ASX Announcement

Date Monday 26 August 2013

Subject nib announces results for 12 months ended 30 June 2013

Highlights

- **Premium revenue up 14.8% to $1.3 billion**
- **Pre-tax underwriting profit up 4.3% to $73.8 million**
- **nib New Zealand inaugural contribution of $6.4 million, contributing 8.7% to Group underwriting profit**
- **Net investment income of $28.8 million, net investment return of 5.8% (FY12: 6.0%)**
- **Net profit after tax of $67.2 million (FY12: $67.6 million)**
- **Earnings per share of 15.3 cents (FY12: 14.8 cents)**
- **Final dividend of 5 cps fully franked, total FY13 dividend up 8.1% to 10 cps fully franked**

nib holdings limited (ASX: NHF) today announced a consolidated pre-tax underwriting profit for the 12 months ended 30 June 2013 (FY13) of $73.8 million (up 4.3% on FY12). Driving the improvement was increased premium revenue which was up almost 15% to $1.3 billion.

nib's Managing Director, Mr Mark Fitzgibbon, said FY13 saw strong top line growth, disciplined cost control, improved underlying profitability and business expansion across the Tasman to New Zealand.

"This is another solid result for nib in market conditions that are becoming tougher. Claims inflation is showing no signs of abatement, our premium pricing remains constrained by Government regulation, recent Government policy changes around premium rebates have been unhelpful and competition is intense," Mr Fitzgibbon said.

"Our Australian resident health insurance (arhi) business continues to grow well above system but is encountering profit margin pressure as a result of high claims experience and premium pricing constraints. For FY13, arhi's net underwriting profit result was down 8.6% to $59.0 million. After six years of cumulative average growth of more than 17% per annum it's become and will remain more difficult to lift arhi earnings. We'll continue to grow above system and target a net underwriting margin of 5% to 5.5% so there will still be good earnings growth prospects but those prospects will be more modest," he said.

"Importantly, the challenges we're encountering with arhi have been anticipated for some time and largely explain our past and ongoing determination to diversify into related businesses such as international workers and students as well as new geographic markets such as New Zealand. Together these contributed 20% of our underwriting profit for FY13 up from less than 9% the previous year. We plan to build further upon this," Mr Fitzgibbon said.

Consolidated net profit after tax (NPAT) was $67.2 million (normalised NPAT $70.6 million), compared to $67.6 million in FY12. The FY13 profit result was impacted by $3.4 million in one-off costs (acquisition expenses) associated with the TOWER Medical Insurance acquisition in New Zealand. The acquisition was partially debt funded with $1.4 million of finance costs incurred during the period from acquisition.

Earnings per share were up 3.4% to 15.3 cents (FY12: 14.8 cents) with return on equity steady at 21.6% (FY12: 21.7%).

nib declared a final fully franked dividend of 5 cents per share (cps) totalling $22.0 million, representing a full year dividend of 10 cps (FY12: 9.25 cps) and payout ratio of 65%. The record and payment dates for the final FY13 dividend are 11 September 2013 and 4 October 2013 respectively.

Outlook & summary

Claims inflation easily remains the biggest challenge for nib and the private health insurance industry generally.

"Private health insurance is not only having to deal with rising medical utilisation and cost inflation amongst its insured population but naked cost shifting from Government to the private sector as well as Government policy which is seeking to wind back consumer subsidies," Mr Fitzgibbon said.

“In the long run, Government cost shifting will be of advantage to the industry. It simply makes us more relevant and significant in the funding of Australia’s burgeoning healthcare spending. But navigating this transition is going to require commercial acumen and some thoughtful Government policy. We’ll manage through the cost shifting by public hospitals and recent detrimental changes to the Australian Government Rebate. But at nib we believe it is time for us to have a more considered look at how we pay for our healthcare especially given the impossibility of Governments maintaining their current funding share," he added.

Mr Fitzgibbon indicated nib expected to grow its arhi business in FY14 and beyond at a rate similar to FY13, notwithstanding detrimental changes to the Australian Government Rebate and obvious signs of increased customer churn.

“Private health insurance participation will continue to increase on the back of favourable economic conditions, especially low interest rates, ongoing Government policy sticks and carrots, population growth and the crisis of confidence in the public hospital system. The larger challenge is around underwriting margins. When you’re targeting to make just 5 cents to 5.5 cents in the dollar, your profit margin is very sensitive to variation in claims inflation and pricing. Better controlling claims inflation is the number one priority in our business," he said.

“At a Group level, we will be pushing our newer businesses even harder during FY14. We’re strident believers in the internationalisation of healthcare and these businesses are very much aligned with that thesis. We also have some additional ventures planned which will be launched during FY14 associated with medical travel and the notion of ‘global’ health insurance,” Mr Fitzgibbon said.

“Of course our acquisition of TOWER Medical Insurance in New Zealand is further evidence of how we are thinking beyond the boundaries of our traditional arhi business. We plan a major investment in New Zealand during FY14 designed to unlock what will hopefully turn out to be significant latent demand. It will take a little time and expense but I see our New Zealand business being a very significant contributor to our future earnings. Importantly, we have a terrific new management team and all the key milestones we have set ourselves in transitioning the business are being met," Mr Fitzgibbon added.

nib is forecasting FY14 consolidated operating profit in the range of $73 million to $80 million. nib is now providing guidance on the basis of ‘operating’ profit rather than ‘underwriting’ profit reflecting its growing pursuit of earnings from adjacent non-insurance businesses.

MEDIA AND INVESTOR RELATIONS
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