ASX ANNOUNCEMENT

19 August 2019

Another strong result for nib and members

- Group underlying revenue $2.4 billion (+8.3%)
- Group claims expense[1] $1.8 billion (+6.9%)
- Group underlying operating profit $201.8 million (+9.2%)
- Net profit after tax[2] $149.3 million (+11.8%)
- Member first approach continues to drive Net Promoter Score (NPS)[3] improvement to 32.5 (+3.8)
- Final dividend of 13.0 cents per share fully franked (+18.2%), with Dividend Reinvestment Plan available

nib Group (ASX: NHF) today announced solid growth across all business segments and an increase in underlying operating profit (UOP) of 9.2% to $201.8 million (statutory operating profit[4] of $184.6 million) with earnings per share (statutory) up 11.9% to 32.9 cents per share.

Australian Residents Health Insurance (arhi)

nib Group Managing Director, Mark Fitzgibbon, said although nib continues to expand and diversify, its “flagship” arhi business still accounted for the bulk of total Group earnings, contributing $149.5 million or just under 75% of Group UOP.

He added that although not a big number, net policyholder growth of 2.1% for the year would contrast starkly with what is expected to be a decline in hospital coverage across the industry as a whole.

“Market conditions have been challenging for a range of reasons. There’s broad weakness in consumer discretionary spending, fierce competition for that spending and private health insurance has some issues around cost and affordability, especially out-of-pocket expenses for members,” Mr Fitzgibbon said.

“But we continue to work hard at redressing these issues, improving the value proposition and growing our business and market share. For the five years up until 30 June 2019 we estimate nib accounted for about 20%[5] of total industry growth. It’s a very solid achievement indicative of constant innovation such as the partnerships we enjoy today with the likes of Qantas, Suncorp Group and TAL,” he added.

Mr Fitzgibbon said nib’s focus remains grounded in actually delivering on its purpose.

“Our arhi business alone funded almost 300,000 hospital visits and over 3.4 million ancillary services such as dental and optical treatment. It’s not only about financial security. We’re allowing our members fast access to high quality healthcare and a choice of doctor or healthcare provider. Average waiting times in private hospitals for say a total knee replacement in 2018 were 28 days compared to up to 363[6] in the public system,” he said.

“And although we still have a long way to go, we are making good progress on helping our members make better healthcare decisions. For example, today we have digital platforms to improve health literacy such as “The Check-Up” as well as assist members in choosing a healthcare provider,” Mr Fitzgibbon added.

Mr Fitzgibbon acknowledged the recent round of private health insurance reforms driven by Federal Health Minister, Greg Hunt.

“Unlike some private health insurers we quickly passed on to our members the ability to choose a higher hospital excess level as well as the age-based discount to over 50,000 members under the age of 30. Both measures resulted in lower premiums,” he said.

“Nevertheless, there’s plenty of potential yet to make private health insurance provide better value. Consumers are increasingly looking to us to cover their costs wherever they meet the healthcare system as well as protect them against often large out-of-pocket expenses. On the former it’s well past time we are able to cover doctor expenses outside of a hospital and on the latter, more actively guide our members, with their GPs, to specialists offering the best value,” Mr Fitzgibbon added.

1. Total claims are underwriting segments only and exclude travel insurance claims.
2. NPAT attributable to owners $149.8m, excludes nib charitable foundation $(0.5)m.
3. arhi business only, excluding GU Health.
4. nib’s statutory operating profit includes $17.2 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.
5. Source: APRA data. Estimate for the period up to 30 June 2019 extrapolated from data for the five year period up to 31 March 2019.
6. Source: Australian Institute of Health and Welfare.

Other Group businesses

nib's portfolio of adjacent businesses continues to make a meaningful contribution to the Group result with combined UOP of $61.3 million.

"Our international students and workers business delivered another impressive result with net policyholder growth of near 20%. We now cover almost 190,000[7] students and workers from over 180 countries and have a physical presence in China and India. UOP saw similar improvement up 17.9% to $34.9 million," Mr Fitzgibbon said.

"In New Zealand, we've seen strong net policyholder growth for the year at 7.2% with our premium income up 8.8%. NPS for the year increased 12.9 points to 34.0. Although UOP was down to $19.8 million due to increasing claims expense, a net insurance margin of 9.2% speaks of ongoing good commercial performance," he said.

Mr Fitzgibbon observed from the nib Travel result of $6.6 million (down from $8.1 million the previous year), the business remained a work in progress.

"Protecting our members and travel customers wherever they are in the world is a compelling value proposition and entirely consistent with our purpose given the risk of sickness or injury.

"The business is doing well, with sales up 6.8% for the year despite weakness in the Australian market. We just need to do a better job in the domestic market, capture more value along the supply chain as we're now doing in Europe with our new operations in Ireland and aligning our operating and acquisition costs with income," he said.

Mr Fitzgibbon added while the numbers were immaterial, nib is very satisfied with the progress of its joint venture in China.

"It's early days still but we now have a terrific team in place, a growing understanding of the market place and opportunity as well as a fabulous relationship with our local partner, Tasly. Importantly, we have our first corporate clients who we're providing with health management services and hopefully soon, an insurance offering," he said.

The joint venture is awaiting Chinese Government regulatory approval to sell health insurance (critical illness).

Dividends

nib declared a full year dividend of 23.0 cents per share, fully franked (FY18: 20.0 cents per share) which includes a final dividend of 13.0 cents per share. The full year dividend represents 70% of FY19 NPAT, consistent with nib's dividend payout ratio of 60% to 70% NPAT.

The final dividend has an ex-dividend date and record date of 27 and 28 August 2019 respectively, and will be paid on 30 September 2019. The Board also confirmed the Dividend Reinvestment Plan (DRP) will be available for the final dividend for eligible nib shareholders. Further information can be found by visiting nib.com.au/shareholders

Outlook & Guidance

Relatively low levels of claims inflation in recent years have resulted in arhi insurance margins (7.3% in FY19) being well ahead of nib's long run target range of 5%-6%. As indicated in previous guidance, nib does not expect this position to continue indefinitely. We currently believe a net margin in the order of 6% is more likely moving forward.

nib said its arhi organic net policyholder growth target of 2%-3% per annum acknowledges challenges in the market. Prospects for further industry consolidation appear reasonable given a range of factors including an increased focus from APRA upon business sustainability risk.

Financial conditions and performance in other Group businesses are expected to be consistent with recent years.

nib anticipates for FY20 a Group UOP of at least $200 million[8] (statutory operating profit of at least $180 million[8]).

Investor Briefing

nib will conduct an investor briefing on the FY19 full year result at 10am (AEST) with teleconference details below. A webcast of the briefing is also available at nib.com.au/shareholders

Dial: 1800 148 258 or +61 2 8038 5271
Passcode: 3029759

MEDIA AND INVESTOR RELATIONS
Matthew Neat
Tel: 0411 700 006 (+61 411 700 006)
Email: m.neat@nib.com.au

7. Persons covered.
8. The Group expects that net profit after tax will decrease by approximately $1.3 million for FY20 as a result of adopting the AASB16 Leases Standard. UOP used to measure segment results is expected to increase by approximately $4.0 million, as the interest on the lease liability is excluded from this measure.