nib holdings

ASX Announcement

Date Monday 24 February 2014

Subject nib's first half operating profit rises more than 18%, reaffirms full year guidance

Highlights

- **Premium revenue up 20.0% to $735.4 million (1H13: $612.8 million)**
- **Operating profit up 18.5% to $41.4 million (1H13: $34.9 million)**
- **nib New Zealand is now growing policyholders after six years of steady decline**
- **Net profit after tax up 9.2% to $39.6 million (1H13: $36.3 million)**
- **Earnings per share up 8.4% to 9.0 cents (1H13: 8.3 cents)**
- **Interim dividend up 5.0% to 5.25 cps fully franked (1H13: 5.0 cps)**

nib holdings limited (ASX: NHF) today announced a consolidated operating profit for the six months ended 31 December 2013 (1H14) of $41.4 million. This result was up 18.5% on the previous year.

nib's Managing Director, Mr Mark Fitzgibbon, said the result was grounded in strong revenue growth across all segments of the business and the new contribution by nib New Zealand.

"Group revenue grew 20% and all parts of the business performed well," Mr Fitzgibbon said.

"Our Australian Residents Health Insurance business, which accounted for approximately 80% of Group earnings, continues to defy some strong headwinds associated with escalating competition and unhelpful regulatory changes. We grew our policyholder base by 2.6% for the six months, compared to 1.1% for the industry and our underwriting profit rose 1.8%. It's kept us on track to deliver policyholder growth of what should be 4% for the full year which will once again be well ahead of system, as well as increase full year profitability," Mr Fitzgibbon added.

"With ongoing overall healthcare claims inflation of between 6% to 7%, escalating cost shifting by public hospitals and an increasingly counter productive system of risk equalisation, our underwriting margins continue to be under constant pressure. So for the first half of this fiscal year our net margin was 5.2% compared to 5.7% in the same period last year, even though our management expenses ratio was 8.1% compared to 8.4% for the first half last year."

"Our recently approved premium increase obviously helps, but the industry as a whole really needs to take stock of how we might better improve system efficiency and bend the curve of claims inflation and premium growth. Reviewing the system of risk equalisation would be a great start. It's scaring away younger people, blunting the incentive for investing in improved health management, discouraging orderly industry consolidation and reducing price competition. All factors would serve to reduce premium growth. And in a system where people can transfer from one insurer to another without penalty, you actually don't need risk equalisation," he added.

nib's International Workers and Students businesses delivered powerful revenue and earnings growth for the first half. The international workers earnings were up more than 25% to $4.7 million and continues to benefit from industry demand for foreign workers. International students was profitable for the first time since its inception four years ago with a net underwriting result of $0.8 million.

According to Mr Fitzgibbon, both the international workers and students businesses as well as nib's new New Zealand subsidiary demonstrate nib's determination to create enterprise value beyond the boundaries of nib's traditional mainstream Australian residents business.

"We're leveraging our brand, distribution and a wide range of competencies within the Group to great effect and we're very confident about the future prospects of all these adjacent businesses. There remains plenty of upside," he added.

The transition and integration of TOWER Medical Insurance Limited which was acquired in November 2012 has been completed to plan. nib as it's now known in New Zealand is operating independently of TOWER and has a highly talented and experienced leadership team.

For the six months to 31 December 2013, nib NZ's underwriting result was $3.2 million. The result is being influenced by the heavy investment the business is making in the direct to consumer channel and brand building.

“We've very pleased to report nib NZ is now growing its policyholder base after six years of steady decline. Apart from generating sales, our direct to consumer efforts and investment are seeing an influx of younger policyholders. It's very early days, but refreshing the risk pool with younger policyholders is far and away the most effective thing we can do for mitigating premium inflation," Mr Fitzgibbon said.

nib’s consolidated net profit after tax was $39.6 million, compared to $36.3 million in 1H13. Earnings per share gained 8.4% to 9.0 cents (1H13: 8.3 cents) with return on equity steady at 21.9% (1H13: 21.7%).

nib declared an interim fully franked dividend of 5.25 cents per share up 5.0% (1H13: 5.0 cents per share) totalling $23.0 million. The record and payment dates for the interim dividend are 7 March 2014 and 4 April 2014 respectively.

nib has confirmed FY14 operating profit guidance of $73 million to $80 million. FY14 net investment income is forecast to be in line with relevant internal benchmarks.

Mr Fitzgibbon added nib’s forecast FY14 result reflects various investments in growing enterprise value.

"In particular, our investment in direct to consumer growth in New Zealand and the creation and launch of our cosmetic and medical travel business, nib Options, is significant. But we're confident we're laying the foundation stones for what will ultimately be major contributors to Group earnings,” he said.

“nib Options is a very exciting new business venture that we will launch next month. We're going to bring a high level of reliability, safety and choice for people seeking cosmetic treatment. We've been three years building the business model and while it's hard to forecast sales, we're very confident consumer demand and interest will be strong," Mr Fitzgibbon said.

Mr Fitzgibbon also welcomed proposals being discussed by the Federal Minister for Health, the Honourable Mr Peter Dutton, about an expanded role for private health insurers in our future healthcare system.

“Ultimately we’d like to be able to cover all the healthcare needs of our customers. It would be far simpler for consumers and more cost-effective. And it would make Medicare all the more sustainable,” he added.

MEDIA AND INVESTOR RELATIONS
Matthew Neat
Corporate Affairs & Investor Relations Manager
Tel: 02 4914 1777
Mob: 0411 700 006
Email: m.neat@nib.com.au