

5 May 2016

The Manager
Company Announcements
Australia Securities Exchange Limited
Level 4, Bridge Street
SYDNEY NSW 2000

Presentation to 2016 Macquarie Australia Conference – May 2016

Attached presentation delivered by nib at the 2016 Macquarie Australia Conference
(5 May 2016).

Yours sincerely



Michelle McPherson
Company Secretary/Chief Financial Officer

IT'S GOOD TO BE
HUMAN

MACQUARIE AUSTRALIA CONFERENCE

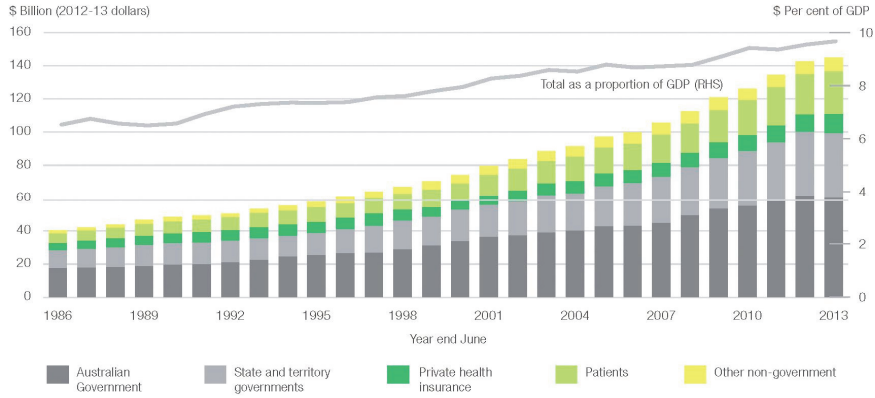
THURSDAY 5 MAY 2016

MARK FITZGIBBON
MANAGING DIRECTOR

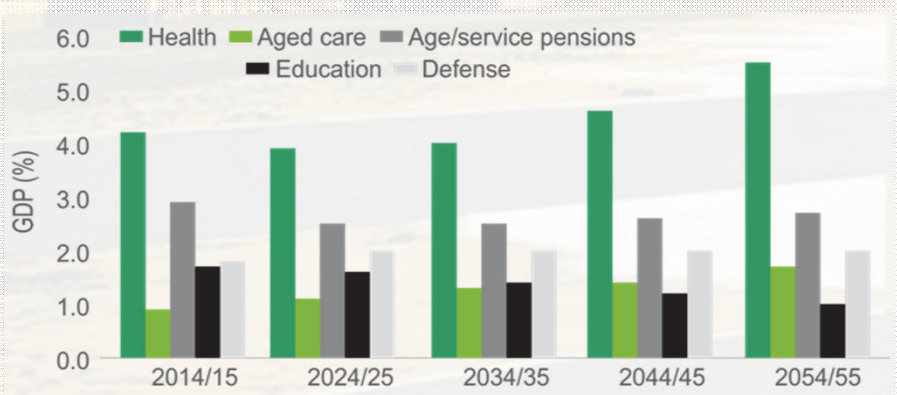
nib

Key investment thesis for private healthcare

Australia's health expenditure continues to grow



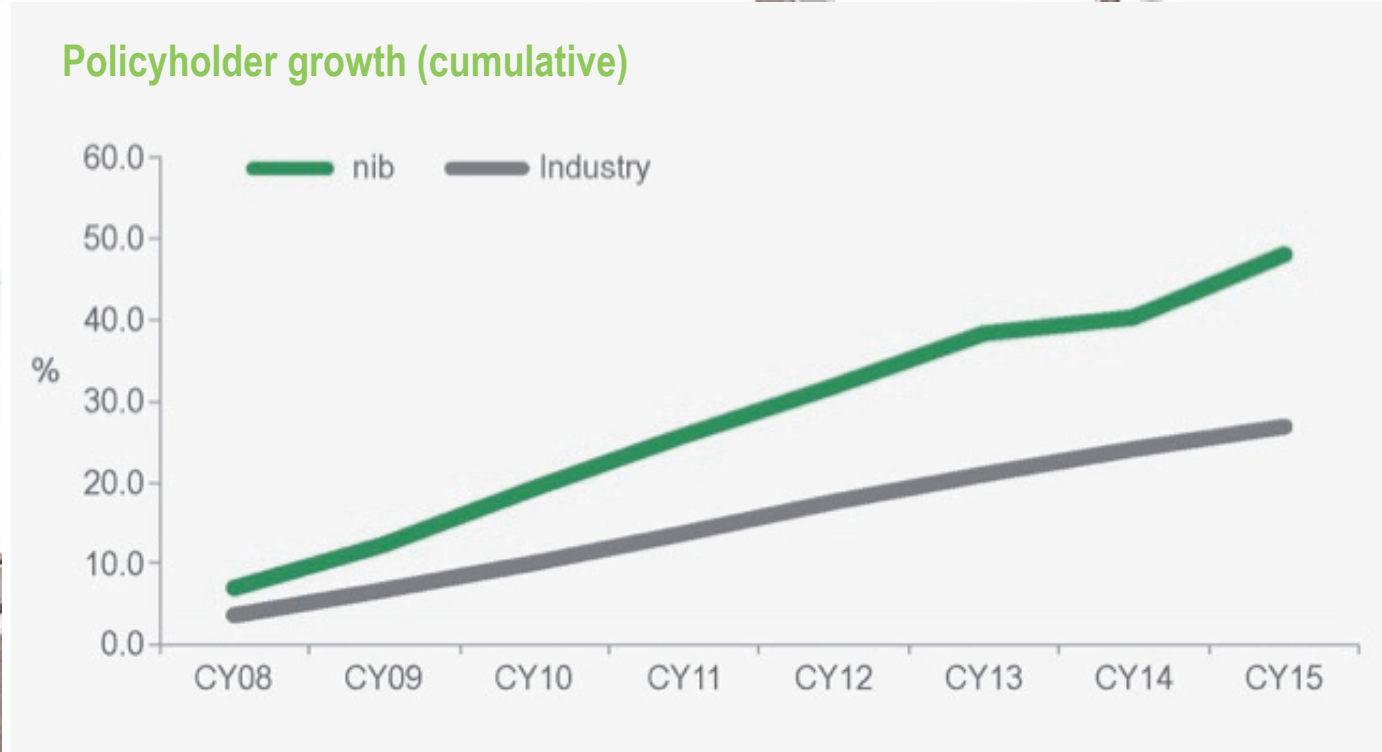
Government cannot sustain its relative share Commonwealth spending



Source: AIHW 2014 Health Expenditure Australia



PHI is “riding the back” of this growth and cost shift with nib consistently doing better



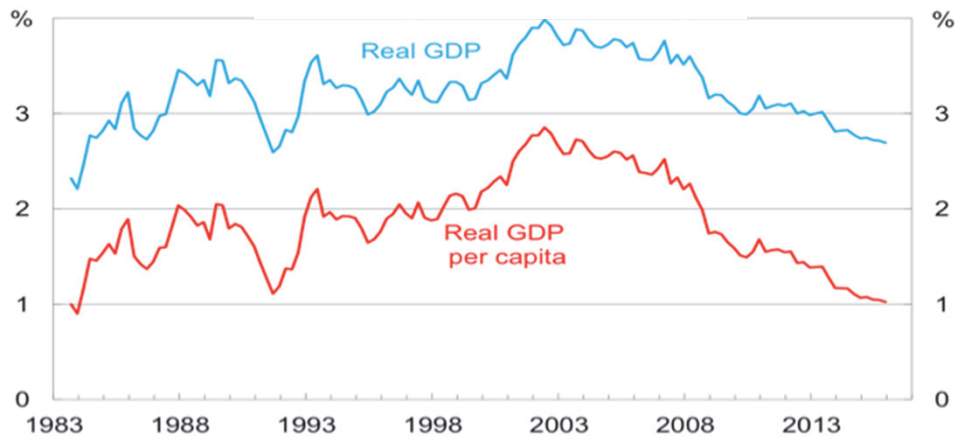
Source: APRA and nib



But the market has softened and is skewing towards older “customers”

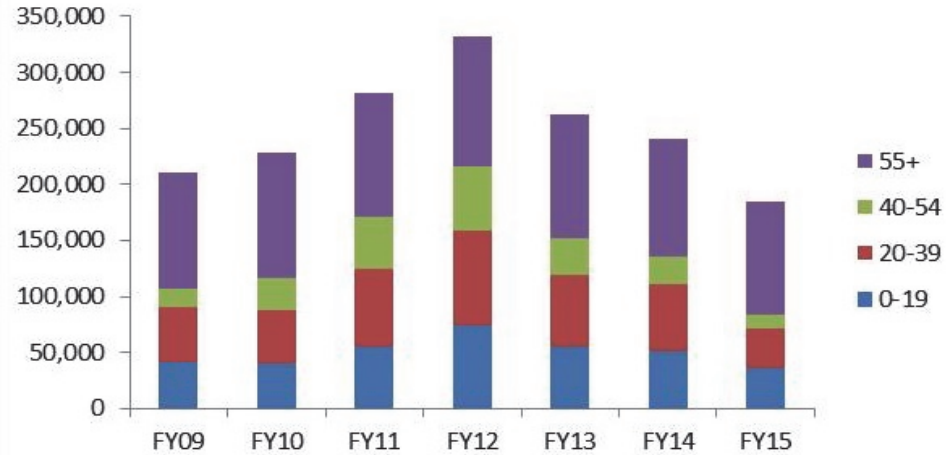


Australian real GDP (annualised growth 10 yr average)



Source: ABS; via CP economics

Industry policyholder growth



Source: APRA



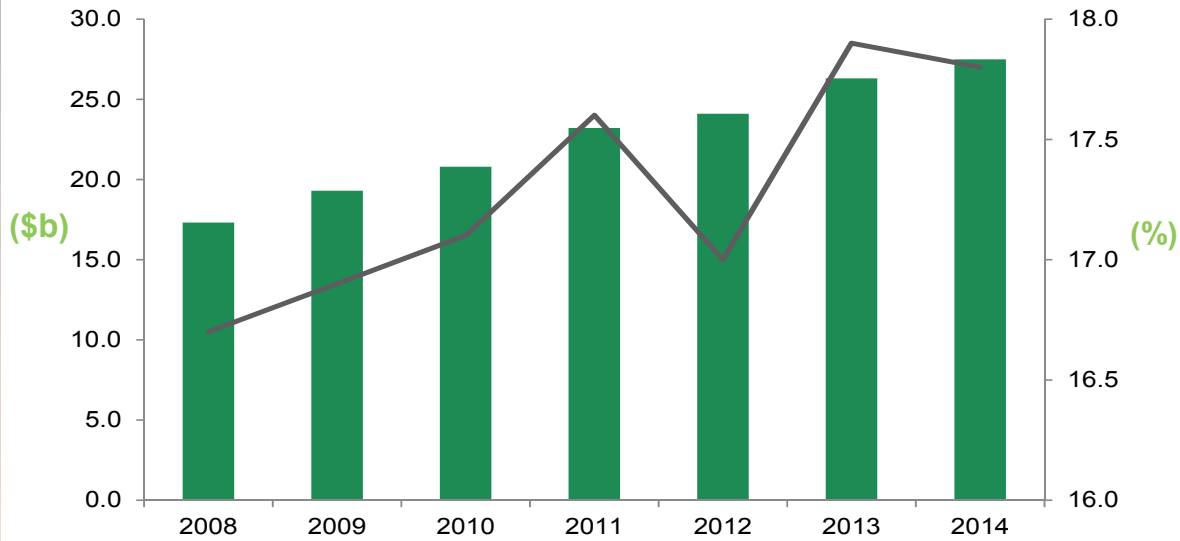


And “out of pocket” is actually growing faster than PHI

Individual health expenditure

LHS – Total individual expenditure (\$b)

RHS - Proportion (%) of total health expenditure



Source: AIHW 2014 Health Expenditure Australia

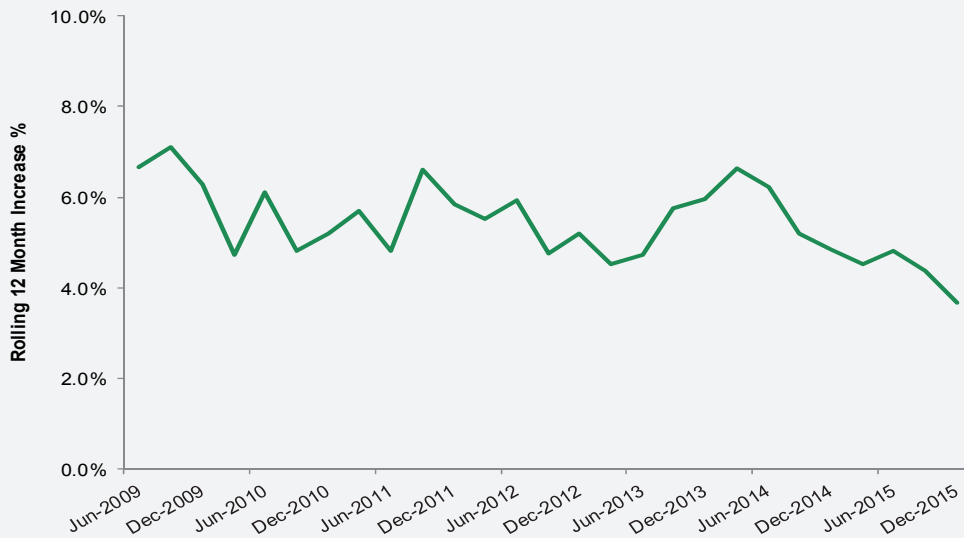




Claims inflation has slowed in recent times

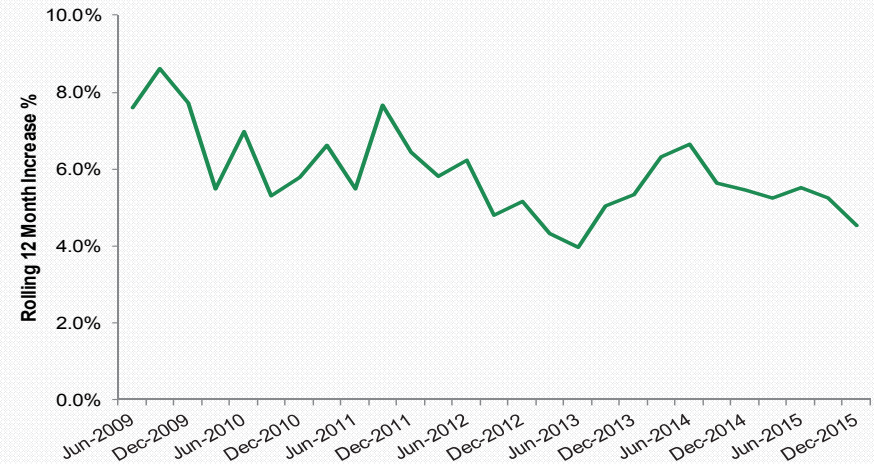


Total benefits (hospital & ancillary) per person inflation (industry)

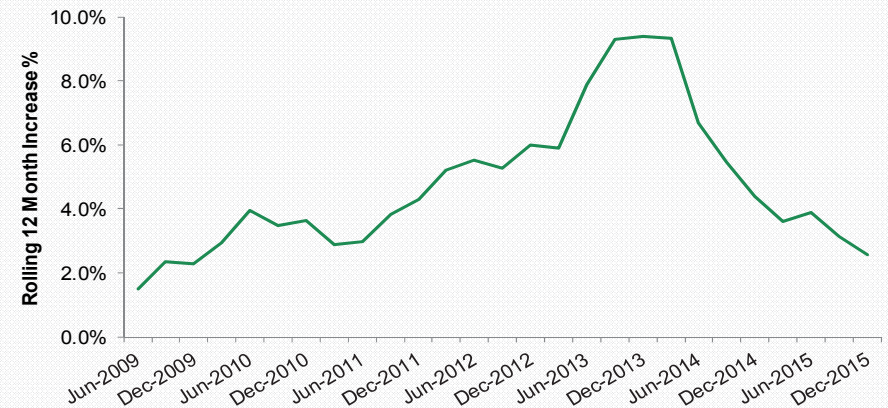


Source: APRA

Hospital benefits per person inflation (industry)

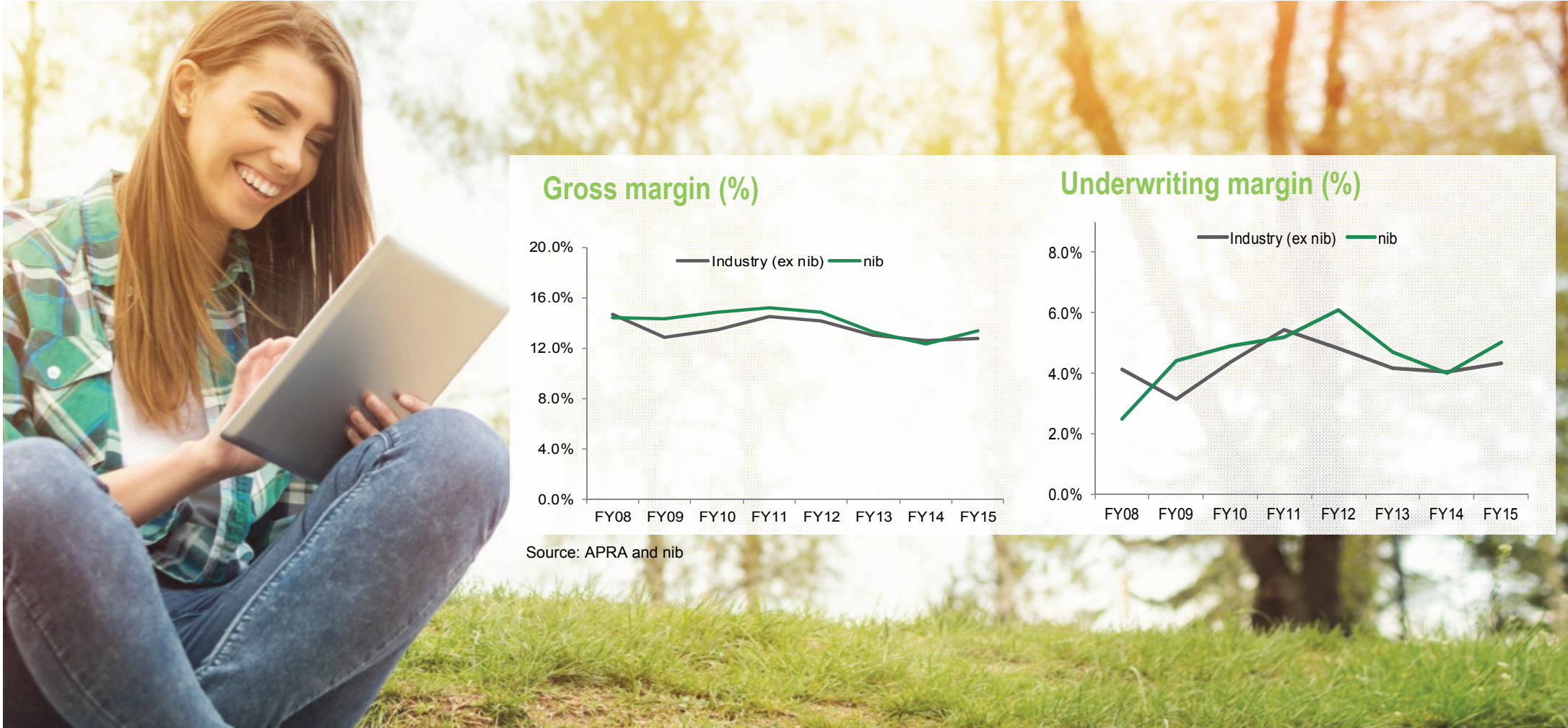


Ancillary benefits per person inflation (industry)

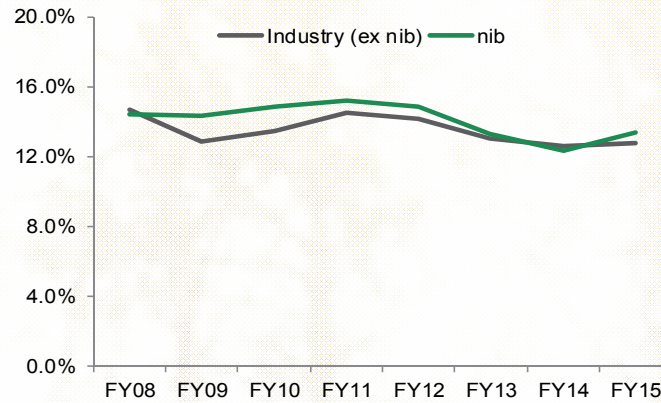




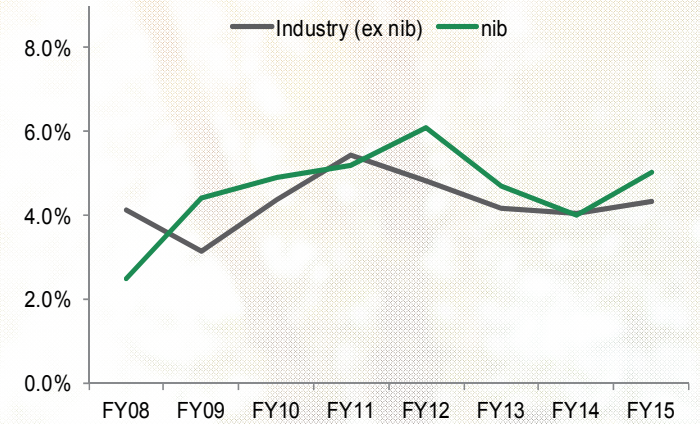
Resulting in improved profitability for insurers



Gross margin (%)



Underwriting margin (%)



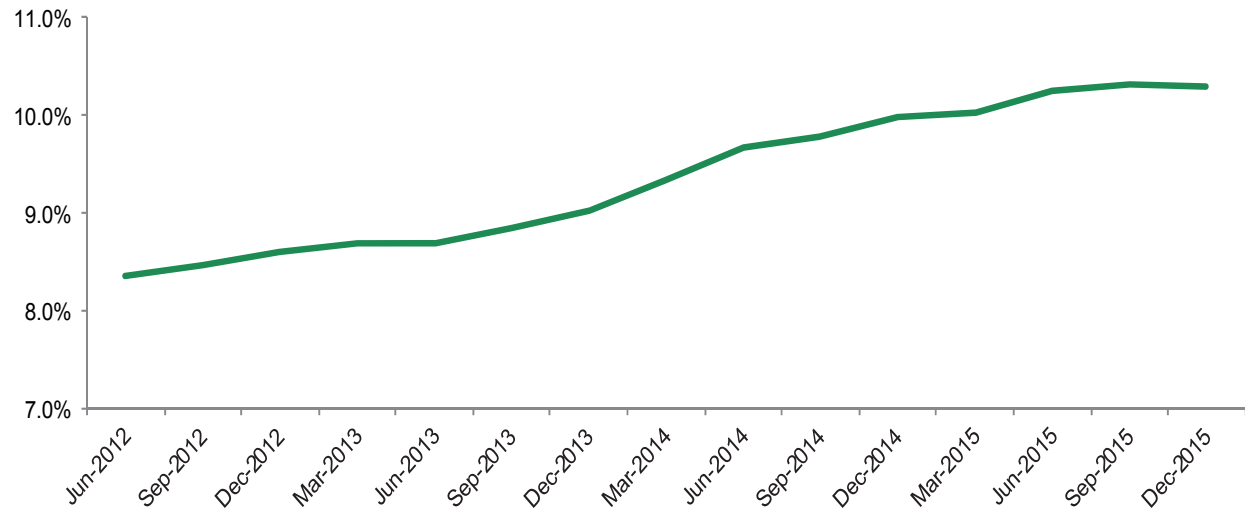
Source: APRA and nib



But the cost of growing is increasing



Annualised (industry*) discontinued rate



* Insured persons
Source: APRA



The future shape of PHI is by no means certain





Key PHI issues



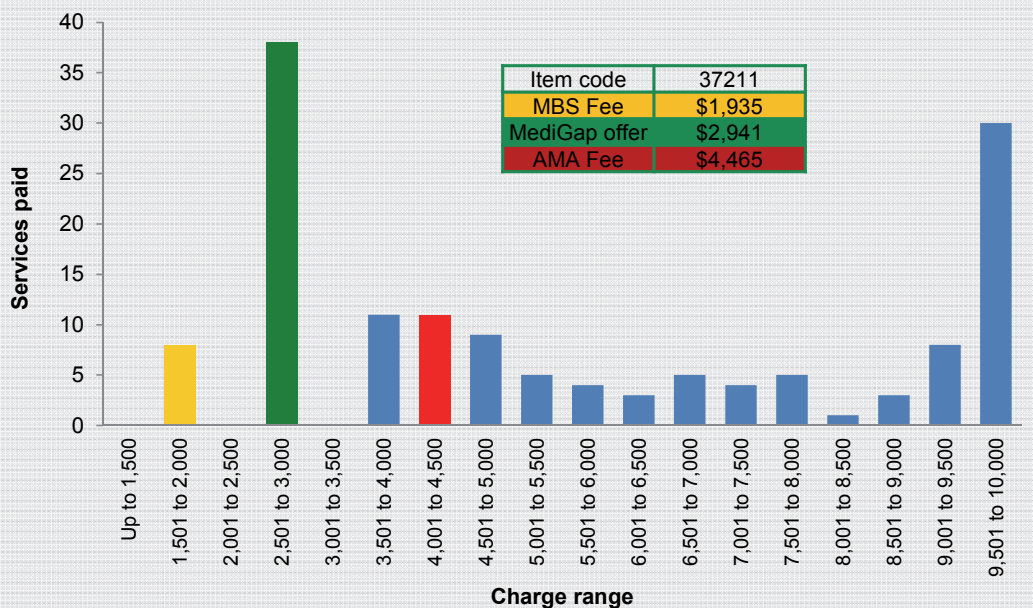
- Inappropriate and unwarranted treatment.
- Rampant price variation and medical gaps.
- Prosthetic pricing.
- Regulatory reform (pricing, risk equalisation, 2nd tier default, Federation Reform Option 3).
- Healthcare homes.
- Health savings accounts.
- Outsourcing of Government programs (e.g. DVA, Medicare).



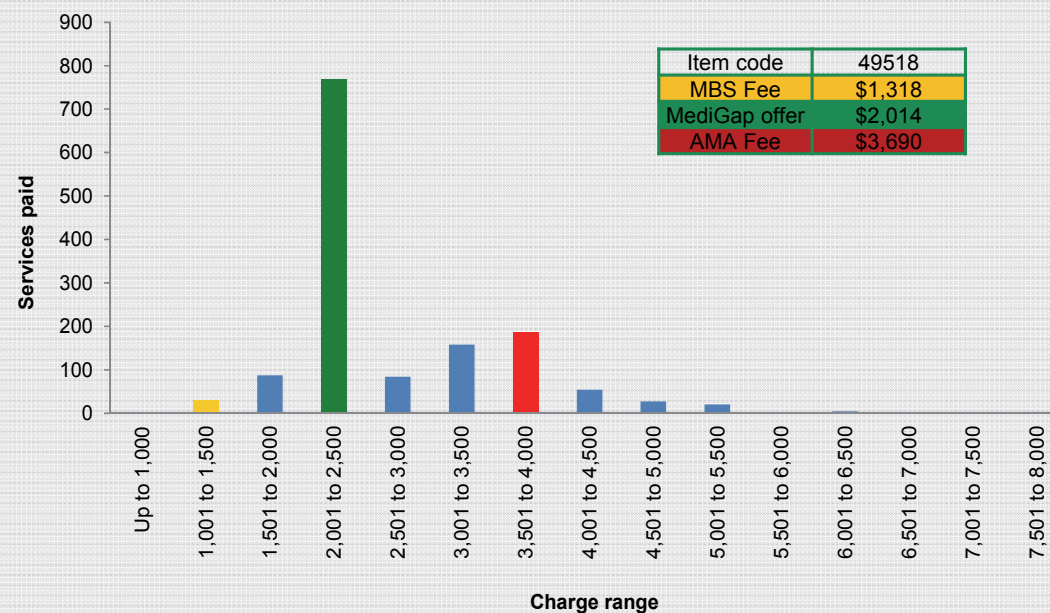
Medical specialist cost variation



Prostatectomies (CY15)



Knee replacements (CY15)



Source: nib



Prostheses cost variation

- Reforming medical device pricing could save \$800 million in annual expenditure. Prostheses benefits payments comprise 14% of total PHI reimbursements in Australia.
- There is significant variation in what private patients are charged compared to the public system as well as international benchmarks.

Device category	Device name	Prosthesis list (min benefit PHI)	Price negotiated by Public hospitals	Difference
Single chamber pacemaker	Lumax 740 DR-T DX	\$43,920	\$17,000	\$26,920
Dual chamber pacemaker	Lumax 740 DR-T	\$45,760	\$19,000	\$26,760
Implantable cardioverter defibrillator	Sprint Quattro Secure S	\$9,000	\$2,200	\$6,800

Source: WA Health website showing difference between Prostheses List minimum benefits and prices paid by public hospitals for a range of devices.

Variation by device compared to international benchmarks

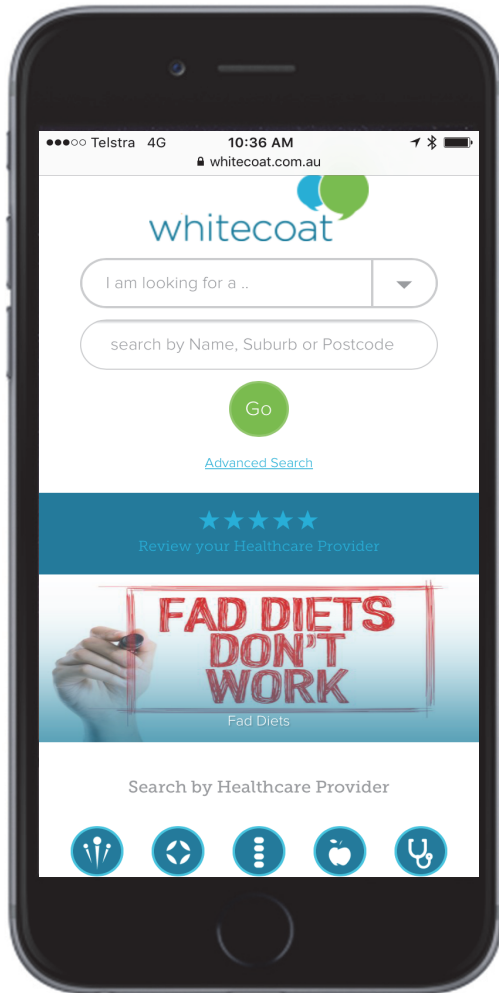
Pacemaker (Anthem RF PM3212)



Country	Price (\$A)
Australia (Prosthesis list)	13,520
Japan ¹	\$5,840
France ²	\$5,840

1 Source: direct comparison with items on Japanese Prostheses List

2 Source: direct comparison with French Prostheses List



- Whitecoat's purpose is to help consumers:
 - Make more informed decisions around their health.
 - Choose treatment options and healthcare providers (including cost).
 - Connect and transact with providers.
 - Improve engagement with providers and share experiences with other consumers.
- Progress to date:
 - 200,000 patient reviews.
 - More than 30,000 providers registered.
 - Expecting 2 million visitors this year.
- Priorities:
 - Wide engagement by PHI and large provider groups (including in NZ).
 - Government engagement in Australia and NZ.
 - Expand provider registration to specialists and hospitals.
 - Launch of Whitecoat app and increase transactions.
 - Provider transparency and consumer awareness of fees and out of pocket costs.



Outlook & guidance

FY16 outlook remains positive



- Real healthcare spending will continue to grow circa GDP + 2%¹.
- Expect PHI reforms will be a net positive.
- Claims inflation taking a lower trajectory with opportunities to improve PHI affordability and stabilise margins.
- Adjacent businesses will increase contribution to earnings including significant improvement in international (inbound) business from FY17.
- FY16 consolidated underlying operating profit of \$125m – \$135m (statutory operating profit of \$113m – \$121m).

	Total Health Expenditure	GDP
	Average annual growth rate (%)	Growth rate (%)
2003–04 to 2008–09	5.78	3.08
2008–09 to 2013–14	4.23	2.60
2003–04 to 2013–14	5.00	2.84

¹ Source: Australian Institute of Health and Welfare 2015. Health expenditure Australia 2013-14. Health and welfare expenditure series no. 54. Cat. No. HWE 63. Canberra: AIHW.