Start of Transcript

Mark Fitzgibbon: Good morning, everybody, and we're coming to you today from sunny Newcastle on the traditional lands of the Awabakal people and we pay our respects to their Elders past, present and future.

So thanks for joining us this morning. We have the usual conventional presentation. I'll kick off with just some high level thoughts. Nick, who will be joined by Ed, will spend time on going through the accounts and results in some more detail, then I will come back at the end to summarise and, of course, we will have Ros in between talking about the efforts we're making around sustainability.

So, look, for a number of years now we have been promising to convert the Company into being as much a health management company as we have for about 75 years a health insurance company and the evidence of that progress is quite pronounced, as you can see from the results. Next slide please.

What we're attempting here, not losing sight of the fact that health insurance will fall the foreseeable future be the core economic engine, we see an opportunity to be more than health insurance per se. We see an opportunity to expand the value proposition for people by giving them access to a much broader range of healthcare products and services. We see the opportunity to provide them and their doctors with much deeper insight into their health risk and how those health risks might be better managed.

So that's our vision for the Company. As this slide demonstrates, I won't go through every element of this but it [events us] real progress. We now have a large corpus of members and customers using our app. You can see how popular the use of telehealth consultations are, how popular the use of prescriptions functions and even new applications like the symptom checkers.

I like to brag that today my nib app on my device I can not only -I can still do all my traditional health insurance stuff like make a claim, check my annual limits, find a provider and so forth, but much more than that, today I can consult a doctor, I can have a prescription home delivered, I can check a symptom, I can access a wide range of health management programs most relevant to my health risk. So we feel as though we're making terrific progress in this quest of becoming, as I say a health management company. Next slide please.

Nick and Ed will go through the details of all of this. Look, we've had a good year. We've grown earnings. Nick will go into the details. If you think about the disruption of what has been easily the most profound event certainly in my lifetime, across that period we've grown earnings, underlying earnings by about 5.2% over that period. So we're pleased with that outcome.

Last year's result accommodated some one-off variations, such as the premium deferral we made as a compensation measure for COVID-19. In very tough marketing conditions, especially in the second half,

we still grew the arhi business. 2.5% by our lofty standards isn't that spectacular, but nevertheless, it's well ahead of systems growth and, importantly, the system continues to grow.

As we predicted, margins are moving back to our target range of 6% to 7%. We indicated throughout COVID-19 that those elevated margins weren't sustainable, nor did we intend them to be sustainable and we're now back within range and obviously that has some impact on our earnings relative to previous periods.

We will, no doubt, get lots of questions about claims experience. We still believe that the long range experience for us in arhi will be somewhere between 4% and 6%. We believe that only for the reason that it has been that way for so many decades. What we're seeing at the moment is the funnel, if you like, of hospital activity refilling back to pre-COVID levels.

Just how quickly that filling was going to revert to whatever the new normal mean becomes was always going to be problematic for us in terms of forecasting our margins. It has happened a little bit faster than what we may have imagined in the second half and certainly in New Zealand, but it's entirely consistent with our original expectations.

We've seen good recovery in international workers and students. We now sit with about 216,000 international workers and students. That's as high as it has ever been before and margins, particularly in our students business, are improving.

The New Zealand result was slightly disappointing, but as I mentioned, that was mainly a factor of claims inflation returning to this new normal at a slightly faster rate than we predicted.

We've seen terrific performance in our new fledgling NDIS business, nib Thrive, who contributed meaningfully to this year's profit and travel, which was obviously hard hit throughout COVID-19, is starting to recover as well. So we're very pleased with where the business is at.

The new health businesses, as I've touched upon, are growing. Our major investment in Midnight Health and Honeysuckle Health, our joint venture with Cigna, while loss making is showing real progress, not only in terms of improving health outcomes and improving the value proposition across the business, but also in terms of reduced loss making and we expect - I'll come back to this when we talk about the outlook, but we expect those businesses to both be profitable cashflow positive within the next few years.

So overall, it's a story of ongoing growth, notwithstanding weaknesses in the market. It's a story of claims inflation, particularly in arhi and New Zealand, reverting to a new normal as we thoroughly expected, and I suppose our challenge there is largely to make sure that we predict and price in that risk. It's a story of the other adjacent businesses recovering in this post-COVID world. Next slide please.

Well, I won't go through all of this. I've touched upon much of it. Strong topline revenue growth, growth in our underlying operating profit under AASB23, and Nick will go into some detail about how we reconciled AASB23 with AASB17. A good investment income performance, NPAT up 2.8%.

The ROIC in the business, our return on invested capital, is still very strong. The cashflow results last year were equally strong. EPS we're comfortable with and we've slightly increased the full year dividend, as you can see from this slide. Next slide please. Nick?

Nick Freeman: Thanks, Mark. If I could just take you through the Group statement and then just a bit of AASB1023 versus 17 and then I'll hand across to ED on the residents business.

So you can see here if I look towards the middle the underlying operating profit on a 17 basis up 77%. What'll you see in the next slide is that there's a bit more of a volatile nature with this accounting standard and a bit more of a sore tooth nature versus 1023. But it actually all ends up in the same spot. So we're not saying that profit has gone up 77%. We're saying it's more like about the 5% to 6%, which has been in line with the CAGR since pre-COVID.

The pleasing elements of it were the growth in revenue up 9%, which is strong. As Mark mentioned, we did see some claims inflation come back in the second half in particular and we'll have a bit of a talk about that when we come to the arhi slides.

As we go down, I think a good part of the result was the non-marketing expenses, which declined overall. It was actually if we adjust - because we had some asset write-offs last year - if we adjust it was a 1.3% growth, which is a good result given the growth in our business and also the inflation that has been in the economy and, in particular, the second half non-marketing expenses in some of our more established businesses, such as arhi and New Zealand did decline. So we were pleased about that and we'll continue to manage that strongly into FY25.

It's worthwhile highlighting the one-off transactions, especially the Thrive integration. The integration is on track and it's actually a bit ahead of schedule. So we've put in the Investor presentation at the back a list of all of those integration costs, but they were higher, which has impacted the EPS.

Investment income is strong, along with the market and, again, just this slightly elevated tax rate because of the non-deductible Midnight Health losses.

Just quickly, just having a quick look between 17 and 1023 and I've just tried to very much simplify a slide which is around the underlying operating profit on the left of 77%. But if you look on the right it's more like 5.9% and then the difference really is just the COVID provision. If you look at all the rest of the numbers they're all either exactly similar or quite similar. There's a few little impacts in revenue because of 17, but they're not that material. So, what we're just trying to highlight here is that in our view the growth is more in that 6% range rather than the headline number.

Also worth noting that again in that COVID provision last year from our perspective we brought it back because we didn't see the potential to carry it forward. Some of that did go up into the old OSC, which is now called the liability for incurred claims, and you saw that that was relatively elevated in FY23. It still

remains reasonably high in FY24, it's only a little bit lower, and that's a result of what we are seeing in the market in the second half in terms of the claims inflation.

I'll now hand over I think to - oh one more page. Just again what we're trying to highlight here is if you look on the bottom left, the revenue between 1023 and 17 is really very similar. On the right hand side what you can see is the volatile nature of the dark green line, which is under 17, and the smoother nature under 1023. But then the top left table actually shows you that if you accumulate the UOP across all of the years, it actually comes to the same position.

So, a little more volatile under the new accounting standard, but ultimately ending up in the same position. I might hand over now to Ed to have a talk about the residents business.

Ed Close: Thanks, Nick and good morning everybody. If we jump to the next slide please. So yes, diving a bit deeper into the residents health insurance business, you'll see we delivered a strong underlying operating profit result of $220.1 million, which is up 8.2% on the 1023 basis. Contributing to that result was a good sustainable policyholder growth of 2.5%. In particular we saw pleasing outcomes in our nib brand, our direct to consumer business and broker channels performed favourably, as did our whitelabel partnerships.

We're off to a great start in July as well, so early days, we appreciate that but we are seeing some continued buoyancy in the market and nib and the arhi businesses capitalising nicely on that. This translated into an insurance revenue increase of 8.5%, driven by that growth but also our premium increases of 4.1% and continued low downgrading of 0.3%.

On an incurred claims basis, we did see some elevated claiming activity coming off that artificially lower claims base, so incurred claims were up 4.9%, and paid claims per policy growing at 5.7%, predominantly driven by hospital indexation but also increasing utilisation post that COVID period. So, this is at the higher end of our long-term outlook, but we are anticipating this to be a shorter term risk as we start to normalise back to the 4% to 5% long-term average.

We had a pleasing result around our management expense discipline, and we can see there that the arhi other MER reduced 100 basis points down to 6.4% and we're expecting further productivity savings on a look forward basis. Our NPS did have a modest decrease off the back of the two premium increases across the course of the year.

Turning to slide 15. What we've done here on a half year trend [brace] is just show that like-for-like on the 17 verse 1023 basis and importantly drawing your attention to the second half of '24. What you will see is that gradual return back to our target net margin ranges of 6% to 7%, you can see we're still at the upper end there, and our gross margin and our management expense ratio is starting to work back into that composition that we're more familiar with in terms of our pre-COVID experience.

Pleasingly, we have seen some relatively flat non-marketing expense reductions and that discipline and control around management expenses, but also a shift as part of our digital first strategy to increasing levels of digital adoption. You'll see there that our app usage was up 21% on the full year. We're also seeing ongoing investment and automation across our claims activity, with improvements around our straight through processing.

If we turn to the next slide please. Diving a little deeper into policyholder growth. What you will see on the left hand side there is that nib's compound annual growth rate continues to outperform industry, but both industry and nib have had a sustainable track record driving growth at positive margins.

On the right hand side, what we've done is dive a little deeper around that growth is really occurring in both our combined and hospital product mix and we're seeing favourable outcomes there, in particular leaning towards our attractive target segments in those bronze and silver hospital tiers, rather than the standalone ancillary at lower revenue.

As I mentioned earlier, we are seeing some good growth in the first part of fiscal year '25 with net growth up 42% on the same time last year.

Jumping to the next slide. Just breaking out that policy trend in a little bit more detail, and you can see here the composition over a three year period has been favourable, in particular skewing towards the hospital and extras combined policies which we generally see deliver lifetime value and stronger tenure mix. So, we're now seeing that start to play through. Still seeing some pleasing outcomes on an ancillary basis, but not at the same growth levels of combined and hospital.

We'll move through the next slide. So, this is just taking a bit of a look at the claims growth in FY24, as Mark and Nick have mentioned, we did see some elevated claims activity both for nib and the industry, and this is looking at the APRA data on a rolling four quarter basis up to the end of March. You'll see that the shape is consistent both with nib and hospital coming off that lower artificially COVID affected base throughout the COVID period.

This just steps out a little bit more detail. You can see here the table is just showing the pre-COVID experience, back to our long-term inflation trend of 4%. We do see some shorter-term risks towards the 6%, and nib's or arhi's paid claims inclusive of risk equalisation on a policyholder basis is at 5.7%, but we believe that if we jump to the next slide, the pleasing thing is that the industry and nib on a consistent basis has been able to price in that inflationary impact over the long-term. Certainly you can see here that that delta between revenue, compound annual growth rate and claims CAGR has tracked at that 30 basis points differential. So, we're confident on a forward-looking basis that we will continue to be able to price in any elevated claims activity we might experience in the short term.

I'll pass back to Nick to go through the rest of the divisions.

Nick Freeman: Thanks, Ed. If we turn to our students and workers, a pleasing result, a bounce back with the students coming back into the system this year. As you know our workers business has been strong for a while, so this was overall a really pleasing result. Really everything going in the right direction, so I won't spend too much time on this, apart from the growth was as we anticipated and look forward to questions at the end of this presentation.

New Zealand had a bit more of a difficult result. The plus side was really around its revenue, again good, strong policyholder growth, good, strong revenue growth, but we are seeing that claims jump up, especially in the second half. What we've just done at the bottom is just showed the CPI that's occurring in New Zealand. There has been quite a jump, especially around wages, in that country, and you can see that incurred claims are up 16.9% with service cost 8.7%, utilisation 6.2%.

So, really this is a pricing story. What we are seeing is we are seeing industry repricing, we'll need to do repricing as well and just normalise that particular impact, and then we will be focusing strongly on the other MER, which is relatively higher in this business than it is in our other businesses. So, those are the two actions out of that.

In travel, travel's a difficult one. We did lose the Qantas contract, but again what we call the GPAC, which is the gross profit after acquisition costs, which removes the Qantas commissions, didn't really impact as much from the Qantas contract loss. But what you can see is that in FY23 we had a really strong result. If you remember the second half of '23 was a particularly strong result, that inverted commas, revenge travel, that occurred, it was very strong sales, a lot of pent up demand.

What we've seen is that that's tailed off a little bit across this year and become a little more stable. The slight mismatch is that all of the claims from that pent up demand during the COVID period, that claims activity has now pushed into this year, so our operating costs have increased a bit.

Because the claims from FY23 are now being processed in FY24. So, we just need to wash that through. Again we see that is a reasonable base and we'll be looking forward from that base, but again it's in terms of the operating expenses, need to ensure that they're in line with the revenue.

I'll just go back quickly, just back to travel. In terms of going forward, we do have some underwriting arrangements, they're a little more flexible, which is really good, and we are putting in some new products into the UK and Europe, in particular what's called the annual multi trip, which is an important product in Europe, and that allows people to pay once a year and take multiple trips. So, we haven't had that product in the market, we launched it a month or two ago, so we're very excited about what that may bring.

In terms of Thrive, going along to our expectations, now a meaningful contributor into FY24, participants growing up towards that 40,000 and we've now got to the scale. As I mentioned before, the integration costs, integration's on track if anything a little bit head of expectations. But we have put in here to show you that bottom, the impact of the amortisation of acquired intangibles at $7.4 million.

We did have a one-off catch up from FY23 that we had to put through this year and we just did our allocations between Goodwill and between customer contracts and so forth. So that will be a one-off, that $1.7 million. Then the $15.9 of the integrations against $4.8 million, again that's the one-off and as the integration goes, that will come off.

So, looking in the right direction, we're pleased with the result, meaningful contribution and we grow from here on.

In terms of capital, everything going in the right place. PCA ratio of 1.94, so getting good, strong capital result. The net tangible assets just reducing a bid versus the overall assets, and that's just really us purchasing the nib Thrive entities, because again we've paid cash for those and they come on board with goodwill and customer contracts. So, that's the reason for that.

Gearing ratio strong, leverage ratio strong, so all heading in the right direction with good, strong capital position at 1.94.

Then just highlighting again what Mark was saying, just the cashflow from operating activities, up 4%, $257 million, so a positive result. On the bottom right you could see again that our UOP versus our operating cashflow's starting to become more in line after that slight saw tooth pattern that we saw going through COVID.

If I look at Honeysuckle Health, key callouts here is that continues to grow, the NPS continues to be strong and the losses continue to reduce. So, we're anticipating a breakeven into FY25, and that will be our focus. If I just go to Midnight Health, again a similar picture, very strong result, really going very strongly in its weight loss management programs. We're helping a lot of people around their weight management. Peak losses in this year is what we're expecting, and we've put in there so you can see, the first half at $10.4 million, the second half at $5.9 million.

We're expecting now this business to break even in FY26 as we continue to invest and continue to grow, especially around that weight management area, but also we're launching into the corporate health programs as well.

I will now hand across to Ros.

Roslyn Toms: Thanks, Nick, and good morning everyone. Next slide, thanks Maddie. Earlier this year we undertook our second double materiality assessment to consider the impact of ESG matters, both from a financial perspective as well as the impact on our stakeholders such as our members and employees and suppliers. It's really a foundational piece to our sustainability strategy, and you can read more about the details of that in the sustainability report that were published earlier today.

But I will call out a few key highlights from FY24. We were able to achieve almost all of our sustainability targets this year. Inn terms of health checks, and I'd be sell surpassed the target of 28,000, with over 78,000 individuals undertaking health assessments. As Mark indicated earlier, these are easily done

through the nib app, where members complete a survey based on lifestyle factors, their age, their medical history. They receive a score which not only provides the members with a fantastic baseline around their own health but allows nib to direct members into appropriate health management programs and appropriate health literature.

Pleasingly we're seeing more of our members go through our health management programs as a result of those health assessments, and they are members with chronic conditions or members who are at risk of chronic conditions. You'll see there that we also surpassed the target of 20,000 with over 22,000 members completing those programs. A really great example of how the P2P ecosystem is coming to life is MedJourney, which is one of the programs offered through our partner, Honeysuckle Health.

This is really designed for members who are on weight loss medications such as Ozempic, and they may be obtaining Ozempic via Midnight Health. The program provides for a wraparound service where it works on educational and promotes behavioural change. So, the outcome of these health programs is much more sustainable for our members.

In terms of climate, for the third year in a row we managed to maintain our carbon neutral status, and we've been really turning our minds to what we can do for our members and the impacts of climate change in the longer and medium-term future on the health of our members. We've also published our Climate Disclosure Report today which provides more details about that matter.

In terms of our people, we remain committed to keeping our people healthy and happy, and in particular through life at nib, we want to ensure that our employees have the support that's required in that hybrid working investment. So, conducting things such as psychosocial assessments and the introduction of contact compacts, which ensures that we're coming together in a very deliberate and meaningful way with our employees.

In line with our core values of free to be you, we continue to focus on the importance of diversity and including in our business, and we launched our first disability and inclusion action plan this year. Via the nib Foundation, we continue to focus on working with those in the communities in which we operate and to partner with partners who are very much aligned to our purpose of better health. We have some very longstanding partners, such as the Black Dog Institute, and through their Sleep Ninja app, and Hello Sunday Morning. In FY24 we reached over 430,000 people through these programs.

Maddie, if I could move to the next slide, thanks, Maddie. The focus for FY25, we will continue to focus on bringing our members through health management programs and having more members complete health checks, so we can work towards improving health outcomes of our members, and to harness digital innovation to personalise those healthcare services.

In terms of climate, given our recent acquisitions, we're committed to transitioning all nib controlled locations to 100% renewable energy, and we will conduct a second climate change scenario analyses, so

we can really have a further look at the long-term impacts of the changes in climate on our members' healthy.

For our people in FY25, we will continue to focus on reducing the gender pay gap, and we will be working further towards more diversity within our workforce.

In terms of the community, we continue to be committed to working with our Indigenous partners and communities is both New Zealand and Australia, and improving the health and wellbeing of First Nations people. We completed all of our deliverables in FY24 of our RAP, and we will be launching our next Innovate RAP in FY25.

Finally in terms of governance, we remain committed to upholding strong governance across the entire business. Significant work is already underway in relation to CPS230, and we're working to ensure that our cyber security as protecting our members' data remains a priority. As we continue to use more AI, we're developing our AI policy to ensure that it is working to manage our member's data in a responsible and ethical way. Thank you. Back to you, Mark.

Mark Fitzgibbon: Thanks, Ros. Many of you have seen this slide before, I started off today talking about how the essence of P2P was threefold really. An expanded value proposition for consumers. Secondly that had become source of differentiation particularly in private health insurance, which has become largely commoditised over the decades. Most importantly, it would improve health outcomes across our population, consistent with our raison d'etre as a business.

So, you might say well that's fine Mark, but where do you actually capture value or the enterprise? I think this diagram's a useful way to think about that. arhi expansion is obvious, we look to grow the marketplace, the attraction of private health insurance are now a relative share and we've been doing this quite nicely for many years now. So, P2P is fundamental to that. But of course if you think about the Australian healthcare economy, $230 billion, and you add the NDIS and travel and New Zealand, the opportunity for a company like us is actually much, much larger.

So, above and beyond arhi and its expansion we have explored adjacent markets which are PHI related, it's really an economies of scope perspective and that of course today includes international workers and students and includes New Zealand. It includes travel insurance and as I mentioned earlier, we are doing quite well there and that's quite a significant - taken all together they're very significant markets where we can capture value.

Government and third-party programs. Well, obviously the best example of this is the NDIS. We are working in a $40 billion system now. Now, this is a system, a value pool if you like, as large as the entire private health insurance system in Australia and we are very excited about our prospects. The Government's policy approach around a more seamless integrated experience for participants and all people with disabilities through a navigated model is very much aligned with our vision for the business. As Nick has touched upon, we are making great progress there.

Midnight Health and Honeysuckle Health are interesting value pools. Honeysuckle Health by keeping people healthy and hopefully out of hospital because of good health or having them treated in substitutional settings of care including their home. It is obviously an opportunity to capture value in that large part of the healthcare economy we call hospitals. It's about $100 billion of that $230 billion we mentioned and that's going very well. Almost 30% of our major joint replacement now is conducted in our Clinical Partners Program which subject to the doctors being happy that it is clinically appropriate, we'll see rehab, rehabilitation, for example done at home.

Midnight Health is playing in the value pool in what we affectionally call Everyday Healthcare. That's about the $35 billion that Australian consumers spend on out-of-pocket expenses in meeting their everyday health requirements and that includes things like GP consultation, prescriptions and as Nick touched upon, we see great opportunity around weight management and the prodigious role that we expect GLP-1 agonist, the Ozempics, the Wegovys, the Mounjaro of the world.

We like to think as a business we'll be a leading facilitator of weight management into the future led by our ability to facilitate easy access to the GLP-1 agonist. Of course, the final part of that is just providing additional value and making it all the more affordable for consumers which feeds every element of this scheme.

Next slide please. I won't go through every element of this, but look, there are a few highlights. In New Zealand, for example, we now have a fully operational life insurance business. That's important for us in New Zealand because advisors, our principal distribution channel, like to sell health and life insurance as a bundle, so expect we will do much better there. I have touched upon the nib plan management.

On the top right-hand side, just calling out the significant investment we are making in digital assets, Ed has touched upon this, such as our symptom checker. Our vision for our P2P ecosystem is not that we manufacture every element of the system but that we facilitate, we orchestrate consumers being able to access a broad range of physical, virtual and homecare products in a single location. Maybe on our app for somebody with a disability. It may be on some other form of device.

Also worth calling out here, social prescribing. This will figure more and more in our ambitions to play a role in helping support Government programs like the NDIS because we know how important social factors, employment, food security, home security, mitigating the risk of isolation and loneliness, we know increasingly through data science just how important these are to improving health outcomes [are very] our mission.

You can see a whole stack of enabling capabilities to support this framework below. Like every other company in the economy, we are very interested in AI and see huge potential for it right across the spectrum of our activities from predicting health risk and how that might be better managed, through to processing claims or invoices as we currently do in the NDIS and parts of the business.

Next slide please. Okay, this one everyone is waiting for so let's just break it down. arhi, look, we still expect good growth in the system. The system has grown for the past 17 quarters. It's grown on the back of heightened concern in the community about the risk of disease courtesy of the pandemic. It's grown on the back of not something we celebrate but concerns in society about the public hospital system and waiting times and I think it's growing on the back of the industry, strong competition across the industry and the industry being prepared to invest in its future through marketing and advertising and product development, just like we are.

Our forecast for next year's policyholder growth of 3%, I expect that will probably be around 30% or to double of the system or growth will grow, if only because of difficult economic circumstances. Although as Ed highlighted in his presentation, we are off to a really good start. Annual growth rate has now - it's jumped to 2.8% from just 2.5% at 30 June, so we're quite optimistic about arhi bouncing back this year.

Look, absent of a crystal ball I know there's considerable discourse around what's the long-term outlook for claims inflation likely to be for arhi. The truth is nobody can predict this with any accuracy, but what we can rely upon is history and while history doesn't repeat it rhymes and that range of 4% to 6% is very consistent with what we have seen over the course of the past 20 years. As I explained earlier on, the high level of inflation that we currently experience is simply the system both in Australia and New Zealand reverting off a very low artificial COVID base to this new normal.

We are fairly relaxed about claims inflation notwithstanding some of the pressures we are feeling there and ultimately the situation with hospitals will resolve itself. It's not us to repair their P&Ls and balance sheets but we are certainly sympathetic to their plight and are willing participants in the Government's current review of the hospital system, private hospital system and arrangements. We are equally confident about stabilising our net margin in that 6% to 7% range as we weather this current high inflationary environment and things return to normal.

There will be some risk around pricing. Not so much in New Zealand where we have a lot of flexibility, but in Australia where we have an approaching Federal election, but at the end of the day we are confident Government accepts, supported by its regulatory institutions like APRA, that we still need to price in whatever the underlying rate of inflation is just like general insurers have to do in respect of home and car insurance, et cetera.

So, very optimistic about arhi and its prospects as always. iihi is now, as I mentioned earlier, at record levels. We did experience difficultly during COVID, particularly with students and the fact that we didn't have new students arriving in Australia refreshing the risk pool and we had a larger cohort of existing students ageing. Because something we have learnt over the years is that the longer international workers and students stay, the longer their tenure, the worse it gets for the loss ratio. So, staying ahead of that in pricing and that natural occurring growth in claims experience is a challenge we have in the business but that's

now stabilising and we are quite happy with the iihi result in fiscal 2024 and we expect to do even better in fiscal 2025.

New Zealand is interesting. New Zealand is growing nicely. It's growing on the back of an enhanced value proposition, a better experience for advisors and our particular partnership with Māori tribes or iwi where we're assisting those tribes identify health risk in their tribes and manage that health risk. So, it's a very exciting prospect for the business with opportunities to grow even further. As we price in the rapid rate of inflation that we have experienced in fiscal 2024 margins will stabilise to that 8% to 9% range.

Nick touched upon travel. We lost the partnership with Qantas which affected sales but didn't necessarily affect our overall income. A lot of improvements we've seen in travel. It's much more integrated with the business today. Culturally it's more aligned with the business. We have some improved underwriting arrangements in place that Nick touched upon, and we expect the US and Europe to get really kick back into gear in this following 12 months. So, travel will continue to grow and it will improve upon the 2024 result into 2025.

I've spoken about Thrive, as the others have already. Expect ongoing growth in the business, expect ongoing improvements in profitability, expect ongoing improvements in efficiency borne out of scale but also automation and expect that will be part of working with Government and the disability community and shaping what a navigator actually looks like. We're very clear about what the purpose of this business is in helping participants not just pay the invoices of their support providers but helping them design their plans, make more informed choices around their providers, better manage that relationship, but also have access to the broad range of health care products that we offer our members today.

As Nick touched upon, we expect to see Honeysuckle Health will continue to grow. It already has one customer larger than nib today and Midnight Health, as I've already mentioned, apart from providing the basic services around virtual consultation with GPs, prescriptions and medical certificates, it's leading the way in the development, the application of GLP-1 agonist in the marketplace and also leading the way in terms of better integrating services which support weight loss because we know that pharmacy alone is not the solution for tackling the endemic we call obesity.

It requires behavioural changes and married with Honeysuckle Health we are already delivering a number of programs, MedJourney, which is designed to understand those behavioural changes needed to complement the pharmacy. So, with that, I will hand over to questions.

Operator: Thank you. We will now begin the question-and-answer session. To ask a question, please press star one, one, on your telephone. You will then get an automated message advising your hand is raised. To withdraw your question please press star one, one, again. Our first question comes from the line of Vanessa Thomson from Jefferies. Please ask your question Vanessa.

Vanessa Thomson: (Jefferies, Analyst) Thank you. Thanks for taking my questions and congratulations Mark and Ed. Best wishes for next steps. I just wanted to ask a question about arhi and the hospital picture

that you're seeing at the moment. I wondered, I notice you've got 27% of joint replacements through clinical partners. Are you also seeing shorter lengths of stay in hospital and I just wondered what you thought might be driving this. Thank you.

Mark Fitzgibbon: Oh, the shorter length of stays is a global trend. It's improving on the back of improved clinical practice and technologies. Procedures which 30 years ago may have required four nights in hospital today can be handled overnight or even the same day, so it's just your usual advancements in clinical practice. I suppose in some markets…

Vanessa Thomson: (Jefferies, Analyst) You're not…

Mark Fitzgibbon: I was just going to say, in some markets…

Vanessa Thomson: (Jefferies, Analyst) Sorry, go.

Mark Fitzgibbon: …let's say in Australia has been delivered, you know, has been driven by commercial considerations as well.

Vanessa Thomson: (Jefferies, Analyst) Are you seeing that accelerate more recently perhaps with prehab and I don't know, hospital at home and that kind of stuff?

Mark Fitzgibbon: Absolutely. Something [like 26% to 27%] of procedures currently in long stay hospitals are currently short stay, so it's happening within the traditional long stay hospitals but of course it's also happening within the dedicated day hospital sector as well. This is no longer a trend. It's a reality. It's more a reality these days that if we go to hospital to the extent that is clinically appropriate and a doctor makes these decisions, never us, that the shorter the stay in hospital the better.

Vanessa Thomson: (Jefferies, Analyst) Thank you and one more question just on the nib Thrive business. It's a great profit for this period. I wondered if you could give us some colour on how you transition to the navigator function from [planned] management businesses. I understand you're talking with Government. I just wanted to understand how that would happen and whether the economics would change. Thank you.

Mark Fitzgibbon: Well, the economics will eventually change but it's not clear exactly how. This is something we are working with the disability sector and Government and the NDIA in working out. There's probably a future and I won't try and put a timeframe to it but let's just say five to 10 years ago where a navigator is paid a percentage of the planned budget because that would be simple.

In the meantime, the economics for us will remain that the existing remuneration structures will stay in place. So, at the moment plan managers are paid an annual fee for a participant and support coordinators, where we're also playing now, are paid a charge which is part of the plan and that charge relates upon the level of accreditation of the support coordinator. The existing remuneration structures will remain in place until the navigator model is actually introduced. How long that will take really is difficult to predict.

In the meantime, we had a plan - we've always had a vision that we would be a navigator. Not just as I mentioned earlier somebody to pay invoices and help manage the budgets for participants. We entered through plan management because they were the assets that were available for sale. Support coordination is very fragmented, well plan management is fragmented, but there were some larger assets as we have demonstrated in our M&A program which we have been able to acquire and accompanied that with some investments in technology and support coordination business.

So, we now have a licence as a support coordinator and support coordination is going to be really important as a skills base to help us develop our navigator model because it's the skills of the support coordinator rather than the skills of a plan management business which lend themselves, we think, to a navigation model.

Something that is really important to emphasise here which may have gone unnoticed in the discourse is that our fundamental premise of the independent review committee and Government's endeavours is to provide services to all the 3.5 million Australians who identify as having a disability, not just those 600,000 to 700,000 who are eligible for NDIS funding, and they describe that as foundational support. We think the addressable market for the nib Thrive will not only be the 700,000 NDIS participants, but anyone across Australia and potentially New Zealand who have a disability.

We can still provide them with the service of helping them to design a plan to meet their goals, procure the relevant support services they require and manage that relationship with support coordinators with providers as support. They may self fund or rely on other funding to purchase that support for us but we're not looking just at NDIS participants even though obviously they will remain the - they will be the top priority.

Vanessa Thomson: (Jefferies, Analyst) Thank you.

Operator: Thank you. Our next question comes from the line of Julian Braganza from Goldman Sachs. Please go ahead, Julian.

Julian Braganza: (Goldman Sachs, Analyst) Good morning, guys. Thank you for taking our questions. Just an initial question just on the claims inflation over the period. [Or, with] second half 2024, can you just talk to where the pressure is coming from in claims inflation? Is it - does hospital contracting have anything to do with it? Also, just trying to understand, are there any one-off claims in sight coming through the results in the second half of 2024 period? Just to understand as there's a difference between the margin you reported and just the underlying margin that you were previously disclosing. Thanks.

Mark Fitzgibbon: You can jump in there if you want to take it.

Nick Freeman: Oh yes, yes. Thanks Julian. Yes, I mean we have outlined in the arhi slide a claims inflation of 5.7% up towards the upper end of that [4% to 6%] and I guess it's broadly spread across the modalities. Interestingly, during COVID we called out rehabilitation, psych and also risk equalisation as being low. What

we are seeing is that psych and risk equalisation remain relatively low but rehabilitation actually came back a bit and was above average.

So, broadly across modalities, rehab a little higher, but it's not, you know, it's one of the bigger five but it's not the big two of joints and cardio. In terms of utilisation and cost, about evenly spread, maybe a bit more on cost inflation versus utilisation. Then lastly, if we look between hospital and ancillary, it would be more on the hospital side.

Julian Braganza: (Goldman Sachs, Analyst) Okay. [Inaudible].

Mark Fitzgibbon: The three core components for us or any insurer for that matter, but particularly us with the third risk equalisation, our service cost utilisation and risk equalisations, the growth we're seeing is fairly symmetrical. The hospitals are obviously pursuing price increases, that's well known in the marketplace and to the extent where we think it's prudent, we're accommodating those requests, including entering into renegotiations midcycle.

As the pipeline starts to fill again, we're seeing a growth in utilisation activity which was deferred during COVID-19 and explained the provision that we made during COVID-19. The third one particularly for us is risk equalisation. So just as we benefited from low systems growth during COVID because we're such a large contributor to the risk equalisation pool, so too are we experiencing greater pressure because of that same factor.

But bear in mind too with risk equalisation that to the extent that other insurers, Bupa, Medibank Private, et cetera, improve their claims efficiency and claim less into risk equalisation, that does have some benefit for us, which shouldn't be forgotten. So we're always, somewhat paradoxically, we're always cheering any improvements that many of our competitors may make in improving health outcomes and our clinical efficiencies.

Julian Braganza: (Goldman Sachs, Analyst) Okay great, thank you for that. Just a second question on reserving, Nick can you just maybe talk to your overall reserving position and just the moving parts between the different buckets? It looks like the claims processed but not yet paid seemed to strengthen over the half, so just trying to understand how we should be thinking about your reserving at the close for FY24 and how you're thinking about that.

Nick Freeman: It's really that in note 4, I think it is of the accounts, it's really that IBNR number, the claims process but not yet paid is just a factual number in terms of what we're holding on but we haven't yet paid and it's the IBNR which is the one that impacts. You can see that's gone down about $20 million after going up a bit, so relatively high in comparison to claims paid if you did a trend over that period and looked at it, so it is relatively high. But again, we have seen higher claims paid, so we have had that relatively high.

Julian Braganza: (Goldman Sachs, Analyst) Okay, thank you and just one last question, in terms of just the lapse rate, that has increased second half 2024 quite a bit, just interested in your view of the [sales] mix

going forward and how we can be thinking about that given the competitive dynamic in the industry and across of course different channels and whether there is expected to be any change there to improve that lapse rate. Thanks.

Ed Close: I'll take this one, Julian. So on the lapse rate, yes, it's worth looking back around the pre-COVID lapse rate numbers to get a better guide of what a more sustainable long term lapse rate is for arhi and it is, in some ways, a byproduct of a very strong sales rate as well.

So there's some relativity there around the FY19 number that's probably worth guiding back to that 13.8% number for the full year, particularly in the second half, really compounded by the April premium increase and the elevated switching market off the back of that and also people looking for better value, I think, just in the marketplace more generally. So whilst we did see that make quite a step change from FY23, which was a very strong result for arhi, that has trended back to those pre-COVID lapse levels that we're generally expecting to see.

That said, I think on the sales mix piece, that we've done very well in FY24 with record sales and that sort of multi-brand, multichannel distribution strategy really starting to generate some good top line sales outcomes. In particular, skewing, as I mentioned earlier, to that combined and hospital mix, which is our favoured target segments.

Looking forward and I know we showed you a brief snapshot around FY25 results to date, we are still seeing continued strong growth there, so we expect lapse will remain relatively high and we are seeing that over the course of the first seven weeks of the year in what is a competitive marketplace, but where we're feeling that we're comfortable to play in that space around marketing, product and pricing but also our offers composition to capture growth in a sustainable way.

Mark Fitzgibbon: Yes and of course, Ed there was the two, as you mentioned earlier, the two premium increases always was going to give us a whack. My friend, David Koczkar, I think subtly mentioned the other day that there was some growth behaviour in the marketplace, aggressive growth behaviour which is not sustainable and I'd agree with that. There is a level of competition out there at the market which that's what competition's about, but I doubt the insurer leading that will have the stamina for much more.

Julian Braganza: (Goldman Sachs, Analyst) Okay, great, thank you so much for that guys and all the best, Mark and Ed.

Operator: Thank you. Our next question comes from the line of Andrew Buncombe from Macquarie. Please go ahead, Andrew.

Andrew Buncombe: (Macquarie Group, Analyst) Hi, thanks for taking my questions, just two from me. Firstly in relation to the 50,000 participant target for the NDIS, you had very slow growth in that metric is second half 2024, do you think you can get to that 50,000 target organically or do you need to make further acquisitions? Thank you.

Mark Fitzgibbon: I think both, Andrew. Certainly the – well one of the factors we've encountered with organic growth is our focus upon merging, what, six plan management brands has taken away, well, obviously made it – slow down our ability to introduce to the market the nib Thrive brand. We're there now, so expect that the marketing and effort around the nib Thrive brand will contribute materially to organic growth.

Similarly, as we bolt on our support coordination business, they will bring other participants, which we hope would become plan management participants as well. I think some of the rigour and integrity that Minister Shorten and others are attempting to bring to the NDIS, we'll see an end to evidence of shopping around for plan managers. So there is some evidence that people will shift plan managers in an effort to secure an arrangement that they may not be able to secure with a more reputable plan manager. So we think that could be a factor as well.

Then we haven't ruled, to the extent that it meets our economic criteria and business case, we wouldn't rule out some further small acquisitions. We talk about 50,000 and depends on how the navigator model plays out, but there's no reason to believe that nib Thrive couldn't be supporting 100,000 NDIS participants inside the next five years.

The NDIS, if you think about that middle earth, that role of local area coordination, support coordination and plan management, there is no doubt in my mind that that will consolidate into four or five larger players over the course of the next five, 10 years. We certainly aspire to be one of those leading providers, navigators.

Andrew Buncombe: (Macquarie Group, Analyst) Thank you and then just in relation to the guidance on slide 36, just keen to get some clarification around the comment of break even for Honeysuckle in 2025 and Midnight Health in 2026. Is that on an exit rate basis or is that expected to be achieved in each of those years? Thank you.

Nick Freeman: That should be achieved within the year, maybe the second half. Midnight Health is at the start of – the first breakeven month is at the start of FY26.

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

Operator: Thank you. Our next question comes from the line of Nigel Pittaway from Citi. Please ask your question. Nigel.

Nigel Pittaway: (Citi, Analyst) Great, thanks very much, good morning guys. I wanted to return to the subject of the claims provisioning. It's probably easier if you look at it on that 1023 basis on the right-hand side of slide 11. But as I understand it, the $2,328.8 million in 2023 had $64.3 million of top ups for what was then the OSC provision. So I think what you're saying is that's largely still there but some of it got released a bit in 2024, so firstly is that correct? Secondly, if you do then adjust to that level of provisioning, that means that that line has gone up by easily into double digits, so can you maybe explain why?

Nick Freeman: So that's correct. I mean largely what we're saying is that there was a movement out of the COVID provision and into the LIC by $64 million and then the next – and then in FY24 it reduced by about $20 million. So it's remained relatively high given the inflation that we're seeing.

Nigel Pittaway: (Citi, Analyst) So the underlying is 10% increase in that, if you adjust for those two numbers, $64 million and the $20 million, well into double digits.

Nick Freeman: I'd say it's 9.5%.

Nigel Pittaway: (Citi, Analyst) Right.

Nick Freeman: I'm not – Nigel, it's probably worthwhile, I think I know where it's heading, but if we look at what I'd call the claims paid, which excludes those two, yes, we'd agree that that's up in that 9% to 10%, which against average growth and if you have a look at the comparisons, you can reconcile between the average growth.

Nigel Pittaway: (Citi, Analyst) Right okay, so 9.5% because of – still seems high, right?

Nick Freeman: So yes, I mean if we go back and say claims paid per policy at 5.7%, it is at the higher end of our range.

Nigel Pittaway: (Citi, Analyst) All right, okay, I'm just still not clear why that goes that 9.5%, but unless there's any further explanation, I'll move on.

Nick Freeman: We can take it off this afternoon, 9.5% less 3.6% average growth.

Nigel Pittaway: (Citi, Analyst) Right, okay, fair enough.

Nick Freeman: In a pure arithmetic.

Nigel Pittaway: (Citi, Analyst) Slide 19 then, why are you so ahead of industry claims growth, do you think, even once you had capped for risk equalisation?

Nick Freman: I mean again, I'd say that 5.7%, I mean this is a period of just depending on where people's COVID experience occurred, that you can get some volatility. I think what we're trying to say is that over the long term there'll be some volatility as we emerge from COVID. But if you go back to the prior slide, the industry experience and nib experience is fairly similar.

Ed Close: Look we need to see the APRA figures, but there's a products mix question as well. It's fairly evidence that some of our competitors are reliant heavily on lower value products, including ancillary products for their policy holder growth. By definition, that will lift the denominator but without the same level of growth at the numerator that we have selling high value products that Nick touched upon.

Nigel Pittaway: (Citi, Analyst) Okay. I mean there is a criticism in the market that you're now sort of paying the price of previously growing in areas you shouldn't have. I mean presumably you wouldn't agree with that, so can you just maybe say why you think that is not the case?

Mark Fitzgibbon: I don't understand, what's your definition of areas, what by product mix or geographic or how do you mean?

Nigel Pittaway: (Citi, Analyst) Well you've obviously had strong growth over time. Some people say that's inappropriate growth, so I'm just trying to – you presumably would not agree with that, so I'm just trying to see what your view is on that side of things.

Mark Fitzgibbon: Let's unpack that. As we've often observed before, we don't care what the underlying claims growth is if the revenue growth more than matches it and the margins. So if you're selling high-value products and we've given some emphasis to that in the last few years, particularly with our success with the likes of Silver Plus, you will see higher levels of drawing rate inflation relative to others. So the challenge because the price. So then we got a good pricing result this year relative to the industry.

We've touched upon risk equalisation. I don't think anyone would be a critic of our efforts over many years now of attracting more younger people into the system. That supported the system as a whole, particularly through risk equalisation. The other issue to think about, well is nib being subject to anti-selection, which is public enemy number one in our business and again, there's no evidence, certainly in our reckoning of any anti selection, adverse selection, whatever term you prefer.

Of course the final point to be made on this is risk equalisation does exactly what the name suggests. 50% of total hospital claims are risk equalised, so any trend of anti-selection by a single operative will largely be offset through the process of risk equalisation. We've never really encountered, in my experience, inflation above and beyond the industry, once you lay off all variants in a statistical form.

It's when we were a little bit generous with an ancillary product called Top Extras 85 a few years ago and we paid the penalty for that, we quickly corrected the situation. But one of the reasons we had to pay the penalty for that was because ancillary cover is not protected, underwritten by risk equalisation.

Nigel Pittaway: (Citi, Analyst) All right, thank you very much.

Mark Fitzgibbon: Competitors might.

Operator: Thank you. Our next question comes from the line of Siddharth Parameswaran from J.P. Morgan. Please go ahead, Siddharth.

Siddharth Parameswaran: (J.P. Morgan, Analyst) Good morning gentlemen, just a related question to the one that Nigel asked, just in terms of the inflation that you are seeing, you're claiming you have about 6.6% excluding risk equalisation this period. In the guidance that you give for margins for next year, you must be assuming that that inflation drops quite sharply, unless I'm missing something about downgrading risks, downgrading trends or the like, because your claims – I mean your premium inflation is only 4.1%.

Can I just understand what assumptions are going into your guidance of 6% to 7% and maybe if you can just confirm that 6% to 7% is not a through-the-cycle guidance, it is actually what you're guiding for, for 2025?

Nick Freeman: So Sid, I'd have the average revenue per policy a little higher than that. Might be something to do with closing in average policies. But yes, I mean we're not expecting it to be up at 6.6%, we're expecting it to be within that 4% to 6% range, potentially more in the higher end of that range. But again, it's really around what the revenue is versus what that claims inflation is going to be and then what we can price in.

So I think what we're saying is that if we go to our second half margin structure, that's going to be the margin structure that we'll start to target and we'll be focusing that on our pricing into next year. But also it does depend on where we see claims fall out for the next few months as we go into that cycle.

Mark Fitzgibbon: It's a relevant risk.

Siddharth Parameswaran: (J.P. Morgan, Analyst) I mean is there any reason we shouldn't use the second half as the starting point for thinking about your margins? Is there any reason the second half, which dropped quite precipitately from what you told us was the underlying at the first half, you're not calling out any one-offs, is there any reason we shouldn't be…

Nick Freeman: At high 6s?

Siddharth Parameswaran: (J.P. Morgan, Analyst) ...at 6.7%?

Nick Freeman: No, in that high 6s is, that's why we provided that slide. So it has – claims inflation was higher in the second half that we were anticipating versus our underlying margins in the first half. That first half result was strong, so yes. But I think we've always talked about the target margin range and so that's why we're providing that in the second half.

Mark Fitzgibbon: Yes, interpreting your question, Sid, I think it is a starting point and I expect the first half of this fiscal will be harder than the second half. But as we've emphasised today, we're confident we can maintain that range. We're confident that things will moderate through the course of this calendar year, notwithstanding ongoing pressure on hospital pricing.

Of course there's always the cost lever to be pulled, depending upon how things played out and I know Nick and Ed have well-advanced plans for around further cost savings, productivity improvements and targets to go with that. So we clearly entered, after a very benign claims environment throughout COVID-19, as we've touched upon constantly today, we've clearly entered a period where things are reverting to whatever the new normal mean becomes. How fast that occurs and when it – how long does it take for the pipe to be full again, that's still a question for us and everyone across the sector.

But I wouldn't expect – I think the second half – the first half of next year will be similar to what we've seen in the second half, probably a little bit better as things moderate and the second half of this fiscal should be back to some sort of new normal. I think the bigger issue, without wanting to overstate it, is going to be – even though the next pricing round doesn't affect 2025 so much, clearly it has an impact on 2026. But as we always have in the past, we'll cut the cloth to fit whatever comes down from the Minister's office.

Siddharth Parameswaran: (J.P. Morgan, Analyst) Yes, okay, fair enough. Maybe just one last question from me, maybe to Ed. Ed, firstly congratulations on your appointment, just keen to understand what you plan to do, what's your main focus for the business going forward, which might be different to what we've seen for the last couple of years, near term and longer term?

Ed Close: Pretty consistent themes moving forward. So certainly I guess in the conversation today there will be an elevated focus around strengthening our core businesses, particularly around claims cost containment and also an ongoing disciplined approach to management expenses, because they are certainly levers that we can pull that are within our short-term control.

Continuing, as we put in the outlook, around the 3% growth for arhi. We're still very confident and positive around that multi-brand and distribution strategy that we've deployed. We're also looking at potential third party administration opportunities around working more closely with some of our health insurance partners in the marketplace and we're excited about what those opportunities and prospects could uncover around both supporting our core arhi business but again, growing some adjacent earnings beyond the health insurance businesses.

Certainly in the students and workers in business, we are confident around policy holder growth moving forward and whilst there is a lot of discussion around some of the migration patterns, particularly in the student space, we are just seeing that start to normalise towards a pre-COVID base.

I think the two other big pillars and Mark's talked a lot about our NDIS business Thrive, we're very excited around the future navigator model under that business, both on a short-term basis around sustained earnings in the plan management space, but equally how do we play a more meaningful role as one of the leading brands in the NDIS sector.

The third pillar really is very much around this everyday health management space, which we've sort of put into that portfolio our Honeysuckle and our Midnight businesses. The culmination of the health services capability that they're now actively supporting in the marketplace beyond nib gives us some strong encouragement. But as Mark's alluded to earlier, just the value proposition that those two businesses actively support our core businesses is also what gives us confidence around a level of differentiation.

I guess underpinning those three areas, there's this element of digital and customer and we've given you some reference around this digital first strategy that's starting to gain significant momentum. Mark talked a lot about the opportunity in AI and also automation and so again, if you think about the composition of an insurance-style business, it really lends itself to increasing adoption of automation and also self-service and we feel we're only really just getting started on that digital and customer agenda.

So in a nutshell, there's probably the key themes as we look forward, so definitely some consistency with the existing strategy there.

Siddharth Parameswaran: (J.P. Morgan, Analyst) Okay, no problem. Thank you very much.

Operator: Thank you. As a reminder, to ask a question, please press star one one on your telephone keypad. I'm showing no further questions. I'll now turn the conference back to Mark for closing remarks. Please continue, sir.

Mark Fitzgibbon: Well thanks everybody, thanks for your time today and your questions and no doubt we'll be seeing a few of you in the weeks ahead. So thanks and thanks everybody today for organising this session, it's much appreciated. Cheers.

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