

ASX ANNOUNCEMENT

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nib holdings limited (asx: nhf)

21 August 2017

Strong full year operating result lifts nib's earnings

Highlights:

- Total Group underlying revenue of \$2.0 billion (+7.0%)
- Group underlying operating profit of \$153.7¹ million (+16.4%) and statutory operating profit of \$150.6 million (+24.7%)
- Net profit after tax of \$120.2 million (+30.9%)
- Earnings per share (Statutory) of 27.2 cents per share (+28.3%)
- Full year dividend of 19.0 cents per share fully franked (+28.8%)
- Net Promoter Score² of 23.2% (+550bps)

nib holdings limited (ASX: NHF) today announced a full year underlying operating profit (UOP) of \$153.7 million for the 12 months to 30 June 2017 an increase of 16.4% on the previous financial year. Net profit after tax (NPAT) grew 30.9% to \$120.2 million and earnings per share (EPS) by 28.3% to 27.2 cents per share.

nib's Managing Director, Mr Mark Fitzgibbon, said the full year result was very pleasing and reflects well-conceived and executed strategies across the Group.

"Our Australian Residents Health Insurance (arhi) business was once again an outstanding performer, with UOP up 13.2% to \$107.0 million. Despite weak market conditions and affordability pressures, arhi still added in net terms 20,204 policyholders at a growth rate of 3.8%, which was almost four-times the industry rate. Significantly, nib accounted for more than 30% of the entire industry net policyholder growth for the year," Mr Fitzgibbon said.

nib noted that while the increase in claims expense was lower than anticipated (+5.0%), there are signs claims inflation driven by medical utilisation is moving higher towards longer term trends which will place pressure on margins.

"Last year we paid for more than 310,000 episodes of care costing almost \$1.2 billion in total. Our largest claim was almost \$410,000. Naturally, we're doing everything we can to keep a lid on claims inflation and maintain affordability of premiums and our most recent average premium increase was the lowest in 14 years and below the industry average," Mr Fitzgibbon added.

"However, we are seeing claims, both hospital and ancillary, start to drift upwards after a prolonged period of relatively low growth. Essentially, Australians are demanding more and more healthcare for all the reasons we understand such as an ageing population," he said.

Mr Fitzgibbon called out the improvement in arhi's Net Promoter Score (NPS) as another significant result.

"Our NPS increased to 23.2% compared to 17.7% the previous year. We'd like of course to see it much higher still but we're making good progress within a difficult industry context," he said.

nib's adjacent businesses which includes international workers and students, nib New Zealand and travel insurance distributor the World Nomads Group continued to perform strongly. Earnings from these businesses accounted for more than 30% of Group earnings, up from 28.4% last year and actually accounted for more than 40% of FY17 Group earnings accretion. nib aims that its growing portfolio of adjacent businesses can one day account for 50% of our Group earnings.

"The performance of these businesses shows how we are leveraging the assets and capabilities of the nib Group to not only create enterprise value but diversify risk. Ten years ago our fortunes were

¹ nib's statutory operating profit includes \$3.1million in amortisation of acquired intangibles and one-off transactions and merger, acquisition and new business implementation costs.

² arhi business only

singularly tied to our traditional arhi business. While we continue to invest heavily in arhi with confidence, we're equally keen to have eggs in several baskets," Mr Fitzgibbon said.

nib's international students and workers business reported organic growth of 28.5% which lifted UOP by 47.7% to \$25.4 million. nib now covers over 130,000 international workers and students and the outlook for further growth is very positive.

Likewise, nib New Zealand grew premium revenue by 14.9% to \$199.3 and improved UOP by more than 35% to \$23.5 million. Importantly, over half of sales were made through nib's new direct to consumer channel which is new to the market landscape.

World Nomads Group business delivered a strong sales result up more than 20% for the year. Annual sales exceeded 600,000 for the first time, with more than 40% of all sales made in international markets.

"As we've flagged since acquiring World Nomads Group in 2015 we're thinking long term about the business and the fall in UOP to \$7.5 million from \$9.7 million³ the previous year reflects the upfront investment we're making to build our presence in both the domestic and international markets," Mr Fitzgibbon said.

nib confirmed it had made the decision to wind down the nib Options business in May 2017.

"Closing the business was disappointing and we still actually believe medical travel worldwide will grow. But having given it our best shot over three years without commercial success we're disciplined enough to say enough," Mr Fitzgibbon added.

nib's flagship charitable arm, nib foundation continues to showcase the health fund's commitment to improving population health and wellbeing.

"Since 2008, the Foundation has contributed almost \$16 million to more than 100 partners. The Foundation is making a meaningful difference in improving health in various communities across Australia," Mr Fitzgibbon said.

"Another well advanced initiative in generally improving our healthcare system is the Whitecoat digital platform. From the outset we envisaged Whitecoat as an industry platform and it was fantastic to see Bupa and HBF become joint venture partners during the year. Whitecoat is already making it easier for consumers to find, select, and book a doctor, dentist or other clinical providers," Mr Fitzgibbon added.

Dividend & Outlook

nib declared a full year dividend of 19.0 cents per share, fully franked (FY16: 14.75 cents per share) which includes a final dividend of 10.5 cents per share (FY16: 9.0 cents per share). The full year dividend represents a payout ratio of 70% of FY17 NPAT. The final dividend has an ex-dividend date and record date of 7 and 8 September 2017 respectively, and will be paid on 6 October, 2017.

nib is forecasting FY18 UOP will be at least \$150 million (statutory operating profit of at least \$141 million) and investment income in line with internal benchmarks.

According to Mr Fitzgibbon, FY18 guidance implies some margin contraction within the arhi business as well as additional investment in new ventures and technology.

"The outlook for claims inflation and premium pricing as well as the investments we're making in long term growth across the Group means in FY18 we don't anticipate earnings accretion like we've become accustomed. Most likely our profitability within arhi will return to being within our target net margin range of 5% to 6%."

"But we do have a number of well-developed plans to boost growth in established businesses and create additional enterprise value from some new business ventures including a proposed initiative in China," Mr Fitzgibbon said.

Media and Investor Enquiries

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³ World Nomads Group acquisition was completed 31 July 2015 with FY16 an 11 month result.