**nib holdings**

# Media Release

**Date** 29 August 2008

**Subject** **nib announces 2008 full year results and on-market share buy-back**

**Highlights**

- **Very strong FY2008 operating result**
  - **normalised net underwriting profit up 39.2% to $33.0 million (FY2007 - $23.7 million)**
  - **normalised net underwriting margin of 4.4% (FY2007 – 3.6%)**
  - **normalised FY2008 net profit after tax of $26.7 million**
  - **small FY2008 statutory accounting profit of $0.4 million due to one-off costs associated with demutualisation and listing**
- **Net policyholder growth of 36,605 (11.1%) vs industry growth of 4.2%**
- **On-market buy-back of up to 10% of issued shares**
- **Final dividend of 2.1cps fully franked (40.7% payout ratio)**

nib holdings limited (nib) today announced a normalised net profit after tax of $26.7 million for the 12 months to 30 June 2008.

The result was underpinned by strong policyholder growth, up 11.1% compared to 4.2% for the industry, and a normalised net underwriting margin of 4.4%.

Significant one-off costs associated with nib's demutualisation and listing resulted in a small statutory profit of $0.4 million for the period.

The Directors of nib have declared a final dividend of 2.1 cents per share (fully franked), equating to a payout ratio of 40.7%. nib also confirmed that it will be undertaking an on-market share buy-back of up to 10% of issued shares.

nib's Managing Director, Mr Mark Fitzgibbon, said the full year results were strong overall given difficult investment markets.

"When we demutualised and listed nib on the ASX in November 2007, we promised investors a future of market growth and improved profit margins. After excluding one-off costs associated with our transition to a listed company, the results of FY2008 were true to this undertaking," Mr Fitzgibbon said.

"A key feature of our performance has been strong policyholder and premium growth due to the continued success of our organic growth strategy. For the 12 months to 30 June 2008 we added 36,605 net new policyholders which was 114.7% of the FY2008 Prospectus Forecast," Mr Fitzgibbon added.

"Our net new policyholders for FY2008 accounted for 17.3% of total national industry growth. In our targeted 20-39 year old segment we accounted for 20.1% of national growth, as a result we now have 9.5% market share of this demographic.

"Our normalised net underwriting margin increased from 3.6% in FY2007 to 4.4% in FY2008, while our Management Expense Ratio of 10.3%, compares favourably to our FY2007 result of 10.7%. Both are a reflection of our successful organic growth strategy and disciplined approach to running the business efficiently."

While nib's full year results were strong, Mr Fitzgibbon acknowledged that there were some things the company was not so pleased about.

"Volatile investment markets have resulted in low investment earnings for the full year. As a result we plan to carefully move to a more defensive investment asset allocation to reduce investment earnings volatility.



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"We continue to be concerned about the potential impact of the proposed changes to the Medicare Levy Surcharge, in particular the potential loss of younger policyholders and therefore the pressure on future premiums. We are actively engaging the Federal Government to reconsider the extent of the MLS threshold uplift as well as its approach to premium pricing. We continue to monitor developments and have a number of plans in place to address the impact if the proposed changes are legislated."

**Looking forward**

According to Mr Fitzgibbon, nib remains very positive about the industry's outlook as well as nib's strategic direction and organic growth prospects.

"Despite the Federal Government's proposed changes to the MLS, we believe the primary drivers that make private health insurance attractive still exist.

"nib continues to capture a large component of market growth. This will remain a fundamental business strategy for FY2009 as we concentrate on growing the existing market and market share for the industry and nib, while continuing to focus on growth in the under 40 segment. We also remain very mindful of M&A opportunities given inevitable industry consolidation.

"While we expect premium revenue growth to be in the mid to high single digits for FY2009, even with the proposed MLS changes, we will continue our work towards improving claims and operating costs efficiencies, including improved operations automation, implementation of a more effective and integrated distribution model and reducing labour costs.

"We have a strong capital position with $105.6 million in excess capital above our internal target and an ungeared balance sheet, enabling us to pursue attractive acquisition opportunities as they arise and undertake capital management initiatives. In the absence of an acquisition to date, we envisage a return of capital in the near term. We are currently reviewing our Group capital management plan with a view to determining the most optimal capital structure and method of capital return. As an initial step we plan to undertake a on-market share buy-back of up to 10% of issued shares.

"Overall we have a clear view of what will drive our earnings and continue to target a net underwriting margin of 5% and ROE of at least 15% in the near term."

**FOR FURTHER INFORMATION:**

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## Financial performance – normalised results

| ($m) | FY08 | FY07 | Change |
|---|---|---|---|
| Premium revenue | 758.2 | 666.0 | 13.8% |
| Claims expense | (554.0) | (505.4) | (9.6)% |
| HBRTF/RETF Levy | (73.1) | (48.1) | (52.0)% |
| State levies | (19.9) | (17.6) | (13.1)% |
| Net claims incurred | (647.0) | (571.1) | (13.3)% |
| Gross underwriting result | 111.2 | 94.9 | 17.2% |
| Management expenses | (78.2) | (71.2) | (9.8)% |
| Net underwriting result | 33.0 | 23.7 | 39.2% |
| Investment income | 7.5 | 31.3 | (76.0)% |
| Other expenses | (2.9) | (2.1) | (38.1)% |
| Profit before tax | 37.6 | 52.9 | (28.9)% |
| Tax | (10.9) | (15.7) | 30.6% |
| Profit after tax | 26.7 | 37.2 | (28.2)% |
| Performance indicators | | | |
| Gross margin | 14.7% | 14.3% | |
| Management expense ratio | 10.3% | 10.7% | |
| Net margin | 4.4% | 3.6% | |
| Investment return | 1.6% | 8.7% | |



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## Data sheet

| | FY05 / at 30 Jun 05 | FY06 / at 30 Jun 06 | FY07 / at 30 Jun 07 | FY08 / at 30 Jun 08 |
|---|---|---|---|---|
| nib | | | | |
| Total policyholders | 290,940 | 302,299 | 328,784 | 365,389 |
| *Policyholder growth* | *4.2%* | *3.9%* | *8.8%* | *11.1%* |
| *Market share* | *6.2%* | *6.3%* | *6.6%* | *7.0%* |
| Persons covered | 622,298 | 640,178 | 681,013 | 732,930 |
| Avg age of hospital persons covered (yrs) | 35.8 | 36.2 | 36.1 | 36.0 |
| Total policyholders "under 40" | 117,206 | 122,494 | 140,085 | 166,892 |
| *Growth in "under 40" segment* | *4.0%* | *4.5%* | *14.4%* | *19.1%* |
| Total hospital persons "20-39" | 162,009 | 163,372 | 188,155 | 218,445 |
| *Growth in hospital persons "20-39"* | *3.3%* | *3.3%* | *12.4%* | *16.1%* |
| Retail centres (across Australia) | 37 | 34 | 32 | 25 |
| Hospital benefits paid | $282.7m | $295.2m | $336.7m | $357.7m |
| Ancillary benefits paid | $124.6m | $133.2m | $169.9m | $187.2m |
| Outstanding Claims Liability (movement) | $(0.8)m | $12.7m | $(1.3)m | $8.2m |
| Employees (FTEs) | 472 | 481 | 506 | 478 |

Source: nib / PHIAC data



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