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Company name: FP Partner Inc.
Name of representative: Tsutomu Kuroki, Representative Director and President
(Securities code: 7388; Tokyo Stock Exchange Prime Market)
Inquiries: Katsuyuki Tanaka, Senior Managing Director and General Manager of Corporate Planning Department
Telephone: +81-3-6801-8278 (Department direct line)

A Collection of Questions and Answers Concerning the Financial Results for the Six Months Ended May 31, 2024 (2)

The Company has collected together anticipated questions concerning the financial results for the six months ended May 31, 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. There were comments regarding potential legal remedies being taken in response to some media reports, including filing a lawsuit. Please tell us what your thought process has been since then.

A. As we reported at the financial results meeting, we are carefully reviewing the situation with our legal advisors.

Q. The Nikkei and other newspapers have reported that insurance companies have withdrawn their advertisements. Please tell us if these were actually withdrawn, and what the impact would be if they were withdrawn altogether.

A. We have received such requests.

The advertising business is a business we started last fiscal year to improve our operating profit margin. Last fiscal year's results were approximately 140 million yen in net sales, and we expected about 170 million yen this fiscal year.

If we were to discontinue all advertising, our estimate is that, since we have already recorded a bit less than 100 million yen in the first half of the year, we would fall short of our plan by about 70 million yen. However, we believe that the impact on performance relative to net sales will be minimal.

In terms of net income, the lower-than-planned amount will be offset by dividends from au Financial Partner, which was not anticipated at the beginning of the period and will be recorded as non-operating income in the amount of slightly more than 100 million yen.

Q. SG&A expenses increased from the previous year. What are the main reasons for the increase?

A. The increase is mainly due to higher personnel expenses resulting from the expansion of the store business and non-life insurance sales, as well as higher rent expenses on land and buildings resulting from the expansion of business locations.

Q. Profit has turned positive compared to the previous year. What are the main reasons for this?

A. This is because the effective income tax rate was lower than last year's estimate.

Q. Please describe the degree of impact if there is a loss of insurance company leases.

A. Insurance companies cover about 8% of the total number of leases. Although the number of contracts is not low as a percentage of the total number of contracts, most of them are small contracts with small unit prices, such as medical insurance. Therefore, even if we were to stop receiving all leases, we believe that the impact on our business performance would be minimal. Although specific unit costs are not disclosed, they are about one-third of the cost per household vs. other prospective policy customers.

In partner company customer attraction, some companies are currently restricting provision. We believe that even if loss of leases from insurance companies were to occur, we will be able to compensate for the shortfall by increasing the number provided from other companies.

Q. In the briefing, it was mentioned that the business quality support fee increased in April. Does this mean that, for the first half, this would be reflected in the two months of April and May?

A. The business quality support fee rate has increased since April contracts, and will sequentially contribute to the business performance in the month following these, i.e. from May onward.

Q. There has been a significant increase in non-life insurance policy transfers. How does this differ from a life insurance policy transfer?

A. There is a big difference in terms of recurring income and cross-selling.

In terms of recurring income, life insurance generates about 5% of ANP each year in ongoing commissions, and the maximum payment period is 10 years. Since renewal fees are recorded each time non-life insurance policies are renewed, about 20% of premiums paid are recorded as net sales every year for one-year policies, and every five years for five-year policies.

In addition, since most non-life insurance policies are transferred from specialized non-life insurance agencies, many of our clients have not yet joined life insurance or have never received financial planning services, which is our specialty. Therefore, we believe there is more room for cross-selling than for life insurance policies transferred to us.

Q. Has there been any change in your relationship with insurance companies since the news reporting?

A. There has been no particular change. Communication and administrative dealings related to business operations is ongoing, and nothing in particular has changed.

Q. You mentioned that the composition ratio of lump-sum payment and level-payment products has changed in insurance product sales. When did you recognize this change and when did you begin to address it?

A. Since the 3Q of last fiscal year, foreign currency fluctuations and high U.S. interest rates have changed customer needs, leading to an increase in sales of foreign currency-denominated lump-sum payment products. We have long been offering proposals based on financial planning with an emphasis on customer interests, and this is an opportunity for us to reemphasize the visualization and proposal of latent needs, such as preparing for the future through long-term dispersed investments and preparing for emergencies for self or family. The current situation is gradually returning to the original level and approaching the composition ratio assumed at the beginning of the period.

Q. Please tell me how low the profit margin is on lump-sum payment products.

A. Most lump-sum payment products do not accrue a business quality support fee, so they are less profitable than level-payment products.

Q. What was the reason for the high gross profit in 3Q of last fiscal year?

A. Last fiscal year, an insurance company with which we have a large sales track record changed the timing of payment of business quality support fees, which also caused a change in the timing of recording the payment, resulting in a one-month overlap in 3Q of last fiscal year. Therefore, the gross profit is about 100 million yen higher due to irregular factors.

Q. Is it possible to achieve the planned non-consolidated figures for 3Q?

A. Progress in improving the composition of lump-sum payment and level-payment products will bring us closer to our planned performance. Although the cumulative total for the current fiscal year may still fall short, we believe it is achievable on a non-consolidated basis for 3Q.

End