ASX Announcement

26 August 2024

nib announces FY24 result: another strong year, outlook positive

- FY24 Group underlying operating profit (UOP) of $257.5 million[1]
- Net profit after tax (NPAT) of $181.6 million
- Statutory earnings per share[2] of 38.3 cents
- Full year dividend of 29 cents per share fully franked (FY23: 28 cps); DRP available
- Australian Residents Health Insurance (arhi) membership grew 2.5%

nib holdings limited (ASX: NHF) today announced Group Underlying Operating Profit (UOP) rose to $257.5 million, an increase under the new accounting standard (AASB17) of 77.3%, or 5.9% under the previous accounting standard (AASB1023), for the 12 months to 30 June 2024.

Group revenue[3] grew to $3.3 billion, up 9.3% on FY23. Group claims were $2.5 billion, up 6.7% on FY23. Net investment income added $61.7 million to pre-tax earnings, up 12.8% on FY23. NPAT rose to $181.6 million, up 67.4%, or up 2.8% under the previous accounting standard (AASB1023). Since FY19, Group UOP has grown at a compound annual growth rate of 5.2%.

nib's flagship Australian Residents Health Insurance (arhi) business achieved its highest sales ever in FY24, with strong performance attracting higher value, combined hospital and extras policies. Policyholder growth, at 2.5%, is expected to outperform anticipated industry growth of 1.9%, and has been achieved during a period of sustained household cost of living pressures, intense market competition, and after two back-to-back premium increases in FY24.

nib's travel, international students and workers, National Disability Insurance Scheme (NDIS) business, and New Zealand operations together contributed approximately 26% of UOP.

"This was another strong result for nib and indicative of growth and progress across the Group, notwithstanding the ongoing consequences of COVID-19," said Mark Fitzgibbon, nib Managing Director and Chief Executive Officer.

"arhi continued its long track record of above system growth, and those businesses that were troubled during the pandemic - international students and travel - are recovering well," he said. "While the New Zealand profit was disappointing, it was a consequence of a post-pandemic surge in claims and we are quickly taking remedial action."

nib's nascent NDIS business, nib Thrive, made an important contribution to the Group result, and now services almost 40,000 participants. It has acquired six plan management businesses and an online marketplace platform. nib Thrive has an enormous future role to play as a 'navigator', helping reshape the way disability supports are designed, managed, and delivered.

[1] FY24 is the first year nib has adopted AASB17 – Insurance Contracts, and restated FY23. Under AASB17 recognition of the Deferred Claims Liability is no longer permitted, which has the effect of increasing claims in FY23 and decreasing UOP and NPAT. Given the impact of the change in accounting standard nib has provided some key metrics under AASB1023. These are unaudited.

[2] EPS includes losses from discontinued operations and calculated over a 12-month period.

[3] Total Group revenue includes insurance revenue net of reinsurance expense, other underwriting revenue and other income.

“The quality and sustainability of the NDIS and foundational supports demands the kind of investment we are making, especially when it comes to technological innovation,” Mr Fitzgibbon said.

“Technology promises to make plan design more personalised, expand participant choice and service accessibility, reduce operating costs and increase payment integrity,” he said.

nib continued to invest in both med-tech company Midnight Health, and its joint venture with Cigna, Honeysuckle Health, during FY24.

“We regard both businesses as absolutely crucial in our Payer to Partner (P2P) vision and strategy to become as much a health management company as we are a private health insurer. They are dramatically expanding our range of services and product offerings and allowing us to better support health risk management. It’s becoming increasingly obvious you can’t be in the business of indemnity without more active risk management,” Mr Fitzgibbon said.

“In FY24, we completed about 176,000 telehealth consultations, facilitated more than 126,000 prescription medications delivered to the door, and, inter alia, case managed over 8,300 members at risk of an unplanned hospital re-admission.

“Importantly, we are capturing value in parts of the healthcare system where we have traditionally not operated. Loss-making so far is foundation building. In Midnight Health, gross revenue was up 47% in the second half of FY24, supported by a rise in average revenue per customer. In Honeysuckle Health, revenue growth was 13% in FY24,” he said.

Australian Residents Health Insurance (arhi)

nib’s core Australian Residents Health Insurance (arhi) UOP of $220.1 million was up 100.6% (AASB17) on FY23, or 8.2% under AASB1023. Net margin was 8.2% in FY24, and 6.7% in 2H24, reflecting rising claims inflation and nib’s intent to allow the net margin to ease toward a stated 6-7% target. Pleasingly, non-marketing management expenses were flat in 2H24 against 1H24.

“We’re naturally very sensitive to premium affordability and long-term sustainability. At the same time, we’re keen to ensure future operating margins are within the target range for arhi,” Mr Fitzgibbon said.

Premium revenue was up 8.5% to $2.6 billion, notwithstanding the impact of nib’s 2023 premium price deferral, which effectively reduced premium revenue by about $21.1 million in FY24. In June 2023, nib announced its premium increase for members would be further delayed, pushing it out to October 2023, from April 1. Premiums rose by an average of 4.1% in April 2024, after nib’s lowest increase at 2.66% in 2022, and second lowest at 2.72% in 2023, in two decades.

Claims expense increased 4.9% to $2.1 billion in FY24 but was significantly impacted by provisioning movements. On a cash basis, claims paid per policy, including risk equalisation, rose by 5.7%, mainly due to an increase in hospital claims.

“Claims experience is accelerating from an artificially low COVID-19 utilisation base and together with hospital cost pressures, is placing pressure on premiums and underwriting margins. This inflation is manageable and will normalise in the medium term,” Mr Fitzgibbon said.

International Inbound Health Insurance (iihi)

Strong demand for international workers, a clearing of visa backlogs and a return to Australian campuses for international students drove nib's iihi membership to a record level. Policyholder and premium growth were up 14.1% and 19.0% respectively. UOP was $24.8 million in FY24, up 11.2% on FY23.

Mr Fitzgibbon said the business is back in good order. "Strong policy growth boosted revenue while high claims expense among international students during COVID-19 continues to ease to more normal levels. And the international workers business goes from strength to strength.

"Overall, we still see the trends as supportive, with demand to study in Australia high, and the Government's migration strategy supporting growth in temporary skilled workers. Recent changes to government policy, such as the Genuine Student requirement, will allow the market to return to sustainable pre-COVID levels and creates opportunity to improve tenure mix and underwriting.

"Importantly, the business is at the vanguard of our P2P strategy in delivering a range of new services such as telehealth and an AI-driven digital symptom checker. As in other parts of our PHI business, we want to make nib membership about more than prices," Mr Fitzgibbon said.

New Zealand (nib NZ)

Premium revenue grew 10.2% to $371.2 million, while resident private health insurance policyholder growth was 3.1%. However, UOP of $19.3 million was down from $30.1 million in FY23.

High inflation, which has afflicted the New Zealand economy, has filtered through to the PHI sector, with Hospital Services CPI rising substantially. The sector, nib included, is responding through higher pricing.

nib NZ continues its work on plans to support iwi (Māori tribes) overcome barriers in accessing healthcare services. nib NZ now supports five rōpū (groups) and more than 6,400 people.

"Our partnership with iwi is so important to both improving health outcomes for Māori and developing our capability to support entire communities with targeted interventions," Mr Fitzgibbon said. "There's a bigger picture of companies like nib really leaning in, helping discrete communities, their clinicians and government improve health outcomes."

nib Travel

After a very strong 2H23 as international borders re-opened post-COVID, the travel industry reverted to more normal levels of activity in FY24. Nevertheless, nib's travel business, which includes nib Travel, Travel Insurance Direct and World Nomads, had a challenging year, which included the discontinuance of its partnership with Qantas.

FY24 UOP of $8.1 million was below $14.0 million in FY23. Gross written premium of $167.9 million in FY24 compared to $224.1 million in FY23.

Various measures are in place to improve sales and profitability including continued investment in digital servicing and claims automation to deliver cost efficiencies. New products have been launched in the UK and Europe, where new underwriting agreements are also in place.

"Travel was clearly hit hard by COVID-19 and is still feeling the effects. Yet, we've modernised the business, now have greater Group integration and we're cautiously optimistic about the future," Mr Fitzgibbon said.

nib Thrive

In October 2022, nib raised $158.1 million in equity capital to create nib Thrive and pursue opportunities within Australia's NDIS. nib has since acquired six plan management businesses, a digital marketplace Kynd, and a support coordination business, to align the sector's vision of a single 'navigator' to support Australians with identified disability.
In FY24, nib Thrive pleasingly reported UOP of $15.3 million, ahead of $3.1 million in FY23. nib Thrive now supports almost 40,000 participants.

"We have more than 70 years' experience in efficiently connecting those who need healthcare with doctors, dentists, hospitals and other clinical providers," Mr Fitzgibbon said. "Our vision and investment thesis are that these skills and experiences can similarly help NDIS participants - and anyone else with a disability - connect with the right providers of support in pursuit of their goals. Scale and technology will make the NDIS and foundational supports all the more sustainable."

Dividend

The Board declared a second half dividend of 14 cents per share fully franked, resulting in a full year dividend of 29 cents per share (FY23: 28.0 cps). The full year dividend represents a pay-out ratio of 75.7% of FY24 NPAT. The final dividend has a record date of 6 September 2024 and will be paid to shareholders on 8 October 2024. The Dividend Reinvestment Plan is available to eligible shareholders.

Outlook

Mr Fitzgibbon said although a number of macro-economic and cost of living factors suggest a level of caution, the outlook across the Group, on balance, remains optimistic.
"Thankfully the pandemic is behind us, yet its consequences continue to play out," he said. "People are today more aware of risks to their health and the need for protection.

"Extreme pressures on the public healthcare system makes private health insurance all the more attractive to consumers. So much so, that the number of people who have taken out PHI has increased every quarter, for the past 15 quarters. We shouldn't lose sight of that, given a growing dependency ratio across Australia and New Zealand and a stressed public system.

"We're also seeing the return of migrants, including international students and workers, and are confident travel sales and profitability will improve into FY25.

"Conversely, we clearly see claims experience growing from the artificially low base created by COVID-19 and demands from hospitals across Australia and New Zealand for price increases to repair their finances and meet growing labour costs. Both factors are inflationary and will need to be carefully managed to keep premiums affordable," he said.

Heightened investment in nib's Payer to Partner (P2P) strategy will ensure continued above system growth in arhi and all other PHI businesses, Mr Fitzgibbon said.

"P2P is enhancing the value proposition across all businesses and differentiating nib in each market. People can access an increasing array of services above and beyond private health insurance or what their NDIS plan provides. One swallow doesn't a summer make, but we're also away to a very positive start in FY25. nib's arhi net policyholder growth, from 1 July to 16 August was 6,772 up 42.4% on the PCP."

In July, Mr Fitzgibbon announced an intention to retire from nib, after two decades as Managing Director and Chief Executive Officer. Ed Close, currently arhi Group Executive, has been named incoming MD and CEO. Mr Fitzgibbon said his notice period officially begins 1 September 2024. Mr Close is expected to officially take up his role before the end of calendar 2024.

Investor Briefing

nib will conduct an investor briefing at 9.30am (AEST) today via webcast and teleconference. The webcast is accessible via our shareholder website www.nib.com.au/shareholders

Register for the teleconference via this link:
https://register.vevent.com/register/BId07ae818c1f54cb490becf476ac7d461

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

Roslyn Toms
Company Secretary

Investor Relations

Dan Anderson
Head of Investor Relations
+61 428 507 820
d.anderson@nib.com.au

Media enquiries

Michelle Innis
Group Head of Media & Public Relations
+61 414 999 693
michelle.innis@nib.com.au