nib holdings

ASX Announcement

Date **Monday 17 August 2009**

Subject **nib announces FY09 full year results**

Highlights

- **Pre-tax underwriting profit of $40.2 million - up 21.8% on FY08 ($33.0 million[1])**
- **Net policyholder growth of 18,899 (5.2%) vs estimated industry growth of 3.0%[2]**
- **Premium revenue up 9.4% to $829.5 million (FY08: $758.2 million)**
- **Net consolidated profit after tax of $23.8 million (FY08: $26.7 million[1]) impacted by negative net returns on investment portfolio of $(1.8) million (FY08: $7.5 million positive)**
- **Final dividend of 4.4 cps fully franked (Full year dividend of 7.4cps)**
- **Total shareholder return for year of 58.2% (ASX 300: (20.3)%)**

nib holdings limited (nib) today announced a pre-tax underwriting profit of $40.2 million for the 12 months ended 30 June 2009, an increase of 21.8% (FY08: $33 million[1]). Net underwriting margin was 4.8%, up from 4.4%[1].

nib's policyholder growth of 5.2% for the period (18,899 net new policies), contributed to the positive underwriting result in difficult economic conditions.

Consolidated profit was $23.8 million and was adversely impacted by negative full year investment returns.

The Board has declared a final dividend of 4.4 cents per share (cps), with a total full year dividend of 7.4 cps (fully franked), 5 cps of this dividend reflects capital management given nib's surplus capital position.

nib's Managing Director, Mr Mark Fitzgibbon, said despite deteriorating economic conditions and increased competition, the company achieved good growth and improved underlying profitability.

"Against the backdrop of the global financial crisis, the past 12 months was very positive and has created a strong foundation for nib. As a result we are well on the way towards delivering on the business and financial goals set when we listed in 2007," Mr Fitzgibbon said.

"Our policyholder growth rate of 5.2% was solid and with an anticipated industry growth for the period of about 3.0%[2], we will again achieve an above system growth rate," Mr Fitzgibbon added.

"The investment we've made in organic growth continues to yield results, with nib accounting for an expected 12%[2] of the total industry growth for the year, maintaining an estimated market share of just over 7.0%.

"In our target 20-39 years of age demographic we added 12,056 new polices, which we anticipate will account for about 22%[2] of this segment's total national industry growth. And for the first time our net policyholder growth in Victoria surpassed NSW. We have been very successful in extending our brand reach and national penetration."

According to Mr Fitzgibbon the only shine being taken off the success in attracting younger first time policyholders was the escalating impact of the industry's risk equalisation scheme, with nib's net contribution to the scheme increasing by 19% to $87 million for the year.

[1]FY08 result was normalised to remove the impact of costs associated with nib's demutualisation and listing, and "notional" tax. [2] nib estimated figure using company and industry information to 31 March 2009. As at 17 August 2009 the Private Health Insurance Administration Council (PHIAC) had not published FY09 industry growth rates.

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nib's underlying earnings are showing consistent improvement since listing in November 2007 without in anyway damaging its price competitiveness.

"Our net underwriting margin of 4.8% was solid and delivered an underwriting result of $40.2 million, which is in line with the top end of our previous guidance range of $35-$40 million. Importantly, we're driving earnings northwards while remaining true to our reputation as being great value for money.

"This is reflected by our FY09 average premium rate increase across all products of only 5.18%, compared to the industry average of 6.02%. Our management expenses ratio was down to 9.9% compared to 10.3% the previous year. We are very confident about being able to further improve on our margins in FY10 and sustain net margins in the range of 5-6% going forward," Mr Fitzgibbon said.

The impact of the global crisis on financial markets soured nib's positive underwriting result, with net investment losses of $1.8 million or (0.4)%. As previously foreshadowed, investments were expected to be a drag on full year earnings.

Holding company and other subsidiary expenses of $7.9 million were largely due to one-off costs of $3.6m, associated with share registry costs as well as due diligence and bid response expenses. While the majority of these costs are non-recurring, initiatives to further reduce these costs are underway.

Capital management & dividend

Capital management was a key focus during the year with nib buying back shares and returning part of its surplus capital by way of dividend policy. At 30 June 2009, nib had capital of $132 million (after allowing for the final dividend) which was surplus to its prudential target.

As part of the on market share buy-back approximately 21.8 million shares (at a total cost of $17.8 million) were purchased at an average price of $0.82 and cancelled. This accounted for 42% of the maximum shares allowed to be purchased within a 12 month period under the buy-back limit of 10% of issued shares. nib intends to continue buying-back up to 10% of issued shares subject to its target maximum price and in compliance with the applicable laws and Listing Rules.

The Board has declared a final dividend of 4.4 cps (fully franked), with a full year dividend of 7.4 cps (fully franked), reflecting a combination of part FY09 earnings (2.4 cps) and capital management (5 cps). nib's dividend policy will continue to reflect a payout ratio between 50-60% of earnings in addition to returning surplus capital by way of dividends but subject to the availability of full franking credits.

As announced at nib's FY09 half year results, nib offered an unmarketable parcel sale facility to shareholders which resulted in approximately 22.0 million shares being offered for divestment. In accordance with the terms and conditions of the Share Sale Facility for Unmarketable Parcels, the shares must be sold by 28 August 2009, with the Board considering options as to how to maximise the price received for these shares having regard for market conditions.

For the time being, nib intends to retain surplus capital having regard for potential strategic investment opportunities subject to the completion of its share buy-back of up to 10% of issued shares at the time of commencement of the buy-back in 2008, or 51,786,969 shares. nib will however review its position on the surplus capital and its debt free capital structure prior to FY10 half year reporting in light of market developments.

Innovation & product changes

nib continues to explore new opportunities to grow market share, revenue and earnings. During the last 12 months the company launched 'Dental Plus', an ancillary (extras) only product and Young at Heart, a product designed to suit older Australians. nib also discontinued a loyalty program which was assessed to be cost ineffective.

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nib's collaboration with Tower Life continues to make good progress. During FY09 commission income of $43,000 was received on the sale of life insurance policies by Tower and while it was very early days, both companies believe long term it will create significant value. nib is also looking to further expand its travel insurance product, with commissions of $277,000 for FY09.

During the year nib also announced collaboration with the National Australia Bank (NAB), to offer private health insurance products to NAB's customers. While the alliance with NAB has not yet yielded significant results to date, the partnership is still developing, with nib and NAB currently refining the product offer and distribution.

Outlook

FY10 is shaping up as another very positive year for nib especially given improving macro economic conditions and its expanding brand presence.

"We have a very sound foundation and are very confident about being able to continue our better than system growth and improve our underlying profitability. Our forecast net policyholder growth for FY10 is between 4-6% with an underwriting margin of 5-5.5%, which is within our target range and a pre-tax underwriting profit of between $45-50 million," Mr Fitzgibbon said.

"Capital management will continue to be a key focus for the business given the level of surplus capital we carry in excess of our prudential target. We seek a balance at present between being able to readily finance possible value creating investment and not perpetuating a 'lazy' balance sheet.

"We are very conscious of the earnings drag carrying surplus capital can create on our ambitions to deliver return on equity of at least 15%, as well as the fact we are totally equity funded at the moment. We are constantly considering how we could better capitalise the business."

Mr Fitzgibbon welcomed the report of the National Health and Hospital Reform Commission (NHHRC) and urged Government to look seriously at more fundamental reforms, especially Medicare Select.

"The NHHRC report will invigorate policy debate towards the need for more private funding and service delivery in our nation's healthcare. Australia like all other nations, will increasingly spend more and more of GDP on healthcare and inevitably the private sector must play an enhanced funding role.

"No one will argue that our healthcare doesn't need new ideas to improve the system. I believe the concept of Medicare Select is our best chance to improve people's health, clinical outcomes and community satisfaction. And by concentrating tax dollars on those in need, it would also be our best shot at sustainably funding the many health equity objectives articulated in the Government's policy agenda.

"Whatever the shape of our near and long term healthcare system and funding, nib is well prepared to adapt and prosper."

FOR FURTHER INFORMATION:

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Financial performance – normalised results

($m)	FY09	FY08	Change (%)
Premium revenue	829.5	758.2	9.4
Claims expense	(599.3)	(554.0)	8.2
HBRTF/RETF Levy	(87.0)	(73.1)	19.0
State levies	(21.2)	(19.9)	6.5
Net claims incurred	(707.5)	(647.0)	9.4
Gross underwriting result	**122.0**	**111.2**	**9.7**
Management expenses	(81.8)	(78.2)	4.6
Net underwriting result	**40.2**	**33.0**	**21.8**
Investment income	(1.8)	7.5	(124.0)
Other income	1.1	1.4	(21.4)
Other expenses	7.9	4.3	83.7
Profit before tax	**31.6**	**37.6**	**(16.0)**
Tax	7.8	10.9	(28.4)
Profit after tax	**23.8**	**26.7**	**(10.9)**
Performance indicators (%)			
Gross margin	14.7	14.7	
Management expense ratio	9.9	10.3	
Net margin	**4.8**	**4.4**	
Investment return	(0.4)	1.6	

- One-off costs for the FY09 period have not been normalised – management expenses ($4.2m) other expenses ($3.6m)
- The FY08 result was normalised to remove the impact of costs associated with nib's demutualisation and listing, and "notional" tax

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Data sheet

	FY03 / at 30 Jun 03	FY04 / at 30 Jun 04	FY05 / at 30 Jun 05	FY06 / at 30 Jun 06	FY07 / at 30 Jun 07	FY08 / at 30 Jun 08	FY09 / at 30 Jun 09
nib							
Total policyholders	255,812	279,272	290,940	302,299	328,784	365,389	384,288
- Policyholder growth	9.2%	9.2%	4.2%	3.9%	8.8%	11.1%	5.2%
- Market share	5.5%	6.0%	6.2%	6.3%	6.6%	7.0%	7.1%[3]
Persons covered	552,380	600,154	622,298	640,178	681,013	732,930	761,753
Avg age of hospital persons covered (yrs)	35.0	35.6	35.8	36.2	36.1	36.0	36.1
Total policyholders “under 40”	105,393	112,651	117,206	122,494	140,085	166,963	179,019
Growth in “under 40” segment	13.0%	6.9%	4.0%	4.5%	14.4%	19.2%	7.2%
Total hospital persons “20-39”	146,592	156,891	162,009	167,372	188,155	218,445	231,136
-Growth in hospital persons “20-39”	10.9%	7.0%	3.3%	3.3%	12.4%	16.1%	5.8%
- Market share	7.3%	7.9%	8.1%	8.2%	8.7%	9.5%	9.8%[3]
Retail Centres (across Australia)	41	37	37	34	32	25	21*
Hospital benefits paid	$118.7m	$235.5m	$282.7m	$295.2m	$336.7m	$357.7m	$400.4m
Ancillary benefits paid	$103.0m	$113.8m	$124.6m	$133.2m	$169.9m	$187.2m	$204.0m
Outstanding claims provision movement	$(1.5)m	$3.5m	$(0.8)m	$12.7m	$(1.3)m	$8.2m	$(5.9)m
Employees (FTEs)	470	443	472	481	506	478	458

Source: nib / PHIAC data

[3] *nib estimated figure using company and industry information to 31 March 2009. As at 17 August 2009 the Private Health Insurance Administration Council (PHIAC) had not published FY09 industry growth rates.*

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