

# ASX ANNOUNCEMENT

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nib holdings limited (asx: nhf)

19 February 2018

## nib announces FY18 first half results (1H18) and updates full year guidance

### 1H18 Highlights

- Funded almost 143,000 hospital admissions and more than 3.0 million ancillary services across Australia and New Zealand with total benefits paid of \$825 million<sup>1</sup> (+ 8.7%).
- Group revenue up 8.9% versus 1H17 to \$1.1 billion for half year.
- Group underlying operating profit (UOP) of \$96.4<sup>2</sup> million (+1.3%) and statutory operating profit of \$88.1 million (-3.1%).
- Group net profit after tax of \$70.9 million down 0.3% largely reflecting one-off costs associated with GU Health acquisition in October 2017.
- Australian Residents Health Insurance (arhi) organic growth of 1.1%<sup>3</sup> once again well above industry average (0.3%<sup>4</sup>) with higher Net Promoter Score (30.9% +630bps). But UOP and profit margin lower than 1H17 as anticipated.
- Impressive result from adjacent businesses with earnings up 35.6% to \$30.1 million. Accounted for entire increase in Group UOP.
- Net Investment income of \$17.1 million (+23.9%).
- Earnings per share (underlying) of 17.2 cents per share (+0.6%), earnings per share (statutory) of 15.9 cents per share (-3.0%).
- Interim dividend of 9.0 cents per share fully franked (+5.9%)
- New full year guidance of at least \$165.0 million (UOP) and at least \$148.0 million (statutory operating profit).

**nib holdings limited (ASX: NHF) today announced Group revenue of just over \$1 billion and an underlying operating profit (UOP) of \$96.4 million for the six months to 31 December 2017 (1H18). This represented growth of 8.9% and 1.3% respectively compared to the previous year's first half.**

**Net investment income rose 23.9% to \$17.1 million, while net profit after tax fell 0.3% to \$70.9 million, primarily due to costs associated with the acquisition and integration of GU Health in October 2017 (\$3.6 million).**

nib Managing Director Mark Fitzgibbon said the first half result was as expected and is on track to deliver improved consolidated earnings for the full year.

“Our Australian Residents Health Insurance (arhi) business had another busy half year funding more than 135,000 hospital admissions and almost 3.0 million ancillary treatments. Importantly, we also funded around 24,000 public hospital admissions at a cost of almost \$39 million up 5.9% on 1H17,” Mr Fitzgibbon said.

“The growth in us paying for public hospital admissions is a key factor in cost and premium inflation. However, it’s at least providing greater choice and access for our customers and demonstrating just how reliant the public hospital system has become upon private health insurance,” he added.

Mr Fitzgibbon said there had been as expected some margin contraction within arhi, with UOP for the first half down by 9.2% to \$66.3 million. However, the full year net margin result was likely to finish at the higher end of nib’s target 5% to 6% range.

“The domestic Australian health insurance market is as soft as I can recall. Household incomes aren’t growing and there’s sure no shortage of competition in the market place.

<sup>1</sup> Net claims incurred - Health insurance benefits including hospital, risk equalisation, state levies and ancillary benefits. Hospital includes hospital, medical and prostheses.

<sup>2</sup> nib’s statutory operating profit includes \$8.3 million in amortisation of acquired intangibles, one-off transactions (integration of acquired business, establishment of business costs as well as extraordinary legal fees), and merger and acquisition costs.

<sup>3</sup> Excludes GU Health with business acquired 31 October 2017

<sup>4</sup>Source: APRA

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“But we’re peddling hard and the arhi result is better than what it looks with nib<sup>3</sup> accounting for about 36% of what industry growth there was in the six months to December 2017. We’re especially pleased with the contribution being made by our partners Qantas and Suncorp.

“Our adjacent businesses had a fantastic first half, growing earnings by 35.6% and contributing more than \$30 million to our Group UOP. They actually accounted for all of our growth in operating earnings.

“These businesses, which include international students and workers, our travel insurer World Nomads Group, and nib New Zealand, collectively accounted for more than 31% of Group UOP. Their contribution is in keeping with a very deliberate strategy to parlay existing Group capabilities to grow enterprise value and reduce concentration risk. We see a future not too far away in which these businesses account for as much as 50% of our Group earnings,” he added.

Mr Fitzgibbon said nib remains very committed to addressing premium affordability and that its efforts coupled with Minister Hunt’s policy initiatives are already having a meaningful impact.

“Our arhi<sup>3</sup> 2018 premium increase of 3.93% was our lowest in 15 years.

“We must however do more to hold down claims inflation and therefore premium growth. There’s just way too much evidence of unnecessary hospitalisation and fee variation. While we don’t want to tell doctors what to do, we do want to help our customers make more informed decisions about treatment options, choice of doctor and cost. The digital age is making it all the more possible,” he said.

nib said the transition of specialist B2B private health insurer GU Health (acquired 31 October 2017) is going to plan, with the business contributing \$28.4 million in revenue for 1H18 (two month result).

nib declared an interim 1H18 fully franked dividend of 9.0 cents per share (1H17: 8.50 cents per share). The interim dividend has an ex-dividend date and record date of 1 and 2 March 2018 respectively, with the interim dividend to be paid on 3 April 2018.

## **Outlook & Guidance**

According to Mr Fitzgibbon, the outlook for private health insurance and nib remains positive.

“No amount of political posturing is going to change the fact that Australians are each year spending somewhere between 5% to 6% more on their healthcare and that we’re simply running out of taxpayers relative to our retired to fund the Government’s massive share of the costs.

“You can see that clearly in the increasing public hospital reliance on private health insurers who collectively paid more than \$1.5 billion to public hospitals in calendar year 2017. That means about 6.5 cents in every dollar we collected in premiums effectively went to State governments. And hopefully, the community has noticed the quarrel currently going on between the Commonwealth and States over the Commonwealth’s share of public hospital funding. The States are all arguing the Commonwealth paying them an additional 6.5% every year isn’t enough!” he said.

Mr Fitzgibbon said it was largely treatment volume growth that is driving spending in both the public and private healthcare systems and that the best protection for consumers relies on transparency, robust competition and less regulation at every step in the healthcare supply chain. He said nib and the industry as a whole was keen to further engage with Government and other key stakeholders to build a better system.

nib now expects consolidated UOP for the full year FY18 to be at least \$165 million (versus previous estimate of at least \$155 million) with statutory profit at least \$148 million. Notwithstanding expected above system and solid top line growth, arhi UOP for the full year is expected to increase by less than 3%<sup>3</sup> due to net margin contraction compared to FY17 (net margin 6.4%).

## **Investor Briefing**

nib will conduct an investor briefing on the 1H18 result at 10am (AEDT) today with teleconference details below. A webcast of the briefing is also available at [nib.com.au/shareholders/financial-results](http://nib.com.au/shareholders/financial-results)

Dial: 1800 558 698 or +61 2 9007 3187

Passcode: 147160

## **Media and Investor Relations**

Matthew Neat

Head of Corporate Affairs & Investor Relations

Tel: +61 (0)2 4914 1777 or 0411 700 006 (+61 411 700 006)

Email: [m.neat@nib.com.au](mailto:m.neat@nib.com.au)