nib holdings

ASX Announcement

Date **Monday 23 August 2010**

Subject **nib announces FY10 full year results**

Highlights

- **Net policyholder growth* of 5.9% (22,641) vs industry growth of 2.9%**
- **Pre-tax underwriting profit up 17.2% to $47.1 million (FY09: $40.2 million)**
- **Net investment income of $44.5 million or 10.5% annualised return**
- **Net profit after tax up 158% to $61.5 million (FY09: $23.8 million)**
- **Earnings per share up 164% to 12.4 cents**
- **Return on equity of 16.3% (FY09: 6.6%) exceeding 15% target for the first time**
- **Final dividend of 5.0 cps fully franked, with full year dividend of 7.0 cps fully franked**

nib holdings limited (nib) today announced a pre-tax underwriting profit of $47.1million for the 12 months ended 30 June 2010, an increase of more than 17% on the previous year's result (FY09: $40.2 million). Premium revenue was up 8.7% to $901.4 million with a net underwriting margin of 5.2%, up from 4.8%.

nib's Managing Director, Mr Mark Fitzgibbon, said it was very pleasing to deliver on the promise made to investors when the company listed three years ago, to increase underlying earnings and achieve a return on equity of at least 15%.

"During the year we have seen strong organic growth of 5.9%, more than double the industry average of 2.9%," Mr Fitzgibbon said.

"A key reason for our success has been our focus on targeting the 20-39 years of age segment, with nib accounting for more than 31% of total industry growth. We have also managed to gain market share interstate such as Victoria, where our net growth beat all the large established brands except the government's Medibank Private.

"Our net underwriting margin result of $47.1 million, which is within our previous guidance range of $45 to $50 million, delivered upon our goal of achieving double digit earnings growth year-on-year.

"Aided by strong investment performance of $44.5 million or a 10.5% investment return, net profit after tax was $61.5 million, compared to $23.8 million last year.

"Our improved profitability and strong investment returns lifted earnings per share to 12.4 cents, up more than 160%, and for the first time we exceeded our 15% return on equity target, achieving a return of 16.3%," Mr Fitzgibbon added.

New revenue and earnings

Significant progress has been made during the year developing new revenue and earnings to support nib's business strategy.

"Our recent announced acquisition of IMAN provides a strong platform to help maintain our aspiration of future double digit earnings growth," Mr Fitzgibbon said.

"We believe the health cover market for temporary migrant workers in Australia will continue to undergo significant expansion, and that IMAN will be a meaningful contributor to future earnings."

Under the Asset Purchase Agreement, nib has agreed to pay approximately $25 million for the business and assets of IMAN (including estimated completion adjustments in respect of the assumption of certain liabilities). The acquisition will be funded from existing surplus capital resources and is expected to be completed by 1 October 2010.

Mr Fitzgibbon added that the overseas student's health cover market is another sector with significant growth potential.

"There are approximately 500,000 overseas students studying in Australia at any given time, and it is compulsory for them to take out health insurance cover.

* Excludes overseas students and temporary migrant workers

"During the year nib developed and launched its own overseas student's health cover product and we believe there are significant opportunities in this market which had estimated gross written premium revenues in FY10 of $120 million."

Capital management and dividends

With $144.5 million in funds surplus to nib's internal prudential target (1.4x) after final dividend payment and no debt, capital management remained a key focus for nib during the year.

"We have been preserving our spare capital to fund strategic investment opportunities as they arise," Mr Fitzgibbon said.

"The case for industry consolidation remains compelling and we believe inevitable, given an extraordinarily over-serviced market. We know now from numerous other transactions that, if given the opportunity, members will overwhelmingly support demutualisation of their health funds. Nevertheless, in the absence of M&A investment opportunities, the nib Board has indicated it will reassess the surplus capital position early in the 2011 calendar year and consider more significant capital management initiatives.

"We will continue to actively explore value enhancing investment opportunities and where prudent return capital by way of special dividends, subject to availability of franking credits, as well as via nib's on market share buy back."

The nib Board has declared a final dividend of 5.0 cps fully franked, which reflects a full year payout ratio of 56.4% of NPAT. nib's dividend policy will continue to reflect a payout ratio of fully franked dividends between 50-60% of earnings.

On 28 July 2010 nib updated the market on shares held in the nib Overseas Policyholders and Unverified Policyholders Trust. The Board's intention is to recommend the cancellation of the shares held by the Trustee at the 2010 annual general meeting.

As at 17 August 2010 there were approximately 29.2 million shares in the nib Overseas Policyholders and Unverified Policyholders Trust which represent 5.9% of nib's issued capital.

FY11 guidance and outlook

According to Mr Fitzgibbon the outlook for FY11 is positive, with the challenge of maintaining nib's record of strong earnings growth.

"Our investment in organic growth is forecast to deliver a net policyholder growth for FY11 in the range of 5% to 6%, which we expect will be well above system growth.

"As a business we've been conscious for some time that beyond FY10 our margins would tighten and that growing underlying earnings would be tougher. Our investment in new revenue and earnings, including the acquisition of IMAN and launch into overseas students health cover, will hopefully help us maintain momentum we've created in the business.

"For FY11 we are forecasting a net underwriting margin of 4.9% to 5.4% and an underwriting pre-tax result of $50 million to $55 million.

Mr Fitzgibbon added that the outlook for Australia's health care needs will inevitably require greater private funding.

"National healthcare spending continues to outstrip GDP, driven by higher incomes, service inflation and a crisis of confidence in the public health system. Given the un-sustainability of its relative funding share, Government has little alternative other than support and encourage increased private funding of our nation's future health care needs."

Financial snapshot

($m)	FY10	FY09	Change $m	Change %
Policyholder growth	**5.9%***	5.2%*	-	-
Total policyholders	**406,929***	384,288*	-	5.9
Premium revenue	**901.4**	829.5	71.9	8.7
Gross margin	**133.5** ***14.8%***	122.0 *14.7%*	11.5	9.4
Management Expense	**(86.4)** ***9.6%***	(81.8) *9.9%*	(4.6)	5.6
Net margin	**47.1** **5.2%**	40.2 4.8%	6.9	17.2
Net investment return	**44.5** ***10.5%***	(1.8) *(0.4)%*	46.3	(2,572.2)
Other income**	**1.3**	1.1	0.2	18.2
Other expenses**	**(5.9)**	(7.9)	2.0	(25.3)
Profit before tax	**87.0**	31.6	55.4	175.3
Tax*	**(25.5)**	(7.8)	(17.7)	226.9
NPAT	**61.5**	23.8	37.7	158.4
EPS (cps)	**12.4**	4.7	7.7	163.8
ROE (%)	**16.3**	6.6	-	-
Operating cash flow	**66.3**	44.2	22.1	50.0

* Excludes overseas students and temporary migrant workers **Some items rounded up/down for presentation purposes

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