nib holdings

ASX Announcement

Date Monday 25 August 2014

Subject nib announces results for 12 months ended 30 June 2014

Highlights

- **Group premium revenue up 15.6% to $1.5 billion**
- **Group operating profit up 4.3% to $72.3 million**
- **Australian resident health insurance business (arhi) operating profit lower at $57.0 million (FY13: $59.0 million) due to high claims experience**
- **Adjacent non-arhi businesses accounted for more than 25% of Group operating profit**
- **Net investment income of $29.7 million (net investment return of 5.6%)**
- **Net profit after tax up 3.9% to $69.8 million (FY13: $67.2 million)**
- **Earnings per share up 3.9% to 15.9 cents (FY13: 15.3 cents)**
- **Return on Equity 20.8%**
- **Final ordinary dividend of 5.75 cents per share (cps) fully franked taking total FY14 ordinary dividend to 11.0 cps fully franked up 10.0% (FY13:10.0 cps)**
- **Special dividend of 9.0 cps fully franked reflecting capital management releasing $39.5 million**

nib holdings limited (ASX: NHF) today announced a group operating profit for the 12 months ended 30 June 2014 (FY14) of $72.3 million (up 4.3% on FY13). Group premium revenue grew 15.6% to $1.5 billion.

nib's Managing Director, Mr Mark Fitzgibbon, said the result was generally positive with nib managing to grow its customer base and profitability despite some challenges in its core Australian resident health insurance business (arhi).

"Our principal business arhi had a mixed year. Sales were the highest we've seen in more than 10 years and top line premium growth was 10.7%. nib's and the overall industry's market growth really makes a nonsense of past speculation that various changes to Government policy would see the private health insurance market shrink. Approximately 13 million Australians now have private health insurance up more than 15% from five years ago," Mr Fitzgibbon said.

"As is evident from our FY14 arhi result, we are however encountering some headwinds especially high claims inflation and policyholder lapse," he added.

nib's FY14 arhi claims costs rocketed almost 12% to $1.2 billion and explain a drop in operating profit to $57.0 million compared to $59.0 million the previous year. This reflects a net underwriting margin of 4.2% in FY14, which is below nib's target range of 5.0% to 5.5%.

According to nib a number of claims inflation factors were especially damaging including increased public hospital claims (which increased by 8.3% to $63.3 million), claims for prosthetics (which increased by 12.6% to $89.9 million), insufficient pricing of a new "extras" product (which lost about $9 million at a gross margin level) and risk equalisation (which increased by 13.8% to $190.6 million) for FY14.

"Regrettably and as in past years, a primary driver of claims inflation was the industry system of risk equalisation. Risk equalisation is effectively a nib subsidy for most other health insurers and is holding back industry efficiency and much needed investment in better health management. The system acts more to protect health insurers than it does to protect customers," Mr Fitzgibbon added.

Mr Fitzgibbon said he expects improvement in arhi's performance for FY15.

"We expect to grow ahead of system and we're continuing to make progress on improving the customer experience and retention. We've also made some tough decisions around pricing and product design in our arhi business. When you're only making about five cents in the dollar it doesn't take too much to go wrong before profitability is impacted. However, we're very confident the steps we are taking will see improvement in the current fiscal year and beyond," Mr Fitzgibbon said.

"Importantly, industry fundamentals continue to look positive. As a nation we're increasingly spending more on our healthcare, the problems of the public system aren't going to disappear and Government policy remains very supportive of private health insurance. And there's clearly an opportunity for private health insurers to play an expanded role in the healthcare system such as working directly with GPs towards empowering consumers, improving health outcomes and avoiding unnecessary hospital admissions," he added.

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Adjacent non-arhi businesses

nib's adjacent non-arhi businesses all performed well in FY14 generating $18.3 million in operating profit and accounting for more than 25% of the Group result. International workers grew earnings by 12.1% to $9.4 million. International students more than doubled revenue and made an operating profit for the first time of $1.9 million. Earnings from other insurance lines grew 14.1% to $2.2 million. Importantly, nib's new business in New Zealand contributed $7.4 million in operating profit notwithstanding the large "front end" investment being made in modernising and growing the business.

"New Zealand is an under developed market and while it's going to take some time, we're confident we can play a meaningful role in growing the market and our overall market share. We didn't go to New Zealand to do 'business as usual'. Operating internationally has also taught us some new skills I think the business as a whole will benefit from," Mr Fitzgibbon said.

Mr Fitzgibbon added nib was continuing to look at new market opportunities for leveraging its brand, distribution and expertise.

"Business diversification is not without some risk but we've a rational and disciplined approach to assessing new business possibilities and healthcare is a sector so rich in opportunity," he said.

During FY14 nib launched a new cosmetic surgery and dental travel business 'nib Options', a new comparator site for consumers called 'Whitecoat' (which helps consumers make better purchasing decisions about their healthcare providers) and announced a partnership with leading insurer Apia to deliver Australian seniors a superior health insurance product offering and experience.

Dividends and capital management

nib declared a final fully franked ordinary dividend of 5.75 cents per share (cps) which took the full year dividend to 11.0 cps (payout ratio 69% of NPAT).

nib also announced the payment of a special dividend reflecting a capital management initiative, of 9.0 cps, fully franked. The special dividend is a $39.5 million release of capital.

"We're very focused upon managing the capital investors have entrusted us with to optimum effect. New industry capital standards have created an opportunity for us to release some funds without compromising our prudential integrity or business operations and aspirations. The special dividend reflects this thinking," Mr Fitzgibbon said.

The record and payment dates for the final FY14 ordinary and special dividend are 12 September 2014 and 3 October 2014 respectively.

FY15 guidance

nib is forecasting FY15 consolidated operating profit in the range of $75 million to $82 million.

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