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April 19, 2024

Company name FP Partner Inc.

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A Collection of Questions and Answers Concerning the Financial Results for the Three Months Ended February 29, 2024

The Company has collected together anticipated questions concerning the financial results for the three months ended February 29, 2024, inquiries and feedback that we have received to date from shareholders and investors, and answers from the Company. This information is provided below.

This disclosure is implemented voluntarily by the Company for the purpose of further deepening the understanding of market participants.

Some content and expressions have been revised or amended with the aim of making this information easier to understand.

Q. Due to upfront investments such as increasing employee compensation, the operating profit for the 1Q decreased year on year. What is the intent and strategy behind increasing compensation at this timing?

A. We increased the compensation in consideration of improving employee motivation and our position within the industry. We believe that this will lead to the further strengthening of recruitment and increased net sales. We decided that this was the appropriate timing because it was after the first full-year financial results after the market reclassification to TSE Prime and our company is attracting attention within the insurance industry. Operating profit is expected to turn positive for the full year with an increased business quality support fee and additional contracts from customers attracted in-house and contract transfer.

Q. The increase in personnel expenses led to a decrease in operating profit in the 1Q. How much did these expenses increase compared to the same period of the previous year? Will they continue to increase in the 2Q and beyond?

A. Personnel expenses in the 1Q increased approximately 600 million yen year on year due to the increase in the number of sales employees and compensation ratio. There is no need to increase personnel expenses beyond that level because personnel expenses will remain at the same level as in the 1Q in the 2Q and beyond. We believe that operating profit will ultimately be as planned at the beginning of the fiscal year due to the increase in the business quality support fee in the 2Q and beyond.

Q. An increase in the business quality support fee rate was mentioned. Has this been incorporated in the plan for this fiscal year?

A. The business quality support fee for our company has increased proportionally with the increase in the number of new policies. For this reason, we are taking a conservative approach for the fiscal year ending November 30, 2024 compared to the fiscal year ended November 30, 2023 and do not expect a significant increase.

Q. The Nihon Keizai Shimbun dated April 4 reported on short-term cancellations and transfers of target-type life insurance products denominated in foreign currencies. Is the same thing occurring at your company? If this is the case, what is the extent of the impact?

A. We view this article as a tailwind for our company.

We provide financial planning to customers in our services and receive many consultations on asset formation for retirement. Our customers tend to choose monthly or annual payments for insurance policies, which are called level-premium payments based on the dollar cost averaging method. The number of policies has been increasing recently due to the very high demand for target-type, lump-sum payment insurance products.

We have told our sales employees that this is a good opportunity to encourage asset formation through level payments utilizing the dollar-cost averaging method. Level payment is considered a basic type of insurance coverage based on long-term holding, so we will continue to focus on level payment insurance products as up until now as a company. We intend to respond to the requests of our customer through intensive dialogue.

Q. Regarding the product mix, there is a record-high first-year commission income for life insurance mentioned on page 11 of the financial results briefing materials. It seems that the profitability has increased significantly looking at the first-year commission per new policy. Why has the first-year commission income increased significantly compared to the growth in new policies?

A. Currently, demand for lump-sum payment products with a high-unit-price as investment products is growing. Because the first-year commission for a lump-sum payment product is received all at once, this contributes to the increase in the first-year commission per new policy.

Q. There is a graph about the average annual salary of sales employees on page 5 of the financial results presentation materials. Do you think it must continue to increase, or do you think it has increased too much?

A. We would like to achieve a salary that exceeds the high cost of living, considering the current Japanese economy. Our average annual salary of approximately 7.5 million yen is a praiseworthy figure in the insurance industry.

Our company being listed on the Tokyo Stock Exchange Prime Market and the high average annual salary is attracting more job applicants. In the fiscal year ending November 30, 2024, we intend to raise the average annual salary even more to become an even more attractive company and achieve our goal of having 5,000 employees as soon as possible.

Q. Up until now, we have been in a cycle of hiring about 500 employees and losing about 300 per year. As the phase of improving employee capabilities continues, why have you decided to increase hiring now? Has the hiring environment changed?

A. While the number of job applicants for the fiscal year ended November 30, 2022 was about 1,500, due to the effect of changing the market segment to the Tokyo Stock Exchange Prime Market, the number of job applicants doubled to about 3,000 for the fiscal year ended November 30, 2023.

It is worth noting that the number of top players with industry experience is increasing. We believe that the increase in compensation in the 1Q will accelerate the number of top players in the industry joining our company.

Our biggest market segment change objective is to increase the number of sales employees to 5,000 and to cover customers in every part of Japan. In order to achieve this objective as quickly as possible, we want to actively invest in people and significantly increase the number of top players joining our company.

Q. Up until now, most of the employees resigning are those who have not performed well. Are there any outstanding employees who have also resigned?

A. There are not many resignations of outstanding employees. Our company has an appraisal system, and we have had some employees who have performed below the minimum wage resign, although this is only an extremely low number of employees.

Q. The number of prospective policy customers per quarter on page 14 of the financial results presentation materials shows that the ratio of customers attracted in-house in the 1Q was 12.1%. Do you expect to maintain the 12% level in the future?

A. Of the prospective policy customers, in-house customer attraction mainly comes from applications on our website. There is a trend of gradually increasing in-house customer attraction due to our branding, which includes nationwide expansion and TV commercials.

Q. What is the process from policy transfers to new policies?

A. It takes about three months from the time of policy transfer to the time the policy is signed. A new policy is received approximately six to eight months after a transfer is agreed to. After three years of business, we have received approximately 18,000 new policies from 50,466 transferred policies in the fiscal year ended November 30, 2023. Approximately 10% of the customers that have transferred policies have reviewed their insurance, and results have improved to the point where our company has been able to obtain new or additional policies.

Q. This question regards page 26 of the financial results presentation materials concerning the number of policy transfers agreed to. The outlook for the fiscal year ending November 30, 2024 is 80,000 policies, and the progress rate is high with 32,343 policies in the 1Q. What is the relationship between the number of companies negotiated and the number of policy transfers agreed to.

A. Not all 27 companies we negotiated with in the 1Q led to policy transfers or M&As. As our company's involvement in policy transfers has gained recognition in the insurance industry, referrals have increased, leading to about nine new negotiations per month. While we will continue negotiations from here, the number of policies held by each company varies greatly from several dozens to tens of thousands depending on the size of the agency. We believe that the 27 companies in the 1Q will contribute to performance improvement from the second half of the fiscal year ending November 30, 2024. In addition, we plan to exceed the previous fiscal year's achievement of 50,000 policies and aim for over 80,000 policy transfers for the full fiscal year.

Q. The dividend payout ratio will be 46.7% after the upward revision. What is the level of the dividend payout ratio and what is your view of it?

A. We were able to achieve our budget for all items in the 1Q, and we believe that we will be able to achieve profits well above budget for the full year as well. Although our target payout ratio is 45%, we have added 1.7% to this payout ratio. We will consider a further increase if we are able to increase both sales and profits for the full year.

Q. The annual dividend is being increased. Is this due to factors such as the rising profit margin on policy transfers and hiring going well?

A. Yes, that is correct. Another reason that led to the decision to increase the dividend includes the expected increase in the profit margin due to factors such as an increase in in-house customer attraction.

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