

Monday 20 January 2020

nib updates FY20 outlook

nib Group (ASX: NHF) today indicated FY20 Group Underlying Operating Profit (UOP) is likely to be at least \$170 million (Statutory Operating Profit at least \$150 million) largely due to an increase in claims expense across a number of the Group's underwriting business lines.

nib had previously indicated FY20 Group UOP would be at least \$200 million (Statutory Operating Profit of at least \$180 million).

nib Managing Director Mark Fitzgibbon said the recent claims environment within its Australian and New Zealand health insurance operations were starting to place pressure on nib's forecast FY20 earnings.

"We've definitely seen a tick up in claims and while we did anticipate some level of claims inflation across the Group in FY20, recent experience is that it's been more widespread across a number of business lines than we previously anticipated," Mr Fitzgibbon said.

"Within our Australian residents health insurance (arhi) business, claims inflation and utilisation continues to trend broadly in line with our expectations and we still expect the business to deliver a net margin of circa 6% this year. Pleasingly arhi's top line premium growth is up 3.8% on same time last year with net policyholder growth for the half year of 1.4% compared to 1.1% first half last year a material driver of this result," he added.

However, nib said December 2019 quarter end data suggests higher industry claims is contributing to a greater than originally forecast risk equalisation net contribution in FY20, placing pressure on this year's result.

"Recent quarter end claims data points to higher than expected industry claims and as the largest contributor to risk equalisation it means we're shouldering much of the industry's claims growth. This has resulted in our FY20 risk equalisation net contribution now expected to be around \$250 million, up approximately \$20 million or 9% on FY19," he said.

Mr Fitzgibbon noted that with further claims development relating to nib's FY19 result, arhi's FY19 net margin of 6.5% reported at the time of nib's full year results in August is now 6.2%¹.

"Our adjacent businesses are also experiencing claims headwinds as well as a tougher operating environment. This has seen some resetting of claims experience in our adjacent underwriting segments such as international students and workers as well as our New Zealand operations, following several years of benign claims. While still very strong businesses, we're expecting margins for each business line to revert closer to longer term sustainable levels going forward."

"And while these businesses account for a relatively minor proportion of our Group earnings, it's likely to result in a drag on our FY20 earnings," Mr Fitzgibbon added.

nib said while nib Travel's international sales were up almost 13% on last year, the domestic sales environment remained tough and we have experienced some challenges integrating the May 2019 acquisition of QBE Travel with the businesses' FY20 result expected to be positive but down on last year's \$6.6 million UOP result.

Mr Fitzgibbon added nib remained confident about the outlook despite FY20 not looking as profitable as originally expected.

¹ The adjusted arhi net margin of 6.2% is based on hindsight to 31 December 2019 equating to a \$5.3 million underprovision of 30 June 2019 outstanding claims including risk equalisation and risk margin. Based on claims development to 31 December 2019, we now know our 30 June 2018 outstanding claims provision was overstated by \$16.6 million, with \$13.2 million of this overprovision having been recognised in the half year ended 31 December 2018. The combination of outstanding claims provision over (at 30 June 2018) and under (at 30 June 2019) provision has a material impact on half on half comparisons.

“The underlying commercial performance across our businesses is very good with attractive returns on invested capital and ongoing growth prospects. And while our nib Travel business will require a longer time horizon, we’re still very confident of its outlook and earnings potential. We’ve also a pipeline of significant initiatives that will further propel long term growth such as our personalisation strategy and joint venture with Cigna, our joint venture in China and investment in Maori population health in New Zealand,” he said.

nib will announce its FY20 half year results on 24 February 2020.

Investor briefing

nib’s Managing Director, Mark Fitzgibbon and Chief Financial Officer & Deputy CEO, Michelle McPherson will host an investor/analyst teleconference briefing at 10.30am (AEDT) on Monday 20 January 2020.

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This announcement has been authorised for release by Roslyn Toms, Company Secretary.