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FY2023-Q3 Financial Results Conference Call for Institutional Investors and Analysts

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Date: February 14, 2024 16:55-17:40

Presenter: Taisuke Nishimura, CFO/Chief of Financial Planning Unit

Akifumi Kai, Executive Officer/Chief of Corporate Planning Unit

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- Thank you very much for taking time out of your busy schedules to join us today. This is Nishimura, CFO.
- Today, we have announced our financial results for the Q3. I will make an overview of the contents according to the materials. After that, Kai, Executive Officer will also explain about the TOB for Benefit One that we have announced the other day.
- Please see page 2.

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- Here are today's three key highlights.
- First, I will review our financial results for Q3. Group adjusted profit was ¥214.6 billion. We continued to keep steady progress, at 80% of profit forecast of ¥270 billion for FY2023. Despite downward pressure from the decline in interest and dividend income at DL and increases in provision of reserve and expenses associated with strong sales at DFL, the improvement in gains from core insurance activities at DL due to the absence of the payments related to COVID-19, was the main factor for the high progress rate. In the overseas business, TAL in Australia, which had been the main driver of profit for the current fiscal year, saw a decline in non-underlying profit due to a decline in interest rates during Q3. However, TAL has already exceeded the budgeted amount of adjusted profit for the current fiscal year, and we recognize that the level of adjusted profit is on-track throughout the overseas business.
- As for the new business performance, the major trend has not changed. DFL maintained high sales volume and continued to perform well. The contribution of DFL was huge, and new business ANP for the group increased significantly YoY to ¥378.2 billion. Even if the effect of the weaker yen was excluded, new business ANP for the group increased 25% YoY.
- On the other hand, VNB for three domestic companies fell sharply YoY to approximately ¥9.0 billion, which we recognize as a continuing harsh level. This was mainly due to the fact that DL's sales performance remained sluggish and that DFL remained at a low level due to technical factors in calculations.
- ESR decreased 4% from the end of the previous fiscal year to 222%. This was mainly due to the US interest rate rising and increase of policy liabilities caused by higher inflation and future business expenses in addition to increases in both capital and risk volumes.
- TOB for Benefit One will be explained later.
- See the next page.

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- I will explain the progress rates toward the full-year forecast of group adjusted profit by domestic and overseas business, and the main factors behind them.
- The progress rate for the domestic business was 78%. For DL, interest and dividend income, which declined YoY as in Q2, exceeded initial budgetary levels, mainly for alternative assets and investment trusts. At DL, overall investment income and expenses also exceeded the budget due to factors such as steady progress in the sale of domestic stocks and achieved a high progress rate of 89% in adjusted profit. Regarding the reinsurance ceding of DL's existing policies, we are considering implementation of these policies in Q4 as originally budgeted.
  For DFL, unchanged as last quarter, the strong sales have led to an increase in new policy related expenses such as provisions to the regular policy reserves for foreign currency denominated products, contingency reserves, and agent commissions paid, which put downward pressure on profit, resulting in the low progress rate. Since October, we have been ceding reinsurance to intragroup reinsurance company as a soundness measure, and the cost of new policies has been reduced, but due to product sales mix considerations, the effect of improving profits is limited at this point.
- Next is the overseas business. Adjusted profit progress was 74%.
  First, for PLC in the US, profit progress rate remained low, partly due to a decline in profits as a result of a review of insurance assumptions in the Q3. For TAL in Australia, during this Q3, non-underlying profit deteriorated slightly due to the impact of lower interest rates in Australia. However, adjusted profit is already higher than budgeted for the current fiscal year.
- Combining the profit contribution from other businesses, the progress of the Group's overall adjusted profit is at a high level of approximately 80%, which we think is steady.
- See the next page.

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- The YoY change in group adjusted profit is shown on this page. Group adjusted profit increased by 30% YoY to ¥214.6 billion.
- Regarding to domestic businesses, at DL, as in Q1 and Q2, the decrease in positive spread due to lower interest and dividends income, etc. was offset by an increase in gains/losses from core insurance activities, which improved due to the absence of payment burden related to COVID-19 in the same period of the previous year, resulting in an increase in fundamental profit. Although capital, etc. decreased YoY due to deterioration in derivative transactions gains/losses, DL secured higher adjusted profits compared to the same period of the last fiscal year.
- At DFL, adjusted profit continued to be negative due to the increase of foreign currency standard policy reserve due to continued strong sales, contingency reserve due to JPY depreciation, and new policy related expenses including the agency commissions due to increased sales volume.
- Overseas, PLC’s contribution to group adjusted profit increased YoY due to the decrease in valuation loss. At TAL, adjusted profit declined slightly due to the impact of lower interest rates in Q3, but the existing protection business of TAL and TLIS (Westpac Life) which was acquired through TAL last fiscal year continued to perform well.
- See the next page.

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- This page is about economic value indicators.
- VNB of the three domestic companies declined 65% YoY to approx. ¥9.0 billion. DL continued to be on the road to recovery, and the VNB remained low due to sluggish sales volume. The number of cases per sales representative, premiums per policy, and the value of sales revenue including DFL products shows a sign of upturn. After the reform of the in-house sales representatives. system in 2022, the number of sales representatives is still on a declining trend, but we are reaching the planned number personnel in current recruiting activity, and we will continue our efforts on it.
- At DFL, although the volume of new sales increased significantly, the VNB remained low because of the increase of excess spread, which was not reflected in EV calculation, along with investment portfolio. On the other hand, our internal indicators, which take into account spread that are not reflected in EV calculations, have exceeded our target yield.
- ESR decreased by 4% from the end of the previous fiscal year to 222%, due to an increase of policy liabilities caused by higher inflation and future business expenses, despite capital volume increased by an increase in domestic stock prices.
- As previously announced, a conference call regarding the new economic value regulation is scheduled for the February 28, and we plan to disclose the figures on a FY2022 basis.
- See the next page.

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- New business ANP is explained here.
- New business ANP for the Group as a whole was making steady progress with a 25% YoY increase excluding foreign exchange impact.
- For the domestic business, new business ANP exceeded the level of the same period of the previous year following Q2 since DFL led the Group, as explained at the beginning. At DFL, sales of foreign currency-denominated insurance products, including US dollar-denominated products, have continued to be strong, and sales of yen-denominated products have been also steady, due in part to the impact of rising Japanese interest rates.
- Although the sales of DL's own products continue to decline, the new product launched in late December has made a strong start. We plan to continue launching new products in preparation for the start of FY2024 and will continue to focus on promoting sales to achieve a recovery in business performance.
- For overseas companies, sales volume at DLVN declined mainly in the banking channel. Although new business ANP for PLC and TAL exceeded the level of the same period of the previous year, the impact of sales volume decline at DLVN was significant. As a result, new business ANP for overseas business were lower than the level of the same period of the previous year excluding foreign exchange impact.
- See the next page.

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- Next is the full-year earnings forecast.
- Ordinary income was revised upward due to an increase in premiums and other income of DFL and the impact of the depreciation of the yen.
- From the following page, Mr. Kai, Executive Officer will explain the commencement of TOB to acquire Benefit One as a

wholly owned subsidiary.

- I would like to turn things to Mr. Kai.

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- This is Kai, Executive Officer.
- I would like to explain the commencement of TOB for Benefit One. Please see page 8.
- Regarding the TOB for shares of Benefit One we announced on December, as we noticed before, we commenced the TOB as a result of the discussions with Benefit One and the largest shareholder, Pasona.
- By utilizing Benefit One’s employee benefit platform and offering our products and services to customers in an embedded form as part of our employee benefit services, we aim to improve the efficiency of insurance service provision and expand into business areas which is highly compatible with insurance business.
- While we aimed to complete the TOB on February when we announced it, since it took much time to discuss with both Benefit One and Pasona, we are going to complete the TOB on the middle of March at the earliest. Regarding the financial impact of the TOB, we will explain another time after the completion of the TOB.
- See the next page.

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- After the release of the TOB notice in December, and discussions with Benefit One, the certainty of synergies from collaboration with Benefit One has greatly increased.
- We would like to work with Benefit One's management team to create what we call the "Benefit One Ecosystem" based on the Benefit One system.
- There are three main initiatives.
- First, in the employee benefit business, which is the core business of Benefit One, we will strengthen its competitiveness and expand its scale by providing its solid customer base. In addition, through this business, we aim to provide products and services that allow our customers to use our capabilities as an insurance company in areas such as protection and asset formation/succession.
- Furthermore, in the healthcare field, where both companies are already working on initiatives, we will aim to improve the value of the customer experience by delivering integrated services for providing added value toward achievement of health and productivity management.
- Next, I will explain the Payment business.
- Benefit One provides a payroll deduction settlement service called “Kyu-toku Barai”, and we believe that this service is the source of Benefit One's future competitiveness. This service has not been fully recognized yet as it has only been in operation for a short time, but in the future, we aim to increase awareness by leveraging our network and plan to work toward realizing synergies by providing exclusive products.

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- We will offer embedded services utilizing the Benefit One platform. Through that, we are aiming to provide a “Benefit One Ecosystem”, which, we believe, will enable expand our domestic insurance business.

- As embedded finance in the broad sense, our aim is to increase active users on Benefit One platform by providing various services, and set up an environment where customers can reach what they want when they want it.

- By allowing each customer to access Benefit One's platform according to preferences and life events, we hope to realize the value of the experience through "offering the best products and services at the most appropriate time" for our customers.
- Also, as I mentioned, We also feel that there is great potential in promoting the use of the “Kyu-toku Barai” payment business and will focus on various efforts to promote the use of this service through the joint development of dedicated products for “Kyu-toku Barai” and other measures. We also believe that the development and streamlining of insurance products and asset formation services in our existing business using “Kyu-toku Barai” as a leverage is another area where significant synergies can be generated.
- Please see page 12.

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- This time, the final TOB price was ¥2,173, which is ¥50 higher on a share value basis compared to our initial proposal.
- As stated on the left, we have been in close-contact discussions with Benefit One for about two months, including requesting the release of the December TOB preview information, top management meetings, and discussions between the secretariats.
- Going forward, we will do our best to generate sufficient synergies through PMI, assuming completion of TOB in mid-March.

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- Thank you very much, Mr. Kai. I, Nishimura will finally explain the financial strategy for the next Medium-term Management Plan with this TOB in mind.
- Please see page 13.
- As previously announced, the TOB for Benefit One is expected to be implemented entirely with cash on hand.
- Furthermore, there are no changes in the direction of our financial strategy for the next Medium-term Management Plan, which we explained in November. We plan to make strategic investments of approximately ¥300 billion in the next Medium-term Management Plan, mainly in overseas businesses, by creating financial capacity for the group through the use of internal and external financing and further reduction of domestic stocks through promotion of market-related risk reduction initiative in the next Medium-term Management Plan.

- Thank you for your attention. This concludes my explanation.

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

[Abbreviated company names]

DL: Dai-ichi Life, DFL: Dai-ichi Frontier Life

PLC: Protective Life Corporation, TAL: TAL Dai-ichi Life Australia, DLVN: Dai-ichi Life Insurance Company of Vietnam

Benefit One: Benefit One Inc., Pasona: Pasona Group Inc.

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