

19 March 2015

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

Presentation to J.P. Morgan Access Days – March 2015

Attached presentation delivered by nib at the J.P. Morgan Access Days (19 and 20 March 2015).

Yours sincerely



Michelle McPherson
Company Secretary/Chief Financial Officer



2015 J.P. Morgan Access Days

March 2015

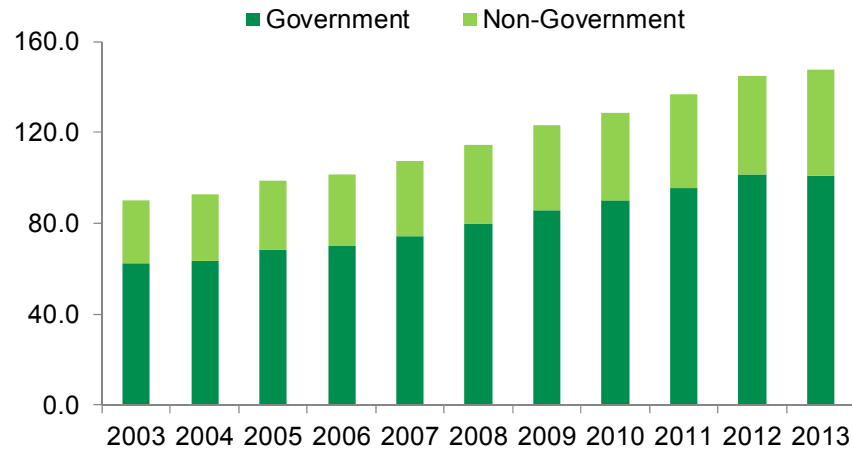
All figures in this document are represented in Australian dollars unless otherwise stated



Agenda

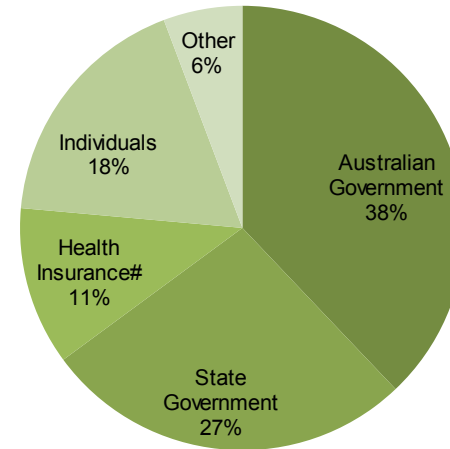
- **Healthcare in Australia**
- **nib key performance metrics**
- **Overview and results to date**
 - **Australian Residents Health Insurance**
 - **nib New Zealand**
 - **International Workers Health Insurance**
 - **International Students Health Insurance**
 - **Other business**

Australian healthcare spending (\$b)



* Source: AIHW 2013. Health expenditure Australia 2012-13

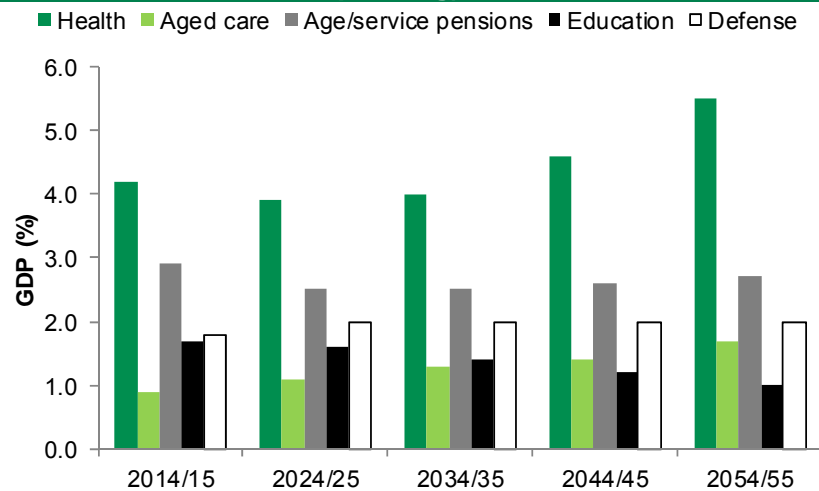
Components of healthcare spending



* Source: AIHW 2013. Health expenditure Australia 2012-13.

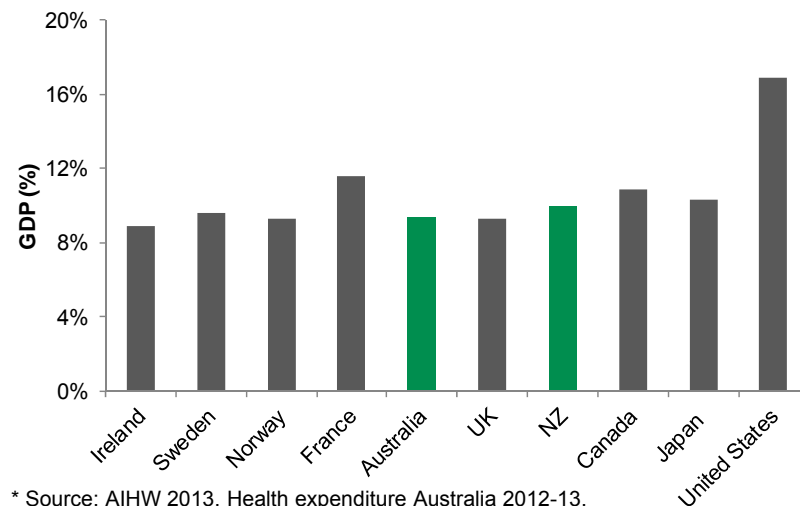
Includes Australian Government Rebate contribution

Australian Treasury Projections (major components of Australian Government spending)



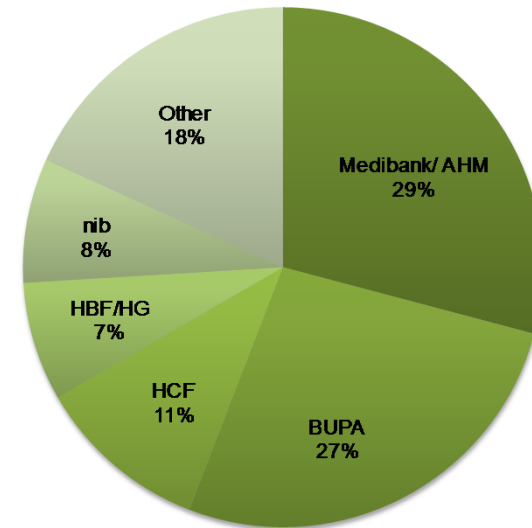
* Source: Treasury Projections (2015 Intergenerational Report Australia in 2055)

Healthcare spending by OECD countries as a % of GDP (2012)



* Source: AIHW 2013. Health expenditure Australia 2012-13.

- At 30 June 2014 there were 34 private health insurers operating in Australia.
- Top five PHI players represent 81% of the policies nationally.
- For profit insurers make up around 68% of the industry.
- Direct to Consumer (DTC) accounts for ~85% sales.
- Policies are community rated (i.e. not risk rated).
- Approximately 55% of population have private health insurance.



* Source: Private Health Insurance Administration Council – The Operations of Private Health Insurers Annual Report 2013-14

PHI in Australia is heavily regulated

Product

- Prescribed coverage
- Community rated

Price

- Government premium increase approval
- Government Rebate
- Lifetime Health Cover (LHC) loading
- Risk Equalisation

Prudential

- Minimum capital requirement

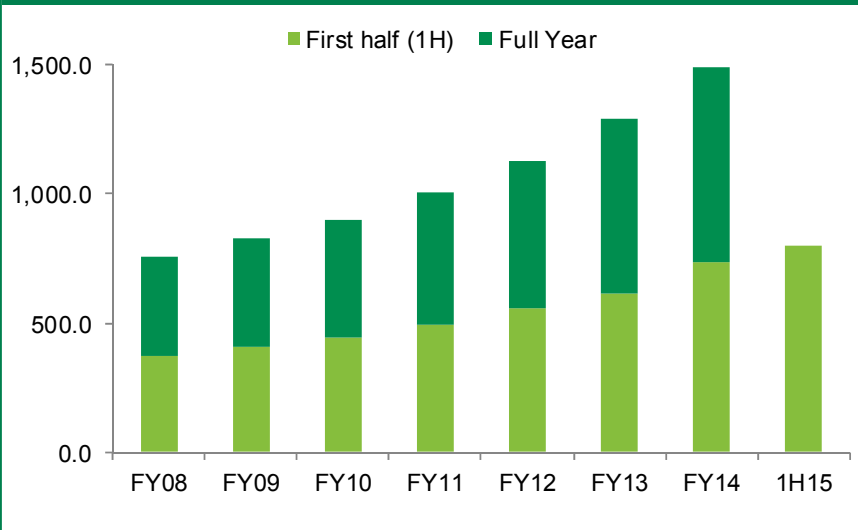
Government surcharges

- Additional tax on people without PHI over certain income levels (Medicare Levy Surcharge, MLS)

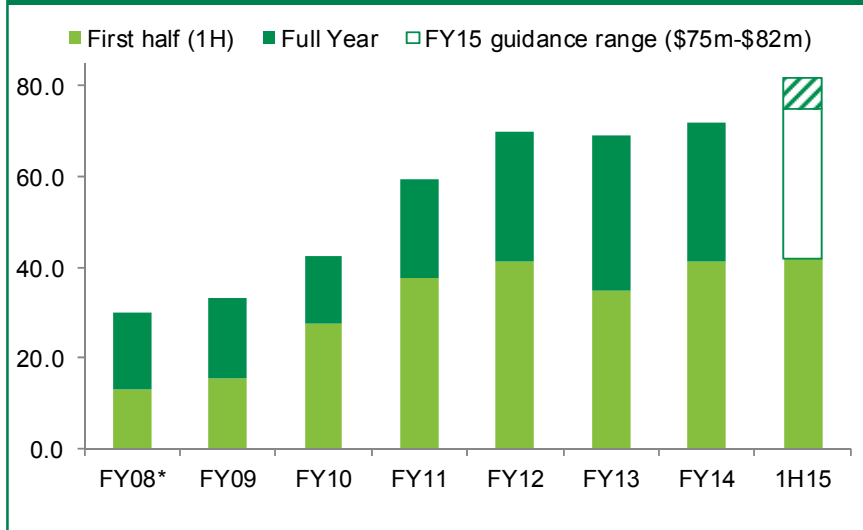
Australian PHI growth drivers

- ✓ Increasing wealth and favourable economic circumstances
- ✓ Dissatisfaction with public system and rationing
- ✓ Competition and investment in marketing and growth
- ✓ Government "sticks and "carrots"

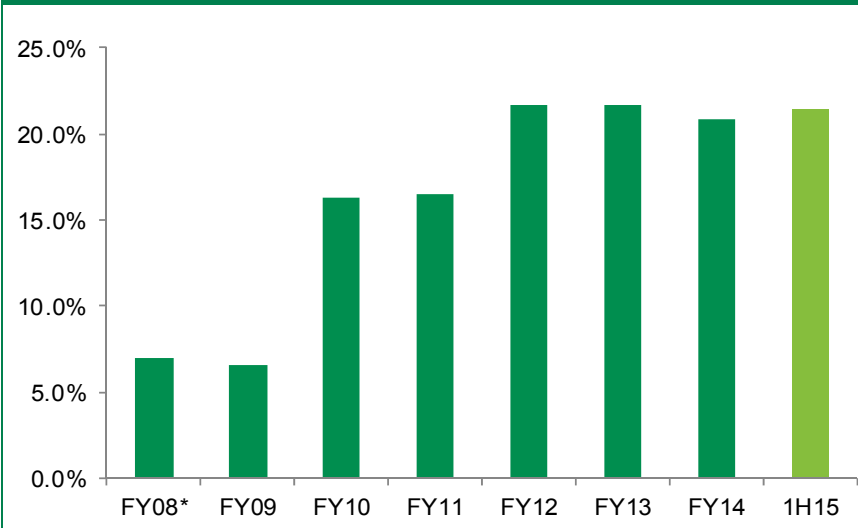
Group premium revenue (\$m)



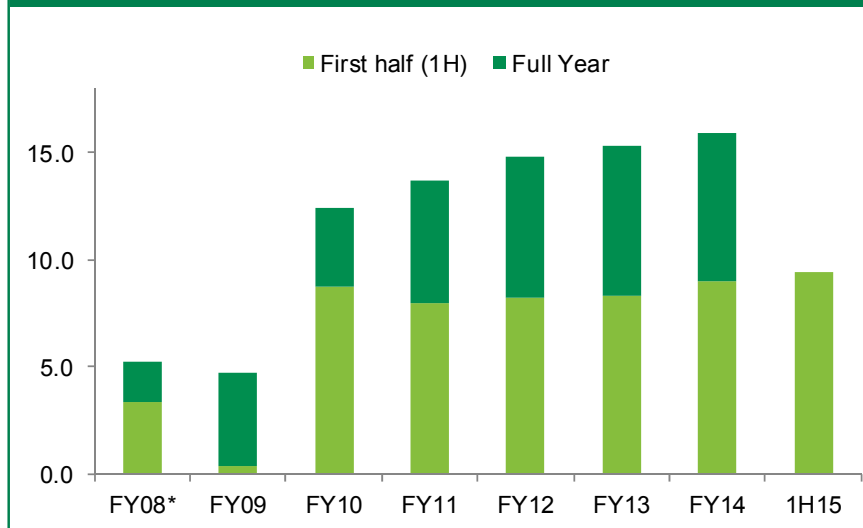
Group operating profit (\$m)



Return on equity (%)

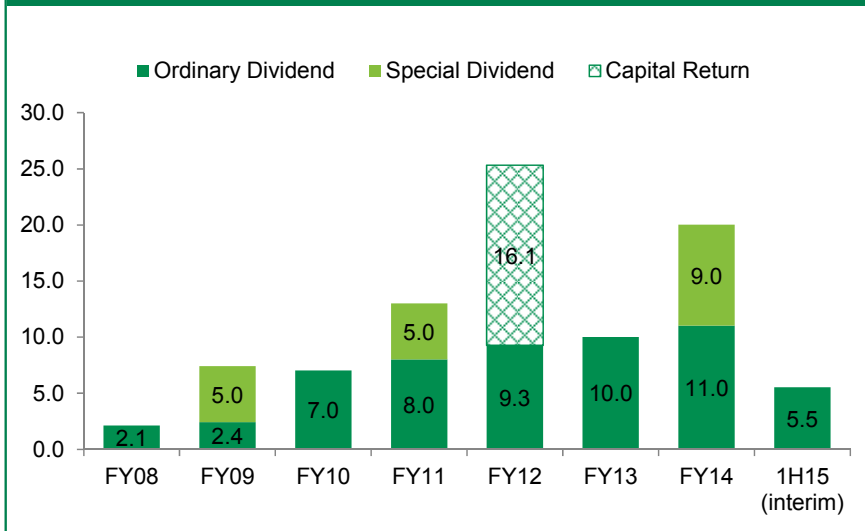


Earnings per share (cps)

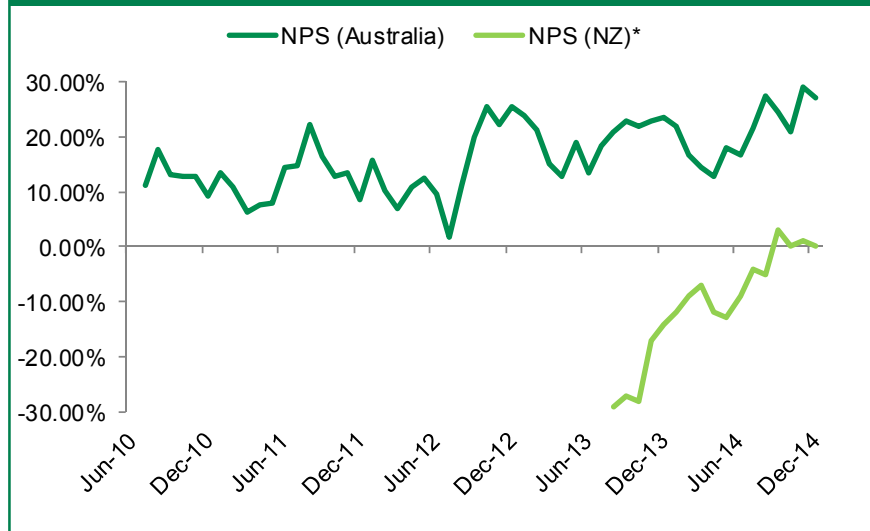


* Excludes demutualisation and listing costs

Dividend (cps)

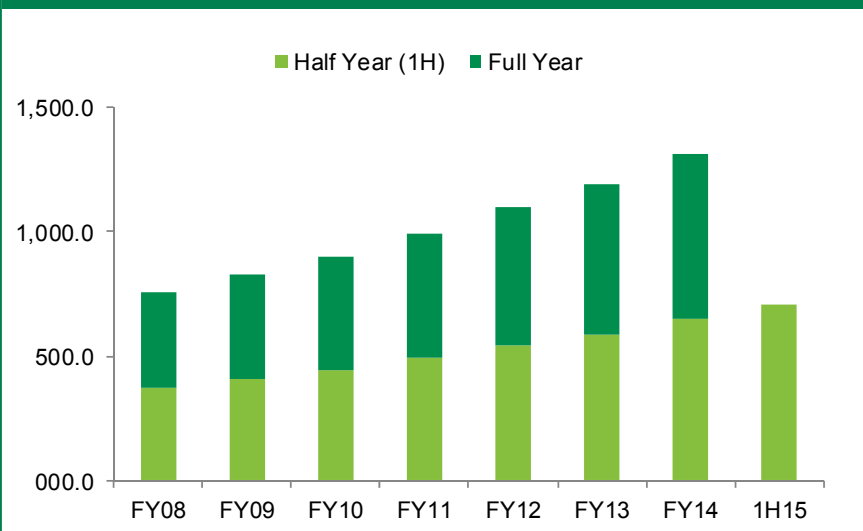


Net promoter score*

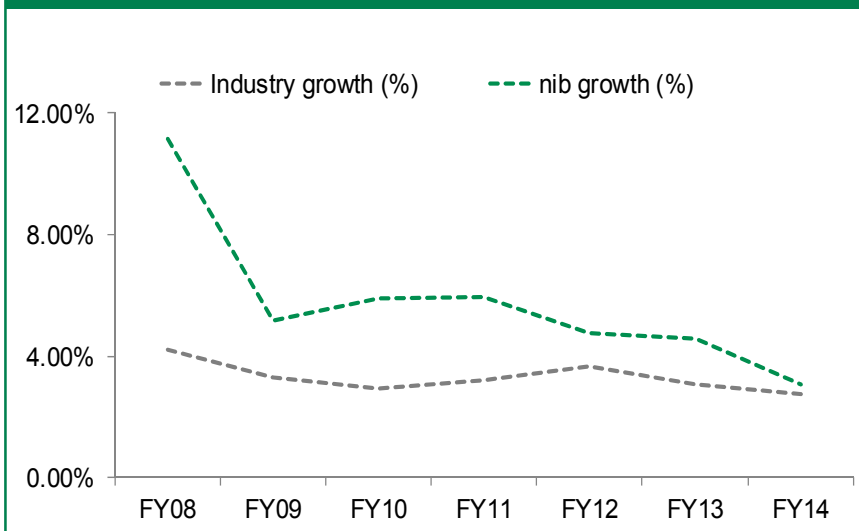


* nib New Zealand acquired in November 2012, with NPS reporting commencing August 2013

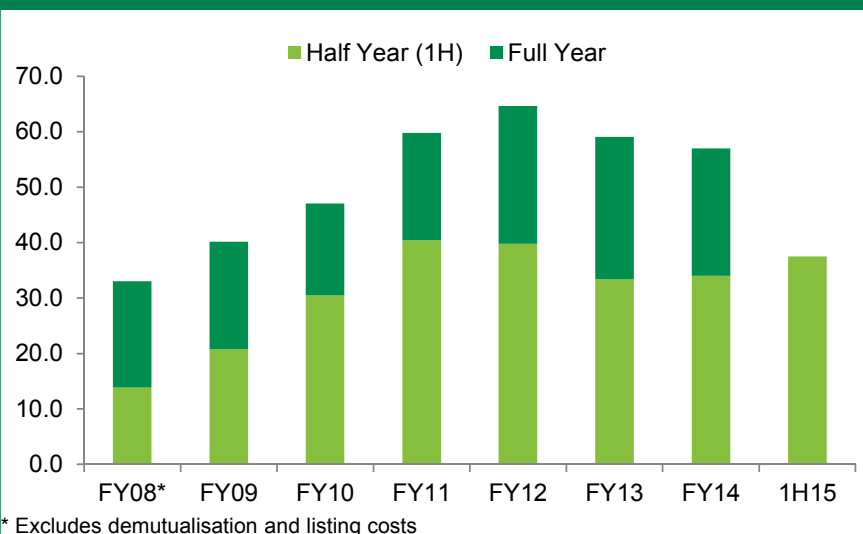
Premium revenue (\$m)



Policyholder growth



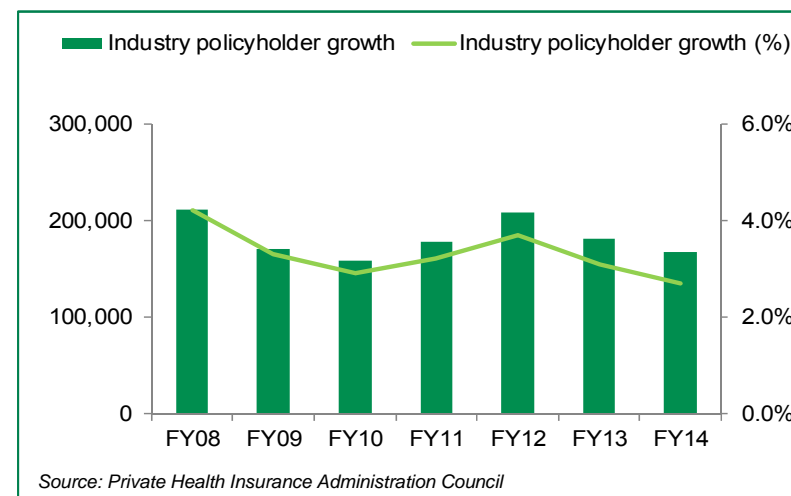
Operating profit (\$m)



1H15 versus 1H14

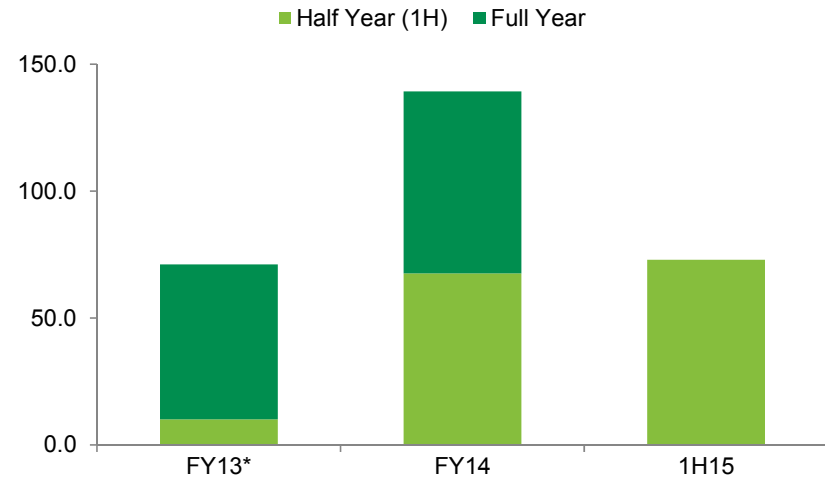
\$m	1H15	1H14	%
Premium revenue	706.9	649.7	8.8
Claims	(612.5)	(563.0)	8.9
- Gross margin (%)	13.4	13.3	0.1
Management expenses	(57.0)	(52.7)	8.2
- MER (%)	8.1	8.1	0.0
Net underwriting result	37.4	34.0	10.0
- Net margin (%)	5.3	5.2	0.1
Operating profit	37.5	34.0	10.3

- 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.



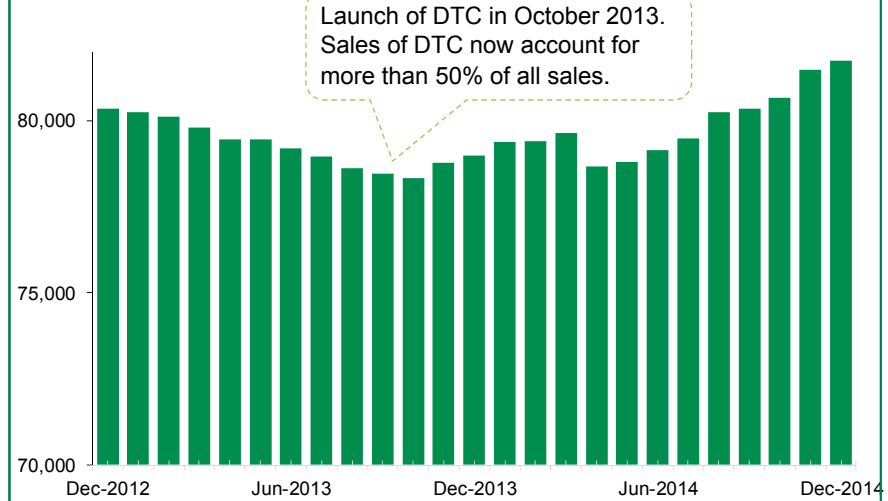
- Underlying annual claims inflation will be in the order of 6%-7% and maintain pressure on gross margin. Premium pricing will remain designed to cover inflation and achieve a 5%-5.5% net margin (expected FY16).
- Additional efforts can be expected to restrain service cost inflation and mitigate over 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)

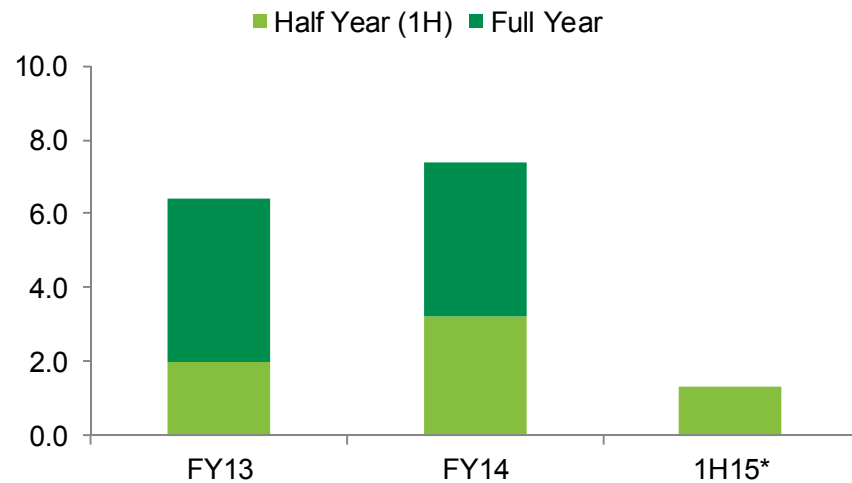


* nib New Zealand acquired November 2012, FY13 represents 7 month result

Policyholder growth



Operating profit (\$m)



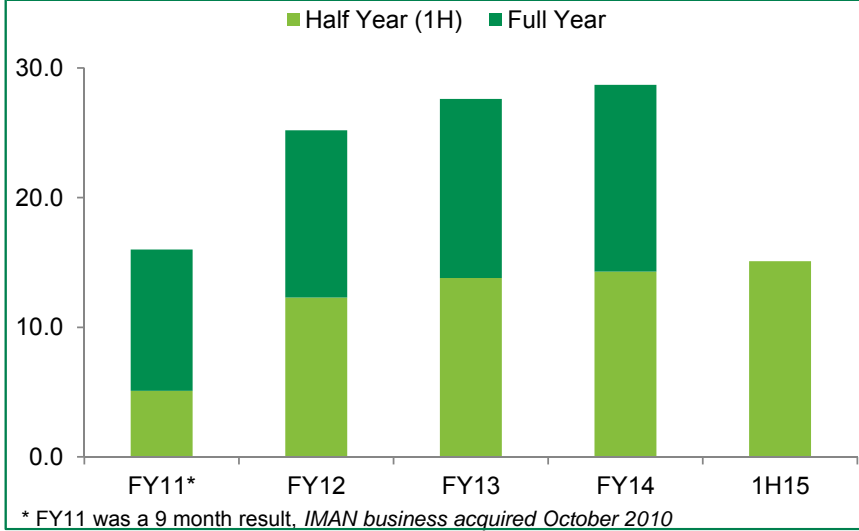
* Excludes movement in Premium Payback product portfolio liability

1H15 versus 1H14

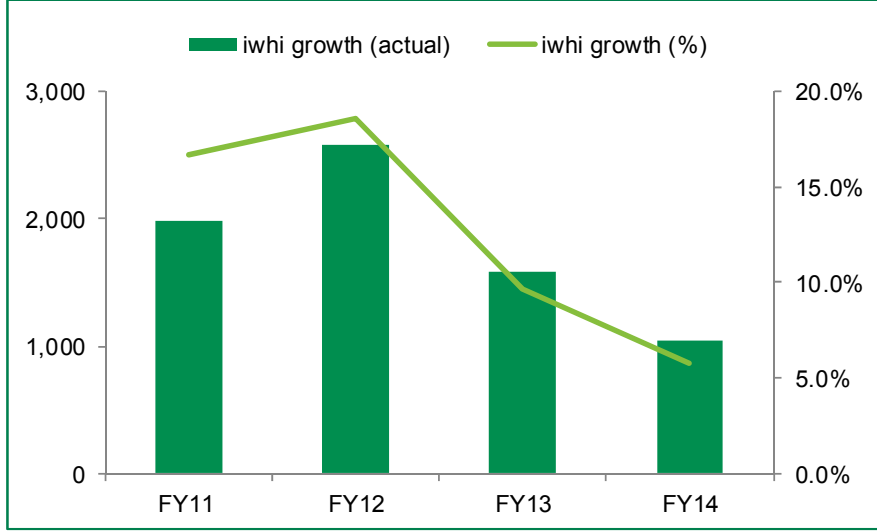
\$m	1H15	1H14	%
Premium revenue	72.9	67.5	8.1
Claims	(48.3)	(45.2)	6.9
- Gross margin (%)*	33.8	33.1	0.7
Management expenses	(23.3)	(21.8)	6.9
- MER (%)	32.0	32.3	(0.3)
Net underwriting result*	1.3	0.5	177.8
- Net margin (%)*	1.8	0.7	1.1
Operating profit*	1.3	0.5	177.8

- 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.
 - Affordability and adding value to product offering via lower claims inflation.
- 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.

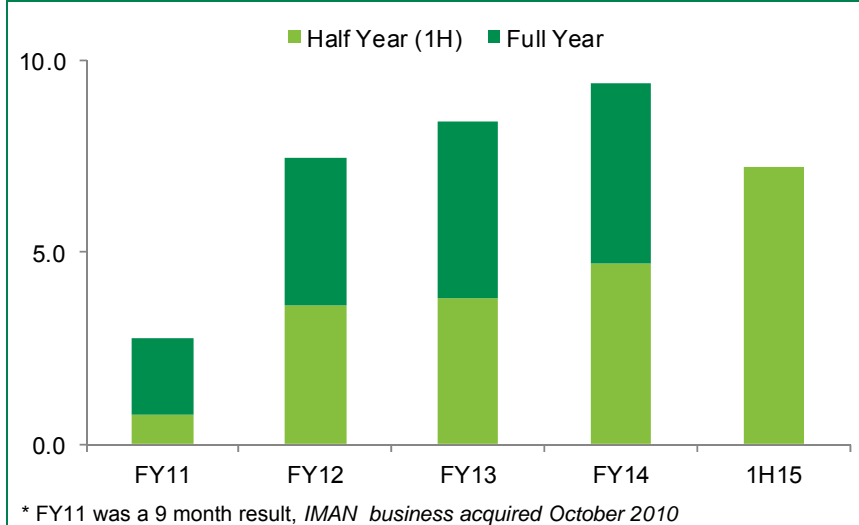
Premium revenue (\$m)



Policyholder growth



Operating profit (\$m)

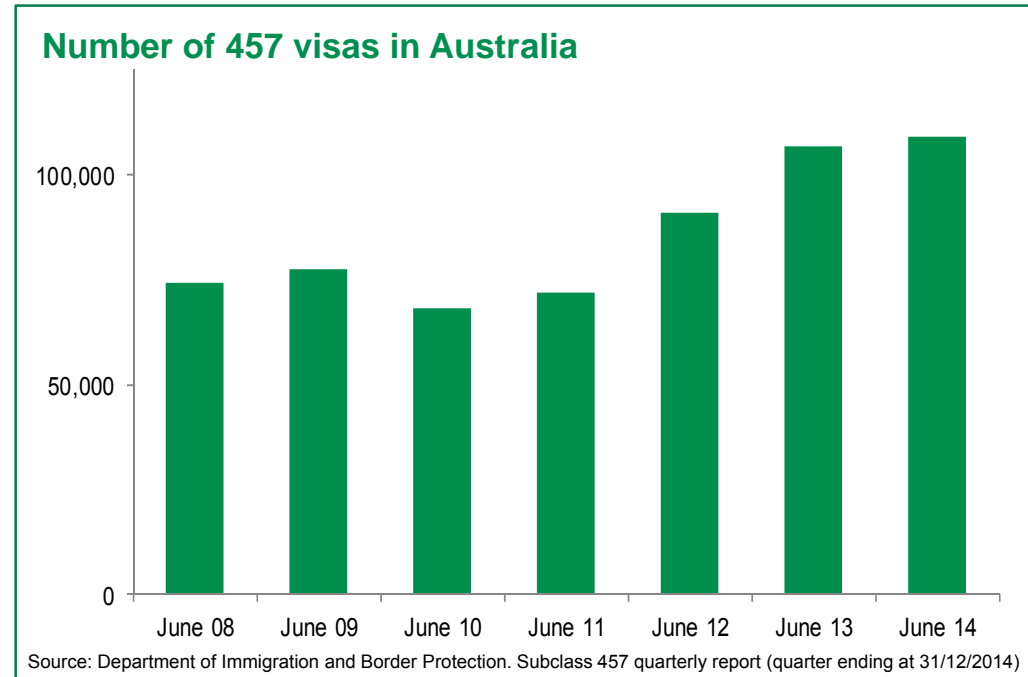


1H15 versus 1H14

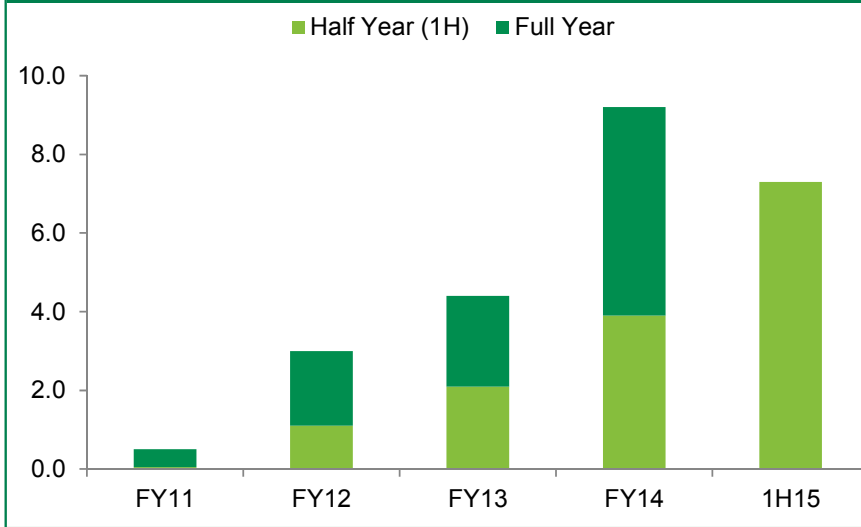
\$m	1H15	1H14	%
Premium revenue	15.1	14.3	5.4
Claims	(4.4)	(6.0)	(27.2)
- Gross margin (%)	71.2	58.3	12.9
Management expenses	(3.6)	(3.6)	(0.8)
- MER (%)	23.9	25.4	(1.5)
Net underwriting result	7.2	4.7	51.7
- Net margin (%)	47.3	32.9	14.4
Operating profit	7.2	4.7	51.7

International workers (iwhi)

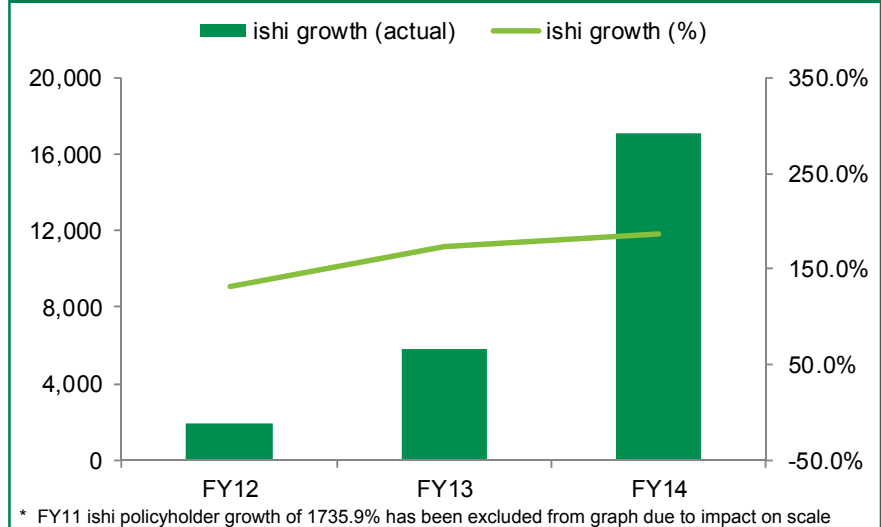
- 457 visa entries remain steady causing us to also focus upon other visa classes and distribution possibilities.
- Competition will see some insurance margin pressure (yield), with strategies intended to more than offset this with benefit from market and premium growth (load).
- Plans well advanced 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.



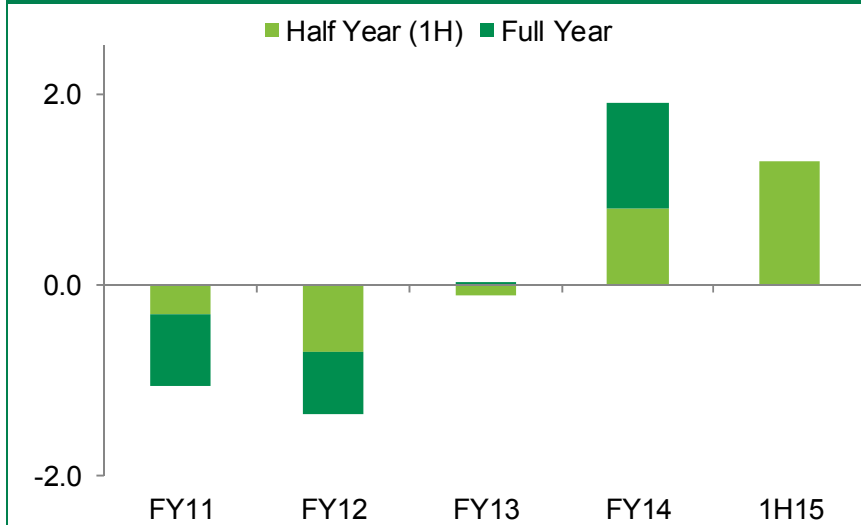
Premium revenue (\$m)



Policyholder growth*



Operating profit (\$m)

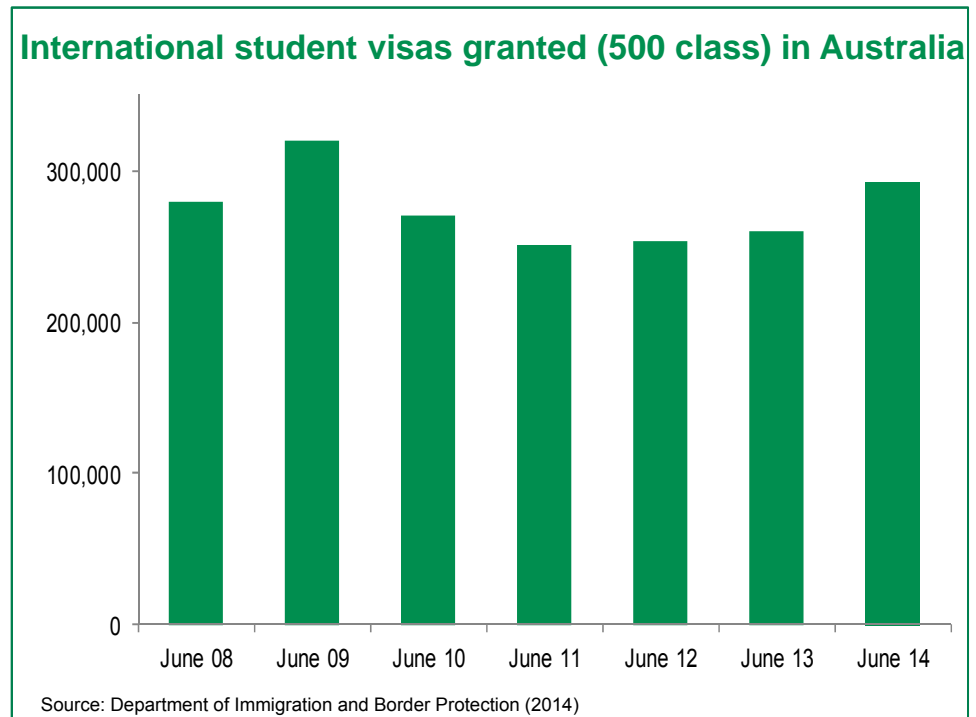


1H15 versus 1H14

\$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 towards future earnings.
- Scope remains to grow market share (including in NZ).
- Net margin for FY15 expected to be in range of 5%-10%.



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
- Involves bundling of transport, medical, accommodation, after care promise, etc
- Emphasis on clinical governance, quality and "after care promise"
- Earnings made through cost of goods sold plus margin (ie not underwriting)
- Thematic of medical travel remains compelling.
- Losses to date reflect (\$2.6 million in 1H15) building of business capability and key learnings.

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.

- 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

J.P. Morgan	Siddharth Parameswaran (Insurance)
Macquarie Securities	Tim Lawson (Insurance)
Goldman Sachs	Ian Abbott (Health)
Bank of America Merrill Lynch	Toby Langley (Insurance)
Deutsche	Kieren Chidgey (Insurance)
Citi	Mark Tomlins (Insurance)
Credit Suisse	Andrew Adams (Insurance)
CBA	Ross Curran (Insurance)
Morgan Stanley	Daniel Toohey (Insurance)
Bell Potter	John Hester (Insurance)

nib

APPENDIX

- FY14 Group premium revenue of \$1.5b, operating profit of \$72.3m, net profit after tax of \$69.8m
- More than 830 employees in Australia and New Zealand
- Australia's 4th largest private health insurer, New Zealand's 2nd largest private health insurer
- Market capitalisation ~\$1.5b (439m shares on issue, 75% retail: 25% institution)
- S&P/ASX300 Index inclusion on 20 March 2015 (after market close)
- Over 1.1 million customers throughout Australia and New Zealand
- PHI markets
 - Australian residents
 - New Zealand residents
 - International workers
 - International students
 - Other markets*
 - Life insurance
 - Travel insurance
 - nib Options - international cosmetic treatment (launched in March 2014)
- Recent M&A
 - IMAN (provider of health cover to skilled migrant workers) acquired September 2010 for approximately \$26m
 - TOWER Medical Insurance Limited acquired November 2012 for approximately \$73m (purchase price was \$81.3m, which included \$7.9m in surplus capital, which equates to approximately \$73m)

* Other markets are not underwriting businesses

	Australia	New Zealand
Public Hospital (accommodation, theatre, etc), choice of specialist	✓	✓
Private Hospital (accommodation, theatre, etc), choice of specialist	✓	✓
Medical specialist (surgeon, anaesthetist) in hospital	✓	✓
Medical specialist (surgeon, anaesthetist) outside hospital	✗	✓
General Practitioner	?*	✓
Pharmaceuticals	✗	✗
Diagnostics (x-ray, blood tests)	✗	✓
General Treatment cover (dental, optical, etc)	✓	✓
Ambulance	✓	✓

* National Commission of Audit Report recommends expanding PHI cover into primary care, including GPs

1

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

2

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

3

Grow our inbound international workers and students business and create a “global cover” for insuring outbound long stay Australians and New Zealanders

4

Grow “nib Options” to capture and commercialise burgeoning demand in Australia and Asia for medical travel especially cosmetic surgery

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 strategic and 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

The current Risk Equalisation Trust Fund (RETF), which has been in place since 1 April 2007, consists of two elements

- Gross deficit (what we ‘get back’ from the pool)
 - Consists of the Age Based Pool (ABP) and the High Cost Claims Pool (HCCP). The ABP makes up around 97% of the RETF
 - The ABP is calculated based on the patients age (for example, we receive 15% of the hospital, medical and/or prostheses claims payments back for a 57 year old)

Customer age (at date of service)	Claims attributed to RETF
< 55	0.0
55 – 59	15.0%
60 – 64	42.5%
64 – 69	60.0%
70 – 74	70.0%
75 – 79	76.0%
80 – 84	78.0%
85 +	82.0%

- Calculated deficit (what we ‘pay into’ the pool)
 - The gross deficit amounts for each fund are aggregated and divided by the total number of hospital SEUs (single equivalent units) in the industry (by state)
 - The “state average deficits” are then multiplied by the number of hospital SEUs in each state for each fund to determine the amount payable to the pool for each fund