



**JP Morgan  
Emerging Companies Conference  
March 2010**

nib event patron Hayley Bateup (Australian surf lifesaver)

## Executive summary

- Growth in Australia's health expenditure (currently circa A\$100 billion) has out paced GDP growth over the last decade and this is expected to continue due to
  - Ageing population and increased longevity
  - Medical inflation
  - Increasing affluence and incomes
- Government outlays account for almost 70% of healthcare expenditure. An ageing population and increasing ratio of retired to working people means that this relative level of Government funding is not sustainable
- The private health insurance (PHI) sector in Australia is growing and will inevitably play an increased role in funding the nation's healthcare
- The PHI industry has recently undergone significant rationalisation with BUPA's acquisition of MBF in 2007, nib's demutualisation and listing on the ASX in 2007, Medibank Private's acquisition of ahm in 2008 and HCF's acquisition of Manchester Unity in 2008. The largest insurer Medibank Private is Government owned and is likely it will be privatised within the next five years
- nib is a "challenger brand" and the only publicly listed insurer in Australia. It has the fastest growth rate of the major insurers, both in terms of policyholder numbers and premium revenue
- nib currently has a market share of ~7% but accounted for 12% of net system growth in FY09 (1H10: 14%). Growth has been underpinned by its focus upon the youth market segmentation as well as brand, product and distribution alignment





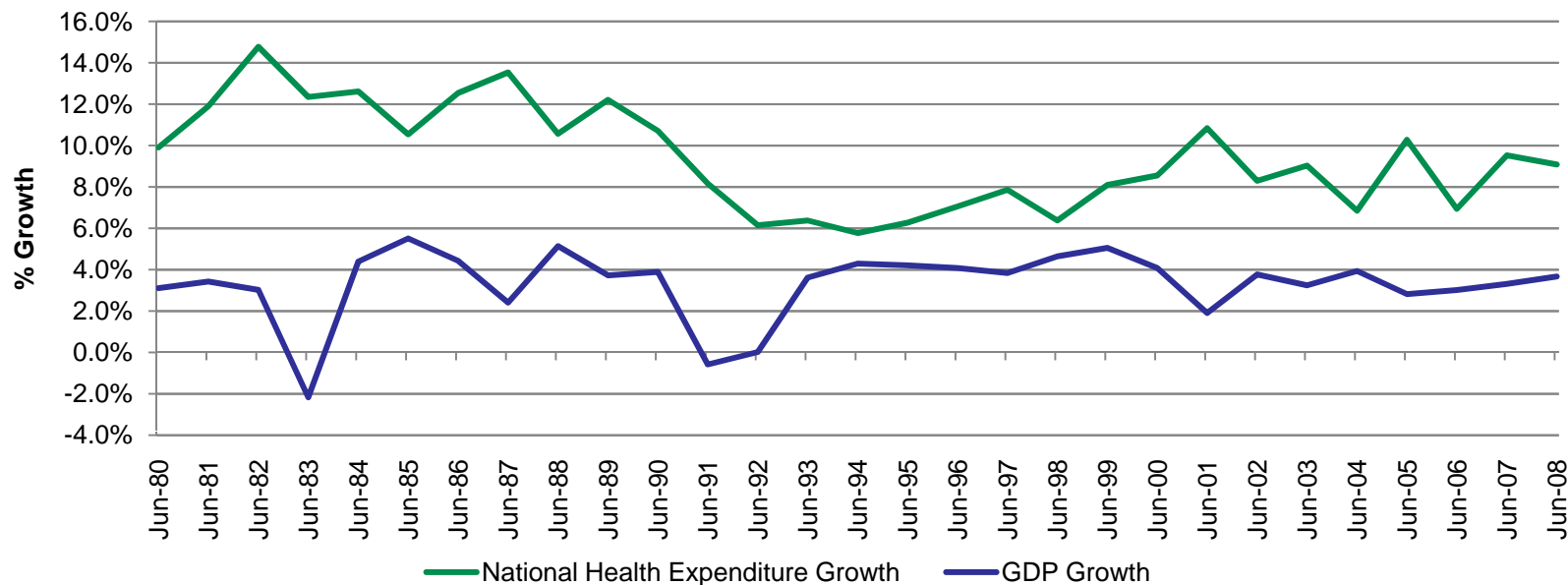
# Industry Overview



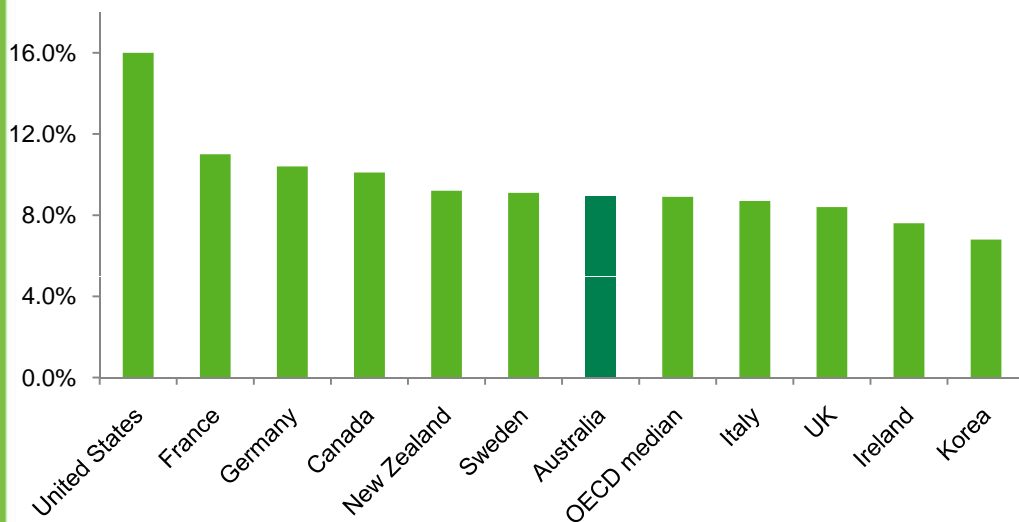
# Growth in Australian healthcare spending continues to outpace GDP



## Annual Growth in National Health Expenditure and GDP

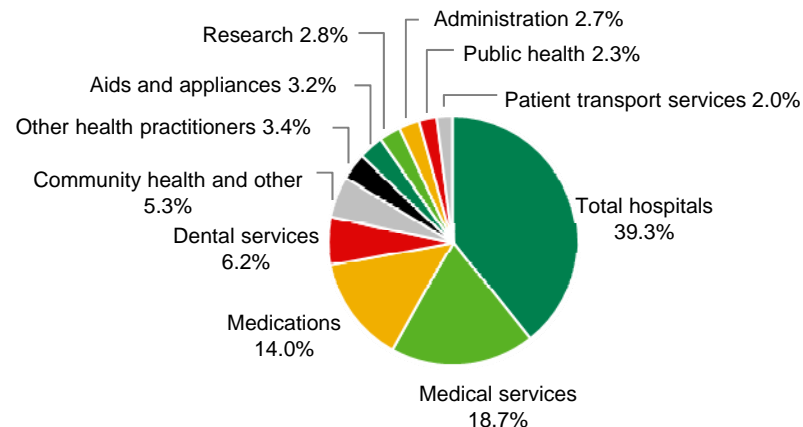


## International comparisons of healthcare spending as a % of GDP



Source: Health expenditure Australia 2007 -08

## Components of recurrent healthcare expenditure



Source: Australian Institute of Health and Welfare (AIHW)

# Government outlays account for almost 70% of spending, part of which supports PHI



## Government PHI policies

### Medicare Levy Surcharge<sup>1</sup>

- A surcharge on taxable income levied on middle and high income earners without PHI
- The surcharge is currently 1% of taxable income

### Federal government rebate

- Government subsidises the cost of PHI by providing a rebate on premiums
- Depending on the age and income of the oldest person on the policy, the level of rebate is up to 30% (64 years or younger), 35% (65 to 69 years) and 40% (70 years or older)

### Lifetime Health Cover (LHC)

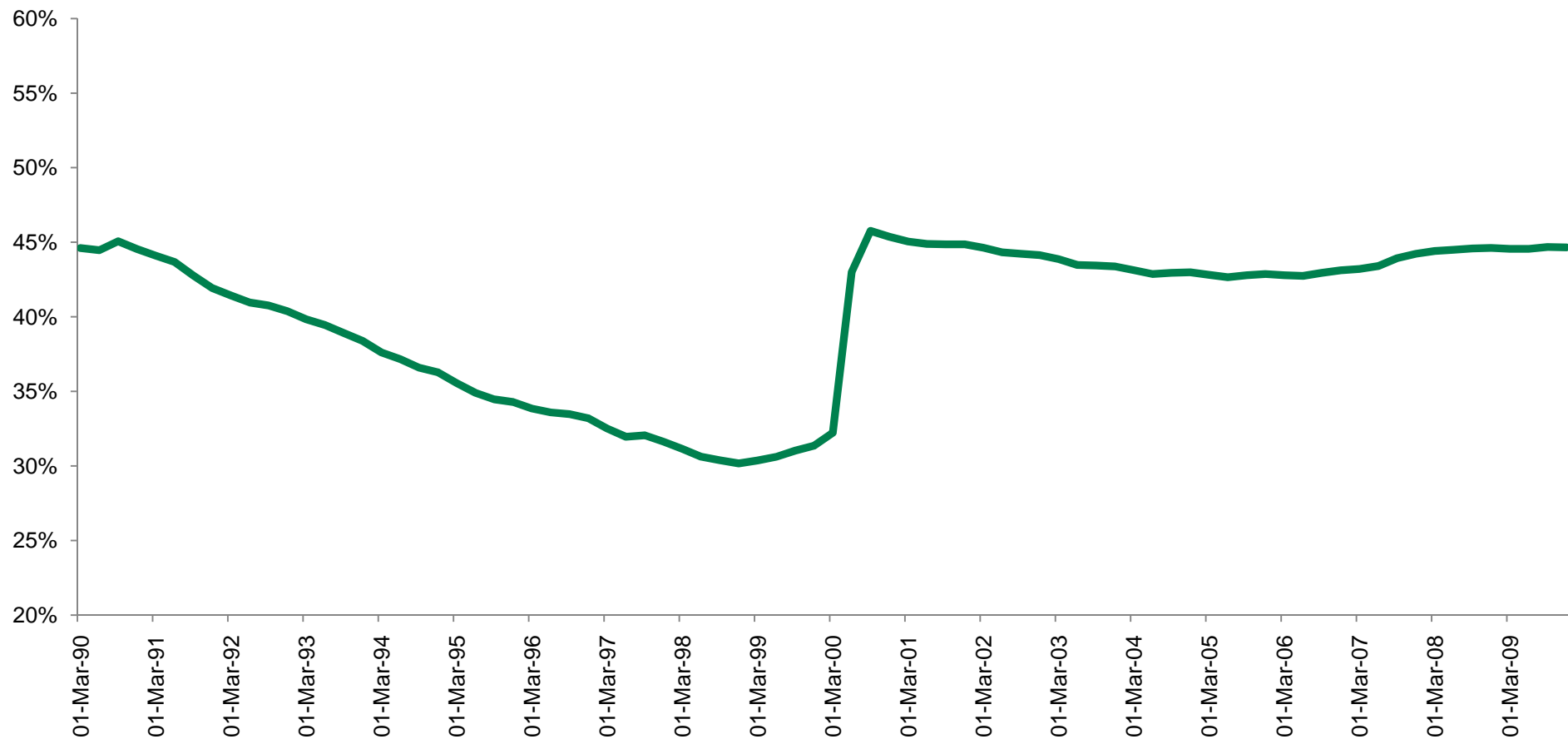
- People are encouraged to take out PHI before they turn 31 years of age
- People who join after 30 pay a 2% loading on top of their health insurance premium for every year they are aged over 30

<sup>1</sup> The 2009/2010 Federal Budget contained a proposed increase in the maximum surcharge payable to 1.5% for singles earning more than A\$120,000 and couples earning more than A\$240,000

# PHI accounts for a relatively small part of spending (13%) but is growing



Health insurance penetration rates - hospital treatment coverage (insured persons as a percentage of population 1990 to 2009)

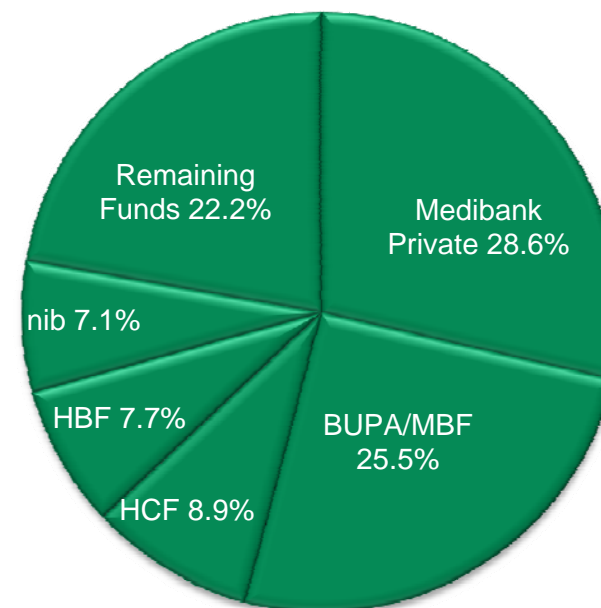




# Although there is market concentration at the top end, the PHI market is fragmented and is expected to further consolidate



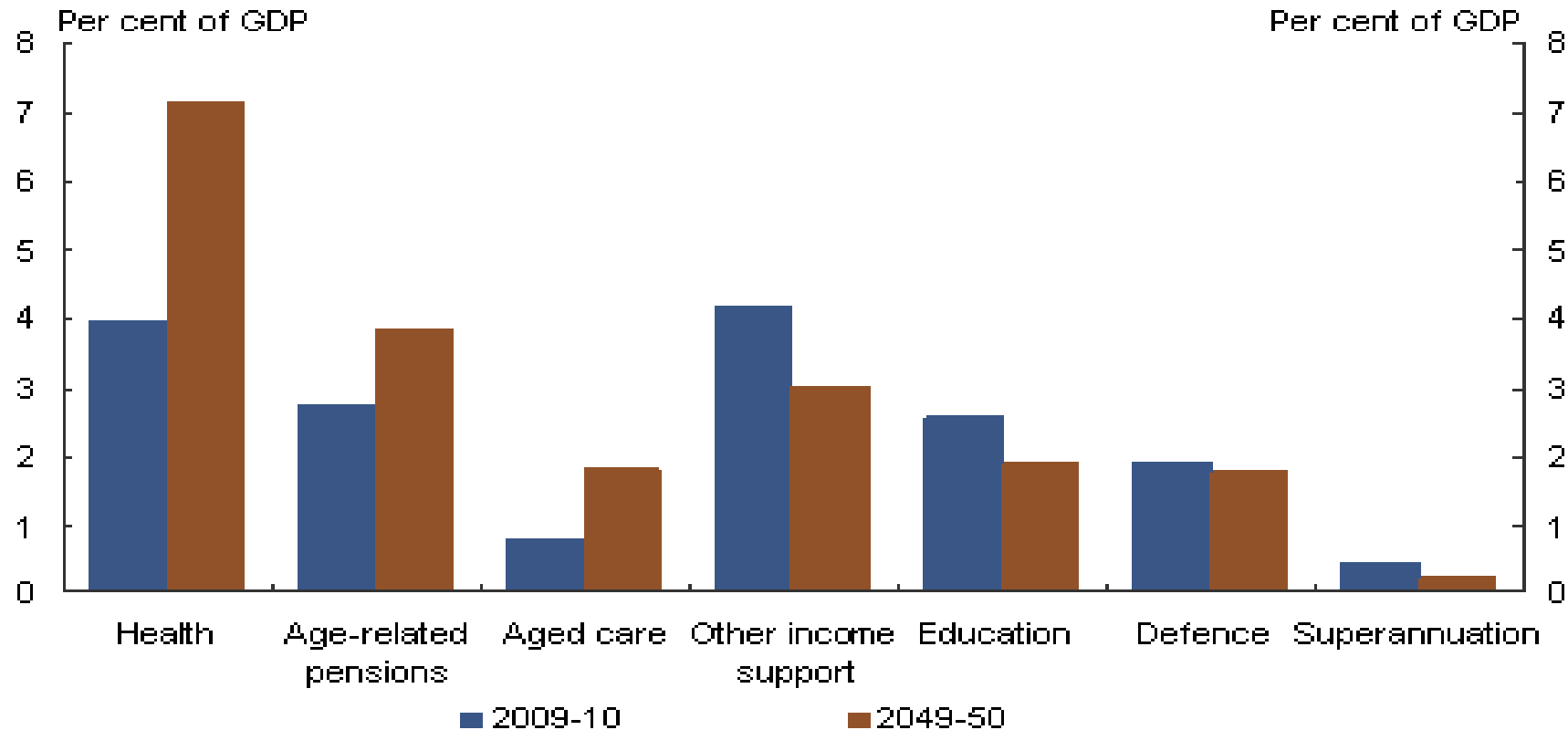
- At 30 June 2009 there were 37 private health insurers operating in Australia
- Of these, 13 were restricted access and 24 insurers were open membership organisations
- Top six PHI players account for ~85% of the market by premium revenue
- More than 70% of the industry is now “for profit” and tax paying (approximately 8% just three years ago)



## The PHI market has seen significant recent corporate activity

HCF acquisition of Manchester Unity	<ul style="list-style-type: none"> <li>■ HCF acquired Manchester Unity in August 2008<sup>1</sup> for A\$257m</li> </ul>
Medibank acquisition of AHM	<ul style="list-style-type: none"> <li>■ Medibank acquired AHM for A\$367m in July 2008<sup>2</sup>, with the combined business holding 31.5% of the market by policyholders</li> </ul>
BUPA Australia/MBF merger	<ul style="list-style-type: none"> <li>■ The Board of MBF recommended a merger of the two private health insurers following a A\$2.41bn offer to MBF contributors from BUPA</li> </ul>
nib demutualisation and listing	<ul style="list-style-type: none"> <li>■ In July 2007, Company Members and Eligible Policyholders of nib voted overwhelmingly in favour of a proposal to demutualise</li> <li>■ nib subsequently listed on the ASX in November 2007</li> </ul>

# Inevitably, PHI must play a greater role in the future funding of Australian healthcare as current Government relative funding not sustainable



Source: The 2010 Intergenerational Report



# About nib



nib sponsored Geelong Cats (Australian Football League Team and 2009 Premiers)

# nib is Australia's only listed health insurer



- ASX ticker - nhf
- Shares on issue – 495, 925, 501
- Share price (11 March 2010) - A\$1.225
- Market capitalisation - A\$608m
- Australia's fifth largest health fund (only listed Australian private health insurer)
- Approximately 390,000 policyholders, providing cover for almost 780,000 people (as at 31 December 2009)
- Primary distribution channels:
  - Customer Care Centre
  - Online
  - Retail and Corporate Sales
- Forecast FY10 net underwriting profit A\$45-A\$50m
- Net tangible assets (31 December 2009) A\$371.5m or 74.91 cents per share

## Performance since listing has been strong

	FY08	FY09	1H10
Pre-tax underwriting result (A\$m)	33.0	40.2	30.5
Net underwriting margin (%)	4.4	4.8	6.8
Profit before tax (A\$m)	37.6	31.6	61.5
NPAT (A\$m)	26.7	23.8	43.1
EPS (Acps)	5.2	4.7	8.7
ROE (%)	7.0	6.6	18.0
TSR (%) <sup>1</sup>	(38.0)	58.2	115.6

\* FY08 result was normalised to remove the impact of costs associated with nib's demutualisation and listing, and "notional" tax.

<sup>1</sup> TSR based on dividends reinvested.

# nib's strategy is focused and clear



1 Target under 40s market segment, extend brand reach and improve retention to achieve above system organic growth

2 Maintain net underwriting margin in range of 5-6% with emphasis on reducing claims inflation and increased operating efficiency

3 Increase 'share of wallet' from customer base through policy 'buy up' and adjacent product offerings

4 Continue to explore M&A opportunities consistent with strategic and investment criteria

5 Accelerate new product concepts and innovation throughout business

6 Further develop high performance organisational capability and culture

7 Pursue ROE of at least 15% through ongoing profitability, sound investment and capital management



## And results so far impressive



(%)	FY06	FY07	FY08	FY09	1H10
Net policyholder growth (nib)	3.9	8.8	11.1	5.2	2.4
Net policyholder growth (industry)	2.1	4.2	4.2	3.3	1.2
% of new sales new to category	70.8	74.4	78.2	67.4	64.1
% of new sales “under 40” target segment	73.6	78.5	79.2	78.7	76.7
% of new sales online	13.5	32.5	38.8	36.2	33.2
% of new sales outside core state of NSW/ACT	23.4	32.3	44.0	42.6	41.0

- CAGR since FY05 = 6.4% (Industry 2.9%)
- Net policyholder growth rate of 2.4% versus industry 1.2% for 1H10
- nib with 7.2% market share, accounted for 14.2% of national growth for 1H10
- 76.7% of nib’s policyholder sales in 1H10 in target 20-39 years of age segment
- nib with 10.0% market share in target 20-39 age group accounted for 23.4% of national growth in 1H10
- Forecast FY10 net policyholder growth 4-6%

# Financial Snapshot



(A\$m)	FY07	FY08	FY09	1H10
Premium revenue	666.0	758.2	829.5	446.1
Gross Margin	94.9	111.2	122.0	71.2
Management expenses	(71.2)	(78.2)	(81.8)	(40.7)
Net margin	23.7	33.0	40.2	30.5
Net investment return	31.3	7.5	(1.8)	33.6
Other income	1.2	1.4	1.1	0.7
Other expenses	(3.3)	(4.3)	(7.9)	(3.3)
Profit before tax	52.9	37.6	31.6	61.5
Tax	(15.7)	(10.9)	(7.8)	(18.4)
NPAT	37.2	26.7	23.8	43.1
Gross margin (%)	14.3	14.7	14.7	16.0
Management expenses (%)	10.7	10.3	9.9	9.1
Net margin (%)	3.6	4.4	4.8	6.8
Investment return (%)	8.8	1.6	(0.4)	15.9

## Balance Sheet

nib has a strong capital base and no debt

(A\$m) At	31 Dec 09
<b>Current assets</b>	
Cash and cash equivalents	161.5
Financial assets at fair value through p&l	259.2
Other current assets	35.4
<b>Total current assets</b>	<b>456.1</b>
<b>Non-current assets</b>	
Available-for-sale financial assets	1.5
Investment properties	30.0
Property, plant and equipment and intangibles	55.0
Other non-current assets	11.5
<b>Total non-current assets</b>	<b>97.0</b>
<b>Total assets</b>	<b>553.1</b>
<b>Current liabilities</b>	
Outstanding claims liability	56.5
Unearned premium liability	46.4
Other current liabilities	66.0
<b>Total current liabilities</b>	<b>168.9</b>
<b>Non-current liabilities</b>	<b>0.9</b>
<b>Total liabilities</b>	<b>169.8</b>
<b>Net assets</b>	<b>383.3</b>

# Investments



(%)	Annualised Investment Return		Investment Split	
	1H09	1H10	1H09	1H10
Cash	6.5	4.3	37.3	35.5
Australian fixed interest	22.5	7.2	23.2	21.5
O/s fixed interest	(10.8)	25.8	15.4	16.6
Direct property	5.9	5.9	7.4	6.7
Australian shares	(47.7)	64.3	6.8	8.7
O/s shares	(55.5)	56.0	6.0	7.0
Listed infrastructure <sup>1</sup>	(37.8)	44.5	3.2	3.5
Unlisted security <sup>2</sup>	1.3	1.6	0.3	0.3
Property trusts	(29.2)	(8.7)	0.4	0.2
<b>Total return</b>	<b>(6.5)</b>	<b>15.9</b>	<b>100.0</b>	<b>100.0</b>
<b>Total investment assets (A\$m)</b>			<b>404.6</b>	<b>450.3</b>

<sup>1</sup> Inception date was April 2007; the 06/07 return is for the last quarter in FY06/07. <sup>2</sup> Inception date was May 2008; the 07/08 return is the monthly return for May 2008.



# Capital management

- nib maintains a “war chest” for M&A and there are opportunities to optimise capital structure through debt
- As at 31 December 2009, nib had capital of A\$156.3 million above its prudential target (1.4X), after allowing for the interim dividend
- nib intends to retain capital above its prudential target in the near term to fund potential M&A investment opportunities
- The Board has previously indicated to the market that it would consider a debt-to-capital ratio of 20-30% as part of any funding requirement
- In the absence of M&A investment opportunities coming to fruition, the Board will consider more significant capital management initiatives to optimise nib’s capital structure in the 2011 calendar year (including introducing debt)
- Dividend policy will continue to be heavily influenced by franking credit availability. To the extent made possible by franking credits, the Board will release capital above internal target by way of special dividends
- Overseas and unverified policyholder trust due to expire in October 2010. As at 31 December 2009, 55,488 eligible policyholders (representing 49m shares or 9.9% of ISC) remained unverified. On expiry the remaining shares will be cancelled (subject to shareholder approval at October 2010 AGM) or sold, with the Board decision likely to be influenced by capital management requirements at the time

# Key enterprise risks

## Market

- Macro-economic environment
- Heightened competitor activity
- Claims inflation

## Sovereign

- Premium pricing
- National Health and Hospital Reform Commission

## Investment

- Market volatility
- Surplus capital and sub-optimal returns

## Summing up

- nib is a “challenger brand” already making significant progress in increasing market share through focused organic growth strategy
- Strong earnings accretion can be expected to continue, driven by organic growth and hopefully M&A
- The long-term outlook for PHI in Australia is positive given the un-sustainability of current levels of Government healthcare funding



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