(Unofficial Translation)
FY2023-Q2 Financial Analyst Meeting
Q&A Summary

Date: November 28, 2023 10:00-11:40
Respondent: Tetsuya Kikuta, President and Representative Director (CEO)
Taisuke Nishimura, Executive Officer (CFO)
Akifumi Kai, Executive Officer

Direction of the Next Medium-term Management Plan

Q **In the current Medium-term Management Plan, you prioritize the reduction in cost of capital over profit growth, and the range of group adjusted profit targets remains flat. Can profit growth be achieved under the next Medium-term Management Plan? While aiming for an overseas insurance business profit share of 40% by the end of FY2026, the domestic adjusted profit could instead be calculated to be lower than at present, but given that you explained the domestic profit level will not change, can we expect the adjusted profit in the next Medium-term Management Plan to exceed ¥300 billion?**

A The current Medium-term Management Plan focuses on improving capital efficiency (Capital circulation management). As the capital efficiency has not yet exceeded cost of capital, we will continue working to improve capital efficiency for the next Medium-term Management Plan period. On the other hand, in the next Medium-term Management Plan, we aim to not only improve efficiency, but also aim to improve profit levels at the same time. Although the target figures for the profit cannot be disclosed at this point, it is planned that the profit level will be increased. After the next Medium-term Management Plan, from FY2027 onward, it is assumed capital efficiency will exceed the cost of capital, and we will focus on boosting its profit growth. Therefore, the next Medium-term Management Plan will be a hybrid of the current Medium-term Management Plan and the period after the next Medium-term Management Plan.

Q **I understand that you will continue to focus on shareholder payouts, and it could also be the case that you will reduce share buybacks and increase dividend payouts ratio. What is then the absolute amount of shareholder payouts? Current level is that dividend of ¥80 billion and share buybacks of ¥120 billion, for a total of ¥200 billion. If the remittance increases according to the rise in profit levels, will the total amount increase from ¥200 billion? There seems to be no remarkable impact unless the amount increases**

above ¥200 billion.

A We continue the current shareholder payouts policy as long as capital efficiency is below the cost of capital. We plan to basically continue our current stance on shareholder payouts. Under this policy, we consider whether the dividends level could be raised, taking account of the fact that dividend yields have declined along with the rise in the stock price. After the next Medium-term Management Plan, from FY2027 onward, which is the timing of entering a stage in which capital efficiency exceeds the cost of capital and accelerates profit growth, we will shift our focus from share buybacks to dividends. On the other hand, we try to make sure that the overall level of shareholder payouts will remain attractive. In addition, we would like to accelerate growth and strategic investments in line with the increase in profits as well.

Q I understand that the next Medium-term Management Plan maintains the current shareholder payouts policy. It does not seem the growth will be sharp in the next Medium-term Management Plan, given a hybrid of the current Medium-term Management Plan targeting capital efficiency above cost of capital, and the period after the next Medium-term Management Plan targeting its profit growth. Is it still possible of achieving the CEO's target; market capitalization of ¥6 trillion?

A We will flexibly consider the level of shareholder payouts. Given that the current P/EV ratio of 0.4 times for the group and about 0.3 times for the domestic business, if we achieve capital efficiency above the cost of capital, the improvement of the valuation of the domestic business will lead to an increase in our corporate value.

Q Regarding the amount of the dividend, it is stated that the upper limit of it for the current fiscal year is ¥86. Is there any chance of increase for the current fiscal year? Is there few chance of dividend increase for the next fiscal year onward if profit growth is limited?

A We would like to consider if we can increase the dividend, depending on the situation of the profits and cash flows at the end of this fiscal year. Regarding the ratio of share buybacks and dividends to total shareholder payouts, we will prioritize share buybacks as long as ROE is below the cost of capital. At the same time, we can also consider increasing the ratio of dividends.

Q KPIs of the current Medium-term Management Plan are described in the materials (P21), but will there be any changes to the next Medium-term Management Plan?

A The Group KPIs stated in the current Medium-term Management Plan are the most important KPIs, and there will be no significant changes. However, we are considering a change in the level of them to align with the change in the standard related to ESR and EV. As for relative TSR, we are currently comparing it with 10 domestic and overseas peers, but is also considering changing the mix of peers as we aim to become a global top−tier by 2030. In addition, while NPS® in the domestic business is planned to remain as our KPI, we will determine the realistic target level by carefully see the current achievement level of us.

Q **It is explained that you are planning a strategic investment of ¥300 billion over the next three years, but what kind of investment, both domestically and overseas, do you plan? Also, what areas do you think of as "missing parts" at this point?**

A It depends on deal opportunities though, in ratio wise, we consider overseas and domestic at a ratio of 2 to 1. In business wise, life insurance business in overseas, and new businesses & asset management businesses in domestic business could be considered. Especially for the domestic business, we will intend to invest on a capital-light business field.

Q **To strengthen global governance, are there any global management issues to address aiming for an overseas profit contribution of 40% in the next Medium-term Management Plan? And if so, how do you address those issues?**

A To strengthen the sustainable corporate governance, we think that we need to invite non-Japanese executives in our management team in Holding company. In the overseas business in particular, we need to transform its management team and governance regime to further diversified ones.

Q **In the explanation of the next Medium-term Management Plan, you commented several times on words such as "challenging," but what do you think as "challenging"? Is it challenging to create something new? Or will you lose something important in order to achieve a target? Stock valuation wise, there seems to be no particular challenging factors given that the foundation of business is firm and stable, and that shareholder payouts have been committed in recent years. What do you see as "challenging" from the management's perspective?**

A There are not any major difficulties, but I also understand that it could not be easy and rather "challenging" to expand our business in the digital and new businesses fields with the scale and speed that we and our stakeholders expect given that we are a traditional insurance company with organizational cultures of a large company.

Domestic Business Strategy

Q **Regarding DL, you explained that during the period of the next Medium-term**

Management Plan you plan to recover the new business performance to the pre-covid-19 level. However, in the current Medium-term Management Plan, compared to other competitors, you have lost some policies in-force and sales reps as a painful effect of the transformation. As a consequence of paying these compensations, what is the status of DL at the end of the next Medium-term Management Plan? Is it qualitatively different from the sales reps channel of other companies in the same industry? Please tell us the future vision that DL is aiming for.

A In terms of VNB or value of sales revenue, we would like to realize a recovery to the pre-covid-19 level during the next Medium-term Management Plan period at any cost. As of the end of the next Medium-term Management Plan, the number of sales reps are expected to be between 30,000 and 35,000. Given that more than 40,000 sales reps were employed before covid-19, productivity of each sales reps needs to be 1.3 times or higher compared to pre-covid-19. To this end, in addition to providing attractive products and services, we believe it is crucial to provide DX support that greatly improves the productivity of sales reps. On the other hand, from a financial perspective, we believe that it is very important for DL to generate the current level of cash flow and continue remitting cash to HD for as long as possible, and that those will be imposed to DL in a manner that emphasizes KPIs in areas such as recovering to new business performance, improving productivity, and maintaining cash flow.

Q According to the material (P31), the number of the Asset Formation/Succession-/Inheritance Advisers will be increased to 1,700. Are you expecting new hires or a change in the roles of sales reps?

A While it also includes some transfers of new hires and in-house staff, we are assuming that sales reps so-called "Life Professional", which are mainly of new graduates, will be transferred to play a role of asset formation/succession/inheritance advisors.

Q What are the opportunities and pathways for profit growth in the domestic business? It seems difficult to draw a growth story in the domestic market, as the market shrinks or competition intensifies further among the interest rate rising situation. If the planned growth is turned to be difficult, is there a possibility that you will accelerate the initiatives to improve capital efficiency further?

A The domestic traditional protection market cannot be expected to grow significantly in the future, considering the effects of the macro environment. Therefore, in a DL centered on the protection business, the emphasis will be on offering not only conventional protection-oriented products, but also asset formation and succession products and services in an integrated manner, thereby increasing productivity per sales reps. As a result, we aim to recover the top line to pre covid-19 levels in the next Medium-term Management Plan, while maintaining the current level for the bottom line. Looking only at DL, the bottom-line remains flat, but from the perspective of the future growth drivers for the domestic business, DFL will play a central role in increasing profits for the domestic business as a whole, as the business structure of DFL is essentially close to the asset management business, and economies of scale will become effective in the process that AUM increase in the future. We would like to grow profits not only in DL but also in the domestic business as a whole, including other group companies. In addition, we recognize capital efficiency and efficiency of operating expenses as issues that must be constantly monitored by management while keeping an eye on the level of profits.

Q **The business of buying and selling insurance policies in the form of in-force block is common globally. Is it possible to increase the bottom line in the future by buying in-force blocks of contracts domestically as a new strategy?**

A Buying and selling of insurance blocks are common in the U.S. In PLC, one of the main business is to buy and sell insurance blocks as form of the bolt-on type M&A and monetize them. On the other hand, domestically, we are ceding an insurance block with a high assumed rate of return, which is also said to be part of the buying and selling of an insurance block. On the other hand, in terms of buying in-force block, there is currently no seller of an insurance block that does not have interest rate risk. If such a block becomes liquid in the market in the future, we would like to consider it including the form of acquisition, but at present, we recognize that there is no such market yet. If the reinsurance market is getting active in the future, it is possible that, for example, the negative spread block, which generates a loss, and the positive spread block could be ceded together. We will closely monitor market trends to ensure that we do not lag behind.

Q **I think sales reps prefer to sell DFL's foreign currencies-denominated products, which they can earn commission immediately, and the level of commission seems to be high. If you launch new competitive protection-type products at DL in order to recover VNB, does the wage of sales reps as a whole temporarily decline since the commission payment for protection-type products is level over time?**

A Some sales reps have achieved significant sales of DFL products. At DL, we aim to increase proportion of the sales of DL's own products, by launching new products, and aiming to recover the value of new business. However, the selection of products is up to the customer's preference, and demand for products such as foreign currency-denominated products, which are currently very popular, is expected to continue for some time in the future. The idea is that the launch of new products will not result in a shift from DFL products to DL products, but that the sales of new product lineups will be added as well as the productivity of each sales reps will be improved. Therefore, we do not think that compensation levels for sales reps will move downward.

Q **Amid reforms of training system for sales reps, are there any indicators that can be shown as an achievement, such as how productivity has been improved according to the number of years of experience or age? For example, while sales reps of younger generations may improve their productivity by climbing up the growth curves even if they start with low efficiency, sales reps of veterans may be less motivated after covid-19. If there are some positive factors, can we see some expectations in future.**

A As you pointed out, we would like to show this with quantitative data. However, since the new training system began operating last year, it is unclear at this point how much data can be prepared. In terms of hiring, compared to the quarterly target of 1,000 sales reps, the actual number hired had been in the range of 600 to 700 at the timing of this regime introduced, but recently it has exceeded 900 sales reps. We recognize that we could hire sales reps with the level initially anticipated, rather than relaxing the criteria for hiring. On the other hand, with regard to the reduction in the number of sales reps, there is not only the tightening of recruitment standards, but also a factor of the retirement of existing sales reps. Although the situation of retirement has improved compared to the previous level, the level continues to be higher than the historical level as a statistical trend. Amid various changes in the environment during the past 3 years, we recognize that we have not been able to provide enough support to the sales force in terms of launching new products, etc., which has not contributed to increase motivation for work. From now on, new products and services will be introduced one after another. As such momentum is spread throughout sales reps, the situation is expected to be improved under these circumstances. We would like to show the improvements of our momentum with numbers and figures at our briefing of next time or after.

Overseas Business Strategy

Q **Regarding the growth image of the overseas business, please tell us how much growth is expected for each factor, such as market fluctuation like interest rates, and organic growth due to the expansion of policies in-force, etc. Also, what are your thoughts on synergies among domestic companies, and overseas companies, respectively?**

A Growth expectations are high in North America and Asia. While the sources of dividends in the overseas business are North America and Australia, we plan to determine the amount of dividends to HD by considering each company's cash and regulatory surplus on a case-by-case basis as we consider a change in the definition of adjusted profit. Both companies are expanding in scale, and we recognize that their capacity to generate dividends is growing. In addition, in the Asian business, the issue is that companies other than Vietnam are still on a subscale, and how to resolve this and achieve a sufficient scale are major challenges for our overseas business in the next Medium-term Management Plan. Regarding synergies, for example, there is not much synergy between business in North America and in Southeast Asia, but we believe there is room for significant synergies in our Asian business, including in the aspects of systems and IT. We would like to realize synergies and share best practices.

New Capital Regulations

Q It was explained that ROE needs to be increased for the improvement of P/EV ratio. What is the "E" stands for in this context, such as EV or ICS qualifying capital?

A As described in P14, it is considered that the Group-consolidated and 3 domestic companies are planned to revise their ESR and EV measurements from current standards to standards compliant with the new economic value-based solvency regulation (J-ICS). Because EV and ESR margins are similar, we are considering not to disclose similar figures duplicately, but to disclose it as a single metric without impairing accuracy.

Q It is explained that the figures of ESR and EV are expected to decrease by aligning with J-ICS. As for the various assumptions that are premised on the range of ESR set from 170% to 200%, such as allowance to use 3.8% of UFR, which part will become stricter than the current internal model due to the introduction of J-ICS?

A In terms of the changes that will be made by the introduction of J-ICS, there is the part that brings J-ICS to the internal model, while there is the part that continuously adopts the internal model in EV and ESR as the second pillars. Changes in standards of internal model are also subject to both upward and downward directions. Regarding UFR, the standard adopted in the current ESR measurements are expected to continue to be used as the internal model, even after the introduction of J-ICS. In particular, the impact of risk margins, referred to as MOCE (margin over current estimate), is the cause of a decline in ESR and EV of DL. While the actual profitability of insurance will not change, higher MOCE are required to be provisioned in J-ICS than in the insurance liability assumptions used in EV and ESR, which causes margins to decline. In addition, in terms of the amount of risk, internal model is also used in measurements of amount of some risks, and the loss-absorbing effects by policyholder dividends and corporate income taxes are expected to bring large impacts of the introduction of J-ICS. Under the current standard, losses are assumed to be absorbed by a reduction in policyholder dividends and corporate income taxes payments in the event that losses occur. However, under the J-ICS standard, the limitation of them will become stricter, and that will be a factor in increasing the amount of risk, while the actual situation will not change.

Q **On the material (P14), it was explained that the ESR figures will be decline to less than 200%, as a result of new ESR introduction. To what extent will the change in this standard affect the amount of dividends payable from subsidiaries to holding company that was described on the material (P18)? Also, is it possible that ESR of DL on a non-consolidated basis will be maintained at a level exceeding 200% at the time of introduction of the new ESR? DL remitted ¥215.6 billion which exceeds its profits in the current fiscal year, but is it possible to continue to remit dividends that exceed profits going forward?**

A After J-ICS is introduced, the Group-consolidated and domestic subsidiaries will be required to meet certain requirements for each company basis, but overseas companies will continue to comply with the regulations of each country. The introduction of J-ICS will lower the figures of ESR to some extent, but the situations of the capital constraints under the current ESR will not change significantly from the present. In particular, with regard to the remittance ratio of DL, since we will continue to progress risk reduction in the next Medium-term Management Plan, new ESR figure is expected to be improved, and we will continue current operation in the next Medium-term Management Plan considering cash constraints, while it is not necessarily the case that DL will be able to remit dividends from all surplus capital based on ESR to HD. For overseas companies, while balancing ICS management on a group basis with complying regulations in each country, we would like to maintain stable remittances that remains unchanged from the current operation.

Q **As for the introduction of the new ESR, considering that the current ESR is 223% as of the end of September, it seems that the revision will have a negative impact of more than 23%pt. While it was explained that EV will be revised as well, is that also likely to be affected in scale of around 10%? It was also mentioned that the introduction of the new ESR will not affect the direction of the capital management policy, but can we expect that the stance for deciding the scale of share buybacks based on the profits in FY2023 also remains unchanged?**

A Regarding the impact on EV figures, we would like to provide an explanation of the quantitative impact of the new standard by using the figures as of the end of FY2022 in the timing of FY2023-Q3 disclosures in February 2024. In introducing a new ESR, MOCE of DL will increase, so it will also be reflected as an increase in reserves in the new EV, which will be a factor of decreasing EV. In the decision of share buybacks, there is no change in our policy that we will consider balancing strategic investments and shareholder payouts considering cash constraints, as long as retaining the sufficient ESR level.

Q **Can we expect that the scale of share buybacks will not change even if the amount exceeding the current target range of ESR is eliminated due to the introduction of the new ESR standard?**

A Currently, cash is a constraint on shareholder payouts, so we do not anticipate that ESR will become a constraint on shareholder payouts. In addition, since the forecast of remittance for the next fiscal year is shown on the material (P18), you can consider it on the assumption like this.

Q **Regarding ESR, will the Company not continue to use ESR figures based on the current internal model when communicating with the market. Instead, will it intentionally shift it to the standard model?**

A Not all items in standard model of ICS are used for internal capital management. For instance, we stated that we will adjust UFR to the appropriate level. We will continue to manage our capital on the basis that we believe is correct in our internal model. On the other hand, the loss-absorbing effects of policyholder dividends and others do not necessarily have a correct answer. We consider it reasonable to align with the standard model for those items, in the process that domestic economic value-based regulation develops. For other items, we are considering aligning to the standard model in the part that we determined it to be reasonable.

Q **It was not clearly stated that the required level in the new ESR after the introduction of the new standard will be at 200%. Please tell us if there is any room for change in the target range currently set at 170-200%.**

A If our businesses do not change while measurement method of EV and ESR change, we also have a view that we may need to revisit the current target range of ESR which is 170-200%. While we are continuously considering it, we currently judged that the change in the measurement method of this time will not bring a large impact, and we will be able to continue the current capital management even if we do not change the range of 170-200%, although the figures are expected to decline.

Others

Q **Is there a room for further improvements in the asset management business? I understand that your policy of reducing market-related risks will continue for the time**

being, on the other hand, domestic interest rates have started to rise, which seems to contribute to making more profits from the asset management business. Can we expect that it will be an upside factor, or is it too early to assume that?

A We believe that the upside can be expected in asset management business. While we recognize that our ALM investment target of reducing interest rate risk has been almost achieved, we also expect to enjoy the benefit from rising interest rates in this ALM investment. In addition, as for the investment of pursuing additional profits, we believe that we can expect upside in investment income through efficient risk-taking. In terms of efficiency, our policy is to continue to reduce the domestic equities. What it means is that we are shifting from low-efficient assets even if a certain gain is expected, such as domestic equities, toward more efficient assets, such as alternative assets.

Q From the perspective of the investment organization or the investment function, I think that each subsidiary has its own function at present, but do you think there is a possibility to integrate those functions in pursuit of additional profits? Is there anything that can be done in order to improve efficiency and resilience in investment functions?

A Major assets under management in our domestic business include DL with the general account of about ¥30 trillion, and DFL with about ¥10 trillion. DFL has quite simple organizational structure because most of its assets are foreign currency-denominated bonds, so it does not have a wide range of investment functions as asset size. On the other hand, credit investment currently uses the same resources for ratings and ceilings among DL and DFL, and is almost integrated in effect. In addition, in terms of managing the risk of the entire investment portfolio, we have introduced the BlackRock's Aladdin® platform across the Group, which enables us to monitor and manage conditions in real time for our major entities, such as HD, DL, DFL, PLC. As a result, although it is divided as an organization, the functions of portfolio management are already being operated in an integrated manner.

Q We saw the news that you have begun to consider raising wages by an average of 7% from FY2024 for a total of around 50,000 employees including sales reps. Looking at DL's performance, however, it seems to be the time to reduce fixed costs, rather than increasing fixed costs to reduce EV in the next fiscal year and beyond. Are there any plans to take an action against rising fixed costs due to wage increases?

A Wage increase in this time is for protecting employees' lives as a response to inflation. There is not a direct link between wage increases and funding sources, but cost reductions are an initiative that should always be addressed, and we need to identify additional room for cost reduction. On the other hand, since the impact of inflation have been greatly affecting our business expenses, it is necessary to incorporate its negative impact to some extent.

Q I think that wage increases lead to motivation for the sales reps, but on the other hand, it is not necessary to raise wages for inhouse staff. Don't you think of a mechanism to offset salaries if you distribute stocks?

A Due in part to the competitive environment in the industry, wage increases for the sales reps are essential. On the other hand, we were demutualized in 2011 and it has been more than 20 years, but it seems that the employees are not fully instilled with the sense of values of listed company. 4% out of the 7% wage increase is in response to inflation, but the remaining 3% is covered by the introduction of stock-based compensation. We expect for our employees to have a mindset to belong to a listed company.

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