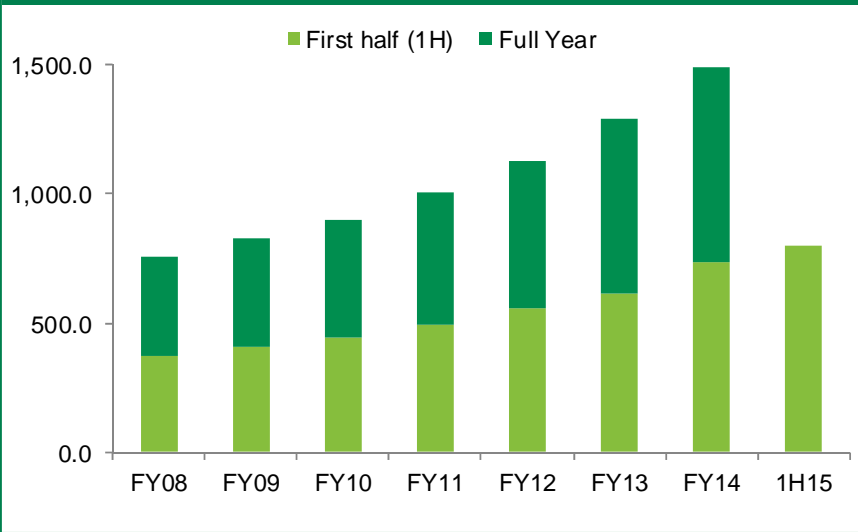
**6**

Pursue increased customer satisfaction, productivity and efficiency through continual process improvement and ongoing investment in technology.

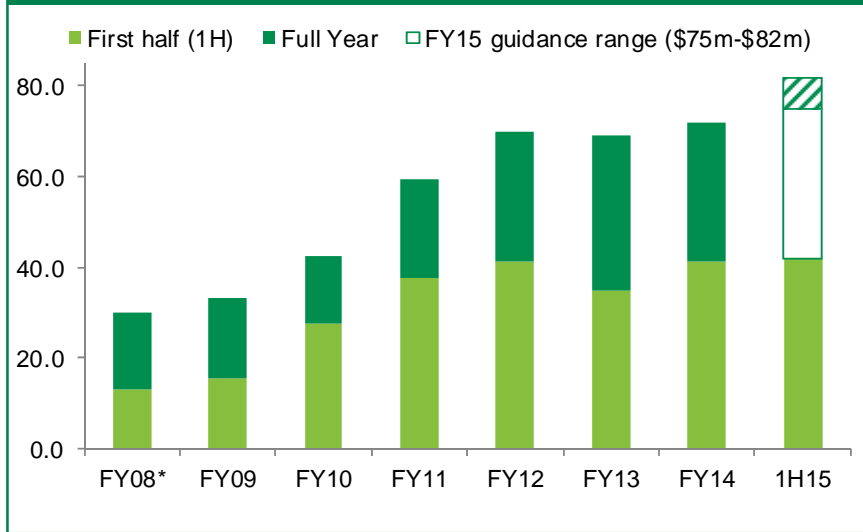
**7**

Actively develop a high performance organisational culture and the engagement of our people.

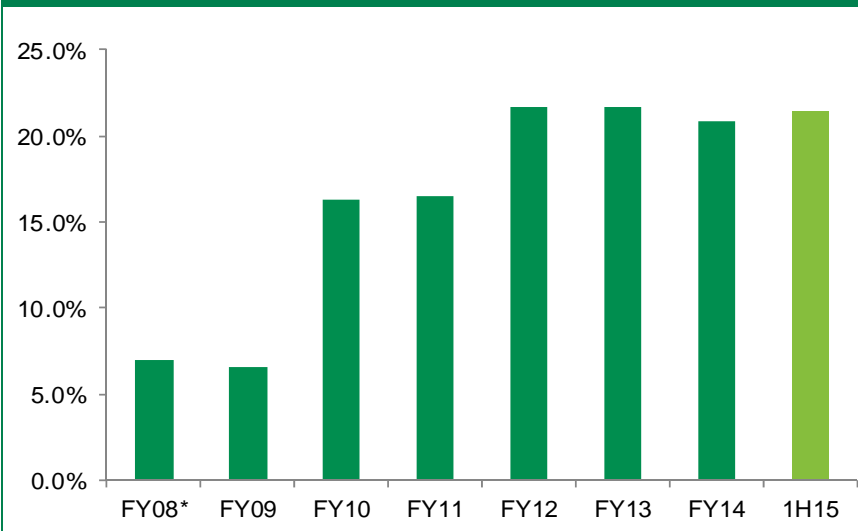
### Group premium revenue (\$m)



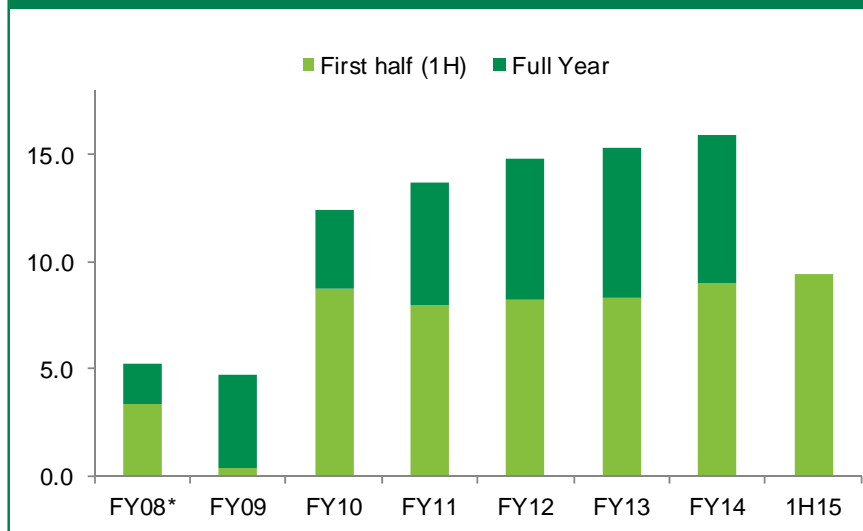
### Group operating profit (\$m)



### Return on equity (%)

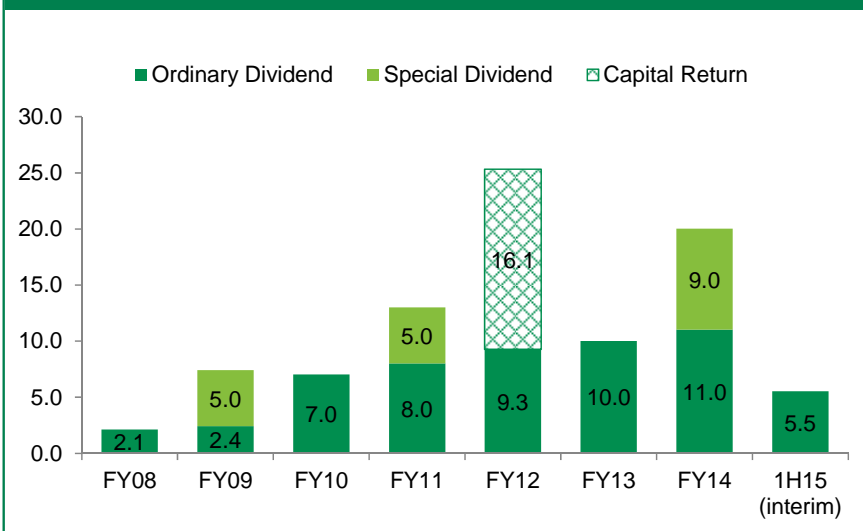


### Earnings per share (cps)

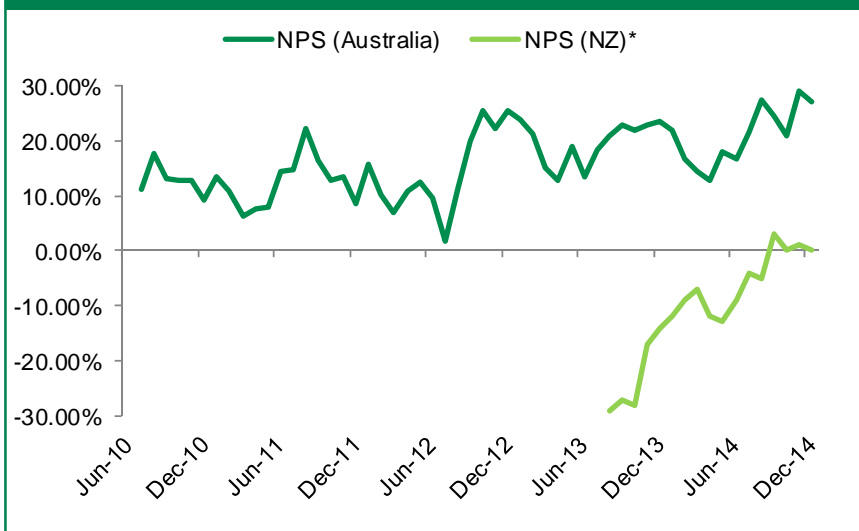


\* Excludes demutualisation and listing costs

## Dividend (cps)

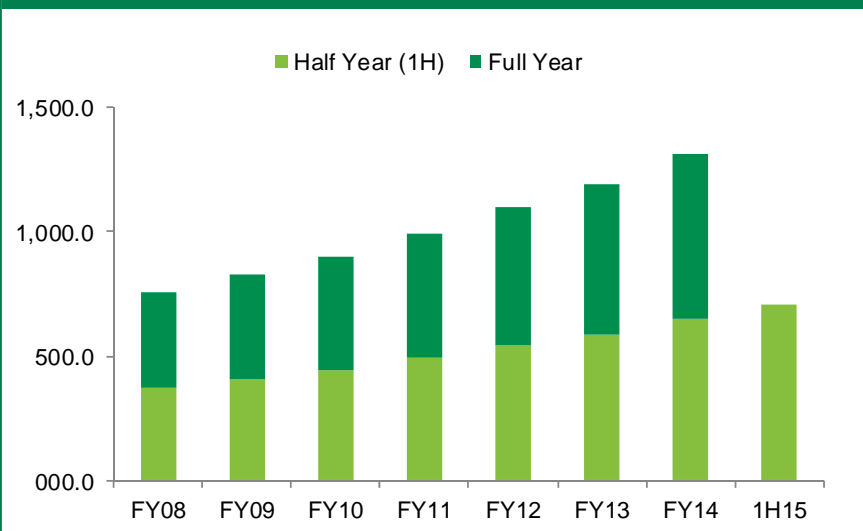


## Net promoter score\*

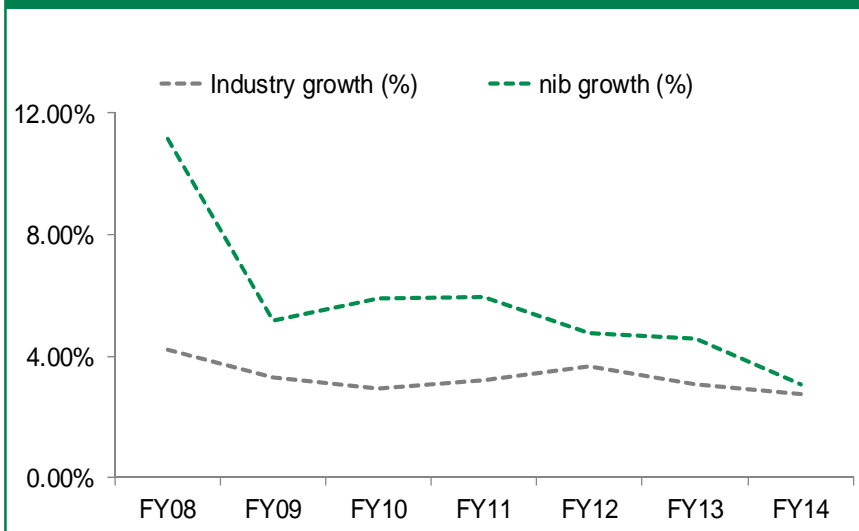


\* nib New Zealand acquired in November 2012, with NPS reporting commencing August 2013

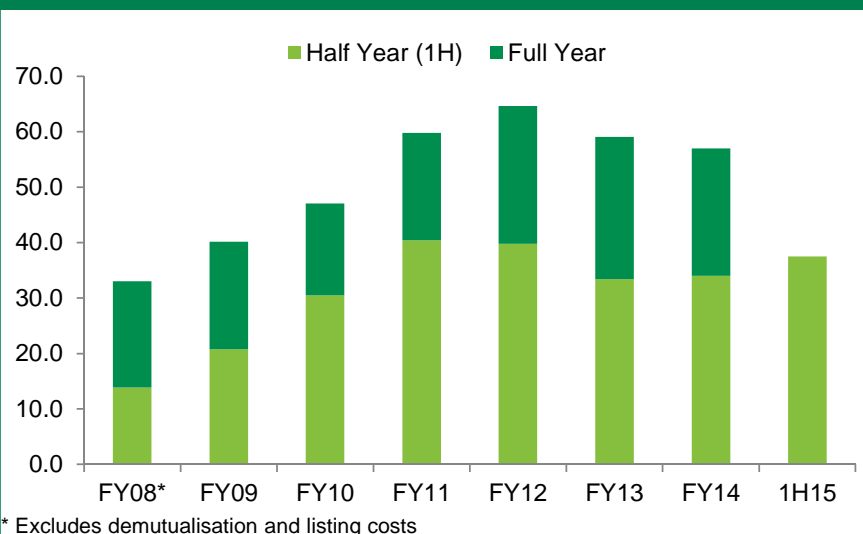
## Premium revenue (\$m)



## Policyholder growth



## Operating profit (\$m)

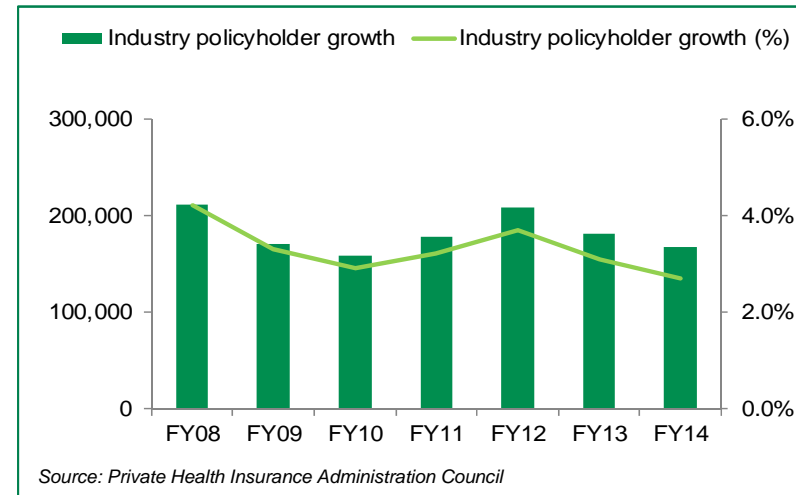


## 1H15 versus 1H14

\$m	1H15	1H14	%
Premium revenue	<b>706.9</b>	649.7	8.8
Claims	<b>(612.5)</b>	(563.0)	8.9
- Gross margin (%)	<b>13.4</b>	13.3	0.1
Management expenses	<b>(57.0)</b>	(52.7)	8.2
- MER (%)	<b>8.1</b>	8.1	0.0
Net underwriting result	<b>37.4</b>	34.0	10.0
- Net margin (%)	<b>5.3</b>	5.2	0.1
Operating profit	<b>37.5</b>	34.0	10.3

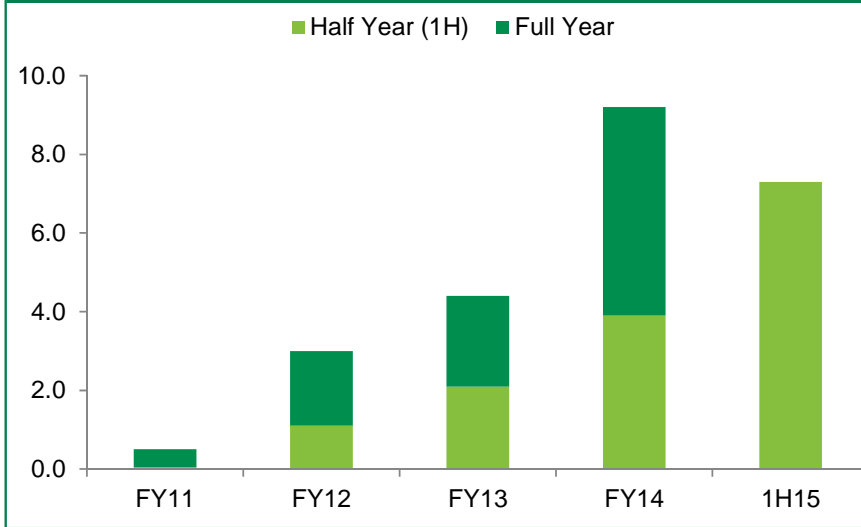


- Ongoing annual system policyholder growth circa 2%-3% with nib expected to grow in range 4%-5%. Intense competition and churn the new “normal” with implications for net growth and required level of investment. But lifetime value remains well ahead of cost of sale and retention.
- nib will maintain market standing in <40s segment (Virgin Green) but will seek to grow further in +55 segment (Virgin Silver) as well. Largely a challenge of distribution.

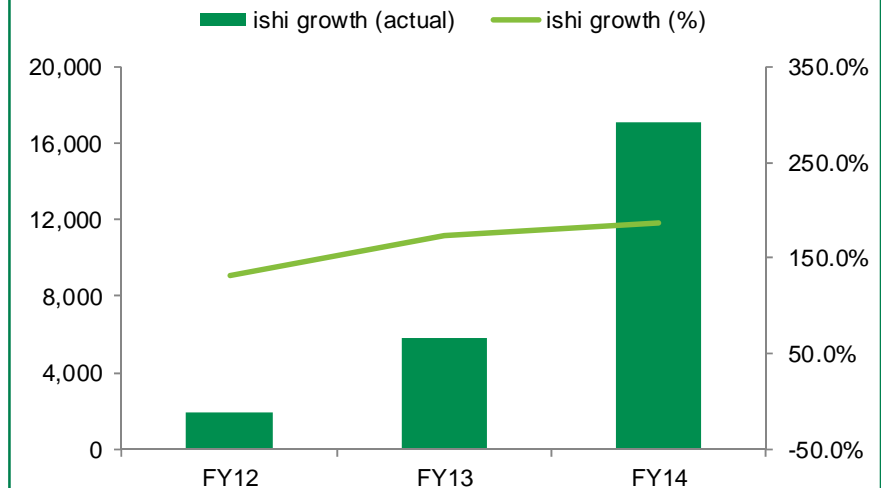


- Underlying annual claims inflation will be in the order of 6%-7% and maintain pressure on gross margin. Premium pricing will remain designed to cover inflation and achieve a 5%-5.5% net margin (expected FY16).
- Additional efforts can be expected to restrain service cost inflation and mitigate over servicing and avoidable surgery and treatment.
- Government policy will remain very supportive of PHI industry. Opportunities will emerge for PHI to play an increased role in healthcare financing and delivery.
- Prima facie M&A prospects remain limited but logic of industry consolidation compelling.

## Premium revenue (\$m)

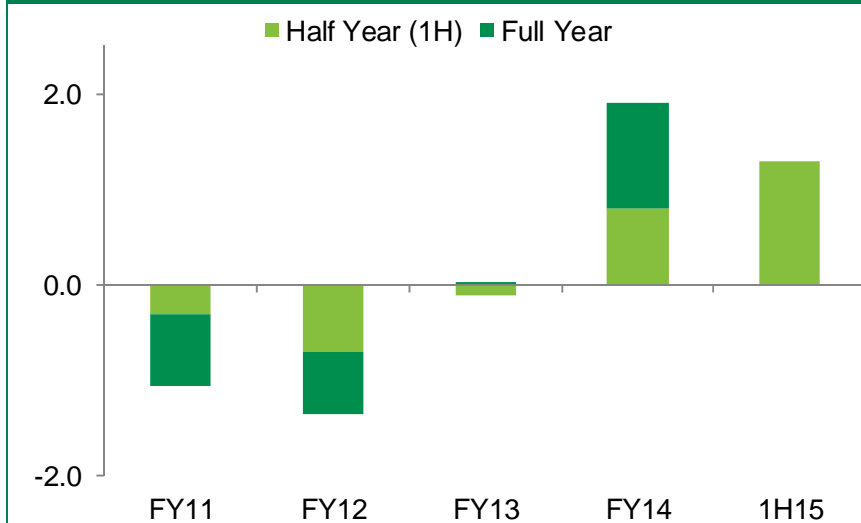


## Policyholder growth\*



\* FY11 ishi policyholder growth of 1735.9% has been excluded from graph due to impact on scale

## Operating profit (\$m)

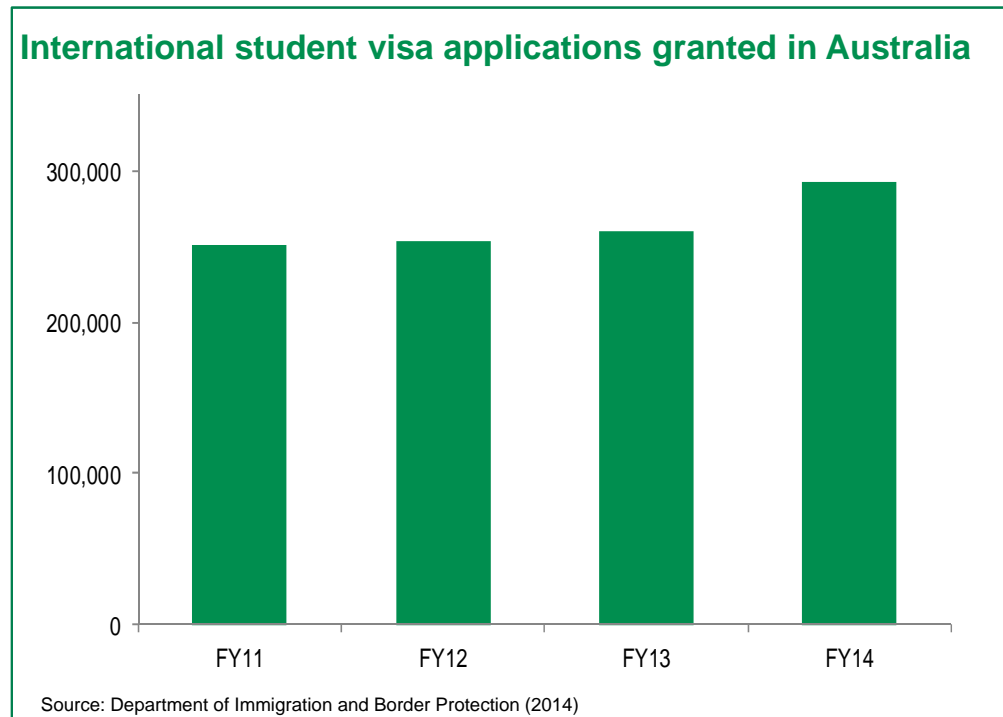


## 1H15 versus 1H14

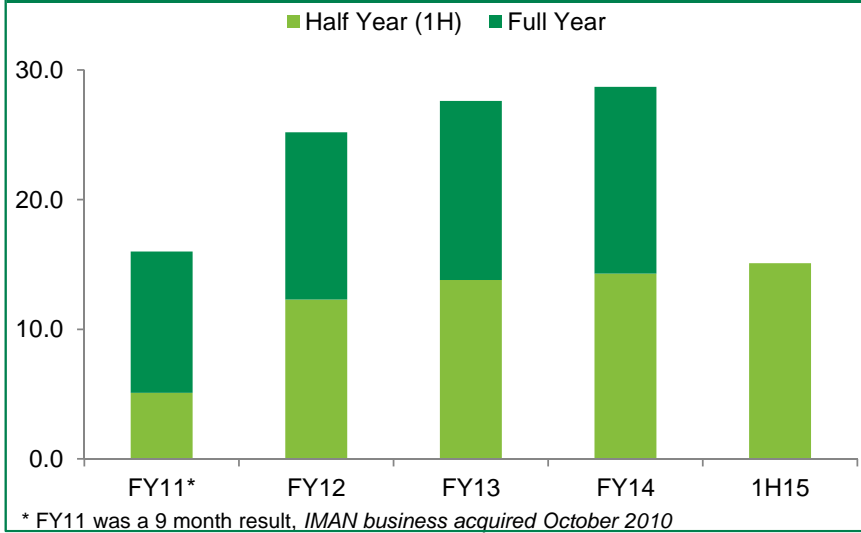
\$m	1H15	1H14	%
Premium revenue	7.3	3.9	86.9
Claims	(4.4)	(1.9)	128.2
- Gross margin (%)	40.1	51.0	(10.9)
Management expenses	(2.6)	(1.2)	106.2
- MER (%)	35.0	31.7	3.3
Net underwriting result	0.4	0.8	(50.3)
- Net margin (%)	5.1	19.2	(14.1)
Operating profit	0.5	0.8	(36.4)

## International students (ishi)

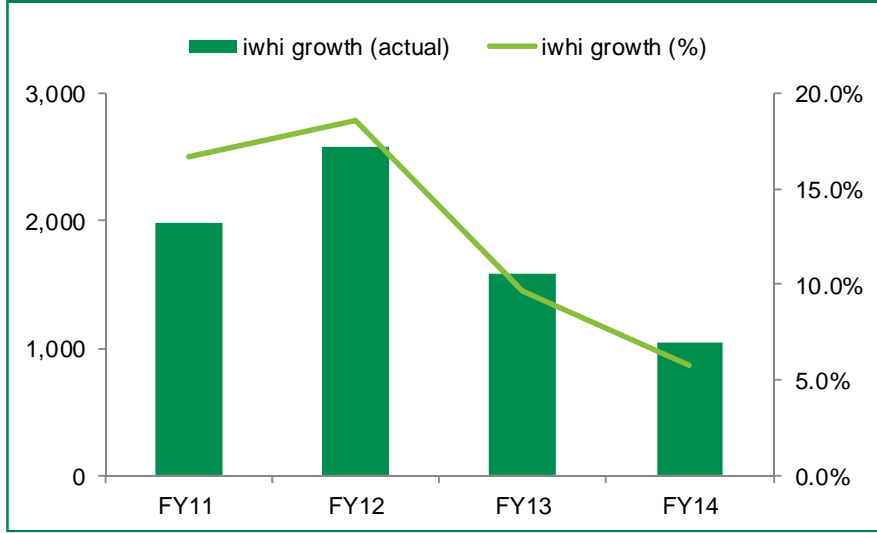
- Powerful organic growth supported by clear business and distribution strategy.
- Saudi student business increases annual GWP x 2 and is expected to contribute powerfully towards future earnings.
- Scope remains to grow market share (including in NZ).
- Net margin for FY15 expected to be in range of 5%-10%.



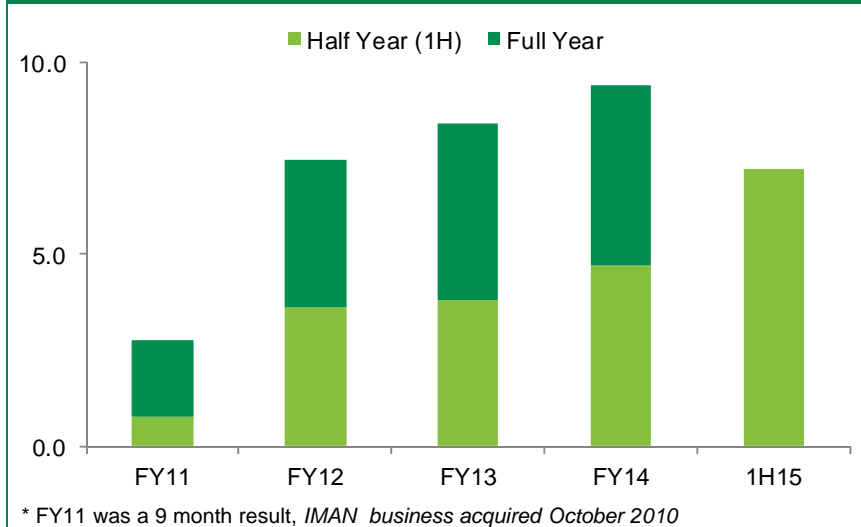
## Premium revenue (\$m)



## Policyholder growth



## Operating profit (\$m)

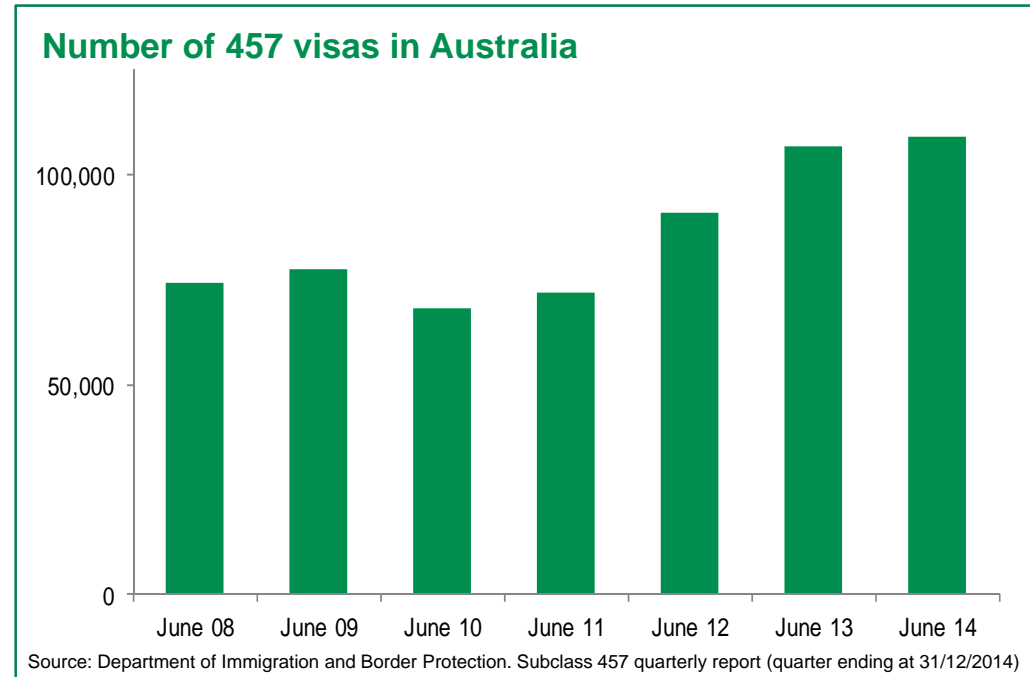


## 1H15 versus 1H14

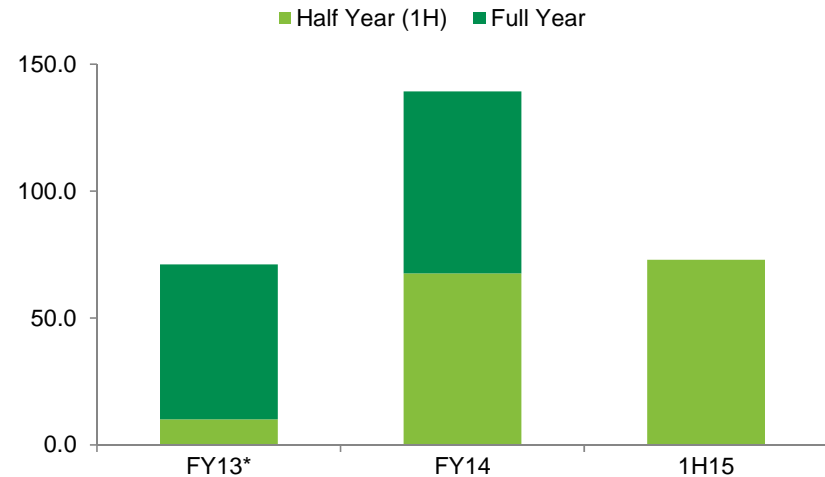
\$m	1H15	1H14	%
Premium revenue	15.1	14.3	5.4
Claims	(4.4)	(6.0)	(27.2)
- Gross margin (%)	71.2	58.3	12.9
Management expenses	(3.6)	(3.6)	(0.8)
- MER (%)	23.9	25.4	(1.5)
Net underwriting result	7.2	4.7	51.7
- Net margin (%)	47.3	32.9	14.4
Operating profit	7.2	4.7	51.7

## International workers (iwhi)

- 457 visa entries remain steady causing us to also focus upon other visa classes and distribution possibilities.
- Competition will see some insurance margin pressure (yield), with strategies intended to more than offset this with benefit from market and premium growth (load).
- Plans well advanced to complement business with outbound International Private Medical Insurance (IPMI) product offering (including NZ pilot, launched September 2014).
- Full year net margin expected to be in line with FY14 (30%-35%) as we see less favourable claims experience and increased competition.

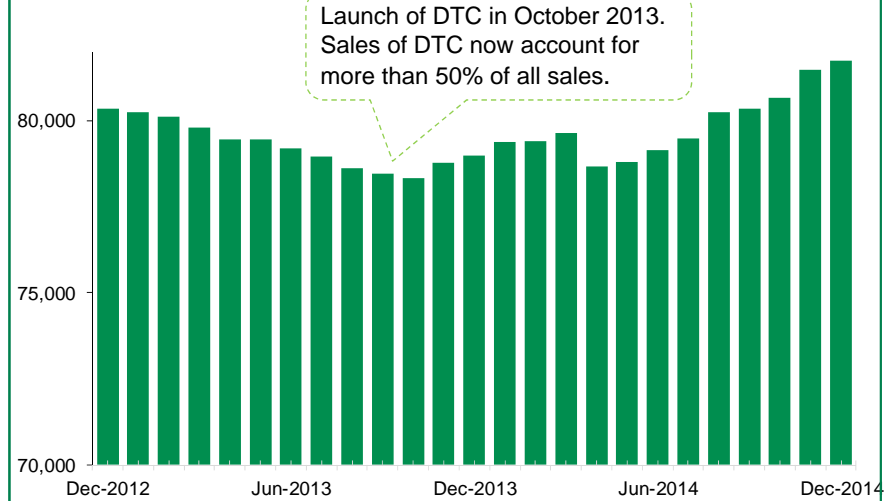


## Premium revenue (\$m)

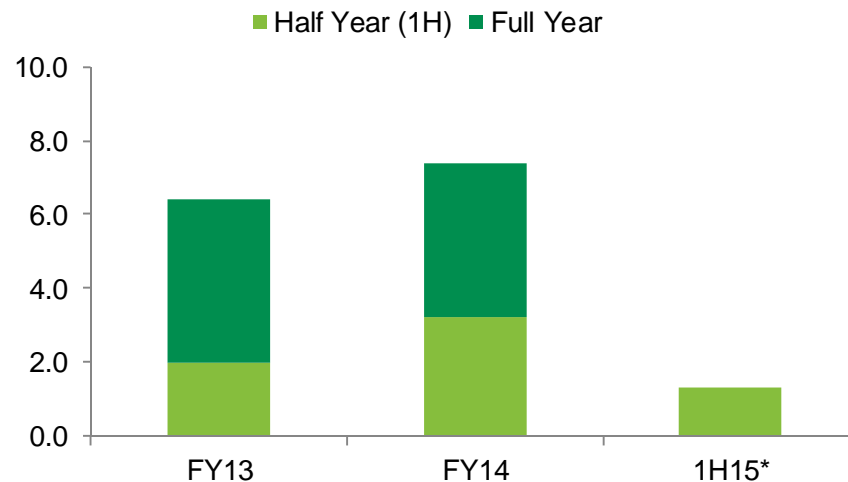


\* nib New Zealand acquired November 2012, FY13 represents 7 month result

## Policyholder growth



## Net underwriting result (\$m)



\* Excludes movement in Premium Payback product portfolio liability

## 1H15 versus 1H14

\$m	1H15	1H14	%
Premium revenue	<b>72.9</b>	67.5	8.1
Claims	<b>(48.3)</b>	(45.2)	6.9
- Gross margin (%)*	<b>33.8</b>	33.1	0.7
Management expenses	<b>(23.3)</b>	(21.8)	6.9
- MER (%)	<b>32.0</b>	32.3	(0.3)
Net underwriting result*	<b>1.3</b>	0.5	177.8
- Net margin (%)*	<b>1.8</b>	0.7	1.1
Operating profit*	<b>1.3</b>	0.5	177.8

- Focus will remain upon building business fundamentals:
  - nib brand awareness.
  - Improved operating model for wealth advisor sales and distribution.
  - Direct to Consumer (DTC) channel.
  - Competitive group offering.
  - Extracting synergies with Australia.
- Profitability will continue to be impacted by investment in business development and innovation but will improve with growth and net margin improvement.
- Priorities around lowering unit cost of claims via “better risk” selection, claims management and provider contracting.
- There appear to be M&A prospects as well as opportunities to grow sales via distribution partnerships (including “white labelling”).
- We remain confident about future prospects and investment returns.

## nib Options

- Leverages nib's brand reputation and distribution to support and grow the market for overseas cosmetic, dental and surgical treatment.
- Initial efforts focus upon cosmetic surgery and dental.
- Value proposition centred around trustworthiness, safety and choice.
- Earnings made through cost of goods sold plus margin (i.e. not underwriting).
- Involves bundling of transport, medical, accommodation, after care promise, etc.
- Emphasis on clinical governance, quality and "after care promise"
- Thematic of medical travel remains compelling.
- Losses to date reflect (\$2.6 million in 1H15) building of business capability and key learning.

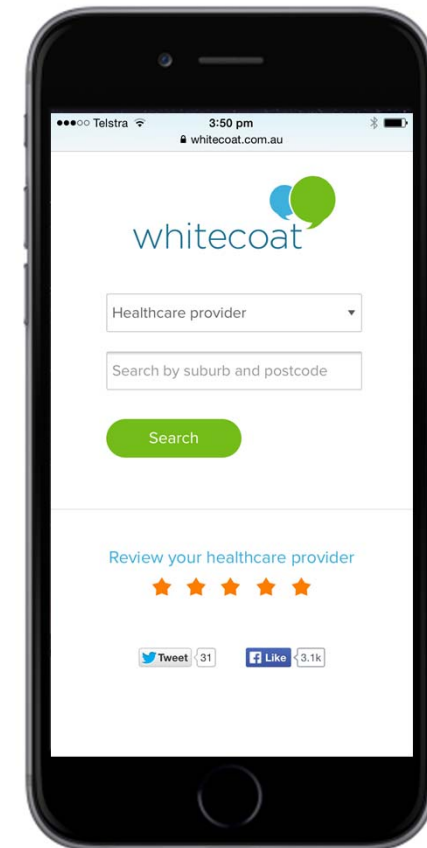
## Other insurance lines

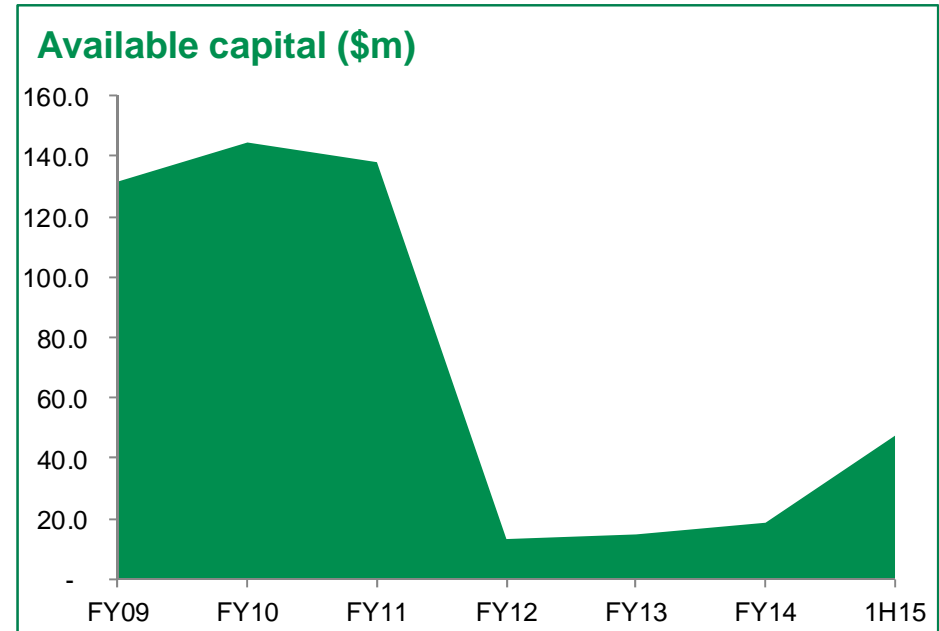
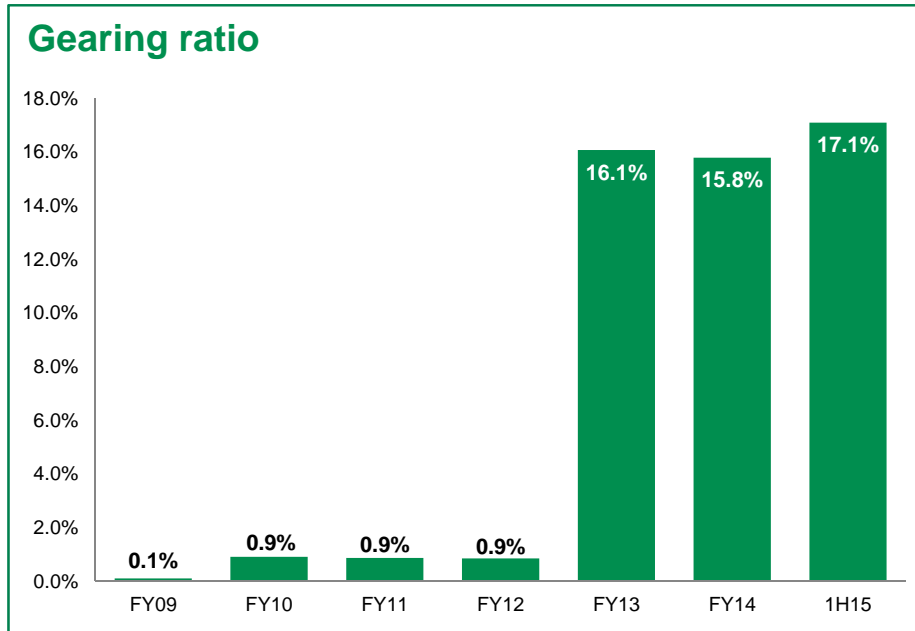
- Further opportunities to increase life, travel and related insurance offerings.
- International Private Medical Insurance will increasingly be sought in market especially amongst corporates. Aim to launch in Australia CY15.
- Researching possibilities to distribute other insurance products.



## Develop “Whitecoat” and digital capability as a source of differentiation and competitive advantage

1. Will help customers make more informed decisions around their general health, and when necessary, remedial options from the choice of treatment to the choice of provider.
2. Will significantly improve the speed, reliability and cost efficiency of the transactions associated with healthcare delivery.
3. Will improve engagement with both customers and healthcare providers.





- Gearing ratio at 31 December 2014 of 17.1% (debt to debt plus equity).
- Continued exploration of other investment opportunities, including M&A, is the reason for below target gearing ratio.
- nib targets a long term average gearing ratio of 30%.

- Macro-economic environment and Government policy.
- Heightened competitor activity.
- Claims inflation and affordability.
- Premium pricing.
- New business initiatives.
- Industry and market disruption.

- FY15 consolidated operating profit of \$75m-\$82m, with result likely to be at the lower end of this range.
- FY15 investment income forecast to be in line with relevant internal benchmarks\*.
- Ordinary dividend payout ratio 60%-70% of full year NPAT.

\* Excluding gain on sale from Pacific Smiles Group

Internal Investment benchmarks

- Australian Regulatory capital (80/20 defensive/growth) - target for portfolio bank bill index plus 1%
- New Zealand regulatory capital (100% defensive) (1) For core portfolio target is a 6 month bank bill index (2) For premium payback portfolio target is a 3.0 years interest rate swap index
- Surplus capital (100% defensive) - bank bill index



Questions & Answers?