nib holdings

ASX Announcement

Date **Monday 20 August 2012**

Subject **nib announces results for 12 months ended 30 June 2012**

Highlights

- **Premium revenue up 11.5% to $1.1 billion**
- **Pre-tax underwriting result of $70.7 million versus $61.5 million in FY11**
- **Consolidated net profit of $67.6 million versus $65.5 million in FY11**
- **Return on equity of 21.7% versus 16.5% in FY11**
- **Operating cash flow up 52.4% to $134.6 million (FY11: $88.3 million) with prepayment of FY13 premiums influential**
- **Final ordinary dividend of 5 cps fully franked (FY12 full year dividend: 9.25 cps)**

nib holdings limited (nib) today announced a pre-tax underwriting profit of $70.7 million for the 12 months ended 30 June 2012 (FY12). The result was up 15.0% on $61.5 million in FY11.

nib's FY12 underwriting result was materially improved compared to FY11 by the accounting treatment of direct acquisition costs. For FY12, nib in accordance with Australian Accounting Standard AASB1023 has capitalised acquisition costs associated with broker referrals with a net favourable impact to the underwriting result of $8.2 million. On a like-for-like basis, nib's FY12 underwriting result would have been $62.5 million an increase of 1.6%.

Managing Director, Mr Mark Fitzgibbon, said with consolidated premium revenue up 11.5% and an improved underwriting profit, the FY12 result was solid especially given an increasingly competitive landscape.

"We didn't see the level of underlying earnings growth in FY12 we have in recent years, but in the face of fierce competition we're still punching above our weight, having accounted for almost 10% of total industry growth in FY12. We continue to perform well on the back of growing brand awareness, our focus upon the youth market and a strong online and mobile presence," Mr Fitzgibbon said.

Consolidated net profit after tax (NPAT) was $67.6 million, compared to $65.5 million in FY11. Earnings per share were 14.8 cents compared to 13.7 cents in FY11, with return on equity up from 16.5% to 21.7%. nib noted the prepayment of premiums associated with income testing of the Federal Government Rebate significantly increased operating cash flow before the end of the financial year.

New revenue & earnings

According to Mr Fitzgibbon increasing competitive pressures in the domestic market coupled with the growing internationalisation of workforces and students explained nib's enthusiasm for cross border health insurance opportunities.

"Our inbound workers business made up 10.6% of pre-tax underwriting earnings in FY12 compared to just 4.5% in FY11. We expect our international operations will continue to increase their contribution towards earnings and that there are additional strategic prospects associated with the globalisation of healthcare."

During FY12 nib increased commission revenue on complementary product offerings such as life and travel insurance by almost 70% to $1.5 million.

"Although we largely still see ourselves as a pure-play health insurer our strong brand and distribution system are able to support other personal insurance lines such as life insurance," Mr Fitzgibbon added.

Investment returns & capital management

Pre-tax net investment income of $25.6 million represented a 6.0% return on investments. Net investment income was down 20.2% on FY11, reflecting a significantly lower investment base. During the course of FY12 capital management was a priority, with nib returning almost $140 million by way of a $75.4 million Capital Return, payment of special dividends ($23.3 million) and on market share buy back ($41.0 million).

"As a business we're as focussed upon the level of capital we deploy to operate and grow as we are on the earnings line. Commercially we are only as good as the return we can generate on the invested capital of our shareholders and we were very pleased about the FY12 ROE of almost 22%," Mr Fitzgibbon said.

Dividends & capital management

nib declared a final fully franked ordinary dividend of 5 cents per share (cps) totalling $22.0 million, representing a full year dividend of 9.25 cps and payout ratio of 60%.

According to Mr Fitzgibbon the Board contemplated an additional special dividend equivalent to its estimate of surplus capital, however the company believes there are near term opportunities to deploy that capital via acquisitions.

“I believe we’ve demonstrated to investors we don’t like sitting on surplus capital just for the sake of it. We currently have some good investment prospects we would like to examine more closely and it simply didn’t make sense to release capital we may need.

“The Board has decided to increase guidance for future ordinary dividend payments to reflect a payout ratio of fully franked ordinary dividends of 60% to 70% of full year NPAT. Naturally we’ll continue to review this target range in the light of any developments.”

FY13 guidance & outlook

Mr Fitzgibbon said despite some dire predictions around the income testing of the Federal Government Rebate the company anticipates the Australian health insurance market will keep growing.

“Increasingly people don’t want to risk having to rely only on the public health system. Add to this, low interest rates, growing employment and national wealth.

“We still see as our core strength our attraction in the under 40s market but we are very determined to grow market share in the over 55s and corporate segments. We also expect our international operations will become more and more important to our future earnings.”

nib is forecasting FY13 consolidated net underwriting profit will be in the range of $70 million to $75 million.

MEDIA AND INVESTOR RELATIONS
Matthew Neat
Tel: 02 4914 1777
Mob: 0411 700 006
Email: m.neat@nib.com.au