

Start of Transcript

Ed Close: Well, good morning and welcome to nib's FY25 half year results presentation. It's great to be with you today as we discuss the Group's performance, strategic progress, and the outlook ahead.

For those of you I haven't had the chance to meet, I'm Ed Close, nib's CEO and Managing Director. With me today is Nick Freeman, our Group Chief Financial Officer. Today, we are joining you from Awabakal country here in Newcastle. nib acknowledges Aboriginal and Torres Strait Islander peoples as the first Australians and pays respects to Elders past and present across all the lands on which we operate.

Moving to slide 5. At nib, our purpose of your better health and wellbeing continues to guide our teams every day. We remain focused on providing financial protection through great value insurance products, connecting our members to trusted providers and partners, and empowering members with insights and guidance, ensuring care remains accessible and affordable.

nib continues to drive positive change in private health insurance, disability support, and health services across Australia and New Zealand. Powered by digital innovation, strategic partnerships, and disciplined financial management.

We continue to perform strongly, executing our long term growth strategy while remaining committed to delivering value for our members, our shareholders, our employees, and the communities in which we operate.

So turning to our results overview on slide 6. I'm pleased to share that nib has delivered a strong performance in the first half of FY25, demonstrating our commitment to supporting our members, the resilience of our business model in an evolving operating context, and our disciplined focus to create value in our priority target markets.

Underlying operating profit exceeded market expectations, with the standout achievement being the sustained strength of our core arhi business. We delivered above system growth, maintained margins at the upper end of our target range, and effectively managed improving claims inflation.

New Zealand has stabilised. Our recovery program is well advanced and our international students and workers business continues to grow strongly. Our Group NPS remains strong at plus 36, reflecting our commitment to delivering exceptional customer experiences, satisfaction and value. Fully supported by our ongoing focus on the expansion of our No Gap and Known Gap provider networks for members.

Moving to our key metrics. nib reported total Group revenue of \$1.8 billion, an increase of 7.7% from first half '24. Driven by above system policy growth in arhi and sustained premium increases across all segments.

Our underlying operating profit at \$105.8 million was ahead of market expectations, however, down on first half '24. This reflects the anticipated normalisation of arhi margins into the target range and the impact of industry-wide high claims inflation in New Zealand.

So as a result, net profit was \$82.9 million, down from \$103.9 million, in the first half of '24. Investment income of \$41.1 million was up 23.4%, supporting overall earnings, and ROIC increased by 180 basis points to 13.7%.

Earnings per share were \$0.171 and we declared an interim fully franked dividend of \$0.13 per share. These results underscore the strength of the diversified portfolio and the resilience of our core arhi business model in a dynamic healthcare environment.

Now, looking further at the business segment performance on slide 7. Our core arhi business continues to perform well. Delivering the highest first half sales on record and 3.3% policy holder growth which is expected to be above system.

Net margins at 7% are at the upper end of our target range, supported by disciplined pricing, product distribution, and effective claims management. Reported and underlying margins were also quite stable and Nick will talk more to this shortly.

We have observed a reduction in claims inflation with no indication of adverse selection across any area of our health insurance membership. Nick will provide some more detail on this in regards to our arhi claims experience across the first half.

We are also pleased to finalise multiyear contracts with our three largest major hospital groups across Australia, enhancing provider relationships and reducing out of pocket cost uncertainty and improved access for members.

Our multi-brand and multi-channel distribution strategy remains a key differentiator, enabling the above system growth and margin stability. Our international students and workers business saw double digit revenue growth, driven by premium increases and new policy sales, along with improved gross margins.

We're pleased with the segment performance and will remain selective in targeting high value growth. Students and workers NPS of plus 59 was a pleasing result. We remain focused on enhancing the value proposition for our nearly 250,000 international members, creating seamless digital experiences and expanded health services offerings.

More than 24,000 teleconsultants were completed by this cohort through our Midnight Health platform in the first six months of FY25. New Zealand's first half '25 result was in line with guidance provided back in November. It is a tough climate over there in that market and high industry-wide claims inflation and a subdued economy aren't assisting.

However, the business is on track, with our recovery plan well advanced and December and January profitable following pricing adjustments, product design, and management actions.

The private health insurance sector remains strong in New Zealand, particularly as the public health system faces increased pressures and significant waitlists for key healthcare procedures.

In regards to our adjacent businesses, we're pleased with the progress of nib Thrive, delivering UOP growth and margin expansion. We now support more than 10% of all NDIS plan managed participants.

Midnight Health and Honeysuckle Health continue to scale and accelerate towards break even, with revenue growth and loss reductions in line with our expectations. Honeysuckle continues to grow external client revenue, with more than 40% of income now generated outside of nib.

Uptake of digital health service offerings to the wider nib base do continue to grow rapidly. Midnight Health's income, directly attributable to nib members, has increased by more than 12 times to \$1.3 million in the first half. Significant upside remains to meet more of our nib members' needs through virtual health services.

Turning to nib Travel. We recorded strong gross written premium in the second quarter of FY25 following new product launches. But profitability does remain below expectation in a challenging economic climate.

We are taking decisive steps to deliver productivity savings across the business, gaining efficiencies through increased use of AI, automation, and organisational redesign. Our Group expense ratio and the all-important arhi non-marketing expense ratio have both improved and we see further opportunity into the future.

So if we turn to slide 8. In December, we made the decision to simplify our Australian PHI business model. We integrated our Australian residents and our international visitor segments, enabling us to deliver consistent member experiences across both member cohorts and unlocking growth and productivity synergies through operating alignment.

We continue to optimise product, pricing, and distribution to drive sustainable growth, ensuring members continue to see value in our offerings. We secured multiyear agreements, as I mentioned earlier, with Australia's three largest hospital groups, delivering great access, certainty, and affordability for our members.

We continue to expand our member provider network proposition with the introduction of Known Gap. This caps out of pocket costs at \$500 per hospital episode. We also expanded our No Gap services, ensuring members can now access more than 200 dental centres across Australia with zero out of pocket costs across many common general and preventative dental procedures.

Our payer to partner strategy continues to drive investment in automation, digital health experiences, and making the healthcare navigation simpler and more efficient for our members.

As mentioned previously, a Group-wide productivity program is underway targeting cost efficiencies across the Group. Evidence is now progressing through the MER improvements in the first half.

Several key milestones were achieved in our adjacent businesses during the half. We acquired Instacare, a leading plan manager with more than 9,000 participants and growing. This now completes our initial NDIS M&A investment cycle.

We've now integrated five out of seven plan management businesses under the nib Thrive brand and are working hard to deliver a market leading plan management and participant provider experience.

Our aim is to support participants to achieve their goals with their NDIS plan and to support scheme sustainability through payment integrity and broader scheme controls. Recently, we moved to full ownership of Honeysuckle Health, acquiring the remaining 50% stake from Cigna.

Our strategic partnership with Cigna remains strong in the Australian market via our GU corporate health business and we continue to offer long term value to clients. Given this change, we have also taken the opportunity to consolidate Midnight Health, Honeysuckle Health, and our insurance services into a new segment called nib Health Services, creating a scalable platform in attractive, non-traditional healthcare value pools.

We've talked previously about the strength of nib's multi-channel distribution strategy and the importance of its contribution to nib's continued above system growth. In the first half, we continued to strengthen this distribution capability through a strategic investment in ItsMyGroup or IMG.

IMG is a market leading B2B and B2C private health insurance services and technology company based in Melbourne with more than 20 key strategic corporate clients across the PHI sector.

They're also one of the fastest growing PHI brokers and provide considerable additional strength to nib's distribution capability. IMG, along with their very experienced management team, have developed proprietary technology that is used by several PHI funds which underpins the ability to deliver strong performance in private health insurance sales, retention, and members services.

Across nib Travel. We delivered a key milestone in the first six months of the year, launching new products in the US market. This further positions the business for growth in one of our largest and most attractive travel markets.

If we now turn to slide 9. Our P2P program continues to deliver strong digital engagement, positive health outcomes, and improved financial protection for our members.

Some highlights include the 88,000 members who have now accessed our No Gap dental services. This is a 60% increase year on year, reducing the financial burden of essential dental care.

Active nib app users grew to 536,000, a 14.8% increase reflecting our investment in digital first member experiences that helps make navigating healthcare simpler and easier. In first half '25, our Midnight Health telehealth platform consultations reached 108,000, up 17% and demonstrating the growing demand for convenient, seamless, and consumer friendly every day healthcare access.

More than 11,900 nib members enrolled in health management programs in the first half, an increase of 18.3%. Our health management programs support members with chronic conditions and provide personalised care pathways. They deliver a positive return on investment through claims cost management.

Our hospital support program is one example. Delivered by Honeysuckle Health, continues to deliver valuable outcomes for members and for nib. With estimates of 350 unplanned hospital readmissions being prevented and saving over 1,500 hospital bed days in the first half alone.

If we now turn to slide 10. Taking a look at our external operating environment, we do continue to face structural shifts. These include cost of living challenges, rising health care costs, digital transformation, regulatory changes, and migration policy reforms. nib's strategic response, however, remains proactive, consistent, and effective.

Looking at the private health insurance market. Despite broader cost of living challenges, industry fundamentals remain attractive. Participation is stable with more than 45% of Australians holding hospital cover and 55% or nearly 15 million Australians holding a general treatment policy.

We continue to capture sustainable above system policy holder growth in a competitive market and market share, now at 9.8%, presents a significant opportunity to continue to grow both the category and our share within.

If we look at rising healthcare costs in evolving settings of care, our strategy focuses on strengthening the provider networks as I've talked about and product innovation with the goal of enhancing member access and affordability.

We're committed to expanding our strategic relationships with hospitals with more than 40% of contracts now under a partnership model. This enables better cost predictability and improved outcome for members.

Our NIB Healthcare @ Home programs continue to deliver high-quality, cost-effective care outside of traditional hospital settings, improving member convenience and reducing hospitalisation costs with more than 8,900 hospital beds a day saved. Given these shifts, we're scaling our health services business to capture value in these fast-growing, attractive healthcare sectors such as virtual health, home care, corporate health and occupational rehabilitation through both Honeysuckle and Midnight Health.

Like most industries, healthcare is undergoing a rapid digitisation with AI, automation and digital experiences transforming customer expectations. We're embedding AI across our operations to drive efficiency and enhance member engagement. Our AI powered chatbot, nibby, has supported more than four million member interactions and delivered over \$22 million in productivity benefits since its launch back in 2021. We continue to scale Midnight Health's digital health platform to deliver convenient, personalised services to more than 226,000 Australians since its inception back in 2021, with an increased focus on GLP-1 weight management and corporate and payer partnerships.

We continue to actively engage with government and community stakeholders to help shape a sustainable and scalable NDIS framework that features a Navigator model, which will further support participants, helping them connect to high quality disability providers at fair prices. Our investment in NIB Thrive and the integration of these plan management businesses now positions NIB as a leader in the disability intermediary sector, helping participants get access to high-quality support in better regulated and more transparent markets.

We are aware that changes in international students and worker visa volumes have impacted the international insurance segment. However, our revenue growth and margin performance demonstrate our disciplined approach to pricing, cost control and digital first customer acquisition, ensuring we remain competitive in a dynamic environment.

With that, I'm now going to hand over to Nick to talk us through the result in more detail.

Nick Freeman: Thanks Ed, appreciate it. If we go across to slide 12 please, I think the three key things to look at this slide is around that we're continuing to grow the top line strongly, our core arhi business is performing well and there's also a focus on expense management and productivity.

But if I could just linger on a couple of points, the first is around the strong core business, our arhi residents core business. Again, if you look at the results here, above system growth, reported margins at the top end of our target range, stable reported margins between the second half of '24 and the first half of '25 and also stable between underlying and reported margins. Also, we are seeing some reduction in claims inflation from those peak months back in the June and the September quarter, so our 12-months rolling incurred inflation was 5.9% in June, it's down to 5% in December and in January it's reduced further to 4.8%.

The other point is on expense management and we did see this flowing through into our expense ratios with a reduction in the Group overall expense ratio by 40 basis points and that all important what we call arhi other MER which is the non-marketing costs in arhi and again, that also reduced from 6.4% to 6.1%.

Looking at New Zealand, it did make a loss, as we flagged back in November of \$10 million. We expected to rebound and January and December months were profitable. I did want to highlight the working day impact and we'll talk about this a little bit more, but it is significant because claims are more correlated towards working days and revenue more towards calendar days. We've provided in the appendix the working day count, but you can see in this page that we've got six more working days in the first half versus the second half in Australia and nine in New Zealand.

Midnight Health and Honeysuckle Health losses continue to reduce. We've provided in the outlook the anticipated break even and I did also want to highlight that there have been elevated one-off costs due to the Thrive integration, which substantially occurred across the half. We continue to see some elevated costs into the second half and then we're expecting a reduction into FY26. Again, there's some more details on that in the outlook page.

If we then go to slide 13, I'll cover most of this in the next few slides, but just a couple of highlights which is the strong top line growth at 7.7% and then also at that bottom line, the operating expense ratio going from 17.9% to 17.5%. There are also the one-off costs you can see there, \$12.8 million, we've provided full details of those in the appendices but they are mainly related to Thrive.

If we could now go to the arhi slides, this was a really pleasing result. Good strong policy growth, stable margins, you can see a theme around the focus on the core insurance business and it's pleasing that it's been responding. It is down, the UOP is down half on half or sorry, versus the PCP, but again, that's because of the abnormally high margins in the first half of '24 and the reduction in those margins is what's causing those. Again, just highlighting the pleasing element of the non-marketing expense ratio going from 6.4% to 6.1%.

Moving on to slide 15 please, I think it's worth just lingering a little bit on that top left and just the length of time at which the arhi business has outgrown system and it continued to outgrow system in the first half. We expected that would occur in December, but it did occur in the September. It's also worth highlighting that growth bias is towards those higher value combined policies. Ed has highlighted the multichannel distribution strategy and we've just added a few elements in that bottom right part to give you a little more detail on that and why we consider to see the above system growth is sustainable.

Moving across to slide 16, a few things to call out here. On that top left chart, what we're trying to do is just give you some front book/back book analysis and typically what would occur if you were being adversely selected is that you'd see some evidence in that front book of worse risks than in the back books. So we've defined front book as the [change in audio quality] between the two and the front book/back book, then on the top right, we've got the inflation.

Again, we're not really providing the details, but you can see we've put down the bottom right the inflation trends. But what we're just trying to highlight in the top right here is that that the front book doesn't appear to be adversely selective from a risk perspective in the claims inflation that we're seeing. Then it's just worth highlighting that the stronger gross profit that we do try and maintain through a number of elements is being maintained against industry across the years.

Go to the next slide, this is our view of underlying versus reported margins, so in the top left you can see underlying going to reported, so a 6.7% to a 7% margin and then in the second half of '24, again just showing you and it's actually the opposite, 7% going to 6.7%. So I think the key part here is that they're quite stable. Again, we put down here that we'd anticipate being at the higher end of the margin range in the second half '25 and that's a lot to do with the working day impact. We've called that out.

Then on the top right, when we look at the reported margins, we've just given you a walk here and you can go through that in your own time, but what we're just trying to highlight is that the pricing at 2% half on half is roughly offsetting the inflation half on half as well.

I might just jump onto the next slide please. Okay, in the interest of time, I think I'll cover these ones quite quickly. So international business had a good half, growing revenue [change in audio quality] [half on half as well] [Speech repeated] growing UOP, but as Ed said, we do remain cautious around the government caps and tightening of the visa rules.

Just going across to New Zealand, still some challenges in New Zealand with that high industry-wide inflation. We are seeing that repricing come into the industry and with the price rises that have occurred in October and January that we're now in line or ahead of the expected impacts and so we're seeing some rebound and as we said, December, January were profitable and we should see some seasonal claims benefits in the second half.

Jumping on to travel, challenging time for travel, flat sales. One of the highlights was the new product launch in the US with US GWP up 19% since that launch. I think what we've talked to you before is this is a bit of a cost-based story and we've got to continue to focus on operating expense efficiencies and continued sales conversion between the nib member base and the health insurance member base.

Moving on to Thrive, we completed the purchase of Instacare. That was one of the last significant plan managers. We now think we're at scale in this business. You can see both revenue and UOP grew strongly. But what we're just trying to highlight in that bottom left is that this is still a significant opportunity. We're only at around 10% market share. It's a large market and we continue to focus on increasing our market share.

Moving on to NIB health services, just going to spend a little bit of time because as you can see, we've combined Midnight Health and Honeysuckle Health and also a small amount of complementary insurance revenue into a single health services segment. We've continued to show you the Midnight Health and the Honeysuckle Health results separately.

We did agree to acquire the remaining 50% of Honeysuckle Health from Cigna in the second half, so that will start to come through in this half and as Ed mentioned, we also further invested in IMG to strengthen our distribution capability. Revenue and customers in all of these businesses are continuing to grow strongly and again, in that bottom-right chart, you can see that the losses continue to reduce.

Moving across to capital management and cash flow, if we have a look, gearing is stable with net asset growth of 2.4%. We can see the leverage ratio also stable. There is a slight reduction in net tangible assets. That's essentially the acquisitions that we've done because essentially we convert cash into intangibles because these are intangibly based [blank audio] assets, but again, strong gearing, strong leverage ratio continues. Just quickly going on to – sorry, one more thing, just on the PCA again, well above our target range and we continue to be confident in our capital.

Then moving on to cash flow, a quick one on cash flow, so you could see that this one is negative for the first half. You could see in the bottom right that's not unprecedented. A couple of things on this, the timing

of some tax payments, just the washup of some tax refunds and so forth impacted that and we also had a reclassification. But we're expecting a good, strong result in the second half.

Again, seasonality of some premium receipts, the claims payments, the working day impact. You can also see in the appendices, we've had a speed up of claims processing and also the amount of claims coming through in regard to the current month, so that had an impact as well. So not really concerned about that, expecting the strong rebound in the second half.

With that, I'll hand back to Ed for the outlook.

Ed Close: Thanks Nick. If we jump across to slide 26, just looking at the areas in focus for the remainder of FY25, we'll certainly continue to strengthen the core business across Australia, New Zealand and our international visitors operations. A big focus around sustainable policy holder growth, those innovative products, competitive pricing and how we're managing those healthcare costs effectively as I've talked about. A big focus on deepening our relationships with members through our Pay-2-Partner strategy which continues to deliver market-leading digital health experiences and some of these unique product propositions we now have in the market.

Then beyond health insurance, we continue to scale up in these related adjacencies where we have a sustainable competitive advantage at being the NDIS intermediary sector, those non-traditional healthcare value pools that I talked about, with a big focus on virtual health and chronic health management services, then continuing to strengthen our market-leading distribution and customer reach. We do that through travel, through life insurance and the strategic investment in IMG that we've talked about.

Underpinning those key strategic focus areas will be this ongoing focus on operational productivity, continued progress in automation and personalisation and a disciplined approach to capital allocation. Long term value creation of course remains our primary objective.

So if we move across to the outlook slide, we remain confident in our outlook and the following full year FY25 expectations remain as are. So FY25 UOP guidance of \$235 million to \$250 million, that remains unchanged from our November update. The uplift in the second half will be driven by three things: fewer working days, as Nick's talked about, the continued strong arhi and international performance and the New Zealand recovery to full year profitability. We're anticipating approximately 3% arhi policy growth for the full year '25 and we do anticipate that arhi margins will remain towards the upper end of our 6% to 7% target range as working days, pricing and management actions mitigate claims inflation.

We are expecting a considerable uplift in UOP for the international health insurance business during the second half. Again, with fewer working days, sales seasonality and continued repricing benefits flowing through. We continue to target Honeysuckle Health to break even in the fourth quarter of '25 and Midnight Health in the fourth quarter of '26. We have called out one-off costs. They will remain elevated in the second half of '25 and we've provided some guidance around that due to the Thrive integration, as well as some organisational redesign that's occurring, with material reductions expected in full year '26.

So with that, nib certainly remains well positioned for sustainable long-term growth. Just to emphasise, our strong core PHI business continues to deliver high value policyholder growth and stable margins. We've talked a lot today about scalable health services and our NDIS plan management businesses and they're driving value creation in related market adjacencies. We talked again this morning about our productivity and our digital transformation agenda, ensuring that we continue to unlock efficiency gains with capital discipline at its core.

So with that, thank you and Nick and I look forward to taking some questions in Q&A.

Operator: Thank you. As a reminder, to ask a question, please press star one one on your telephone and wait for your name to be announced. To withdraw your question, please press star one one again. Please stand by as we compile the Q&A roster. Just a moment for our next question please. First question, we have Vanessa Thomson from Jefferies. Your line is now open.

Vanessa Thomson: (Jefferies, Analyst) Thank you. Morning Ed and Nick and thank you for taking my question. I just wondered, you mentioned that you've now had multiyear agreements with your three largest hospitals, I was just wondering around the length of these agreements, when they might be renewed. We've seen a lot of the Healthscope in the news and so I was particularly interested in the negotiations with Healthscope. Thank you.

Ed Close: Good morning, Vanessa, yes, thank you for the question. The length and any of the specifics in those agreements will remain commercial in confidence and that's something that we've negotiated closely with those three key healthcare providers, but we would say that they are multiyear, they have been agreed in the last six months and we have fantastic relationships with those providers.

So outside of that, I can't really share too much more in terms of the specifics of those. But I guess then linking back to the guidance in that piece around access and affordability, you can probably take some guidance around where we're anticipating those things to play out over the foreseeable future.

Vanessa Thomson: (Jefferies, Analyst) Thank you. Just to clarify, the Healthscope contract has been renewed in the last six months, so if we think of that it's multiyear, that you've got a few years to run on that, is that correct?

Ed Close: That's correct, yes.

Vanessa Thomson: (Jefferies, Analyst) Thank you. Then my second question was about the nib Thrive strategy and the shift to Navigator from plan management. I know you're now doing some support coordination. I wonder if you could give some colour on how this changes the fee structure for nib, given that plan management quite literally isn't, just wondered if that would still be maintained with the change to Navigator. Thank you.

Ed Close: Yes, so it's a good question on the shift or the proposed shift that the government has signalled towards Navigator. As we alluded to earlier, we certainly remain in active discussion with industry partners

and the government around what that potential Navigator model could look like. It's still very much a work in progress as it relates to how that will look in terms of participant experience, how the intermediary sector will evolve, what are the funding models that underpin that Navigator model, so it's fair to say there is a lot of detail that still needs to be worked through. We've provided certainly our perspectives to those key stakeholders and remain actively engaged.

As it relates to what we're focused on over the next six to 12 months is predominantly those plan management businesses that we've talked about, so with the seven that we have within the broader portfolio at the moment, five of which are now integrated. We have a modest, a fairly small but important support coordination capability that we've now acquired.

But if you think about the priority focus at the moment is given our initial investment cycle is complete, our focus is bringing those business together, delivering faster payment processing speeds for participants and providers, making sure that our provider experience is market leading. We're now at sufficient scale to see some earning stability and ongoing growth in that sector and then remain focused on things like payment integrity and working closely with stakeholders around scheme sustainability.

Vanessa Thomson: (Jefferies, Analyst) Do you expect the profitability to be maintained as you shift to that navigator focus, including support coordination, or is it too early to know what's going to happen there? Thank you.

Ed Close: Yes, too early, I think, Vanessa, is the current thinking, so we've shown you some strong improvement in those underlying margins for the Thrive business. We do think there's a pathway to sort of [mid '30s] and that's what we're focused on at the moment in terms of that profit contribution.

Vanessa Thomson: (Jefferies, Analyst) Thank you. That's all I had. Thank you.

Operator: Thank you. Just a moment for our next question, please. Next, we have Julian Braganza from Goldman Sachs. Your line is now open.

Julian Braganza: (Goldman Sachs, Analyst) Good morning, guys. Thanks so much for taking our questions. Just a first one for me on just underlying margins. I was wondering if you could just talk about just how we – I know you've said, look, margins – it's not clear from your guidance commentary whether that's reported or underlying in terms of expectations for second half '25, but can I just understand your underlying margin trajectory into second half '25? Should we still expect that to compress, given just what you – the trends you've seen over the first half?

Nick Freeman: I'm not seeing too much of a compression, Julian. I think it's a reasonable point. I think if you have a look at the back with – in regard to where the LIC is, the central estimate's been pretty stable and potentially if we see claims processing continue at the speeds that we've got, there may be some opportunity there. I mean, the central estimate's still around 10%. Call it 8%, it's in a range of 8% - 10% of claims.

During COVID, it was higher, but pre-COVID it was lower, and the amount of claims referring to the current year, or current month, sorry, are starting to get back to pre-COVID. So we'll see where they settle down. The same in the margins as we see more stability. So I think what we'll see is a closer alignment of underlying and reported, and again, the working days should have some benefit in that regard and so, again, we'll seasonally adjust for those. So yes, I mean, it's – I'm not really seeing too big a difference.

Julian Braganza: (Goldman Sachs, Analyst) Okay, got it. Thanks for that. Just the second question on claims inflation then. So you've called out that 2.2% impact and I'd be interested just to find if I've interpreted it correctly as well. It seems to be suggesting 4.5% annualised impact to margin. I just wanted to as those numbers vis a vie, the sort of 4.8% run rate. We'll call it 5% to 5.9% over the first half versus what you're sort of implying around 4.5% annualised in that bridge at the bottom. What's the difference between those two inflation numbers?

Nick Freeman: So 2.2%, adjust to a mix of 0.3%, 2.5%, 1.025% times 1.025% is 5%. It's just that we've adjusted in that top right reported margin, we've adjusted the 2.2% for mix.

Julian Braganza: (Goldman Sachs, Analyst) Okay, so just for mix. Okay, excellent. Then just the last question from me.

Nick Freeman: It's in line with the 5% [unclear].

Julian Braganza: (Goldman Sachs, Analyst) Just on news. Okay, thanks. Thanks so much for that. Maybe just in terms of the [unclear] margins, just want to understand just the trends as we currently stand today in terms of claims inflation and just your outlook for second half, and also, of course, with the pricing that you're putting through at the moment on that [unclear] book that gives you comfort on second half profitability.

Ed Close: I'll touch on the pricing piece, Julian, and confidence around the second half. We talk a bit about the working day impact, so nine less working days in the second half. That's a fairly significant...

Nick Freeman: Six.

Ed Close: Six, sorry, for New Zealand. The pricing piece – again, this is publicly available information – but we are putting through some fairly significant increases there to match the level of claims inflation and that sort of coming through the cycle now is taking effect, so in the order of 20% - 22%. So we're now seeing the benefits of that repricing start to take effect.

We've obviously seen all the December and January. We're profitable and in line with expectation and so a combination of pricing, working days, and some management focus around a whole raft of activities are starting to give us confidence around the second half returning to profitability and certainly then being profitable for the full year. Did you want to add on anything?

Nick Freeman: Oh, sorry. Again, I think Ed was talking about New Zealand. I'm sorry, I jumped in and corrected. It's six in Australia and nine in New Zealand. So on the New Zealand, we are taking active

pricing measures. I think Julian was probably asking about Australian pricing, and Julian, we probably can't talk too much about it.

Julian Braganza: (Goldman Sachs, Analyst) Oh, no, no, that's fine. No, that was - I was actually talking about New Zealand, but that's fine. Thanks so much for that. That's all the questions from me, thank you.

Operator: Thank you. Our next question comes from Andrei Stadnik from Morgan Stanley. Your line is now open.

Andrei Stadnik: (Morgan Stanley, Analyst) Good morning. My first question, can I ask around cost? The MER was well managed. Can you talk a little bit about the drivers behind that? Was it just generally better costs and economies of scale? Or did you have any change in terms of project spend? Just, yes [unclear] think about the better costs.

Ed Close: Yes, it was generally well managed, is probably the descriptor I would use, and so there's no large significant change in terms of project priority or capital allocation as such. I think it's really just that disciplined approach across the business. We're obviously seeing that now start to come through on some of those key operating expense metrics [inaudible] I think there's still some further room and opportunity ahead and so we have signalled that productivity agenda will continue to remain a key priority for us moving forward.

Overlaying that though, there are – and again, every insurance organisation will have these opportunities available around the role of AI and automation, and I guess this – we're seeing some really good traction and we've talked about our chatbot experience, particularly also in claims automation around the ability for straight through processing to really drive, importantly, better member experiences because that speed to payment is accelerating, and secondly, efficiency through the operating model.

So taking the capability then that we've deployed in our core arhi business and translating that into the New Zealand market, into the travel space, and also into Thrive, if you think about sort of the commonality around payments, straight through processing, and claims speed. You'll see that now in terms of that really disciplined focus around contact centre experience, claims processing, and then so just general organisational realignment.

We talked a little bit about the organisational realignment of both our Australian residents business and international visitors coming together. We've also talked about Honeysuckle and Midnight and the intended merger of those two businesses as well. I guess what we're signalling is that there is opportunity to strengthen, simplify, and scale up our business model more broadly.

Andrei Stadnik: (Morgan Stanley, Analyst) Thank you. Ed, can I ask a second question? Just in terms of you've been running the business now for a few months but you've known the business for a lot longer than that.

Given that what you've now seen and thought about, are there any changes come to mind in terms of what do you want to do differently, the composition of the Group or how the different parts of the Group work together. Just what are some of your thoughts in terms of now being able to leave your footprint on the business?

Ed Close: Yes, I think slide 26 starts to signal the direction that we're taking the Group and it is largely consistent with the existing strategy, so just some tightening of the focus and I just gave some – a couple of examples previously around the consolidation of our Australian health insurance businesses to unlock better member experiences, growth synergies, and productivity efficiency.

But also in health services, and I do think that we've spent a lot of time assessing the capability alignment of both Honeysuckle and Midnight Health and starting to see some really strong complimentary offerings of bringing those businesses together. So our intent was with the buyout of the Cigna shareholding, to really be able to control, scale up, and start to then capture value in those, and we talk about these non-traditional healthcare segments and everyone will have different approaches to how they want to actively move towards this partner style model.

For us, it's a big focus around virtual health, homecare, injury support, and corporate health, but then making sure that we're sharing capability from our core businesses into these related adjacencies, so take health services. But making sure the value is flowing back in terms of better member outcomes, claims cost control, and improved value proposition, and we're now starting to see – there's some really strong evidence that we are getting that shared value creation across those areas.

Then again, slide 26 talks about this, our commitment to being an active player in that intermediary sector in plain management and support coordination and so under the frame of navigator and we touched a bit earlier with Vanessa's question around there is still some uncertainty around what this navigator model looks like, but what we do have high conviction and confidence is the businesses that we've acquired and the role that the intermediary sector can play in the broader NDIS around scheme sustainability.

So those ingredients will continue to remain and then, again, we started to really talk about this disciplined focus on productivity, capital allocation, and also our continued momentum around personalisation. So strategic insure – like as it relates to the insurance partnerships more broadly, we've got a travel business that's doing some positive things and we've talked about the opportunities in that space and we've talked about what we'd like to do with that ItsMyGroup opportunity as well.

Operator: Thank you. Just a moment for our next question, please. Our next question comes from Andrew Buncombe from Macquarie. Your line is now open.

Andrew Buncombe: (Macquarie, Analyst) Hi, guys. Thanks for taking my questions and congratulations on the result. Just the first question in regards to slide 17, please. Can you talk a little bit more around why you changed the confidence level to determine the risk adjustment on the nib health front? Just some colour around that would be helpful. Thank you.

Nick Freeman: I think it is around that claims processing speed and also that move from out of COVID. Like I said, Andrew, if you look at sort of where we've gone through the cycle of COVID, overall, I think a good indicator is where you are as a percentage of claims and we were elevated during COVID. We're still at that sort of around 9.5% at the moment, but pre-COVID, it was more in the sort of 6% to 8%. Maybe more like 8%. So you know, it does still seem potentially pre-COVID it's higher, but against where it's been, it's lower, so again, a high level of confidence. We're still at 95% which is still a high level of confidence, so overall, that's where we're comfortable adjusting it to.

Andrew Buncombe: (Macquarie, Analyst) Perfect and then the second one from me is in relation to slide 12 where you're talking about the [residence claim to inflation] slowly ticking back. Can you just give us some colour behind that number? What is hospital indexation currently running at? Thank you.

Nick Freeman: Oh...

Ed Close: Yes, it's not something that we are disclosing at this point, Andrew. Just sort of tying back to those agreements that have recently been struck with many of those major hospital groups and also, that shift that partnership model, so yes, it's not something that we'd be digging into the detail around the specifics around the indexation levels. But I guess what we are giving you is a fairly...

Andrew Buncombe: (Macquarie, Analyst) Okay.

Ed Close: ...clear signal around where we expect to land to at the full year and I guess the result showing where we're sitting year to date.

Andrew Buncombe: (Macquarie, Analyst) Great, and then the final one from me, just some extra clarity around how you interact with customers, can you just give us some colour around what portion of your residence customer base pays via direct debit? Thank you.

Ed Close: Yes, it's - it would be in the order of 80% to 85%, Andrew, so yes, that's a very much a value proposition that's - it creates really strong resonance with our membership cohort.

Andrew Buncombe: (Macquarie, Analyst) That's it from me. Congratulations on the result.

Operator: Thank you. Our next question comes from Nigel Pittaway from Citi. Your line is now open.

Nigel Pittaway: (Citi, Analyst) Good morning, guys. Just first of all, I just wanted to be clear of where we're sitting on that \$40 million of the provision you put on the balance sheet - LIC provision in FY23? I think you had \$40 million remaining. How much of that has actually been released during the period and when do you expect the remainder to be released or that all will be released in second half or if not then, when I guess?

Nick Freeman: Oh, I think the details of the LIC are in slide 32. Don't know about the \$40 million, Nigel.

Nigel Pittaway: (Citi, Analyst) Right, right. Right, so I think there was around about \$40 million left was the thing, so...

Nick Freeman: I'm not sure. Maybe we'll take that offline. I'm not sure if we've mentioned a \$40 million number.

Nigel Pittaway: (Citi, Analyst) Okay, all right, so how much - so does that tell me how much was released during the period? Sorry, I haven't really focused on that slide yet, but...

Nick Freeman: No problem. I think the best thing to do is if you have a look at the - in the notes, we reduced our risk margin down to 10.3% from 12.8% across the book.

Nigel Pittaway: (Citi, Analyst) Yes, I can see that, yes.

Nick Freeman: So that's probably the best indicator to have a look at, but again, I'd still highlight that we're still at 95%.

Nigel Pittaway: (Citi, Analyst) All right, moving on then, so in the international business, you were previously sort of confident that margins in the student's business would improve. There obviously has been a little bit of improvement and I think you're flagging more improvement in the second half, but is that where that's coming from and is that sort of coming through as much as you originally expected?

Ed Close: Yes, we're comfortable with the progress being made there Nigel on the international student's contribution to the result and so again, I know we've talked previously about this, but certainly, during the pandemic, we saw some unusual patterns of behaviour in our student cohort given the inability to head back to home country was distorting the claims experience.

So what we are now starting to see is as the book refreshes over the course of probably two to three years now that those margins are recovering. So you'll see there, the 40 basis point improvement in net margin, you see the gross margin certainly trending favourably as well, so we're expecting that to continue and I guess we've been quite overt about the expectation for that segment moving forward.

Nigel Pittaway: (Citi, Analyst) Okay, it just doesn't come through as quickly as obviously the market expected, so is there any particular reason for that or...

Ed Close: I think what - I think there's certainly - and I know again, we've talked about this previously that the pre-COVID levels that we were experiencing, we're not foreseeing we'll return to and so you were seeing scenarios there are of sort of 55% - 60% gross margin on that portfolio. Given the competitive dynamics given some of the settings that we've talked about in terms of migration policy, we're not foreseeing that we return to those levels of gross margin if that's where you're heading.

Nigel Pittaway: (Citi, Analyst) Yes, no, well, I wasn't expecting that, but nonetheless all right, okay. Then just - I mean just obviously this recent plan manager you have acquired, can you comment on sort of the pricing of that relative to sort of price you paid for the other ones and sort of how you're thinking about that moving forwards?

Ed Close: Yes, I don't - we're not putting forward any specifics around the acquisition price for Instacare, but what I would say is that we were - we're quite attracted to that business, it's growing well; 9,000 participants now takes us to a sufficient scale. Again, us being at the level of scale we're now at, I think we're now the second largest plan management business in the market with more - a tick over 10% market share.

So we're comfortable with the unit economics attached to that acquisition and again, you'll see that as an important part of our intermediary growth strategy in the NDI sector, but in terms of specifics, Nick, I didn't know whether you wanted to talk about anything further on Instacare?

Nick Freeman: Oh, I mean very substantially less and again, we're comfortable with the payback profile given the shape of where we're moving to the Navigator, but I think maybe we'll just leave it there.

Nigel Pittaway: (Citi, Analyst) All right, so I mean just the fact that that's less, I mean does that sort of - I mean what does it say about sort of the value of the ones that you acquired at a higher price?

Nick Freeman: Oh, I think it's a reflection of where the market was at the time. In our analysis, we had some strong - much stronger returns. Obviously, those returns have gone back, but we're still, as we said at the time, we're looking at [mid-30s] margin and continue to grow in the way that we are expecting and we see that as being able to comfortably return the cost of capital, plus a reasonable risk margin. So that's what's really the focus. So the focus has always been around I guess a buildup across this and when we get completely integrated, we're looking for this business to be substantially larger with that target [mid-30s] margin and based on that, then we should get to an attractive return on capital.

Nigel Pittaway: (Citi, Analyst) Okay, thanks for that and then maybe just finally, given the tightening of focus that you mentioned, Ed, I mean is travel still as relevant as it used to be?

Ed Close: Yes, so if you think the strategic fit of travel, we've got a really strong brand in the marketplace or three brands actually with World Nomads offering that differentiation in the global adventure space. We have nib of course, and the correlation and link with our health insurance proposition and then our TID more direct facing domestic brand. So all three of those brands still have an important role to play in varying different ways within the portfolio.

Of course, from time to time like all of us would do, we evaluate the performance of our broader portfolio, but at this point, we have a fantastic travel business and our goal and we've talked about this, is making sure that we're as efficient as we can in terms of the cost base to support that business and an increasing level of conversion into the health insurance membership.

Nigel Pittaway: (Citi, Analyst) Okay, great. Thanks very much.

Operator: Thank you. As a last reminder, to ask a question, please press start one one on your telephone and wait for your name to be announced. Just a moment for our next question, please. Next, we have [Kieren Chidgey] from UBS. Your line is now open.

Kieren Chidgey: (UBS, Analyst) Morning, guys. Can I just come back to claims inflation to start - you've given rolling 12-month numbers going from 5.9% at June to 4.8% at the end of January, so quite a significant slowdown. I know you don't want to sort of unpack specific numbers around what's driving that, but just interested at a high level where the key areas of delta have been and if you can give us a feel for kind of how that would look on a six-month basis.

Nick Freeman: I think the reason why we use the rolling 12 months is it can be quite volatile month to month and quarter to quarter and so forth. So we did have really quite strong inflationary quarters in the June quarter and the September quarter and then the December quarter was reduced. So that's why we sort of - so that's why we're sort of evening them out because I think you know, may not have the right indication if we narrow it too much.

Then I think really what we did see is - and I'll give some sort of broad generalisations. The hospital inflation is elevated, but at a lower level and then ancillary has been quite stable. Then within the hospital, we have seen - one area like rehab and gyno to be quite elevated as well. So I think it's more - as it comes down, it is generally across the board because our biggest are still joints and cardio and so forth, so if that doesn't come down, nothing - you know, it doesn't affect the average, but then we are seeing sort of a reasonable reduction across the board and the only outliers are like I said, there is that rehab and the joints. Sorry, rehab and gyno.

Kieren Chidgey: (UBS, Analyst) Okay, is there a significant difference between hospital and ancillary at the moment?

Ed Close: Yes, what I would say is yes, that hospital is tracking a little higher than ancillary and so ancillary has been quite consistently sort of relatively benign for some period now. Again, with really tight contracting controls around that broader category and certainly, then with our increased emphasis and we've talked a little bit about this today around our first choice gap arrangements particularly in dental.

So the benefit of those No Gap and Known Gap offerings are that we can start to think about driving better value for members as our primary objective to reduce those out-of-pocket costs, but simultaneously, what that allows us to do is to actually take a broader cohort of membership into those contracted network arrangements and that - they are typically quite attractive rates as well. So we're sort of getting the compounding benefit of improved member experience through reduced out of pockets and then the simultaneous benefit getting into those networks, so ancillary, we're managing that really effectively and we're pleased with how that's travelling.

Hospital, a little higher. Again, the inflationary environment is that really the driver around that, but we've talked a little bit around the shift to a partnership model and those three major groups being secured on multi-year agreements, so we're comfortable how that's travelling as well, recognising hospital viability is an important part of our value proposition moving forward.

Kieren Chidgey: (UBS, Analyst) Thanks, Ed. On claims inflation, can you remind us how you're thinking about the New South Wales budget repair impact with higher public hospital payments due to come through from 1 Jan? What sort of impact should we be expecting on the overall claims inflation?

Nick Freeman: We're looking at it being 80 basis points across the portfolio and we've obviously included that in our pricing application.

Kieren Chidgey: (UBS, Analyst) Okay. Finally, just taking that view, if we're 4.8%, obviously that goes up with that 80 basis points coming through, back above 5%. When you look out over a 12-month period, should we be expecting to come down into the lower end of that margin, the 6% to 7% margin rise range, just given the gap between likely price approvals and inflation moving back above 5%?

Ed Close: Kieren, we've tried to be as helpful as we can around where we think we'll sit in that margin range in the outlook, so the ability to be able to think about pricing, to think about some of the other management actions that we've been taking and continue to take gives us confidence that we'll be in the upper end of the target range.

Kieren Chidgey: (UBS, Analyst) I guess my question is more into '26.

Ed Close: Yes. That's something that when we get to the full year that we'll continue to provide guidance around but at this point we're laser focused on the second half. We think again with pricing, management actions and some of the other activities that we're undertaking that that target range is our longer-term outlook as well.

Kieren Chidgey: (UBS, Analyst) Great. Thank you.

Operator: Thank you. Just a moment, please. Our next question comes from Siddharth Parameswaran. Your line is now open.

Siddharth Parameswaran: (JP Morgan, Analyst) Good morning, gentlemen. A couple of questions if I can. Firstly, Nick, just a question for you around seasonality. I just want to be sure about the guidance that you're giving for the second half of '25 and also just onwards around how we should be interpreting two components there, the workdays impact and the marketing seasonality.

The guidance you suggest for the second half would normally be better than the first half, is that right? That's contrary to what we used to get guided by nib. So, just a question: is this an ongoing reversal in how you see seasonality, so being first half actually effectively suffering and second half being higher on margins?

Nick Freeman: Hi, Sid. Yes, your history with us and your notebooks was part of our reflections as we worked through this. We actually looked at this topic. It is interesting that if we look at workdays as we've said, we do expect the workdays to be a benefit in the second half, but also on the seasonality, there used to be that discussion around people trying to use up their limits in November and December so it would be a little bit higher in the first half and a little bit lower in the second half.

We're now seeing that differ slightly and what we would say is that there's about a one-day difference in terms of people actually as the limits renew, they go and utilise those limits into the second half. Overall, we'd probably expect second half to be a little bit lower in that respect, but maybe on the call I'll let you have a talk to one of actuaries who can take you through that because we recognise that it's a little bit different from a few years ago and we think that's due to some of the ageing that's occurred in the book.

Siddharth Parameswaran: (JP Morgan, Analyst) Thanks. Maybe just a question just clarifying one of the points you made, I think to Julian's question, around the mix impact. I think you guided to this six months ago without giving us numbers around the fact that you are getting higher premium per policy than what you applied. So, the 4.1% pricing, your actually achieved price increase I think from Julian's question, you're indicating that mix effective about 0.6%. Am I reading that right? I think you said 0.3% for the half and 0.6%. I just wanted to clarify that that is an extra feature on the actual achieved rate per policy that you're seeing. Did I get those numbers right?

Nick Freeman: The mix was more on inflation. I think Julian's question was the 2.2% half-on-half inflation, which half-on-half would multiply out to about 4.5%. We're just saying that when you adjust for mix it's consistent with the 5% inflation that we've been talking to you about.

Siddharth Parameswaran: (JP Morgan, Analyst) Yes, that's right. I was just trying to square up those two numbers. On an annualised basis - sorry, I might have got those numbers confused but on an annualised basis do I double those numbers, is that right?

Nick Freeman: 2.2% half on half incurred claims inflation on slide 17, 0.3% for mix is 2.5%. 1.025% times 1.025% should come to about 5%.

Siddharth Parameswaran: (JP Morgan, Analyst) Yes. Okay, great. Thank you. Maybe just one final question from me. Just on slide 22 if I can just get you to have a look at that. There's been very substantial growth in Midnight Health over an extended period. It doesn't seem like there's dramatic scalability coming through.

I was just wondering if you could help us understand what it will take to actually get that business towards breakeven profitability. It doesn't look like it's scaled so just wondering, is it you've got a change of margins? Maybe if you could just comment on why with such large growth coming through there hasn't really been that same drop-off in losses as we might have expected.

Ed Close: It's a good question, Sid. Certainly, we're pleased with, as you talk about, the revenue growth in Midnight Health and the customer volume flowing through. The opportunity for us now, particularly through the planned consolidation with Honeysuckle is around making sure that those margins are at relevant levels to achieve those breakeven points, and so we've been quite overt with our guidance and expectation for those two businesses. They are tracking as we'd anticipated.

Like many direct-to-consumer businesses, there is generally this high cost inflationary environment attached to reaching that point of scale if you think about direct-to-consumer marketing and the relevant cost of acquisition to really get to that point of scale. We're pleased with the progress to where we've got. We were always intending that the business would be performing as it currently is and now the opportunity for us is around both gross and net margin performance starting to flow through.

We unlock some synergies again both on top line and on bottom line with the consolidation, but also then thinking about the role of pharmacy and some of the medication costs and consultation costs and starting to think about how we can optimise both in terms of more competitive pricing as well. It's a combination of factors across both businesses, and I guess what want to be really deliberate around is accelerating towards that breakeven point and then continuing to scale from there.

Siddharth Parameswaran: (JP Morgan, Analyst) Okay, great. Thank you.

Operator: Thank you for the questions. This concludes the Q&A session.

Ed Close: [We'll be] with you all again soon, so we'll leave it there. Thanks very much.

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