

Date Monday 23 February 2015
Subject nib announces FY15 first half results

Highlights

- **Group operating profit of \$42.1 million (1H14: \$41.4 million)**
- **Group net premium revenue of \$802.3 million (1H14: \$735.4 million)**
- **Australian residents business operating profit of \$37.5 million (1H14: \$34.0 million)**
- **International workers and students contributed 18.2% of operating profit (1H14: 13.2%)**
- **nib New Zealand now generating policyholder growth**
- **Net profit after tax of \$41.1 million (1H14: \$39.6 million)**
- **Earnings per share 9.4 cents (1H14: 9.0 cents)**
- **Interim dividend 5.5 cps fully franked (1H14: 5.25 cps)**

nib today announced a consolidated operating profit of \$42.1 million for the six months to 31 December 2014 (1H15) up 1.7% from \$41.4 million for the same period in fiscal 2014 (1H14). Consolidated net profit after tax was up 3.8% to \$41.1 million (1H14: \$39.6 million) with earnings per share of 9.4 cents (1H14: 9.0 cents). Return on equity remained strong at 21.4% (1H14: 21.9%).

Managing Director, Mr Mark Fitzgibbon, said the result was solid especially given less than buoyant market conditions, heavy competition for sales and industry churn.

"Group premium revenue grew more than 9.0% to \$802.3 million for the first half of the year with all of our established business segments performing well," Mr Fitzgibbon said.

"In our Australian residents health insurance (arhi) business operating profit was up 10.3% to \$37.5 million and it remains the main engine of our Group earnings. Pleasingly, our investment in targeting customers aged 55 years and over is doing well with sales in this segment accounting for more than 27% of all our sales for the period, it was less than 20% in 1H14. We're primarily a youth oriented brand but with retail brokers and distribution partners such as Apia we're quickly building a larger market presence amongst the young at heart as well," Mr Fitzgibbon added.

According to Mr Fitzgibbon the "lead in the saddle" for arhi and the private health insurance industry generally continues to be claims experience and with it, margin pressure. Total claims for arhi for the first half of the year were \$612.5 million up 8.8% on 1H14 (which included \$94.7 million risk equalisation expense).

"We exist to pay claims and claims growth is indicative of private health insurance playing an increasing role in funding our healthcare. That's a vitally important trend given the immense strain on the public system and the need for more private sector involvement," he said.

"But we do believe there are many opportunities to reduce claims inflation without compromising patient access and the quality of care. So for example, we're actively pursuing possibilities around more informed patient decisions and working with GPs on more integrated patient care. We know we pay for surgery and treatment which aren't always the best solution for patients and often the need for surgery or treatment could have been avoided in the first place by better management. Research tells us there are about 700,000 potentially avoidable hospital admissions across the nation every year," Mr Fitzgibbon added.

Compared to the same period last year, nib's international workers health insurance (iwhi) business grew operating profit by more than 50% to \$7.2 million. The business provides compulsory health and medical insurance to about 20,000 skilled migrant workers in Australia.

nib's international students health insurance (ishi) business continued to deliver very strong sales. Net policyholder growth was up more than 130% and premium revenue grew more than 85% to \$7.3 million since 1H14.

"We now insure more than 35,000 foreign students studying in Australia, compared to less than 5,000 two years ago. And we will soon add about 13,000 Saudi Arabian students. This business alone is worth around \$32 million in annual premium revenue," Mr Fitzgibbon said.

nib's New Zealand business (acquired in November 2012) reached a milestone during the period, achieving net policyholder growth of 3.3% after a decade of decline. nib New Zealand's 1H15 operating profit was impacted by the unique Premium Payback (PPB) portfolio which is a calculated liability based upon reimbursing policyholders at some future time, the difference between premiums paid and claims made. Excluding movement in the PPB liability the operating profit result was \$1.3 million in 1H15 compared to \$0.5 million in 1H14.

Mr Fitzgibbon said nib's focus in New Zealand remained upon building the business fundamentals such as the nib brand and the new direct-to-consumer channel as well as improving performance in the existing group employee and wealth advisors channels.

"It's still very early days for us in New Zealand and it's going to take a little time to build the business to the level we aspire. But we remain very confident about its potential and about eventually meeting our investment goals," he said.

Mr Fitzgibbon added that nib's investment in its new medical and dental travel business (nib options) would similarly require time to demonstrate its value.

"Like all start-up businesses, nib Options is still investing in core capabilities and admittedly, we're on a steep learning curve. But people travelling across international borders is a thematic we're very attracted to and the outlays to date represents a very small upfront investment given the potential returns," he said.

nib Options made a loss of \$2.6 million in 1H15.

nib declared an interim fully franked dividend of 5.5 cents per share, up 4.8% (1H14: 5.25 cents per share). The record date for the interim dividend is 6 March 2015, with the dividend to be paid on 2 April 2015.

nib has confirmed its FY15 operating profit guidance of \$75 million to \$82 million, with the result likely be at the lower end of this range.

MEDIA AND INVESTOR RELATIONS

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