(Unofficial Translation)
FY2022 Financial Analyst Meeting
Q&A Summary

Date: May 29, 2023, 12:30-13:50
Respondent: Tetsuya Kikuta, Representative Director, President CEO
Taisuke Nishimura, Executive Officer CFO

Group Management Structure

Q **The heads of HD and its subsidiaries has been separated this time, and there are cases where other companies have strengthened their subsidiary governance and integrated group management by utilizing overseas human resources after the separation of top management. In aiming to reverse the domestic and overseas shares of group profits in the medium-term management plan after next, please tell us about any changes in direction of group management including overseas management, going forward.**

A In PLC and TAL, our major overseas subsidiary, have been managed in a hands-off manner, respecting local management in each country to a certain extent taking into account the scale of their business operation. We have been able to effectively implement group governance and firmly build-in capital circulation management, and has taken a so-called federal management approach.

On the other hand, time has passed since the acquisition, and the generational change of the local management team is also progressing. In this sense, it is important to further improve communication with local management in conjunction with the evolution of group governance.

Through the expansion of the CXO system, we will establish direct functional lines between HD's CXOs and each operating companies and regional headquarters, so that we can face the same direction more than ever before and building a system that facilitates synergies. Toward new initiatives, we hired two people from outside the company as CXO because of the lack of expertise within the group. While incorporating outside knowledge, we will proceed to build a more global governance structure flexibly and agilely.

Financial and Capital Strategy

Q **Under the current medium-term plan, you are returning ¥680 billion to shareholders and making strategic investments of ¥230 billion. Do you expect to change this balance in the next medium-term plan?**

A Until ROE steadily exceeds the cost of capital, we will continue our current capital management policies. After ROE and cost-of-capital relation is reversed, we would like to increase the proportion of growth-investments.

Q **When raising market capitalization, how do you see the gap between economic value-based earnings and cash-flow-based earnings? Are you considering shifting to indicators linked to EV and VNB for shareholder returns?**

A When looking at P/EV multiples, we recognize that stock price is discounted significantly relative to EV, particularly in the domestic business. We would like to resolve this discount by pursuing initiatives to improve capital efficiency, generating cash and allocating it to shareholder returns and strategic investments. For example, we are trying to convert EV into cash by reducing risk at group companies, releasing capital accordingly, utilizing intra-group reinsurance, etc., and will also consider further measures in parallel.

Q **You mentioned that there is room to revise the indicators for profit and shareholder return to improve stability and predictability. Do you intend to increase the capacity for shareholder return by excluding highly volatile valuation gains and losses at PLC and fluctuation in regular policy reserves for foreign currency denominated products at DFL from adjusted profit? Also, in such cases, how do you consider the timeline for changing the definition of adjusted profit?**

A While the details and the timing of changes cannot be mentioned at this stage, we are reviewing it from the perspective of aiming to make it more closer to cash-flow.

Q **When you announced ¥200 billion of share buybacks at the start of the current medium-term management plan, it had a major impact on the market. However, 2 years have passed since then, it seems that the place of top performers among Japanese listed life insurers have been took over by other companies. Please tell us about the progress of internal discussions on revisions to the shareholder return policy outlined in the current medium-term management plan, such as the method of determining the amounts of dividend and share buybacks, and the balance thereof. In addition, you were the only listed insurance company in Japan that did not increase the dividend forecast this time. Please tell us about the status of consideration for the dividend increase in the future.**

A Currently, ROE is lower than the cost of capital, so until these measures reverse, we will prioritize share buybacks. In the next medium-term plan, we would like to reverse the level of cost-of-capital and ROE, and once we it is achieved, increasing DPS will become important. We will discuss this point toward the next medium-term management plan. The dividend forecast is as you indicated, but we kept our dividend forecast by setting the dividend at an amount that exceeded 30% of the past 3-year average of the group adjusted profit. We are also aware that the expectation for dividend amount is high, so we would like to consider increasing the dividend in light of the results for the current fiscal year.

Q **Given the recent increase in the Nikkei 225, unrealized gains on domestic stocks are considered to be increasing. What do you think about lowering ROE by the increase of it?**

A Regarding stocks, we are selling them in line with the plan in our risk reduction initiatives. While the rise in the market value of stocks contributes to the increase in profits at the time of sale, it continues to lead to an increase in unrealized gains on stockholdings. We recognize that both the denominator and the numerator are increasing, resulting in a neutral effect on ROE.

Domestic Business Strategy

Q **Toward a return to growth of domestic new business, you seem to review the target setting and incentives in FY2023. Please tell me the difference compared with before COVID-19. Also, what are the factors behind the improvement in monthly premiums paid per policy in April? In addition, is it right to understand that the value of gross sales revenue per policy is also improving in the same way?**

A In the past, monthly sales targets and deadlines for sales were set. In addition, 3 times a year, we used to have so-called "insurance month", and the target was set at about 3 times that of the ordinary month. To achieve the targets of the insurance month and the year, incentives and so forth were in place, but we completely eliminated them in the last 2 years. On the other hand, in the absence of any targets or deadlines, the problem of the difficulty maintaining rhythm and managing the sales activities became evident, and we have set a certain level of targets for each organization since this fiscal year. However, if the conventional monthly target-setting and "insurance month" operations are resumed as they were, we think that sales activities that do not meet customer needs may occur again. Therefore, we do not resume the insurance month operation and set the targets based on a 3-month basis in this fiscal year as a trial period, and we will confirm whether the rhythm of sales activities can be regained. In addition, regarding the improvement in monthly premiums paid per policy, we believe that the improvement was achieved because sales reps utilize life plan consulting and explained well to customers what kind of insurance is required. In the past, we mainly sold renewal-type insurance, whose premiums are relatively low at the inception, and then premiums rise at the renewal on 10 years later. The proportion of products that are not renewal-type but all-period-type has increased recently, while the life plan consulting is carried out firmly by sales reps. We see more and more customers choose not to change the premiums during the contract period even if the premiums at the inception is slightly higher, and accordingly, monthly premiums paid per policy has been increased. We also recognize that value of gross sales revenue per policy has improved in tandem.

Q **While value of new business in DL is well below level, has the fact affected motivation and mindset in the sales reps? Also, how long will it take for value of new business in DL to recover to the pre-COVID level that was originally expected?**

A We take the slump in the value of new business in DL very seriously. Compensation of sales reps is performance-linked basis, and the decline in value of new business affects directly their incomes, so it is considered that this will have a significant impact on their motivation. In consideration of this, we refined the management of sales activities in the current fiscal year, and tried to inform frontlines of it as well. However, rather than simply returning operations to the way before the misconduct happens, we believe that it is necessary to face the sales with strict compliance as a major premise, and we are working to reform our mindset. In addition, to restore the level of new business, we are working to bring it back to the pre-COVID level by the end of FY2025. Given that it takes a certain amount of time to accommodate new management style, and that due to the impact of COVID-19 and selective recruitment, the number of employees is declining, targeted value of new business for the current fiscal year is set at 30 billion yen. Currently, we have set internal sales targets and KPI with mechanisms that will lead to a turnaround in performance, and we believe that we will be able to achieve the target of this fiscal year.

Q **How do you self-evaluate the reduction in the number of sales reps indicated in the materials? We recognize that the quarterly recruitment target was around 1,000, but is it approaching the target level at this point? Also, is the reason for the large decline in the number of sales reps except for the first year employees related to the number of retirees? If the number of sales reps is below the plan, please tell us how you are going to solve it going forward.**

A As pointed out, the decrease of sales reps is not clearly bottomed out at this point. However, the pace of the decline has slowed down recently, and at this point it is expected to bottoming out at a level of around 30,000 and thousands people. On the other hand, by improving individual productivity for each employee, we are focusing on preventing the overall sales volume from shrinking. Regarding the quarterly recruitment target of 1,000 people, at the beginning it was not possible to familiarize frontlines with the new recruitment systems and increase the number of recruits continuously, but at present the operation is being accommodated, and the number is being recovered to close to the target. In addition, we are currently reviewing recruitment and training systems flexibly and agilely while going through PDCA. For instance, in the case we recruit sales reps with a certain level of skills, we are considering whether they will be able to shorten the training period, which typically takes 1 year, and commence sales activities.

Q **In terms of operating expenses, from FY2023 to FY2024, variable costs, others and DX related investments appear to be increasing tens of billion yen. Dose it stem from DL's restoration of new business sales? Or is it assumed that the investment will accelerate toward FY2024?**

A Based on the plan for new business to recover to the level in FY2019 by the end of FY2025, we expect variable costs to rise in line with the increase in new business acquisition costs.

Overseas Business Strategy

Q **In order to significantly increase market capitalization, it appears that the absolute amount of profits is insufficient in comparison to competitors, but how will you increase profits in the overseas business? You are forecasting a profit of about ¥85 billion for the entire overseas business in FY2023, but in order for the overall profit of the overseas business to be above the majority of the group's adjusted profit in the mid-term plan after the next, it will need about twice the current level of profit. How much increase can you expect through organic growth in each region, and how do you envision utilizing M&A for inorganic growth?**

A We believe that the driver of profit growth will be the overseas business. On the organic growth side, we have particularly high expectations for PLC, including bolt-on acquisitions. We also expect contributions from DLVN and SUD growth going forward. On the other hand, without inorganic initiatives, it will be difficult to achieve the planned profit scale. We will continue to take a selective approach, taking into account capital discipline on each opportunity. As for regions, we will mainly focus on Asia, and will consider investment opportunities which are capital-light, and new growth areas such as digital areas, rather than traditional insurance business with high cost of capital.

Q **When looking at the breakdown of operating income at PLC, including 1Q FY2023, it appears that it is not necessarily in a growth trend. What are the current challenges and how are they being addressed?**

A As you pointed out, the latest results for 1Q FY2023 were not good. With regard to the PLC's acquisition business, no new acquisition deals have been concluded recently. Profits from acquisition blocks become progressively smaller over time. Therefore, the structure of PLC is such that growth will come to a halt unless acquisitions are executed on an ongoing basis. On the other hand, although competition in the acquisition market is intensifying due to the entry of PE funds, the competitive environment in the mortality sector, which is PLC's main area of business, has not changed significantly. In recent years, there have been some potential deals under the radar, but they did not go through due to the aggressive pricing offered by the sellers. As the competitive environment is expected to calm down in the future, we believe that the likelihood of a successful acquisition gets higher, and HD would like to support such an acquisition. In addition, we believe that sustainable growth is difficult to achieve only through closed-block acquisitions. We will consider acquisitions of businesses tied to the channel, as well as acquisitions of entities.

Q How much is PLC's capacity for acquisitions accumulated?

A PLC does not necessarily execute acquisitions by use of their own capital. There are also acquisition schemes such as debt financing and the use of reinsurance. Considering it, we expect that the actual acquisition capacity is roughly between US$1 billion and US$2 billion.

Note: We made partial additions and alterations in preparing the above summary for clarity.

[Abbreviated company names]

HD: Dai-ichi Life Holdings, DL: Dai-ichi Life, DFL: Dai-ichi Frontier Life, PLC: Protective Life Corporation, DLVN: Dai-ichi Life Insurance Company of Vietnam, SUD: Star Union Dai-ichi Life Insurance Company