

Advance Create Co., Ltd. FY09/20 Results Briefing Materials

(October 2019 to September 2020)



November 11, 2020



Securities code: 8798

Disclaimer

The forward-looking statements included in this document and any related materials are based on currently available information, and may change due to macroeconomic conditions and trends in the industry in which the Company operates.

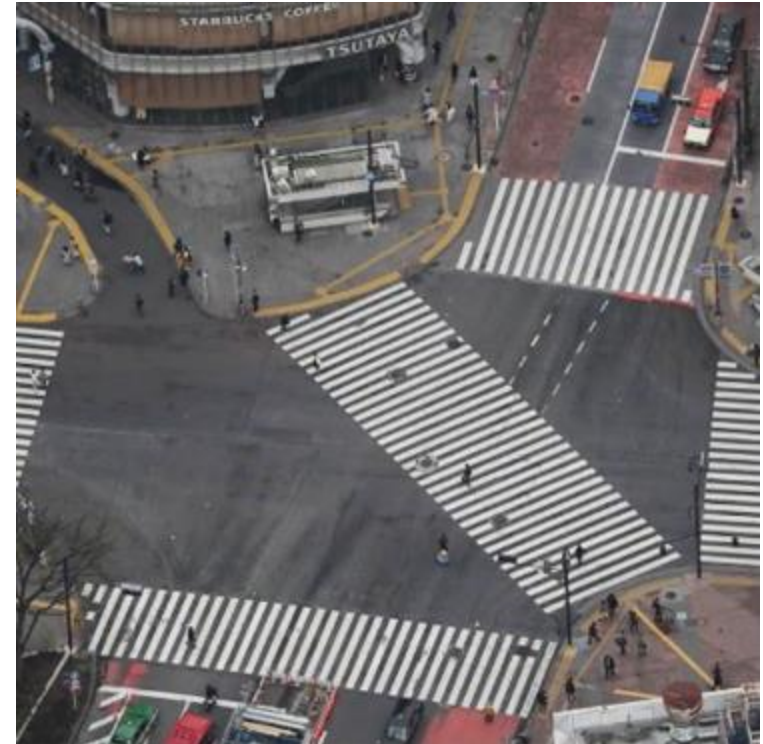
Accordingly, please note that actual results may differ from the forward-looking statements presented in these materials which are subject to risks or uncertainties.

Changes in External Environment and Company Initiatives in FY09/20

Transformation driven by COVID-19 pandemic

Changes in External Environment

- ▶ Economic activity ground to a halt due to growing calls to refrain from going out and the declaration of a state of emergency by the Japanese government.
- ▶ Voluntary restraint in face-to-face sales created a headwind for the insurance industry as a whole.



Developed Video Call System Specialized for Online Insurance Consultations

- ▶ In anticipation of the 5G era, we launched an online insurance consultation service in March 2020. Thereafter, we leveraged the insights accumulated in over 23,000 online insurance consultations to internally develop a video call system specialized for online insurance consultations.
- ▶ From October 2020, we started testing the system at our direct-sales consulting plazas.



Internally developed video call system



* Specifications are subject to change as the system is in development.

Pursuit of Memorable Customer Experiences at Consulting Plazas

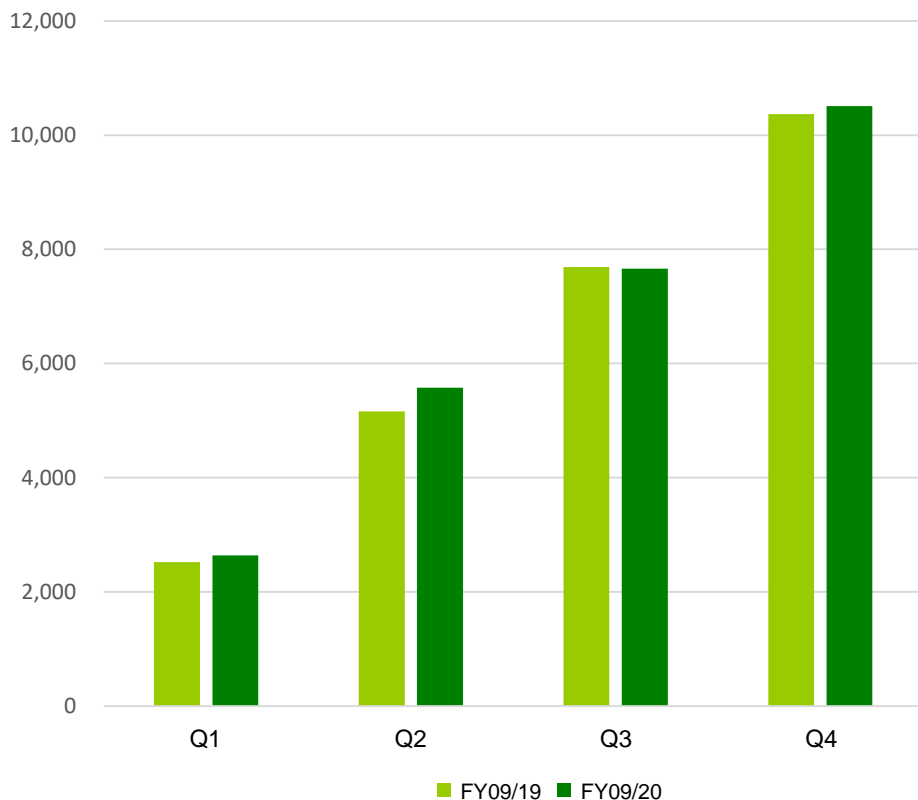
- ▶ Hoken Ichiba consulting plazas continue to provide high-quality, face-to-face consulting services that contribute to memorable customer experiences.
- ▶ The expanded and renovated Yokohama consulting plaza opened its doors in May 2020.



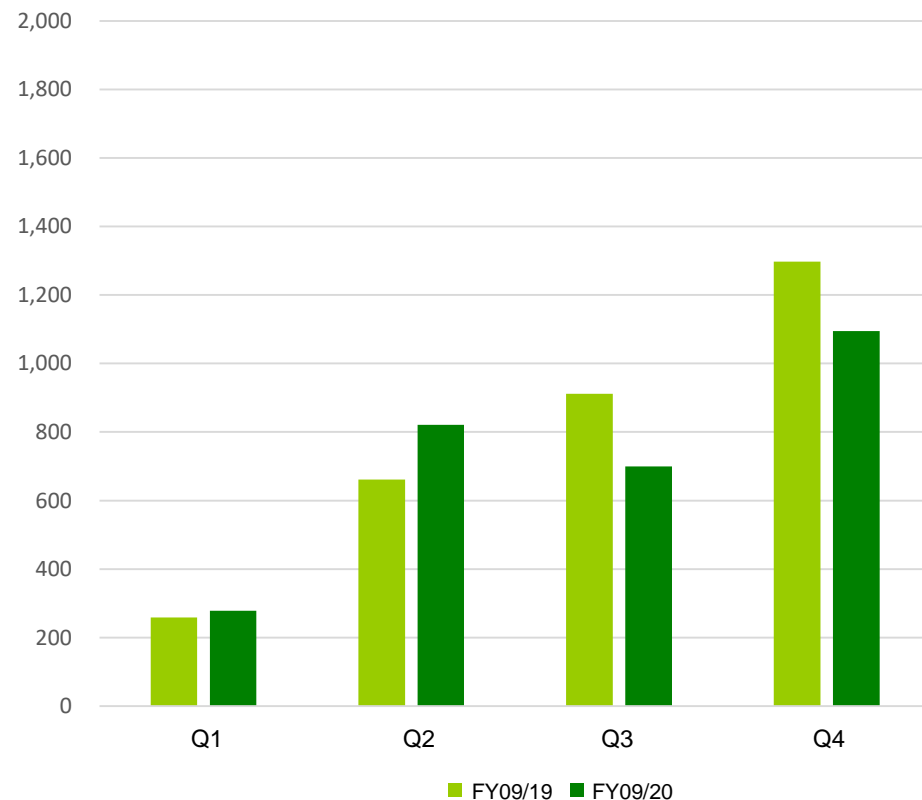
Changes in External Environment

▶ We launched an online insurance consultation service from March to build a sales organization that is not dependent on face-to-face sales. However, staff education and training took time, and online consultations were not sufficient to offset the decline in face-to-face consultations. As a result, earnings finished below our forecast.

(Unit Millions of yen) Net sales



(Unit Millions of yen) Ordinary profit



Initiatives to Ensure Financial Health

First round of equity financing in 13 years

- ▶ Sold treasury shares (funds raised: ¥422 million)
- ▶ Issued new stock acquisition rights (funds to be raised: ¥742 million)
The stock acquisition rights have a provision to revise the exercise price, which means share price gains will drive up the amount of funds raised

Expanded securitization of receivables

- ▶ Securitization of receivables underwritten by two megabanks

Issued unsecured and unguaranteed private placement bonds

- ▶ As uncertainty is likely to increase due to the COVID-19 pandemic, we raised cash on hand to prepare for contingencies (funds raised: ¥1,000 million)

FY09/20 Results Overview

FY09/20 Results Highlights

— Consolidated Results —

Net sales

¥10,510 million, up ¥145 million YoY

(+1.4% YoY)

Operating profit

¥1,184 million, down ¥161 million YoY

(-12.0% YoY)

Ordinary profit

¥1,095 million, down ¥202 million YoY

(-15.6% YoY)

Profit

¥700 million, down ¥144 million YoY

(-17.1% YoY)

FY09/20 Income Statement (Consolidated)

| (Unit: Millions of yen) | FY09/19 | Composition (%) | FY09/20 | Composition (%) | YoY change (%) |
|--|---------|-----------------|----------------|-----------------|----------------|
| Net sales | 10,365 | 100.0 | 10,510 | 100.0 | 1.4 |
| Insurance Agency business | 8,709 | 84.0 | 8,923 | 84.9 | 2.5 |
| ASP business | 182 | 1.8 | 183 | 1.7 | 0.5 |
| Media business | 1,065 | 10.3 | 1,250 | 11.9 | 17.4 |
| Media Representative Services business | 677 | 6.5 | 807 | 7.7 | 19.2 |
| Reinsurance business | 775 | 7.5 | 851 | 8.1 | 9.9 |
| Consolidation adjustments | (1,045) | (10.1) | (1,506) | (14.3) | — |
| Cost of revenue | 2,989 | 28.8 | 3,155 | 30.0 | 5.5 |
| Gross profit | 7,375 | 71.2 | 7,355 | 70.0 | (0.3) |
| Operating expenses | 6,030 | 58.2 | 6,171 | 58.7 | 2.3 |
| Operating profit | 1,345 | 13.0 | 1,184 | 11.3 | (12.0) |
| Insurance Agency business | 778 | 7.5 | 868 | 8.3 | 11.6 |
| ASP business | 82 | 0.8 | 12 | 0.1 | (84.2) |
| Media business | 211 | 2.0 | 261 | 2.5 | 23.5 |
| Media Representative Services business | 160 | 1.6 | (92) | (0.9) | — |
| Reinsurance business | 110 | 1.1 | 131 | 1.2 | 19.1 |
| Ordinary profit | 1,297 | 12.5 | 1,095 | 10.4 | (15.6) |
| Profit | 844 | 8.1 | 700 | 6.7 | (17.1) |
| Earnings per share (¥) | 81.62 | | 66.73 | | |

The Insurance Agency business turned in steady performance from the start of the fiscal year, but the number of face-to-face consultations fell from April onward due to impact from the COVID-19 outbreak. The total number of consultations held at a certain level underpinned by online consultations, but these generated less earnings than face-to-face consultations. Consequently, sales rose only modestly. In the Media business, sales and profit increased on strong ad placement orders. In the ASP business and the Media Representative Services business, sales growth softened as B2B sales activities came to a halt due to impact of the COVID-19 pandemic and was not sufficient to absorb growth in SG&A expenses and advertising costs. As a result, sales increased but profit declined. In the Reinsurance business, revenue and profit expanded on continued steady sales.

* Results for the Media business and the Media Representative Services business are presented separately from FY09/20.

FY09/20 Balance Sheet (Consolidated)

| (Unit: Millions of yen) | End-FY09/19 | End-FY09/20 | Change |
|-------------------------------|-------------|-------------|--------|
| Current assets | 5,013 | 6,563 | 1,549 |
| Cash and deposits | 678 | 2,632 | 1,953 |
| Accounts receivable - trade | 1,001 | 1,099 | 97 |
| Accounts receivable - other | 2,785 | 2,120 | (664) |
| Other | 548 | 710 | 162 |
| Non-current assets | 3,154 | 3,724 | 570 |
| Property, plant and equipment | 583 | 617 | 33 |
| Intangible assets | 574 | 686 | 111 |
| Investments and other assets | 1,995 | 2,421 | 425 |
| Deferred assets | - | 24 | 24 |
| Total assets | 8,168 | 10,312 | 2,144 |

| (Unit: Millions of yen) | End-FY09/19 | End-FY09/20 | Change |
|----------------------------------|-------------|-------------|--------|
| Current liabilities | 2,439 | 2,698 | 259 |
| Short-term interest-bearing debt | 71 | 280 | 208 |
| Other | 2,367 | 2,418 | 51 |
| Non-current liabilities | 1,137 | 2,004 | 866 |
| Long-term interest-bearing debt | 473 | 1,297 | 823 |
| Other | 663 | 706 | 43 |
| Total liabilities | 3,576 | 4,702 | 1,126 |
| Share capital | 2,915 | 2,954 | 39 |
| Capital surplus | 352 | 381 | 28 |
| Retained earnings | 2,424 | 2,586 | 162 |
| Treasury shares | (1,139) | (443) | 695 |
| Other | 39 | 132 | 93 |
| Total net assets | 4,591 | 5,610 | 1,018 |
| Total liabilities and net assets | 8,168 | 10,312 | 2,144 |

Assets

Total assets rose ¥2,144 million from end-FY09/19 to ¥10,312 million. This mainly reflected a ¥1,953 million increase in cash and deposits under current assets. Non-current assets grew ¥570 million from end-FY09/19. This was primarily due to a ¥425 million increase in investments and other assets.

Liabilities and Net Assets

Total liabilities rose ¥1,126 million from end-FY09/19 to ¥4,702 million. This was mainly due to an increase of ¥800 million in bonds payable under non-current liabilities.

Total net assets grew ¥1,018 million from end-FY09/19 to ¥5,610 million. This mainly reflected the booking of ¥700 million in profit attributable to owners of parent, a ¥538 million decline due to the payment of dividends of surplus, and a ¥695 million increase from the disposal of treasury shares.

FY09/20 Statement of Cash Flows (Consolidated)

| (Unit: Millions of yen) | FY09/19 | FY09/20 | Change |
|---|---------|---------|--------|
| Cash flows from operating activities | (278) | 1,351 | 1,630 |
| Profit before income taxes | 1,270 | 1,029 | (241) |
| Depreciation | 385 | 409 | 23 |
| Increase (decrease) in accounts receivable | (388) | (97) | 290 |
| Other | (1,545) | 11 | 1,557 |
| Cash flows from investing activities | 9 | (527) | (537) |
| Cash flows from financing activities | (799) | 1,097 | 1,897 |
| Increase (decrease) in interest-bearing debt | (113) | 875 | 989 |
| Dividends paid | (534) | (537) | (3) |
| Other | (151) | 759 | 910 |
| Effect of exchange rate change on cash and cash equivalents | (4) | (1) | 3 |
| Net increase (decrease) in cash and cash equivalents | (1,072) | 1,920 | 2,993 |
| Cash and cash equivalents at beginning of period | 1,689 | 616 | |
| Cash and cash equivalents at end of period | 616 | 2,537 | 1,920 |

Net cash provided by operating activities came to ¥1,351 million. This reflected ¥1,029 million in profit before income taxes, a ¥664 million increase in accounts receivable – other, and ¥409 million in depreciation.

Net cash used in investing activities totaled ¥527 million. This was mainly due to ¥362 million in purchases of intangible assets.

Net cash provided by financing activities amounted to ¥1,097 million. This was primarily attributable to ¥981 million in proceeds from the issuance of bonds, ¥686 million in proceeds from the disposal of treasury shares, and ¥537 million in cash dividends paid.

Sales by Segment

(Unit: Millions of yen)



| | FY09/19 | FY09/20 | YoY |
|------------------|---------------|---------------|-------------|
| Reinsurance | 775 | 851 | 9.9% |
| Media | 1,065 | 1,250 | 17.4% |
| Media Rep | 677 | 807 | 19.2% |
| ASP | 182 | 183 | 0.5% |
| Insurance Agency | 8,709 | 8,923 | 2.5% |
| Total | 11,410 | 12,016 | 5.3% |

Up **5.3%**
YoY

* Before consolidation adjustments

Operating profit by segment

(Unit: Millions of yen)



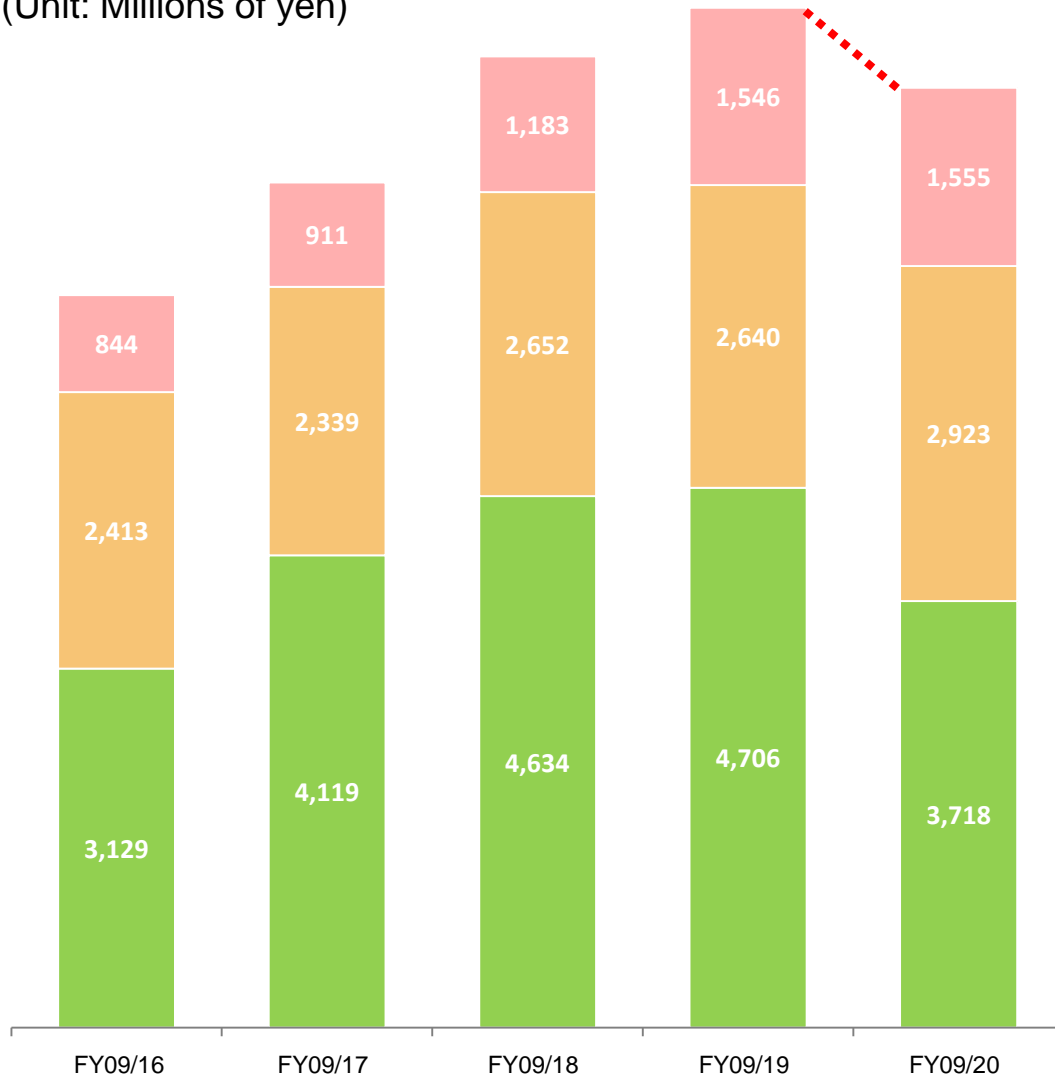
| | FY09/19 | FY09/20 | YoY |
|------------------|--------------|--------------|---------------|
| Reinsurance | 110 | 131 | 19.1% |
| Media | 211 | 261 | 23.5% |
| Media Rep | 160 | (92) | - |
| ASP | 82 | 12 | -84.2% |
| Insurance Agency | 778 | 868 | 11.6% |
| Total | 1,342 | 1,181 | -12.0% |

Down **12.0%**
YoY

* Before consolidation adjustments

ANP by Sales Channel

(Unit: Millions of yen)



| | FY09/19 | FY09/20 |
|------------------|--------------|--------------|
| Collaborative | 1,546 | 1,555 |
| Non-face-to-face | 2,640 | 2,923 |
| Face-to-face | 4,706 | 3,718 |
| Total | 8,892 | 8,196 |

Down 7.8%
YoY

* ANP: annualized new premiums (ANP for a monthly premium of ¥5,000 is ¥60,000).

* Figures for the most recent quarter reflect preliminary data.

* The sales channel "Online" used through FY09/19 was renamed "Non-face-to-face" in FY09/20.

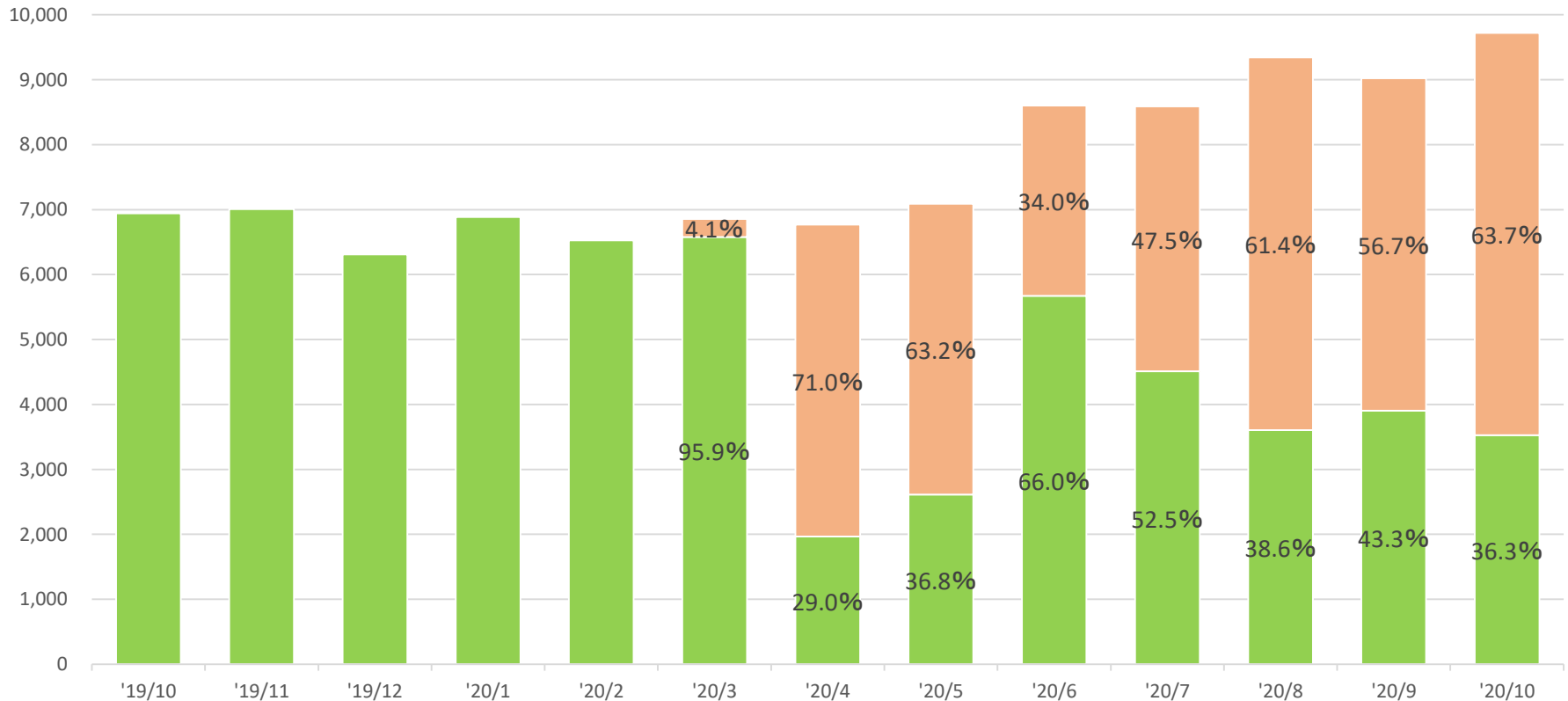
Launch of Online Insurance Consultation Service

- ▶ In anticipation of the 5G era, we launched an online insurance consultation service on March 18, 2020. Demand for such a service exploded after the Japanese government declared a state of emergency in April.
- ▶ We worked to create and establish a trend to hold insurance consultations online.

Trend in number of appointments

(Unit: Number)

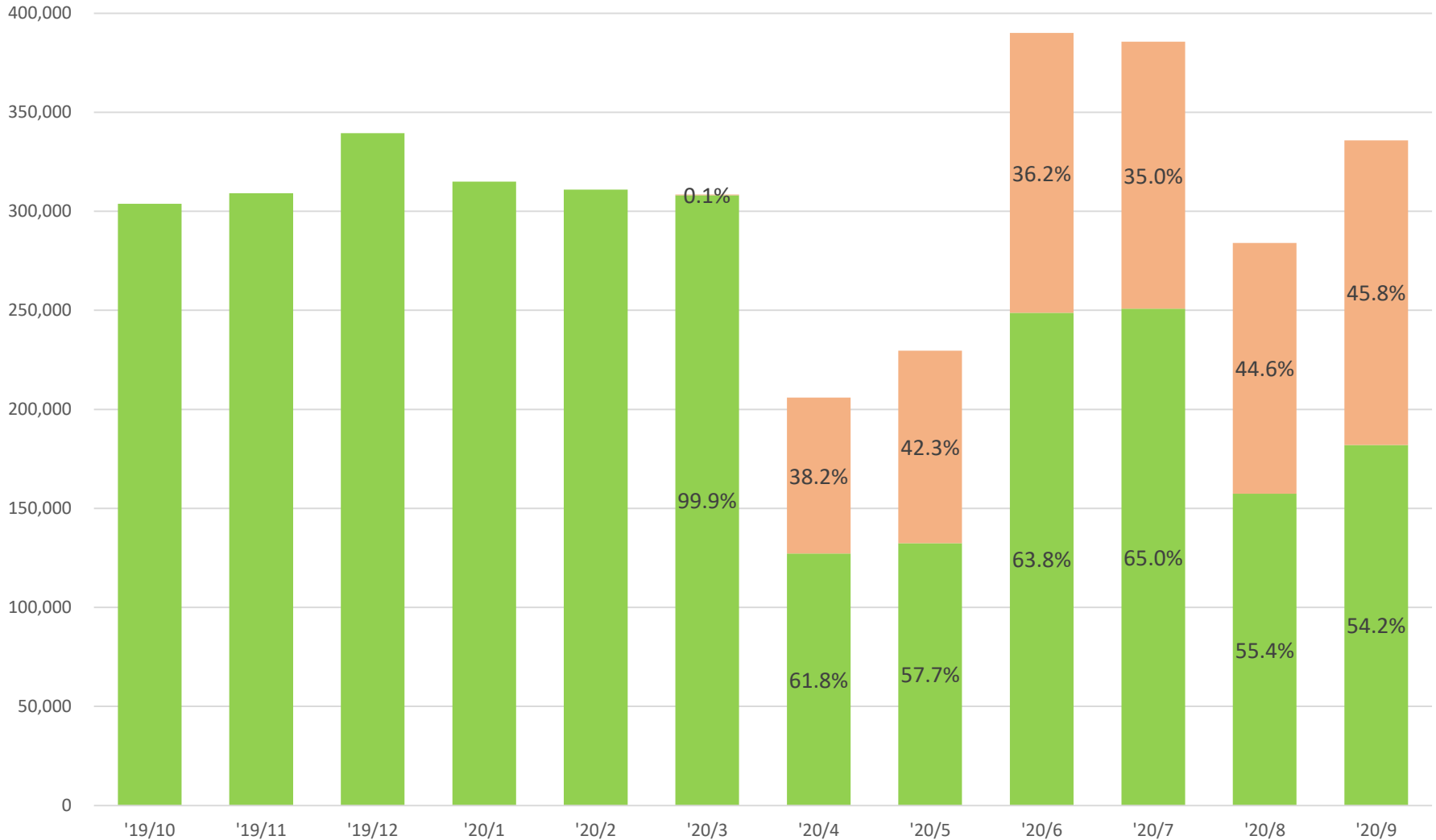
■ Face-to-face ■ Online



Trend in ANP at Consulting Plazas

(Unit: Thousands of yen)

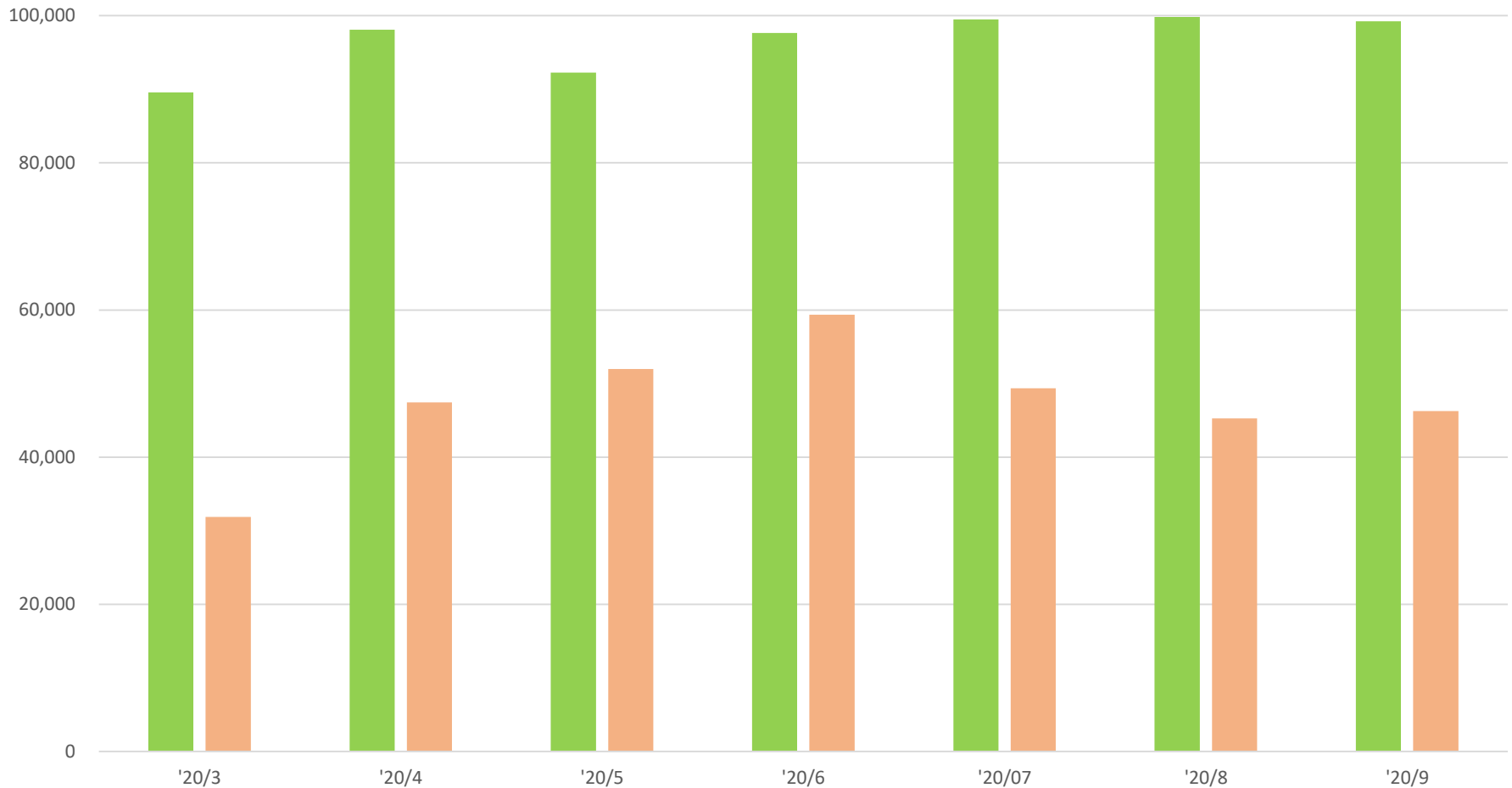
■ Face-to-face ■ Online



Productivity per Appointment (ANP)

(Unit: yen)

■ Face-to-face ■ Online



* Calculated based on application status as of the end of the following month after the initial consultation.

Appointment Referrals to Partner Agents

- ▶ The number of appointment referrals to collaborating agents significantly declined temporarily due to the state of emergency declaration.
- ▶ Collaborating agents also started offering online consultations. As the total number of appointments rose, the number of appointment referrals recovered and trended up.

(Unit: Number)



FY09/21 Forecasts

(Unit: Millions of yen)

| Consolidated | FY09/17 results | FY09/18 results | FY09/19 results | FY09/20 results | FY09/21 estimates | YoY change (%) |
|------------------------|--------------------|--------------------|--------------------|--------------------|----------------------|-------------------|
| Net sales | 8,137 | 9,468 | 10,365 | 10,510 | 11,500 | 9.4% |
| Operating profit | 1,043 | 1,168 | 1,345 | 1,184 | 1,570 | 32.6% |
| Ordinary profit | 1,024 | 1,135 | 1,297 | 1,095 | 1,500 | 36.9% |
| Profit | 742 | 785 | 844 | 700 | 1,000 | 42.8% |
| ROE | 16.2% | 17.3% | 18.6% | 13.7% | 16.5% | |
| Ordinary profit margin | 12.6% | 12.0% | 12.5% | 10.4% | 13.0% | |
| Payout ratio | 67.9% | 66.9% | 61.3% | 74.9% | 53.7% | |
| Equity ratio | 59.3% | 57.9% | 56.2% | 54.4% | 56.3% | |

[Shareholder returns]

For FY09/20, we plan to pay an annual dividend of ¥50 per share, comprising an interim dividend and year-end dividend of ¥25 per share each.

Key Performance Indicators (KPI)

| | Target | FY09/20 |
|------------------------|-------------|---------|
| ROE | 20% or more | 13.7% |
| Ordinary profit margin | 20% or more | 10.4% |
| Payout ratio | 50% or more | 74.9% |
| Equity ratio | 80% or more | 54.4% |

Company Strategy

Achieve progress through enhancing people and technology

Company Strategy

Marketing
strategy



OMO

Online Merges with Offline.

Management
strategy



Software first

Marketing Strategy: “Online Merges with Offline”



- ▶ Online Merges with Offline (OMO) refers to the integration of online and offline channels. It approaches these channels as one large market, and fuses functions and services accordingly.
- ▶ We provide customer convenience through online channels, and high-quality, memorable customer experiences through offline channels.

Our marketing over the years: enhancement and progress

1997
Started leaflet distribution

2004
Launched insurance shops

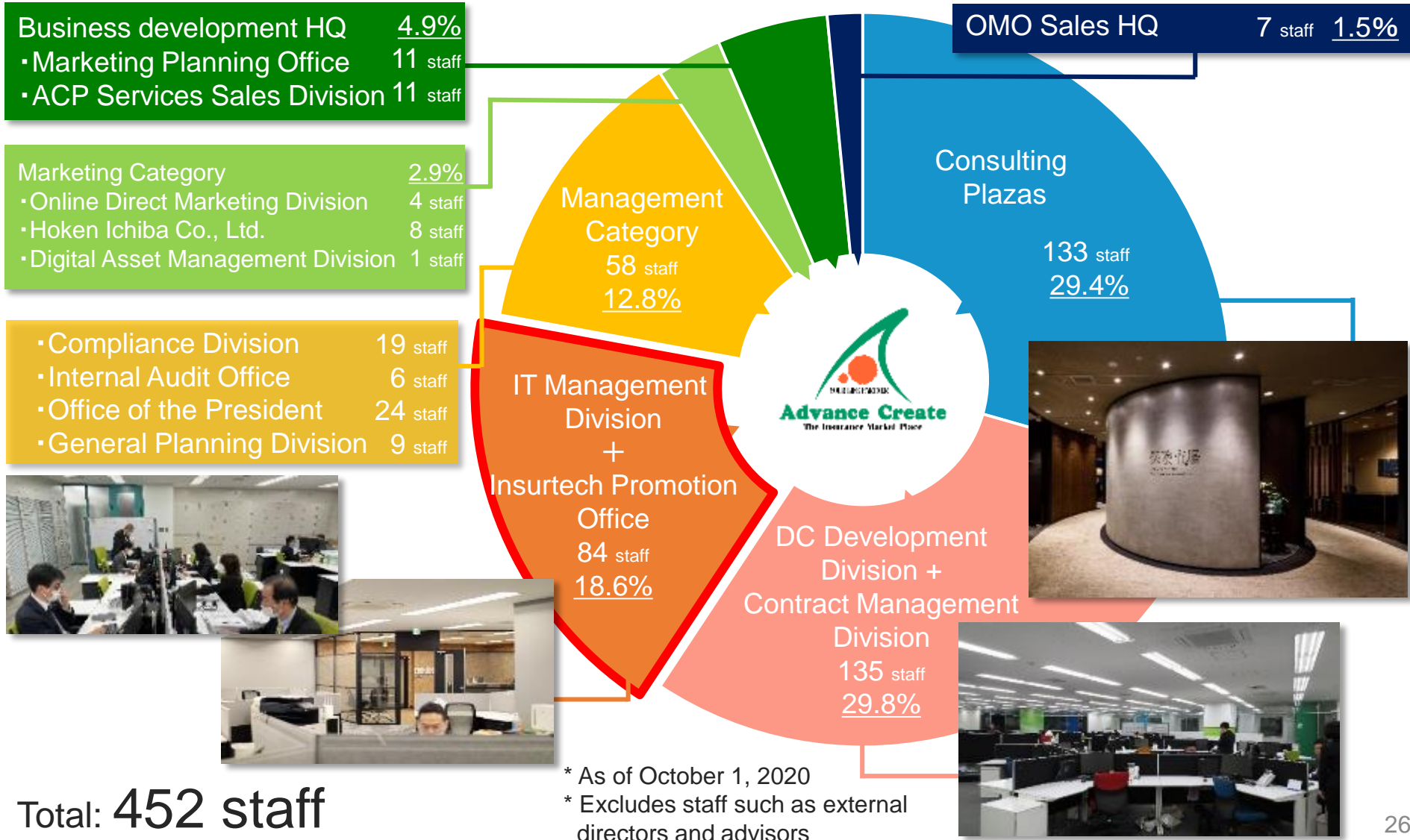
2007
Online marketing

2013
Consulting plazas

March 2020
Online consultations




Management Strategy: Software First



Investment in Human Resources

Hire and train personnel who can lead the company in the new Reiwa era

- Stronger hiring activities
 - ▶ Revamp hiring website
 - ▶ Create concept book
- Aggressive investment in human resources
 - ▶ Dispatch staff overseas
 - ▶ Provide self-development support allowances to junior staff
 - ▶ Develop line manager appointment system
- Enhanced employee benefits
 - ▶ Close consulting plazas on all weekends and holidays; shorten business hours
 - ▶ Promote remote work



| | 日 | 月 | 火 | 水 | 木 | 金 | 土 |
|----|----|----|----|----|----|----|----|
| | | | | × | × | × | × |
| | × | × | × | × | × | ○ | ○ |
| 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 |
| 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 |
| 28 | 29 | 30 | 31 | 1 | 2 | 3 | 4 |



Portfolio Strategy

Co-existence Rather than Competition



Portfolio: Media Business, Media Representative Services Business – Hoken Ichiba Co., Ltd.

Hoken Ichiba Co., Ltd.



Media Business

- ▶ Hoken Ichiba, one of the largest insurance product information website in Japan, receives ad placement orders from insurers
- ▶ Directly contacts customer segment with strong interest in insurance products



Media Representative Services Business

- ▶ Leverages in-house expertise to provide contracted ad operation services to insurers and other parties
- ▶ The first dedicated insurance ad agency to be selected as a two-star certified partner under the Yahoo! Marketing Solutions Partner Program



Portfolio: Reinsurance Business – Advance Create Reinsurance Inc.

Advance Create Reinsurance Inc.



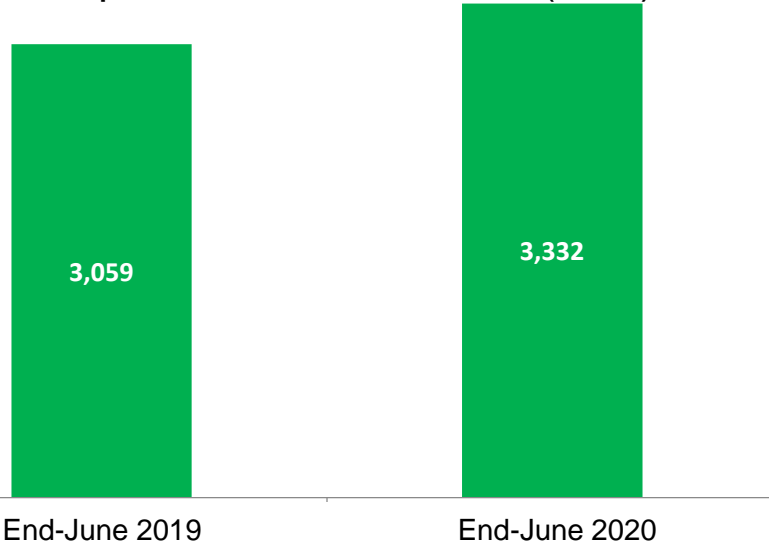
Reinsurance Business

- ▶ Strengthens relationships with customers by underwriting risk and shouldering insurance payment obligations
- ▶ Deepens relationships with insurers via risk sharing and sound insurance solicitation
- ▶ Aims for stable revenue by increasing reinsurance agreements with insurers

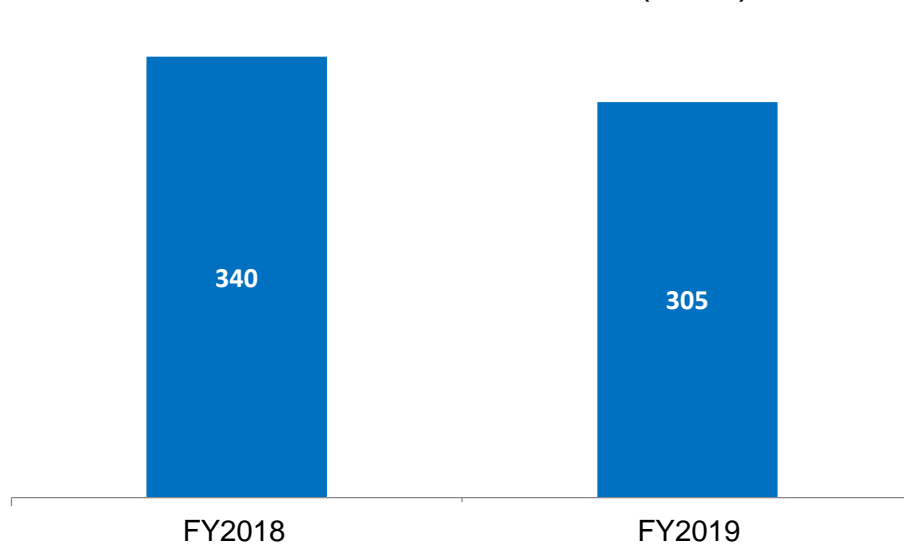
[Insurers under reinsurance agreements]
 As of end-Sep. 2020: Total 11
 Life insurers: 8
 Non-life insurers: 2
 Small-amount and short-term insurers: 1

Trends in EEV (Present Value of Reinsurance Revenue) (Unit: Millions of yen)

European Embedded Value (EEV)



Value of New Business (VNB)



* For more information on EEV and VNB, please refer to “Disclosure of European Embedded Value for Reinsurance Subsidiary at End-June 2020” released on November 11, 2020.

Portfolio: ASP Business – Advance Create Cloud Platform

- ▶ System that facilitates the integration of insurance-related data among customers, insurers, and insurance agents.
- ▶ In addition to providing products such as GOYOKIKI (customer management system), DECHI (system to share basic customer information), and “folder” (insurance policy management app), we are currently developing new products such as the existing policy data inquiry system BANTO, an SMS transmission system, and a video call system specialized for insurance consultations.

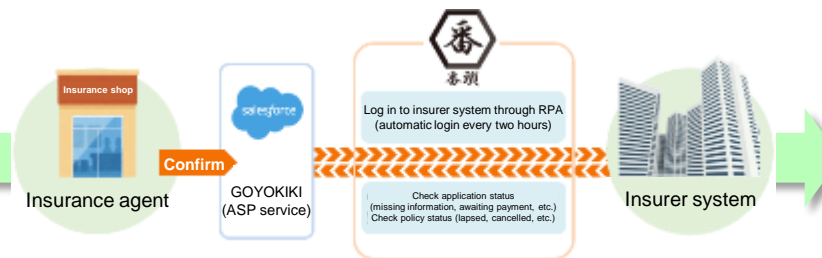
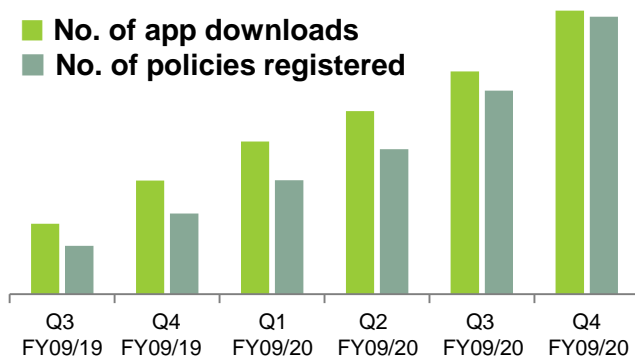


Insurance policy management app **folder**

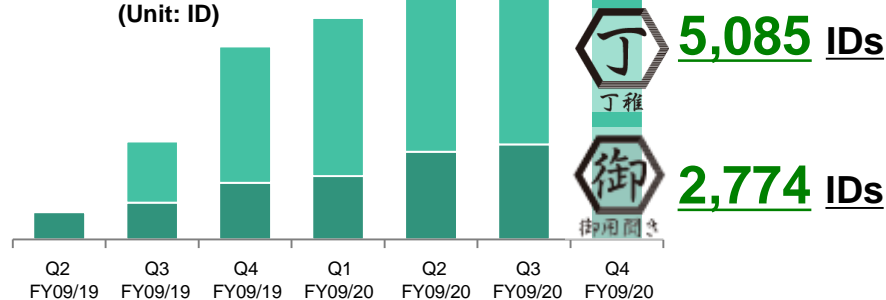
- ▶ AI-powered **data management** for policy documents
- ▶ Includes **family integration function**
- ▶ **Updated regularly** to improve customer convenience

30,533 downloads
29,868 registered policies

■ No. of app downloads
■ No. of policies registered



■ DECHI
■ GOYOKIKI
(Unit: ID)



Customers



Insurers

Strengthen and Maintain Management Systems

Strengthen and maintain previously established management systems

Governance and compliance system

- ◆ Operation of various special committees (Governance Committee, Compliance Committee, internal project teams, etc.)
- ◆ Conduct compliance training; internal legal division to monitor compliance
Establish robust monitoring and other systems for new online businesses (online consultations, etc.)

Information security

- ◆ Operate personal information protection system; conduct information security audits
- ◆ Establish audit system staffed by relevant divisions

Audits of management systems at partner agents

- ◆ Conduct audits to improve level of management systems at partner agents

Fintech-driven financial strategy

- ◆ Build a financial strategy that leverages fintech-driven schemes such as securitization of receivables and employee benefit systems based on Employee Stock Ownership Plans (ESOP)

Corporate Social Responsibility (CSR) Initiatives

Co-sponsored and participated in Osaka Marathon

Advance Create promotes health improvement initiatives for its employees and actively supports a broad range of sports activities for citizens.

(Consistently co-sponsored the Osaka Marathon since 2013)

* In FY2020, the Osaka Marathon was cancelled due to the COVID-19 pandemic.



© Osaka Marathon 2019

Endowed seminar “Insurance Systems to Support a Safe and Secure Society” at the Faculty of Societal Safety Sciences at Kansai University

Advance Create has held credit-earning endowed seminars led by its employees at Kansai University since 2017.





Inquiries

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