

May 14, 2020

Ryosuke Mori, President

LIFENET INSURANCE COMPANY

(Securities Code: 7157, TSE Mothers)

## **Financial Results for Fiscal 2019 Ended March 31, 2020** **Annualized premium of in-force business of 15,514 million yen, up 18.6% year on year**

TOKYO, May 14, 2020 - LIFENET INSURANCE COMPANY (TSE Mothers 7157, President Ryosuke Mori, URL: <https://ir.lifenet-seimei.co.jp/en/>) discloses financial results for fiscal 2019 ended March 31, 2020.

### **1. Overview of the financial results for fiscal 2019**

#### **(1) Business results**

##### **Condition of policies-in-force**

Annualized premium<sup>\*1</sup> of new business in 4Q ended March 31, 2020 was 990 million yen (120.3% of 4Q of fiscal 2018). The number of new business was 23,314 (122.2% of 4Q of fiscal 2018). New business performance for fiscal 2019 recorded a historical high. Annualized premium<sup>\*1</sup> of new business for fiscal 2019 was 3,425 million yen (123.5% of fiscal 2018). The number of new business for fiscal 2019 was 80,911 (125.6% of fiscal 2018).

Annualized premium<sup>\*1</sup> of policies-in-force as of the end of March 31, 2020 stands at 15,514 million yen (118.6% of March 31, 2019). Sum insured of policies-in-force was 2,565,269 million yen (112.0% of March 31, 2019). The number of policies-in-force resulted in a total of 365,171 (118.2% of March 31, 2019). The number of policyholders was 232,537. Surrender and lapse ratio<sup>\*2</sup> for fiscal 2019 was 7.0% (6.6% for fiscal 2018).

\*1: Annualized premium is the amount of money equivalent to what is to be paid to have the insurance coverage for one year. All payments for Lifenet products are in monthly installments, we calculate annualized premium as multiplying the monthly premium by 12 months.

\*2: The surrender and lapse ratio is the annual equivalent of the monthly number of policies surrendered and/or lapsed divided by the monthly average number of policies-in-force.

#### **Results of operations**

Insurance premiums and other for fiscal 2019 increased to 16,455 million yen (135.3% of fiscal 2018) due to an increase in in-force business and effect from modified co-insurance. Investment income was 339 million yen (92.9% of fiscal 2018). Other ordinary income was 55 million yen. As a result, ordinary income for fiscal 2019 amounted to 16,850 million yen (134.2% of fiscal 2018).

Insurance claims and other was 3,759 million yen (148.3% of fiscal 2018). The ratio of insurance payment amounts to insurance premiums was 18.9% for fiscal 2019, compared with 17.3% for fiscal 2018. Provision for policy reserves and other came to 5,072 million yen (124.6% of fiscal 2018). The ratio of provision for policy reserves to insurance premiums increased to 35.1% for fiscal 2019, compared with 34.0% for fiscal 2018. Operating expenses amounted to 9,169 million yen (132.6% of fiscal 2018) mainly due to an increase in our marketing spend including advertising. The components of operating expenses were 6,146 million yen in marketing expenses (145.8% of fiscal 2018), 892 million yen in customer service expenses (113.4% of fiscal 2018), and 2,130 million yen in system and other expenses (111.4% of fiscal 2018). Other ordinary expenses was 1,081 million yen (142.8% of fiscal 2018). Consequently, ordinary expenses for fiscal 2019 totaled 19,233 million yen (134.7% of fiscal 2018).

As a result, ordinary profit totaled 2,382 million yen loss for fiscal 2019, compared with 1,719 million yen loss for fiscal 2018. Net income was 2,400 million yen loss, compared with 1,735

million yen loss for fiscal 2018.

In addition, fundamental profit, which is an indicator for the profitability of life insurance companies, amounted to 2,195 million yen loss, compared with 1,656 million yen loss for fiscal 2018, mainly due to an increase in operating expenses. The components of fundamental profit were 2,851 million yen in mortality margin, 5,064 million yen loss in expense margin and 17 million yen in interest margin.

We are participating in reinsurance transactions from fiscal 2019 by modified co-insurance on part of new business to achieve continuous growth. By utilizing reinsurance appropriately, we will ease the temporary burden imposed on statutory capital by expenses associated with new business and maintain fiscal soundness. The reinsurance transactions are agreements that transfer the risk and the profit (loss) structure of the reinsured business to the reinsurance company for a certain period of time. We receive ceding commission in accordance with the new business costs associated with the reinsured business in the initial fiscal year. This leads to an increase in ordinary income. On the other hand, after the ceding commission is recorded reinsurance accounts receivable as asset, it is amortized by the profit generated from the reinsured business over following fiscal years. This leads to a decrease in ordinary profit and net profit. Once the balance of reinsurance accounts receivable is amortized to zero, the reinsurance agreement terminates, and subsequent profit on the reinsured business belongs to Lifenet. Accordingly, the modified co-insurance resulted in raising ordinary income by 2,034 million yen, ordinary profit by 1,526 million yen, and net income by 1,526 million yen for fiscal 2019.

## **(2) Financial condition**

### **Assets, liabilities and net assets**

Total assets as of March 31, 2020 amounted to 41,144 million yen (38,247 million yen as of March 31, 2019). The major account balance was 32,058 million yen in securities mainly consisting of government bonds and corporate bonds with high credit ratings. Reinsurance accounts receivable was 1,663 million yen including 1,533 million yen of the balance of unamortized ceding commission for modified co-insurance.

Liabilities amounted to 31,744 million yen as of March 31, 2020 (26,474 million yen as of March 31, 2019), owing to an increase in policy reserves. The major account balances were 29,690 million yen in policy reserves and 638 million yen in reserves for outstanding claims. In terms of policy reserves, new business from fiscal 2018 onward has been transferred from 5-year Zillmer's method to standard policy reserves. The difference in policy reserves will be enhanced over five fiscal years, from fiscal 2018 to 2022, with the standing difference at the end of fiscal 2019 at 957 million yen.

Net assets amounted to 9,400 million yen as of March 31, 2020 (11,773 million yen as of March 31, 2019) due to the recording of net loss for fiscal 2019. It includes the effect of raising retained earnings by 1,526 million yen due to the utilization of modified co-insurance. On the other hand, after the ceding commission is recorded reinsurance accounts receivable as asset, it is amortized by the profit generated from the reinsured business over following fiscal years. This leads to a decrease in net assets accordingly.

The solvency margin ratio as of March 31, 2020 was 2,117.1% (2,085.2% as of March 31, 2019), which indicated that an adequate level of payment capacity was maintained.

### **(3) Cash flows**

For fiscal 2019, net cash provided by operating activities amounted to 1,613 million yen (2,506 million yen provided for fiscal 2018) despite the increase in operating expenses. Net cash used by investing activities amounted to 2,204 million yen (3,223 million yen used for fiscal 2018) mainly due to acquisition of securities. Net cash provided by financing activities amounted to 75 million yen (16 million yen used for fiscal 2018).

Based on these activities described above, cash and cash equivalents as of March 31, 2020 totaled 1,677 million yen (2,192 million yen as of March 31, 2019).

### **(4) Business forecasts**

The business forecasts for fiscal 2020 ending March 31, 2021 remains undetermined at the present time due to the continuing future uncertainty caused by the impact of the novel coronavirus disease (COVID-19).

New business performance in April 2020, amid this environment, was strong. Annualized premiums on new business were 456 million yen (187.0% of April 2019), and the number of new policies was 11,078, surpassing 10,000 new policies for the first time since the Company began business. The impact of COVID-19 on insurance claims and benefits payments is insignificant at present, but we must continue to watch this closely.

In light of the above circumstances, the Company will continue to ascertain future trends and plans to disclose business forecasts promptly when it becomes possible to estimate reasonable, appropriate forecasts. Ordinary profit (loss) is expected to be in the red continuously caused by profit structure under statutory accounting.

### **(5) Dividend policy**

Lifenet has yet to determine its specific dividend policies and dates for the start of distributing retained earnings as dividends as we still record cumulative loss and will be prioritizing strengthening our growth base to increase mid to long term profitability.

In the future, we will continue to target business expansion and profit generation by implementing measures to increase recognition of the Company, developing new products and services, and effectively utilizing financing for investment in systems and other aspects of the business.

In addition to this, the Company will consider implementing measures to provide shareholder return that include payment of dividends from future retained earnings after the company is turning a profit at the ordinary profit level in statutory accounting in the mid-2020s.

Lifenet's Articles of Incorporation stipulates that a decision on the distribution of retained earnings as specified in each Item of Paragraph 1, Article 459 of the Companies Act can be made by a resolution of the Board of Directors, except as otherwise determined by law.

## 2. Business policy

### (1) Basic management policy

Lifenet’s management philosophy is helping our customers embrace life more fully by offering comprehensible, cost-competitive and convenient products and services based on the highest levels of business integrity. With the internet as our main sales channel, we utilize technology and strive to be the leading company driving the growth of the online life insurance market through our customer-centric products and services.

### (2) Target indicator

As stated in Lifenet’s Management Policy presented in November 2018, we aim to achieve EEV (European Embedded Value), our main management goal, of 100 billion yen as early as possible. We have also set the number of policies-in-force and new business as growth indicators, profitability and Adjusted Profit (profit generated from policies-in-force) and marketing efficiency of new business as profitability indicators, and solvency margin ratio as soundness indicator. We are also aiming to turn a profit at the ordinary profit in statutory accounting in the mid-2020s.

### (3) Mid- to long-term business strategy and challenges

We formulated a management policy in November 2018 aimed at the continued steady growth and achievement of high profitability over the mid- to long-term. The policy is summarized below:

#### Summary of Management Policy

<b>Mission</b>	Help our customers embrace life more fully by offering comprehensible, cost-competitive and convenient products and services
<b>Vision</b>	Be the leading company driving the growth of the online life insurance market
<b>Priority areas</b>	<ul style="list-style-type: none"> <li>● <u>Innovation of customer experience</u> Enhancing and evolving the quality of all services with digital technology</li> <li>● <u>Enhancement of promotion capabilities</u> Generating massive customer traffic by active promotion and expansion of agent sales and white label business</li> </ul>
<b>Management goal</b>	Aim to achieve EEV (indicator of corporate value) of 100 billion yen by business growth in a mid-term

Initiatives in the priority areas of “Innovation of customer experience” and “Enhancement of promotion capabilities” and other efforts based on this management policy resulted in a record high in new business performance for the second consecutive fiscal year up to fiscal 2019 and we feel this demonstrates the real expansion of online insurance.

Lifenet continues to pursue in-force business performance aimed at early achievement of the management goal of 100 billion yen in EEV (European Embedded Value). We are also aiming to turn a profit at the ordinary profit in statutory accounting in the mid-2020s by enhancing efficiency and profitability as the scale of business expands.

Moreover, the spread of COVID-19 also makes it essential to respond to a post-COVID-19 world in which drastic changes are expected. Lifenet will leverage its business model, which is centered on use of the Internet to realize the LIFENET Manifesto of “Comprehensible, Cost-

Competitive, and Convenient” that we have pursued since we first commenced our business in 2008 and strive to provide life insurance products and services unencumbered by conventional wisdom.

We will therefore pursue initiatives aimed at the following issues which should be addressed:

i Sustained growth of in-force business performance

Lifenet has designated “Innovation of customer experience” and “Enhancement of promotion capabilities” as priority areas in our management policy and we are striving to maintain the strong new business performance, improve the surrender and lapse ratio, and achieve sustained growth in in-force business performance. We will also actively pursue investment in core systems to achieve these goals.

First, to achieve “Innovation of customer experience,” Lifenet will aim to provide convenient life insurance services that exceed the expectations of customers. We will achieve this by designing and improving stress-free services from the perspective of the customer’s experience (CX) in the entire series of processes ranging from insurance consultation, to application and post-policy enrollment procedures, and submitting insurance claims and other benefit claims, in addition to developing insurance products that meet the needs of customers. More specifically, we will provide products and services mainly via smartphone by using digital data analysis and technology that make use of the strengths of online insurance. Lifenet also aims to increase customer engagement through the use of advertising and promotions, our contact center and website, SNS, and meetings for policyholders.

Next, to achieve “Enhancement of promotion capabilities,” we will operate our business using two pivotal channels, the Internet channel and the agency channel, which includes white label products using partner company brands. We will work to increase the number of customers who choose the company through efforts to further raise its recognition and strengthen brand power via continuous advertising and promotion by utilizing the expertise we have accumulated through the Internet channel, which has been Lifenet’s main channel since the company first opened for business. At agency channel, we are cooperating with corporate partners that possess customer bases and brand power to expand white label business in selling our products under corporate partner brands. We have been selling *au life insurance* using KDDI Corporation as an agent since April 2016, and *Seven Financial Service life insurance* using Seven Financial Service Co., Ltd. as an agent since April 2020, with the goal of providing Lifenet’s comprehensible, cost-competitive, convenient products and services to a wider range of customer segments.

ii Securing profitability and financial soundness

Lifenet aims to utilize the strengths and experience in online life insurance it has cultivated thus far to improve marketing expense efficiency along with growing new business performance. We will also work to improve operating expense efficiency in operating expenses excluding marketing expenses by continuing to pursue company-wide initiatives aimed at improving productivity, including revising operating processes and automating operations through the use of technology.

It is important to secure sound financial conditions to serve as the base for achieving sustained growth. As a means, we have been participating in reinsurance transactions from fiscal 2019 by modified co-insurance on part of new business to ease the temporary burden imposed on statutory capital by expenses associated with new business. We will also secure capital sufficiency on an economic value basis in addition to the solvency margin ratio and other indicators of financial soundness, based on our newly established basic policy on risk appetite.

### **3. Basic Rationale for Selection of Accounting Standards**

Lifenet is evaluating International Financial Reporting Standards (IFRS), assuming that we will adopt IFRS in the future. Regarding the new accounting standards for insurance contracts (IFRS 17) which the International Accounting Standards Board (IASB) published, taking into account the potential effect on the method of creating financial statements, we are continuously examining their progress.

## 4. Non-consolidated Financial Statements

### (1) Balance Sheets

	(In millions of yen)	
	March 31	
	2019	2020
<b>ASSETS</b>		
Cash and deposits.....	1,192	1,377
Cash .....	—	0
Bank deposits.....	1,192	1,377
Monetary claims bought.....	999	299
Money held in trust .....	3,114	3,539
Securities .....	30,989	32,058
Government bonds .....	8,071	8,065
Municipal bonds.....	1,394	1,391
Corporate bonds .....	16,763	18,119
Stocks .....	363	313
Foreign securities.....	45	0
Other securities .....	4,352	4,167
Tangible fixed assets.....	99	96
Buildings .....	16	14
Leased assets .....	19	7
Other tangible fixed assets .....	62	75
Intangible fixed assets .....	629	742
Software.....	553	597
Software in progress .....	70	144
Leased assets .....	5	—
Agency accounts receivable .....	7	9
Reinsurance accounts receivable.....	69	1,663
Other assets.....	1,146	1,356
Accounts receivable.....	955	1,132
Prepaid expenses .....	72	98
Accrued income .....	44	52
Deposits.....	73	73
Suspense payments .....	1	0
Total assets .....	38,247	41,144

	(In millions of yen)	
	March 31	
	2019	2020
<u>LIABILITIES</u>		
Policy reserves and other .....	25,256	30,328
Reserves for outstanding claims .....	469	638
Policy reserves .....	24,786	29,690
Agency accounts payable .....	72	55
Reinsurance accounts payable.....	160	225
Other liabilities .....	707	882
Income taxes payable .....	1	3
Accounts payable.....	37	35
Accrued expenses.....	594	775
Deposits received.....	13	13
Lease liabilities .....	16	7
Asset retirement obligations.....	33	33
Suspense receipt .....	9	13
Reserves under the special laws.....	42	56
Reserve for price fluctuations.....	42	56
Deferred tax liabilities .....	233	195
Total liabilities .....	26,474	31,744
<u>NET ASSETS</u>		
Capital stock .....	12,136	12,200
Capital surplus.....	12,136	12,200
Legal capital surplus .....	12,136	12,200
Retained earnings .....	(13,101)	(15,502)
Other retained earnings .....	(13,101)	(15,502)
Retained earnings brought forward .....	(13,101)	(15,502)
Shareholders' equity .....	11,172	8,898
Valuation difference on available-for-sale securities .....	600	502
Valuation and translation adjustments .....	600	502
Total net assets .....	11,773	9,400
Total liabilities and net assets .....	38,247	41,144

## (2) Statements of Operations

	(In millions of yen)	
	Year ended March 31	
	2019	2020
Ordinary income.....	12,560	16,850
Insurance premiums and other .....	12,159	16,455
Premiums income .....	11,845	13,982
Reinsurance income .....	313	2,473
Investment income .....	365	339
Interest, dividends and other income .....	230	291
Interest from deposits .....	0	0
Interest and dividends from securities.....	230	291
Other interest and dividends.....	0	0
Gain on money held in trust.....	36	31
Gain on sales of securities .....	98	16
Other ordinary income.....	35	55
Other.....	35	55
Ordinary expenses .....	14,280	19,233
Insurance claims and other.....	2,535	3,759
Insurance claims.....	1,353	1,694
Benefits .....	701	941
Other refunds .....	0	0
Reinsurance commissions .....	480	1,122
Provision for policy reserves and other.....	4,070	5,072
Provision for reserves for outstanding claims.....	40	168
Provision for policy reserves .....	4,029	4,903
Investment expenses .....	1	151
Interest expenses.....	0	0
Loss on sales of securities .....	—	53
Loss on valuation of securities .....	—	95
Foreign exchange losses .....	—	0
Other investment expenses.....	1	1
Operating expenses.....	6,916	9,169
Other ordinary expenses.....	757	1,081
Taxes .....	503	769
Depreciation .....	251	300
Other.....	1	11
Ordinary profit (loss) .....	(1,719)	(2,382)
Extraordinary losses .....	11	13
Provision of reserves under the special laws .....	11	13
Provision of reserve for price fluctuations .....	11	13
Income (loss) before income taxes .....	(1,731)	(2,396)
Income taxes-current .....	4	4
Income taxes.....	4	4
Net income (loss) .....	(1,735)	(2,400)

## (3) Statements of Changes in Net Assets

	(In millions of yen)	
	Year ended March 31	
	2019	2020
Shareholders' equity:		
Capital stock		
Capital stock .....	12,136	12,136
Changes of items during the period		
Issuance of new shares-restricted stock .....	—	20
Issuance of new shares-exercise of subscription rights to shares .....	—	42
Total changes of items during the period .....	—	63
Capital stock .....	<u>12,136</u>	<u>12,200</u>
Capital surplus		
Legal capital surplus		
Legal capital surplus .....	12,136	12,136
Changes of items during the period		
Issuance of new shares-restricted stock .....	—	20
Issuance of new shares-exercise of subscription rights to shares .....	—	42
Total changes of items during the period .....	—	63
Legal capital surplus .....	<u>12,136</u>	<u>12,200</u>
Total capital surplus		
Capital surplus .....	12,136	12,136
Changes of items during the period		
Issuance of new shares-restricted stock .....	—	20
Issuance of new shares-exercise of subscription rights to shares .....	—	42
Total changes of items during the period .....	—	63
Capital surplus .....	<u>12,136</u>	<u>12,200</u>
Retained earnings		
Other retained earnings		
Retained earnings brought forward		
Retained earnings brought forward .....	(11,365)	(13,101)
Total changes of items during the period		
Net income (loss) .....	(1,735)	(2,400)
Total changes of items during the period .....	(1,735)	(2,400)
Retained earnings brought forward .....	<u>(13,101)</u>	<u>(15,502)</u>
Total retained earnings		
Retained earnings .....	(11,365)	(13,101)
Changes of items during the period		
Net income (loss) .....	(1,735)	(2,400)
Total changes of items during the period .....	(1,735)	(2,400)
Retained earnings .....	<u>(13,101)</u>	<u>(15,502)</u>
Total shareholders' equity		
Shareholders' equity .....	12,907	11,172
Changes of items during the period		
Issuance of new shares-restricted stock .....	—	41
Issuance of new shares-exercise of subscription rights to shares .....	—	85
Net income (loss) .....	(1,735)	(2,400)
Total changes of items during the period .....	(1,735)	(2,273)
Shareholders' equity .....	<u>11,172</u>	<u>8,898</u>

	(In millions of yen)	
	Year ended March 31	
	2019	2020
Valuation and translation adjustments:		
Valuation difference on available-for-sale securities		
Valuation difference on available-for-sale securities ...	480	600
Changes of items during the period		
Net changes of items other than shareholders' equity .....	120	(98)
Total changes of items during the period .....	120	(98)
Valuation difference on available-for-sale securities	600	502
Total valuation and translation adjustments		
Total valuation and translation adjustments .....	480	600
Changes of items during the period		
Net changes of items other than shareholders' equity .....	120	(98)
Total changes of items during the period .....	120	(98)
Total valuation and translation adjustments .....	600	502
Net assets:		
Net assets .....	13,387	11,773
Changes of items during the period		
Issuance of new shares-restricted stock .....	—	41
Issuance of new shares-exercise of subscription rights to shares .....	—	85
Net income (loss).....	(1,735)	(2,400)
Net changes of items other than shareholders' equity ..	120	(98)
Total changes of items during the period .....	(1,614)	(2,372)
Net assets .....	11,773	9,400

## (4) Statements of Cash Flows

	(In millions of yen)	
	Year ended March 31	
	2019	2020
Cash flows from operating activities		
Income (loss) before income taxes .....	(1,731)	(2,396)
Depreciation and amortization .....	251	300
Increase (decrease) in reserves for outstanding claims .....	40	168
Increase (decrease) in policy reserves.....	4,029	4,903
Increase (decrease) in reserve for price fluctuations .....	11	13
Interest, dividends and other income .....	(230)	(291)
Loss (gain) related to securities.....	(98)	132
Interest expenses .....	1	0
Decrease (increase) in agency accounts receivable .....	(2)	(2)
Decrease (increase) in reinsurance accounts receivable.....	(24)	(1,593)
Decrease (increase) in other assets <excluding assets for investing and financing activities > ..	(156)	(197)
Increase (decrease) in agency accounts payable.....	13	(17)
Increase (decrease) in reinsurance accounts payable .....	52	64
Increase (decrease) in other liabilities <excluding assets for investing and financing activities > ..	172	184
Other, net.....	(35)	1
Subtotal .....	<u>2,293</u>	<u>1,271</u>
Interest and dividends income received .....	258	340
Interest expenses paid .....	(0)	(0)
Income taxes (paid) refund.....	(44)	2
Net cash provided by (used in) operating activities .....	<u>2,506</u>	<u>1,613</u>
Cash flows from investing activities		
Purchase of money held in trust .....	(400)	(450)
Purchase of securities.....	(4,593)	(4,030)
Proceeds from sales and redemption of securities .....	2,027	2,690
Total of net cash provided by (used in) investment transactions ...	<u>(2,965)</u>	<u>(1,789)</u>
Total of net cash provided by (used in) operating activities and investment transactions ...	<u>(459)</u>	<u>(175)</u>
Purchase of tangible fixed assets .....	(32)	(56)
Purchase of intangible fixed assets .....	(225)	(358)
Net cash provided by (used in) investing activities .....	<u>(3,223)</u>	<u>(2,204)</u>
Cash flows from financing activities		
Proceeds from issuance of stock resulting from exercise of subscription rights to shares ...	—	85
Repayments of lease liabilities .....	(16)	(9)
Net cash provided by (used in) financing activities .....	<u>(16)</u>	<u>75</u>
Net increase (decrease) in cash and cash equivalents .....	<u>(733)</u>	<u>(514)</u>
Cash and cash equivalents, beginning of the year .....	<u>2,926</u>	<u>2,192</u>
Cash and cash equivalents, end of the year .....	<u>2,192</u>	<u>1,677</u>

**About LIFENET** URL: <https://ir.lifenet-seimei.co.jp/en/>

Remembering the original purpose of life insurance - mutual support - LIFENET INSURANCE COMPANY was founded with the goal of offering simple, convenient and competitively priced products and services based on the highest levels of business integrity. We sell these products and services directly to customers over the Internet. We aim to be the leading company driving the growth of the online life insurance market.

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