



## **LIFENET INSURANCE COMPANY**

Question and Answer Summary at Full Year Financial Results Briefing for the Fiscal Year Ended March 2022

May 12, 2022

### **[Answerers]**

Ryosuke Mori

President and Representative Director

Yasuhiro Koba

Director and Executive Vice President

Iwao Kishimoto

Executive Officer

## Question & Answer

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**Question:** Looking at the marketing efficiency per new business during three months in 4Q of FY2021 on [page 6 of the presentation material](#), the marketing efficiency for 2.4 billion yen in marketing expenses has deteriorated. How do you analyze the underlying reasons for deteriorating in marketing efficiency while the new case of COVID-19 was increasing? In addition, how do you expect the level of marketing efficiency in this fiscal year and beyond?

**Koba:** As you mentioned, growth trend has slowed down to a certain extent during 4Q of FY2021 due to the rise of new micro-insurance products for COVID-19 and the prolonged impact from the lifting of the states of emergency. Since the timing for ordering TV commercials preceded these external environments, it resulted in the lower performance than we expected.

**Mori:** In the past, we substantially reduced marketing expenses when new business performance slowed down and marketing efficiency deteriorated. That had an impact on the subsequent momentum in the new business growth. It led us to recognize the importance of prioritizing the growth and consistent investment in marketing first. Then we can also work to improve efficiency. This fiscal year, we have specified the necessary actions for recovering the momentum and intend to cope with them step-by-step, continuing to invest in marketing. In regard to the expected level of marketing efficiency in this fiscal year, we think there could be times when the efficiency deteriorates temporarily over short monthly or quarterly time spans. At the same time, we are aware that the upper 80,000 yen range is not a sustainable level throughout the year, and want to improve it in the short term.

**Question:** [Page 29 of the presentation material](#) talks about investing in bonds denominated in foreign currencies. When investing in such bonds in the future, how much can Lifenet increase the investment from the perspective of the risk management? Are you considering of increasing open (unhedged) foreign bonds or hedged foreign bonds?

**Koba:** We are thinking about mainly increasing hedged foreign bonds by a certain percentage, in light of current market conditions.

**Question:** Regarding the assumption changes on changing factors of European Embedded Value (EEV) on [page 12 of the presentation material](#), it shows the positive impact of around 1.4 billion yen as for March 31, 2022, compared to December 31, 2021. Can you give us the details of the revision of the claim incidence rate?

**Kishimoto:** We make revisions based on the performance of all products. In the fact, lowering the mortality rate had an especially large impact this time. The external and other data used in revising the long-term mortality rate has resulted in a positive impact.

**Question:** The presentation of financial results for FY2021 has more emphasis on in-force business performance than new business performance. Does it mean the Company changed internal indicators? In addition, how are you analyzing the causes of the recent decline in monthly new business performance?

**Mori:** The main contents of disclosure have not changed from previously. However, as you recognized, we focus on in-force business in our presentation this time. We believe that the growth of in-force business is very important because our business is a stock-based business. Of course, the biggest driver behind the growth of in-force business performance is new business performance. However, flat YoY growth in new business performance does not necessarily mean that Lifenet's growth is flat. Based on our communication with investors and shareholders, we would like to express that in-force business is the performance indicator targeting company growth in the announcement of the financial results this time. With regard to the recent decline in monthly new business performance, we recognize that main reason is temporary decrease in demand for life insurance in the industry as a whole. We intend to prepare so that customers will consider our products when customer demand rebounds to a certain level.

**Koba:** The recent decline in new business performance stems from the fact that the general public was not focused on insurance. This resulted from a number of factors such as the decline in COVID-19 infections and the series of holidays without stay-at-home restrictions. Lifenet views the expansion of online life insurance needs and promoting digitization of financial services as mega trends. We want to take advantage of these mega trends and link them to the growth of Lifenet, despite the fluctuation of our new business performance caused by COVID-19 pandemic.

**Question:** Based on adoption of IFRS 17 (International Financial Reporting Standards), as stated on [page 32 of the presentation material](#), roughly how much cost for acquiring new business can be deferred under IFRS? Also, from which point in the past will the net assets be recalculated under IFRS?

**Kishimoto:** As for the cost for acquiring new business, we are in the midst of discussing with the accounting auditor, so I cannot state a definitive answer at present. However, we recognize that it will be possible to defer a certain amount forward. Regarding the time point for calculation, we intend to recalculate from 2008 of our business commencement year, in principle.

**Mori:** Regarding the percentage of deferring of the acquisition costs, we can defer over the term of insurance if it is defined as insurance acquisition cashflow. We are currently discussing it with the accounting auditor with our understanding that our marketing expenses invested in acquiring new business can equals to the investment in insurance acquisition cashflow.

**Question:** If IFRS is voluntarily adopted in the future and Lifenet can post a profit of several billion yen, is it conceivable that Lifenet will switch its TSE listing to the Prime Market?

**Mori:** In the communication with investors and shareholders, we frequently get opinions that our liquidity, market capitalization, etc. are limiting factors when considering Lifenet stock for investment. If listing on the Prime Market will solve such issues, then it would be sufficiently valuable to pursue it as our strategy. We will continue to consider it internally and would like to target listing on the Prime Market if we can determine that this will contribute to enhancing our corporate value.

**Question:** What do you think the reasons the share price to EEV (P/EEV) ratio has fallen? Are you considering new measures to improve the share price and valuation in light of this situation?

**Mori:** We sincerely feel sorry for our shareholders that P/EEV ratio over the past few months has declined. I think the primary reason is the slower growth rate of our in-force business performance from the 2H of FY2021 onward. In addition to this, Lifenet twice raised capital from investors who mainly invest in growth stock. In light on this, the changes in the macro investment environment since the end of last year and the series of IPOs launched in the TSE Mothers market had an impact on our P/EEV. We think that voluntary adoption of IFRS could contribute to the positive impact on investor's view of Lifenet stock while we communicate with investors and shareholders. We will also strive to clearly show the management goals and indicators, including the performance indicators noted above, as well as our challenges and opportunities in order not for investors and shareholders to misunderstand our value.

**Question:** On [page 6 of the presentation material](#), what factors contributed to the increase in marketing expenses per new business? Do you have any reasons other than the increase of marketing expenses as a whole? Did increase in the unit cost of advertising affect it?

**Koba:** I think that the increase in the unit cost of advertising has impacted on marketing efficiency per new business to a certain extent. A rapid increase in economic activities during 4Q of FY2021 led to an increase in demand for advertising compared to when economic activities were restricted. This caused the increase in the volume of TV commercials purchased by each company and the increase in unit cost of advertising. In addition, Lifenet is currently strengthening touchpoints with the younger generation and the pursuit of such new initiatives can also cause marketing efficiency to deteriorate to a certain extent. We intend to implement these initiatives while keeping a close eye on overall efficiency.

**Question:** New business performance in April 2022 seemed somewhat weak. Is this because active investment in marketing expenses did not produce the benefits that Lifenet anticipated? Or is it because Lifenet cut back on marketing expenses intentionally?

**Mori:** We do not think that new business performance in April rebounded to a satisfactory level either. In terms of the calendar, the end of April was a holiday period, so some of the policies that we probably would have concluded on a business day were included in May. In addition to this, overall insurance demand did not rebound to the previous level from the 2H of FY2021 onward, and I feel that this situation also persisted in April. Lifenet is striving to transform insurance product's nature from the things that insurance company "sell" to the things that customers choose to buy. We therefore think that now is the time to wait for customers' demands and refine our products and services, rather than trying to artificially stimulate customer demand.

**Question:** What type of indicators are you using to evaluate marketing efficiency in the white label channel?

**Mori:** Marketing efficiency in the white label channel is quite different from the Internet direct channel. In the Internet direct channel, we measure efficiency by the new business acquired compared to amount spent on TV commercials and other advertising. In the white label channel, Lifenet incurs expenses by paying commissions to partner companies according to the number of policies acquired. The marketing efficiency is therefore stable compared to the Internet direct channel. Currently, the Internet direct channel is driving

our performance, so we intend to utilize the different characteristics of the two channels according to the business environment.

#### **Question in the text form and Answer**

**Question:** If Lifenet voluntarily adopts IFRS from FY2023 onward, when do you plan to disclose financial results under IFRS?

**Mori:** As stated on [page 31 of the presentation material](#), we are targeting adoption of IFRS from FY2023. We aim to disclose the IFRS-based FY2023 business forecasts when we announce the full-year financial results for FY2022 in May 2023. We expect to record an accounting profit of several billion yen under IFRS in FY2023, though it is not certain at this time.

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