Relo Group, Inc

Q3 Financial Results Briefing for the Fiscal Year Ending March 2024

February 8, 2024

Event Summary

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[Venue]	Webcast
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[Participants]	50
[Number of Speakers]	1 Yasushi Kadota — Director, CFO
[Analyst Names]*	Hirofumi Oda — SMBC Nikko Securities Satoru Sekine — Daiwa Securities Yuki Kuwana — Mizuho Securities

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Yasuda: We have reached the scheduled time, and we will now begin the briefing on the financial results of Relo Group, Inc. for Q3 of the fiscal year ending March 31, 2024. Thank you very much for taking time out of your busy schedule to join us today.

Without further ado, I would like to introduce our attendees. Kadota, Director and CFO.

Kadota: Thank you very much.

Yasuda: I am sorry for the delay, but my name is Yasuda, and I will be the moderator today. Thank you very much for your cooperation.

Now, I would like to inform you about today's material. Please refer to our website, IR Library, financial results briefing materials for Q3 of the fiscal year ending March 31, 2024.

As for today's financial results briefing, CFO Kadota will explain the financial results for Q3 of the fiscal year ending March 31, 2024. After the explanation, there will be time for questions and answers, so if you have any questions, please feel free to speak up at that time.

Please note that this briefing is scheduled to last a maximum of 60 minutes. Please understand that if we receive many questions, we may not be able to answer all of them in time. If we are unable to answer your questions today, please contact our IR staff for individual assistance.

Let me now turn the floor over to CFO Kadota for the explanation.

Consolidated Results

(million yen)

	Actual FY2022/12	Actual FY2023/12	YoY
Revenue	89,082	**94,429**	+6.0%
Operating Profit	17,363	**17,988**	+3.6%
Profit Before Income Taxes	19,733	**18,561**	(5.9%)
Profit from continuing operations attributable to owners of the parent company	12,715	**12,641**	(0.6%)
Profit from discontinued operations attributable to owners of the parent company	4,855	**-**	–
Net Income	17,571	**12,641**	(28.1%)

- There was progress in revenue, operating profit. They all exceeded their levels in the same period of the previous fiscal year.
- Transient factors for the same period of the previous fiscal year are provided as a supplemental explanation on the next page.

 1

Kadota: I would like to thank you again.

I will now explain our business results for Q3 of the fiscal year ending March 31, 2024.

On a consolidated basis, net sales were JPY94,429 million, operating income was JPY17,988 million, income before income taxes was JPY18,561 million, and net income was JPY12,641 million. Although income before income taxes and net income decreased on an income before income taxes basis, operating income increased 3.6%.

Consolidated Results (Transient factors)

(million yen)

		FY2022/12	FY2023/12
Revenue	①	89,082	94,429
Cost of sales	②	49,887	51,320
Gross profit		39,195	43,109
Selling, general and administrative expenses		24,307	26,398
Other income	③	2,627	1,653
Other expenses		150	375
Operating profit	④	17,386	17,988
Finance income	⑤	1,772	767
Finance costs		548	1,008
Profit from continuing operations attributable to owners of the parent company		12,715	12,641
Profit from discontinued operations attributable to owners of the parent company	⑥	4,855	-

Main transient factors

①・②In the first six months of the previous fiscal year, part of rents based on sublease contracts of approximately 6.3 billion yen were posted as revenue and cost of sales in the Residential Property Management Business. Given that the contract form was changed in the third quarter of the previous fiscal year, rents based on the sublease contracts were not recorded in results in the fiscal year under review.

①・④Due to the change of revenue recognition criteria for some products in the Leased Corporate Housing Management Business, revenue of about 120 million yen was posted as a transient factor in the first three month of the previous fiscal year.

③A gain on sale of large properties of approximately 650 million yen in the Residential Property Management Business and a gain on sale of hotels of about 630 million yen in the Tourism Business were posted in other income for the first six months of the previous fiscal year.

⑤Gains from revaluation of investment securities of approximately 1.5 billion yen was posted under finance income in the third quarter of the previous fiscal year in association with new listing on the Indonesia Stock Exchange of VENTENY Fortuna International in which Relo Club, Ltd. has an equity interest.

⑥With the start of joint management of SIRVA-BGRS, a gain of approximately 4.8 billion yen from the sale of BGRS shares was recorded under "discontinued operations"

 2

These figures include several one-time factors that make it difficult to determine the actual increase or decrease when comparing the current period to the previous period.

First, the increase in income before income taxes was due to a JPY1.5 billion valuation gain on the listing of VENTENY, which was a minority holding in the same period of the previous year, on the Indonesia Stock Exchange.

The decrease in net income was also due to the fact that the same period of the previous year included a special factor of JPY4.9 billion in gains on the sale of SIRVA-BGRS due to the integration.

Consolidated Results (After adjustment for transient factors)

(million yen)

	After adjustment for transient factors FY2022/12	Actual FY2023/12	YoY
Revenue	82,662	**94,429**	+14.2%
Operating Profit	16,613	**17,988**	+8.3%
Profit Before Income Taxes	17,493	**18,636**	+6.5%
Net Income	11,216	**12,694**	+13.2%

- If adjustments were made for transient factors, revenue and profits would remain strong.

 3

In addition, the impact by segment will be explained later, but excluding one-time factors such as the change in revenue recognition standards in the leased company housing management business and the sale of a large hotel in the tourism business, on a consolidated basis, revenue increased 14.2%, operating income increased 8.3%, and income before income taxes and minority interests increased 6.5%.

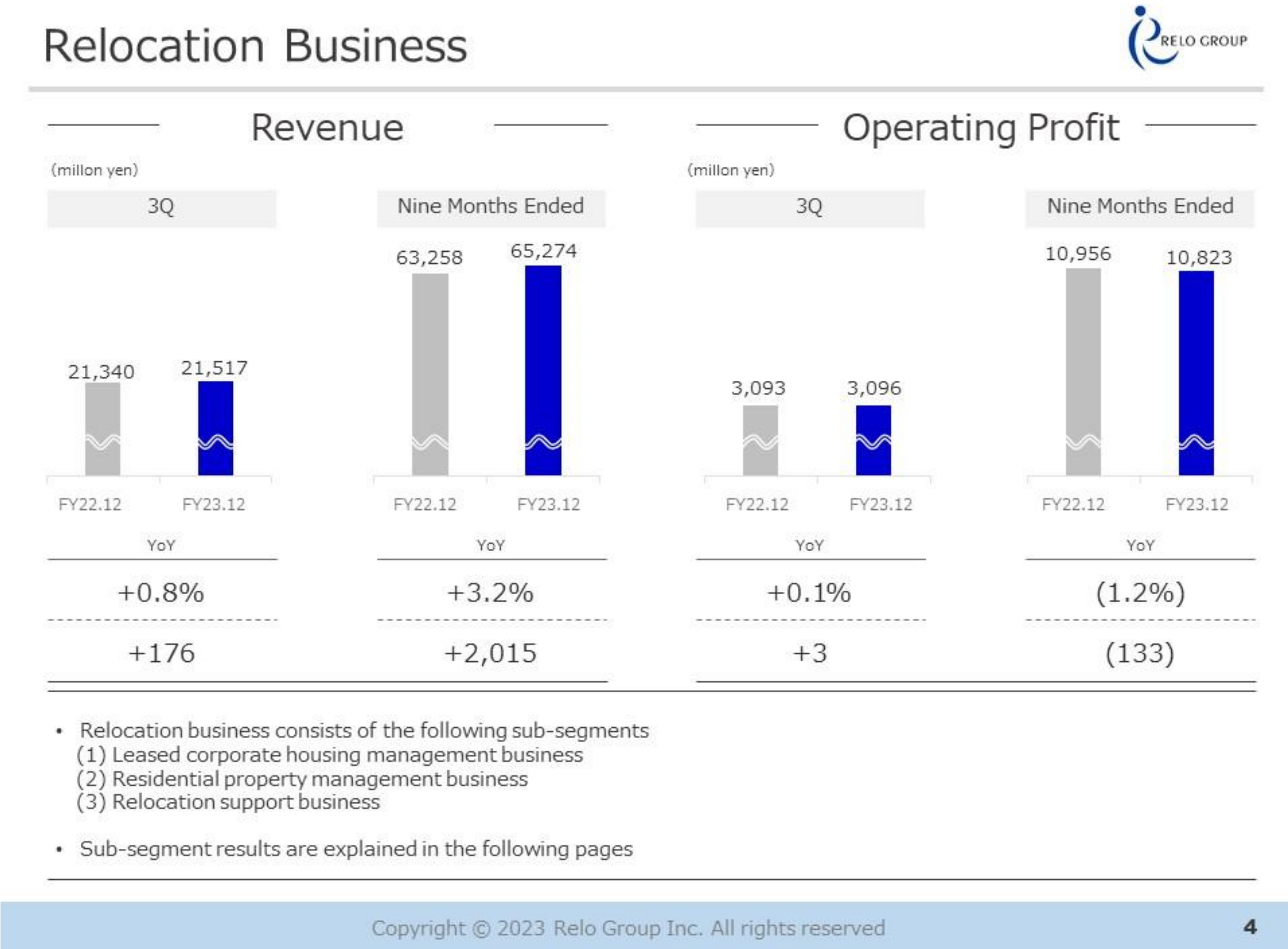
As for the outlook for the full year, losses at an overseas subsidiary of Nihon Housing, an equity-method affiliate, have affected income before income taxes and net income since Q2 of the current fiscal year.

We have always recognized income before income taxes as the most important performance indicator, but since the amount of impact from the equity method is still uncertain, our policy for the current fiscal year is to focus on operating income, which indicates the strength of our core business, and to operate with the goal of achieving our operating income plan.

As I mentioned earlier, operating income for Q3 totaled JPY17,988 million, so we need JPY9,712 million in Q4 to achieve our full-year plan of JPY27.7 billion. That means that a JPY4.3 billion worth of accumulation is needed compared to the same period last year.

In achieving this required amount of JPY4.3 billion, if we add the revenue from the stock base already accumulated and the standard flow revenue that can be expected during the normal busy season, we should be able to achieve up to approximately JPY3.1 billion without any problem.

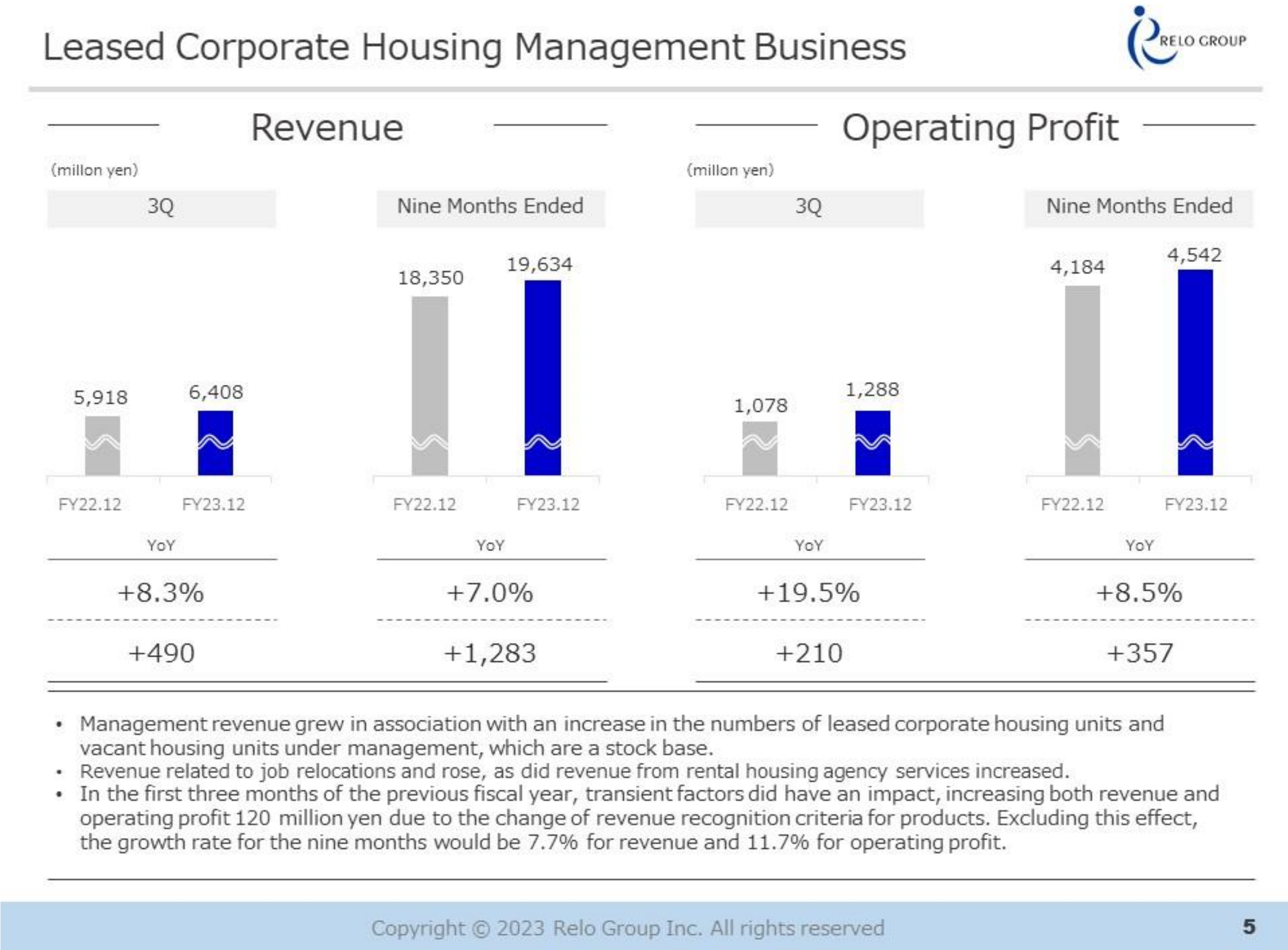
We hope to achieve our full-year plan of JPY27.7 billion by building up the remaining JPY1.2 billion through measures in each segment, which I will explain later.



I would now like to explain our performance by segment. First is the relocation business segment.

Revenue increased 3.2% to JPY65,274 million, and operating income decreased 1.2% to JPY10,823 million.

This segment consists of three components. One is the management of leased company housing, the second is the rental management business, and the third is the overseas relocation support business, each of which will be explained below.



The first is the management of leased company housing.

Revenue increased 7% to JPY19,634 million, and operating income increased 8.5% to JPY4,542 million.

As a one-time factor in this business, in Q1 of the previous fiscal year, there was a JPY120 million positive impact on both sales and income due to a change in the revenue recognition criteria for some products. Excluding this effect, operating income grew 11.7% on an actual basis.

As for the progress of the business, the number of company housing and unattended housing units under management continued to increase, resulting in growth in management income. Also, the number of furnished rental units under management continued to expand steadily as the number of inbound workers increased, contributing to business performance.

Leased Corporate Housing Management Business

■ Leased Corporate Housing Management

- 249,884units YoY+22,630units +10.6%
- The stock base expanded steadily. Capturing the demand created by companies' need to hire inbound workers, the number of furnished housing units also managed to remained strong.

■ Relocation House Rental Management

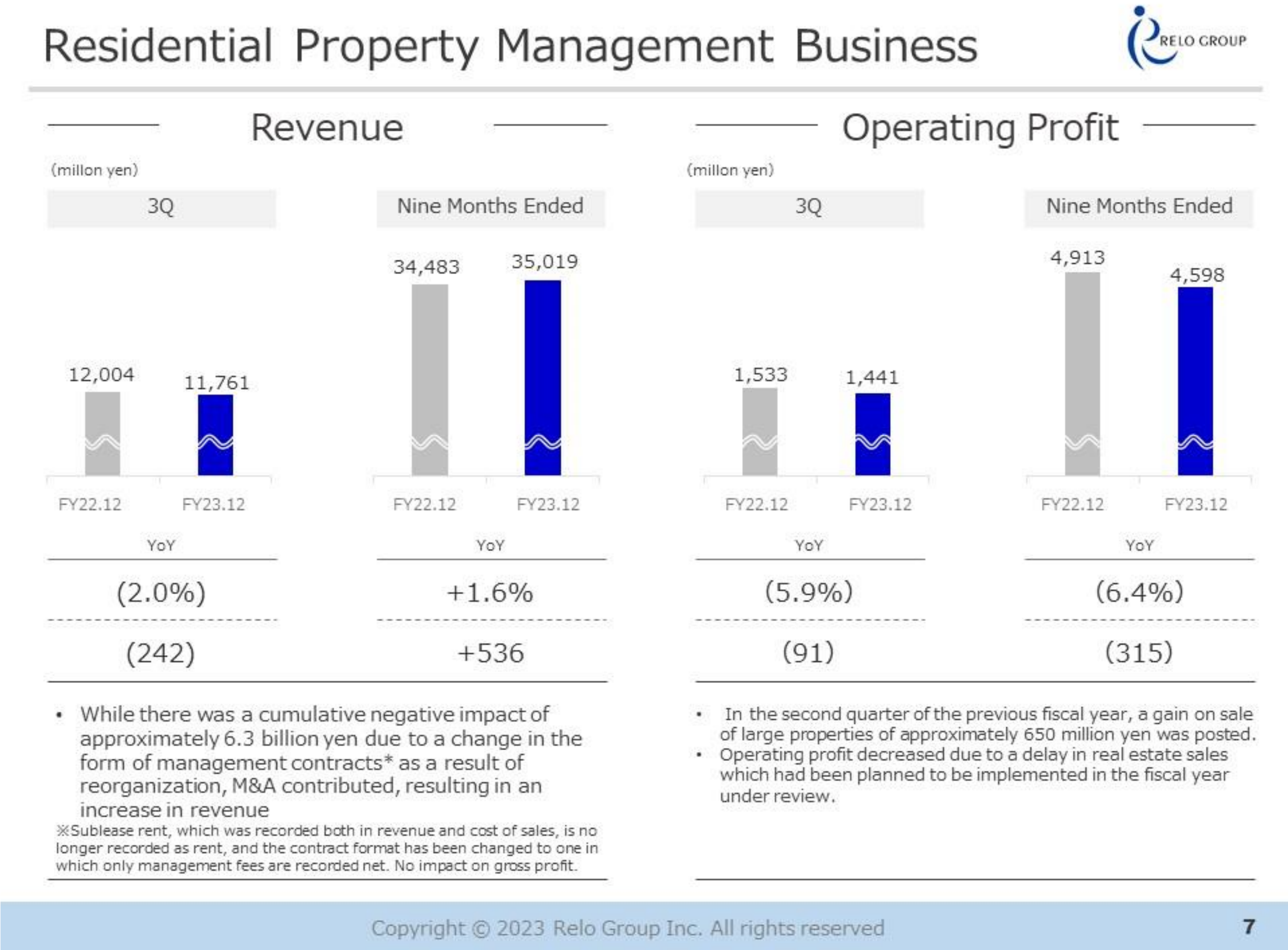
- 9,432units YoY+198units +2.1%

 6

As for the number of units under management, the number of company housing units managed increased by 22,630 units or plus 10% YoY to 249,884 units, and the number of unattended housing units managed increased by 198 units or plus 2.1% YoY to 9,432 units.

As for the progress of this business toward the full-year plan, we are aiming for an operating income of JPY6.5 billion for the full year, a 15.5% growth compared to the previous year. Therefore, a JPY510 million YoY increase in profit is required in Q4.

Looking at the current situation, we believe that an increase of more than JPY200 million in profit is possible due to an increase in stock income from an increase in the number of units under management, as well as profit contributions from furnished rental units. Beyond that, we would like to achieve our goal of JPY300 million in profit growth by increasing the number of company housing brokerage cases in March when people are most likely to move.

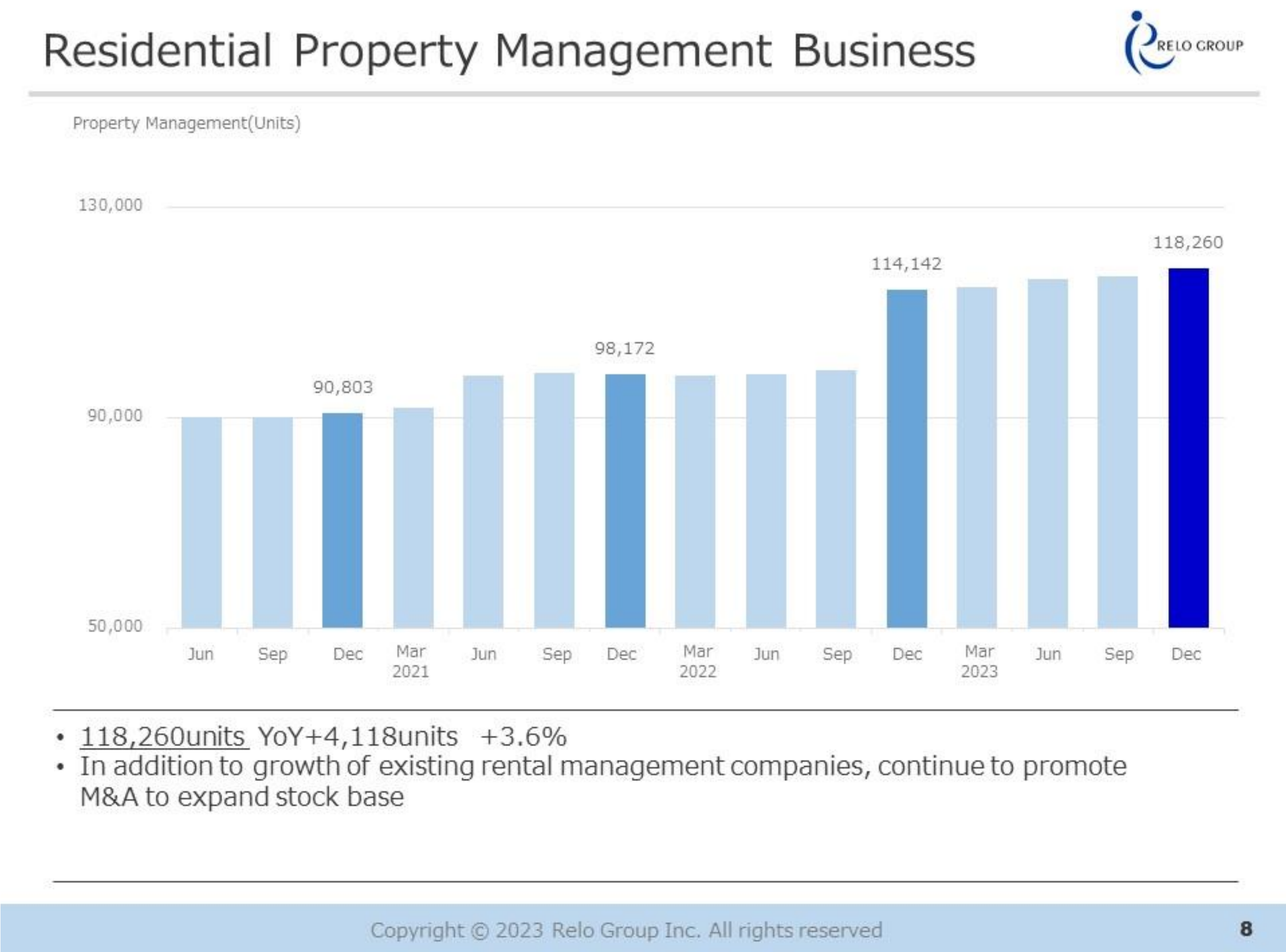


Next, we will continue with the rental management business.

Revenue increased 1.6% to JPY35,019 million, and operating income decreased 6.4% to JPY4,598 million.

First, with regard to sales revenue, there was a negative impact of JPY6.3 billion through Q3, although there was no profit impact, as a result of the reorganization of Tohto, which resulted in a partial revision of the contractual structure of the management contract. Although the contribution from M&A in the previous fiscal year contributed to the slight increase in total revenues. Without this revision of the contractual structure, revenues would actually have increased by 24.3%.

Next, operating income decreased, but this was due to the JPY650 million recorded in Q2 of the previous fiscal year as a result of the sale of a large property. In the first nine months through Q3 of the current fiscal year, the planned sale of real estate was delayed, resulting in a continued decline in profits.

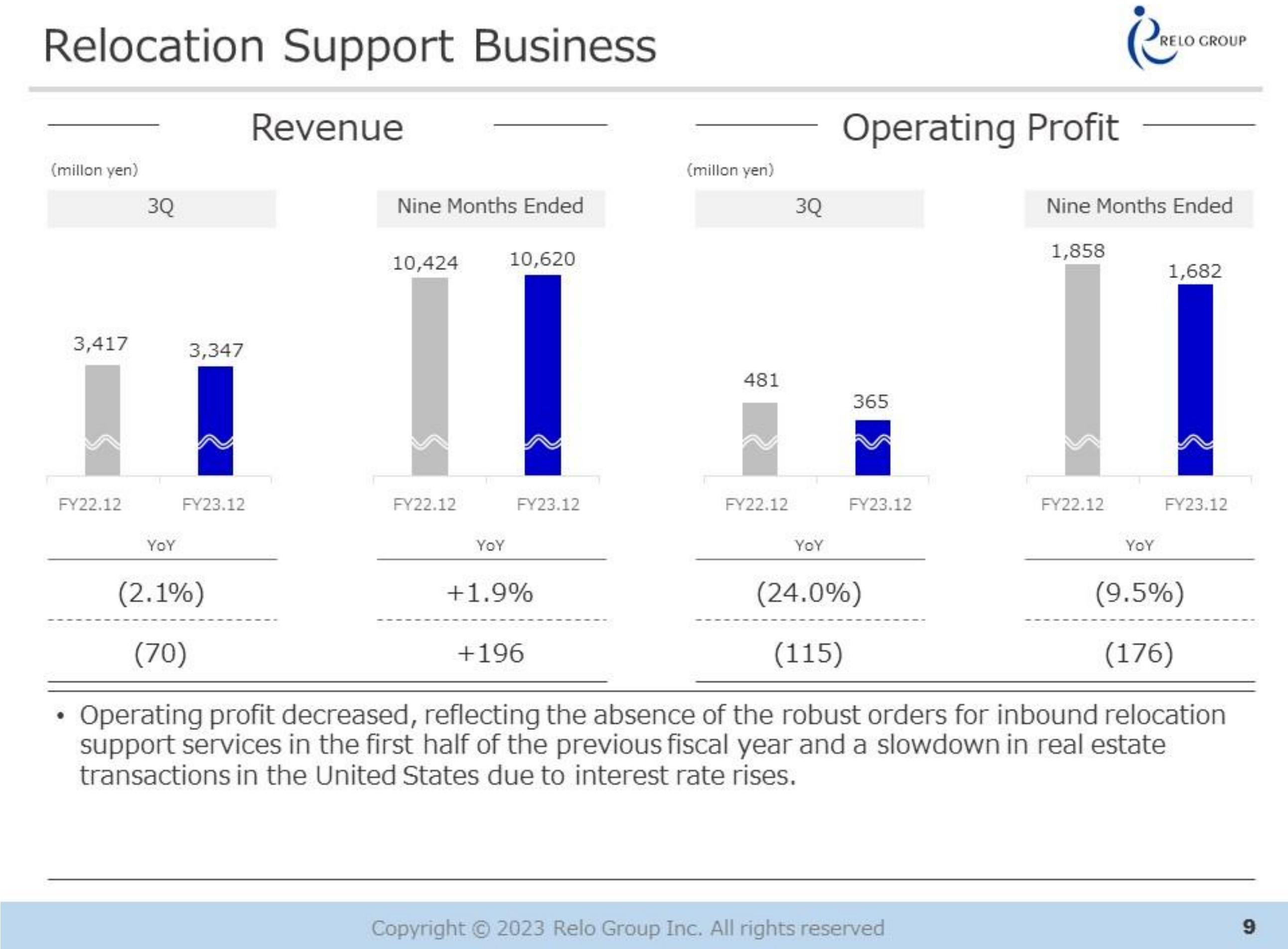


The number of units under management, the stock, increased by 4,000 units YoY to 118,260 units. In addition to the stable number of units under management, revenues from the management business are increasing steadily due to the contribution from the M&A executed last year.

Our full-year plan for this business is to achieve operating income of JPY8.3 billion, a YoY increase of 29.2%. Therefore, a JPY2.2 billion YoY increase in profit is required in Q4.

In addition to the steady accumulation of the base number of units under management, several sales of real estate holdings, which are currently behind schedule, are expected to close in Q4. In addition, we took an impairment loss of JPY500 million in Q4 of the previous fiscal year, but we do not expect such an impairment loss in the current fiscal year, and we believe that this JPY500 million will be a substantial factor in our profit increase, making a total profit increase of JPY1.8 billion possible.

From this point, although the decision has not yet been finalized, we expect to achieve our goal by generating a gain of JPY300 million from the sale of one large property, as well as by building up profits mainly through rental brokerage during the busy season.

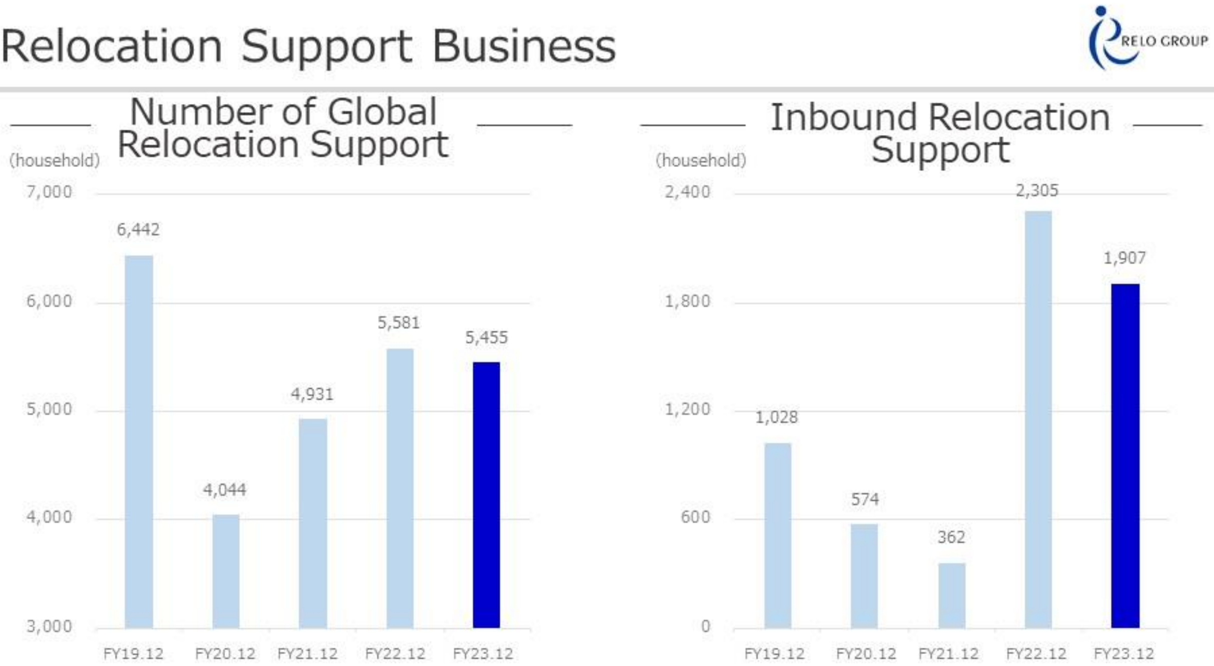


Next, we will move on to the overseas assignment support program.

Revenue increased 1.9% to JPY10,620 million, and operating income decreased 9.5% to JPY1,682 million.

Compared to the same period of the previous year, this Q3 saw a decrease in profit due to a slightly slower movement of people on a quarterly basis, as well as weaker real estate transactions due to rising interest rates in the United States.

Relocation Support Business



- During the third quarter under review, the cumulative total number of households to which relocation assistance was provided decreased, reflecting stagnant international migration compared to the same period of the previous fiscal year.
- International migration is gradually recovering in the fourth quarter.

- Demand was concentrated in the same period of the previous fiscal year, when inbound demand rebounded significantly, chiefly due to the easing of restrictions on entry into Japan that had accompanied the COVID-19 pandemic.
- Demand declined after the materialization of demand that accumulated during the pandemic but was still at a high level.

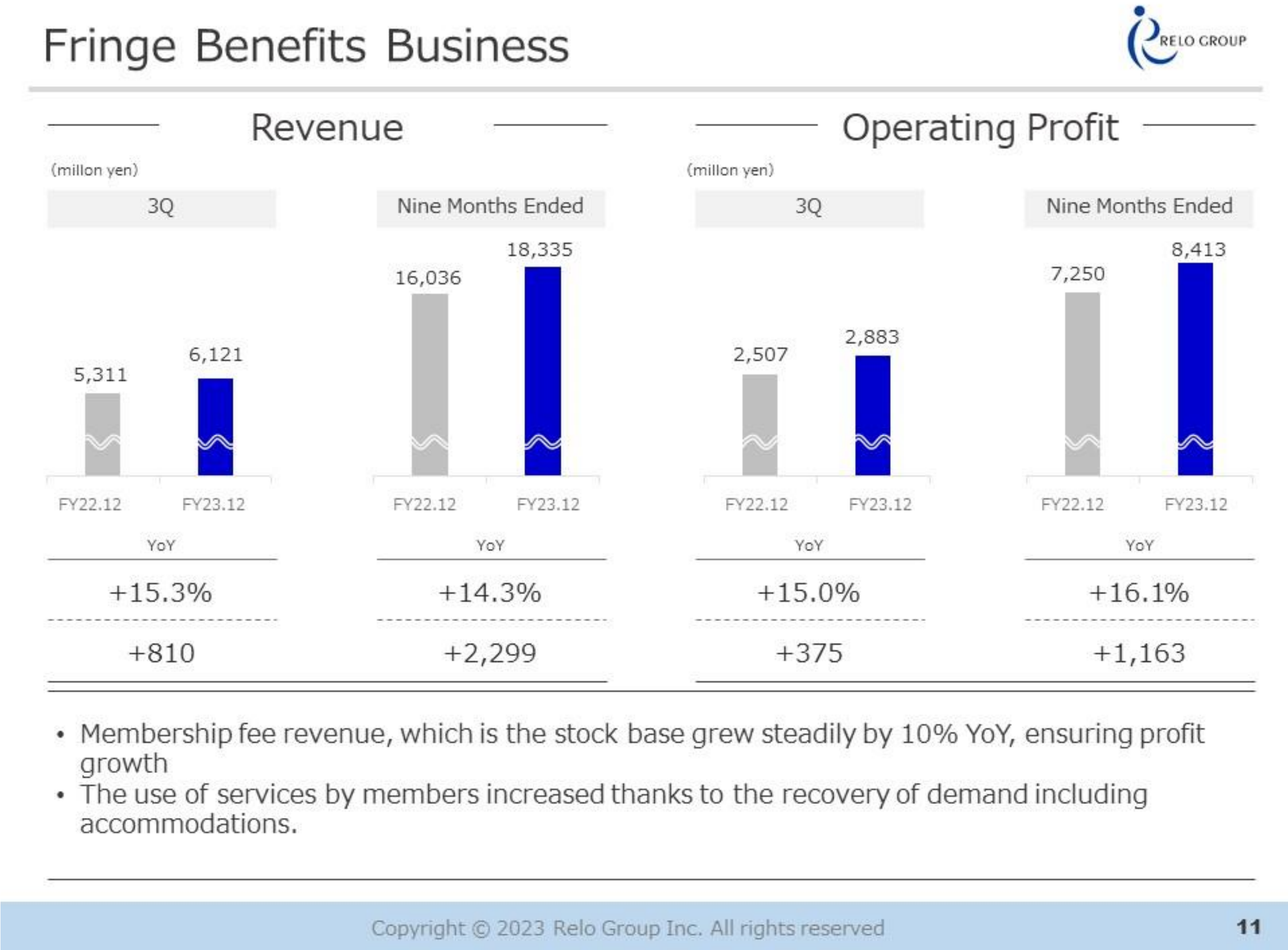
 10

Next, as for KPIs, as I mentioned earlier, the number of households assisted for overseas assignments declined YoY in Q3 due to a slight stagnation in the movement of people.

The number of households supporting inbound workers also declined YoY, but this was due to the fact that demand that was held up by the pandemic was collectively processed by Q3 of last year as a result of the lifting of regulations. Although the demand has settled down from the previous year, it is still at a high level this quarter and is 1.5 times higher than before the pandemic.

The full-year plan for this business is to achieve operating income of JPY2.4 billion, a YoY growth of 9.6%, and to accumulate JPY390 million in Q4 compared to the same period last year.

In the current Q4, the movement of people is trending upward again, and profit growth is expected in the mainstay outbound segment. In addition, we expect to achieve our business plan in this segment due to plans for large-scale sales and purchase brokerage in overseas markets.



Now, let's move on to the employee benefit business segment.

Revenue increased 14.3% to JPY18,335 million, and operating income increased 16.1% to JPY8,413 million.

Growth in membership fee revenues remained strong, growing 10.4% YoY. In the current period, new materials have exceeded those of the previous period, and we fully expect an increase in the number of members from large companies, both new and switches from other companies.

Fringe Benefits Business

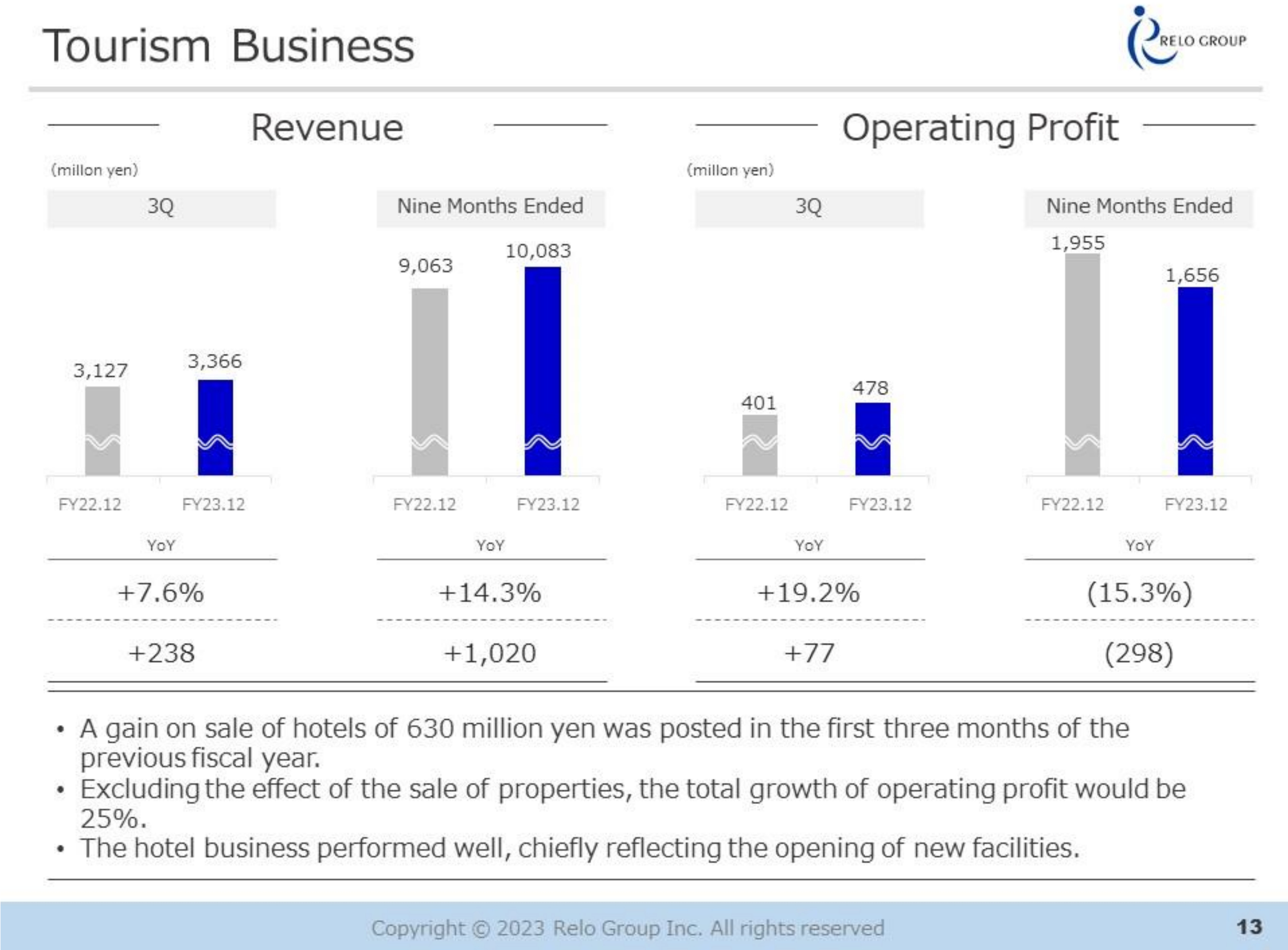
- Membership7.00M people YoY+0.44M people
- Demand for the fringe benefit outsourcing service continued to expand.
- Contracts with customers that introduced outsourcing service for the first time and those that switched from other companies both rose, as in the previous fiscal year.

 12

The number of members in the employee benefits business increased by 440,000 YoY to a total of 7 million.

The full-year plan for this segment calls for full-year profit growth of JPY11.9 billion or 18.7% over the previous year. Therefore, in Q4, we need to accumulate JPY710 million more than in the same period of the previous year.

As I mentioned earlier, the number of members has been steadily increasing, and with profit growth of 15% through Q3, we can first see an increase of JPY500 million in profit. From this point, we intend to achieve the plan by steadily closing contracts that we can capture during the period.



Finally, we have the tourism business segment.

Revenue increased 11.3% to JPY10,083 millio,n and operating income decreased 15.3% to JPY1,656 million.

The reason for this decrease in operating income is that a profit of JPY630 million was recorded in Q1 of the previous fiscal year due to the sale of a large property. Excluding this impact, operating revenues increased significantly by 25%. Hotel operations are performing well due to rising demand for travel, including inbound travel, and the contribution of newly opened facilities.

The full-year plan for this segment calls for full-year profit growth of JPY2.8 billion or 22.2% over the previous year and requires a buildup of JPY810 million in Q4 over the same period last year.

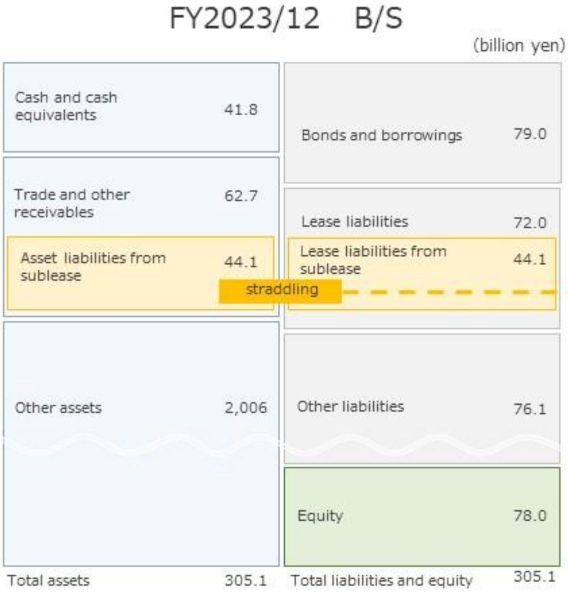
We can see that operating income alone will exceed plus JPY300 million, and we will aim to achieve our plan by making solid sales of properties scheduled for Q4.

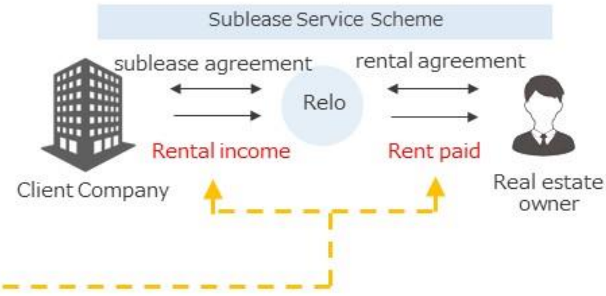
This ends our explanation of each business segment.

Removing the one-time factors of the previous year, we have so far secured double-digit growth on an operating income basis. Achieving the plan will not be easy, but in addition to growth in each division, we have sold one large property in the leasing and management business, which makes it JPY300 million at this point. In addition, there was one hotel sale in the tourism business, which amounted to JPY500 million. By firmly finalizing these two deals, the group as a whole hopes to achieve its operating income plan for the current fiscal year while also aiming to exceed the plan in the overseas assignment business and tourism business.

Consolidated Statements of Financial Position

RELO GROUP

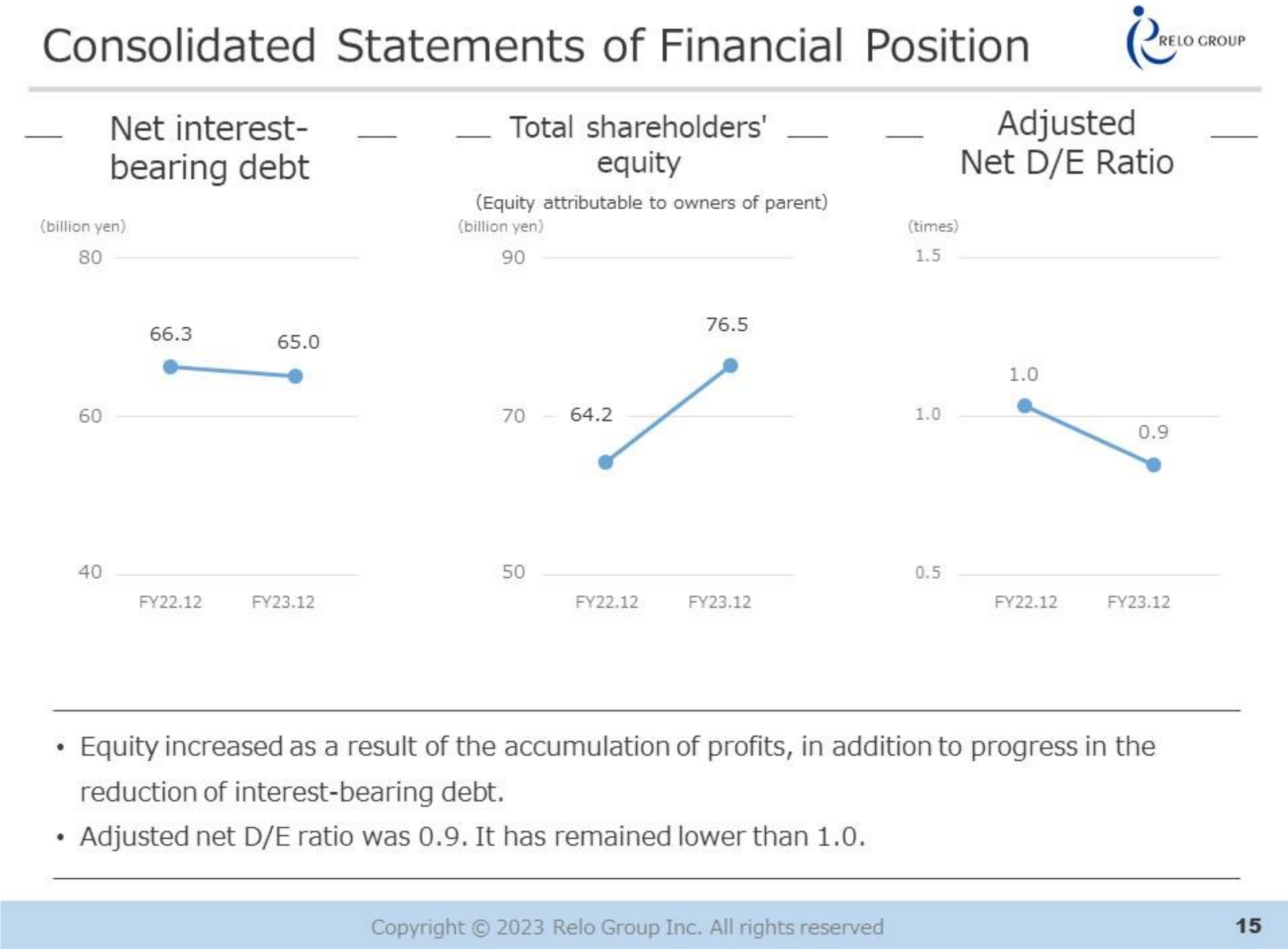




+ Bonds and borrowings	¥79.0B
+ Lease liabilities	¥72.0B
− Lease liabilities from sublease	¥44.1B
− Cash & cash equivalents	¥41.8B
Net interest-bearing debt	¥65.0B

- In the Leased Corporate Housing Management Business, both lease receivables and lease obligations for sublease service (subleasing) without vacancy risk are recorded.
- Lease receivables are included in trade and other receivables as accounts receivable.
- As of December 31, 2023, the leased assets and lease liabilities of the subleases were both 44.1 billion yen
- Adjusted net interest-bearing debt excluding sublease-type lease liabilities is 65.0 billion yen

 14



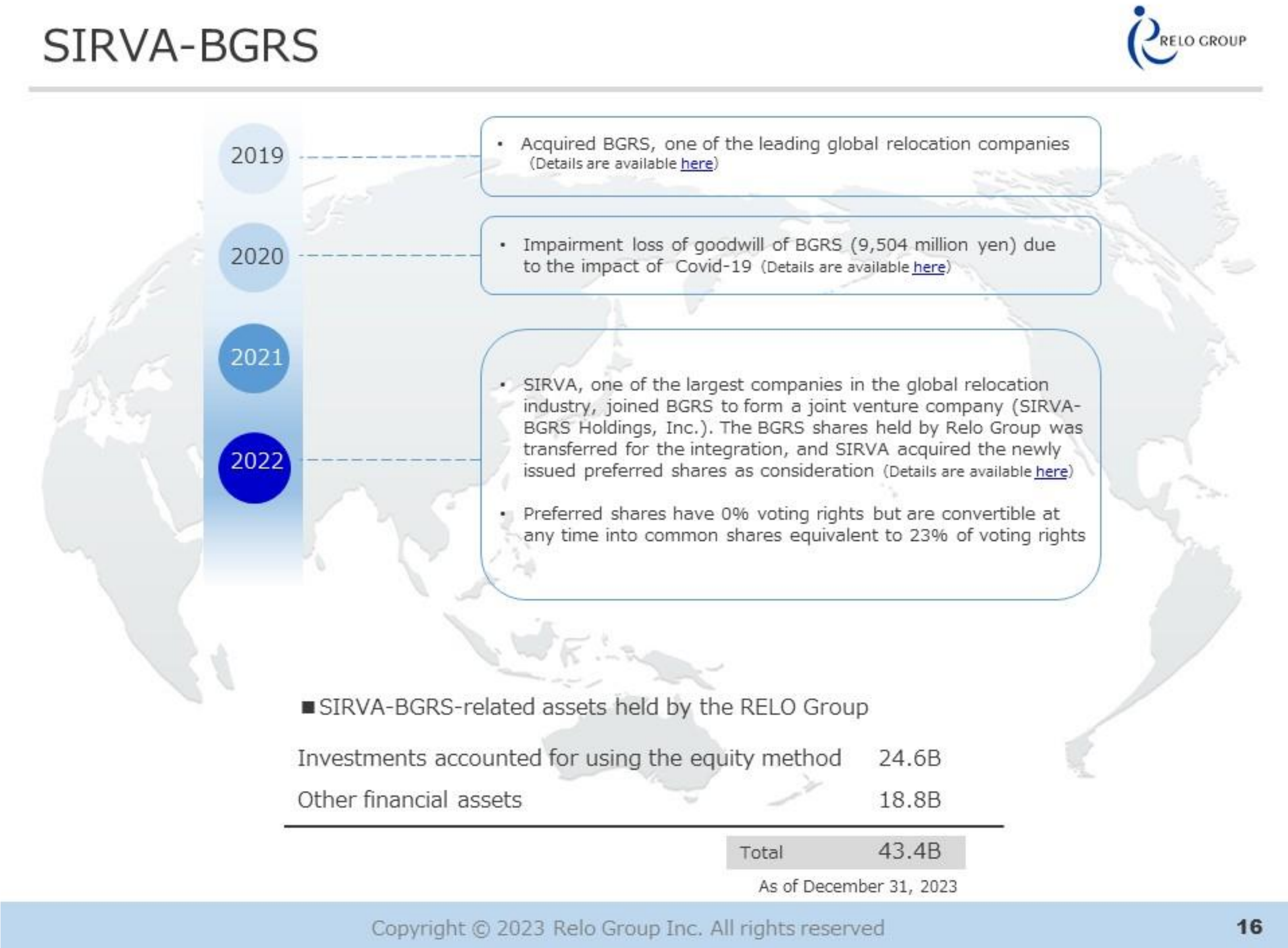
I would like to continue with a supplementary explanation of the B/S.

The Company applies International Financial Reporting Standards, IFRS. As such, the Company accounts for lease receivables and payables in accordance with lease accounting.

Various subleases in the Group's borrowed company housing management business are subject to lease accounting. These are subleased to tenants for the period they are occupied. Therefore, there is no vacancy risk at all, but the lease receivable obligations are both buy and sell. JPY44.1 billion as of December 31, 2023, has been accounted. Net interest-bearing debt after deducting the amount of both loans was JPY65 billion. Given this, the adjusted debt-to-equity ratio was 0.9x, less than 1x.

Lease receivables are included in trade and other receivables as trade receivables. Net trade and other receivables excluding lease receivables amounted to JPY18.6 billion.

Also, please check the appendix for figures such as ROE and ROIC at the end of the previous period.



Finally, I would like to comment on SIRVA-BGRS, a US relocation company in which we have 23% preferred shares convertible into common shares.

First, the company's business conditions remain challenging due to the slump in the existing real estate market caused by high interest rates in the US, as well as an increased interest burden. Although a future recovery can be expected once the environment settles down, we believe it would be extremely difficult to acquire the company in its current state.

We will also explain the implications of our SIRVA-BGRS holdings, as investors may have questions.

Investments accounted for by the equity method include JPY24.6 billion in non-voting preferred shares, JPY9.2 billion in receivables at the time of merger as other financial assets, and JPY9.6 billion in loans receivable as other financial assets, for a total of JPY43.4 billion.

Our current policy is to work with the company's major shareholder, a private equity fund, to improve performance as much as possible while waiting for interest rates and real estate market conditions to recover.

This concludes my presentation today. Thank you very much.

Yasuda: Thank you very much for your attention.

Question & Answer

Yasuda [M]: We will now have time for questions and answers.

Now, Mr. Oda, SMBC Nikko Securities, please ask your question.

Oda **[Q]**: SMBC Nikko Securities, this is Oda. Two questions from me. The first is a little more detailed. Regarding the three months of this Q3, my honest impression is that the relocation business was weaker than I expected, and I have a few questions in that context.

As you mentioned earlier, the number of units under management is increasing steadily, but profits are not as high as expected. In particular, the QoQ shows a decrease of about JPY300 million, but what is the reason for this? I would also like to ask about the current status of this, although we may be able to expect a certain amount of system effect in Q4.

One more thing, in the area of rental management, I think there was some gain on the sale of Q3 last year, but how much was that and how was this Q3? The first thing I would like to ask is if I could ask for some of the detailed points of relocation in this area.

Secondly, in terms of achieving the plan for the current fiscal year, I am satisfied with your detailed explanation, but I also think that the focus should be on the next fiscal year, the final year of the medium-term plan.

At the November meeting, President Nakamura explained that the current situation remains unchanged. However, looking at the situation up to this Q3, I still think the hurdle is quite high. To make the planned figures, it would be difficult if you don't make more profit on the sale than you did this quarter. However, I am concerned about the hurdles that would be faced after that, and also about the increase in profit from the flow using B/S. So, if you have any comments on how you currently see the next fiscal year, even if you take that into consideration, please let me know. Sorry for the lengthy question, but I would like to ask for these two points, please.

Kadota [A]: I understand. The first point is. Regarding the relocation business, you mentioned that Q3 may have been weak.

The first is corporate housing management. The number of units under management has been growing steadily, and revenues from these units have indeed increased. On the other hand, what was a little unexpected was that the cost of managing invoices, which was more expensive than expected this year, was dragging us down.

The other factor is that the movement of people has not yet returned to the pre-COVID level, which may have contributed to a slight decline in revenues related to the movement of people. This was the first factor.

In Q4, we expect the number of units under management to increase steadily, and in the area of rental management, we have already decided to some extent to sell some properties, and we believe we will be able to take this into account.

As to your other question, how much was the profit from the sale of rental management last fiscal year, in the previous fiscal year, there was a gain of JPY140 million from the sale of the property, and this year the gain was about JPY70 million. We thought that the profit from the sale of this property might come out a little earlier than expected, and in this respect, we think that Q3 was somewhat unexpected.

However, as I explained earlier, we have one more large-lot project that has already been decided and another large-lot project, which has not yet been finalized, for which we would like to make approximately JPY300 million out of this, and we would like to firmly establish this project. That is all for the relocation business.

One more point, you asked about the outlook of the next fiscal year. We are still in the early stages of this process. As you pointed out, we still need to think about how we will look toward the next fiscal year after this fiscal year is over, and we would like to reevaluate a bit whether or not we are following the medium-term plan that we have been talking about.

We would like to separate the part of the revenue generated from stock and the part that can be raised surely, and the part that is a bit more challenging.

In addition, we are competing with competitors in various B2B fields, and we would like to strengthen our sales and marketing efforts in these fields. We will review the plan for the next fiscal year, which is the final year of the mid-term plan, to determine how much it will cost, and of course we will replace the contents of the plan. So, I do not think that it will be as we have explained so far. That is all.

Oda [Q]: Thank you very much. I would like to ask you some additional questions about each of these. First, how much was the Company housing management invoice handling cost, even if it is just a rough idea, and when did it start to accrue?

I think there were some costs incurred from Q2, but I don't think that explains the decrease in profit in the QoQ. What was the actual situation?

In addition, regarding rental management, you explained earlier about the gain on sale, but if we exclude that, I feel that the profit was flat or even slightly decreased. Also, even excluding the flow part, it does not seem to have been that strong, so I would like to ask you to explain this point as well. First of all, as a follow-up to the first question, I would appreciate it if you could answer the two questions I have asked so far.

Kadota [A]: The point you just made needs to be checked again, but the stock revenue itself is actually increasing. Profit has been increasing. With regard to your point, did you say that profits have decreased with regard to leased company housing?

Oda [M]: Yes, by comparisons of Q2's three-month contrast.

Kadota [M]: You mean a comparison of Q2 and Q3.

Oda [M]: Yes. It is as you say.

Kadota [A]: I understand. Sorry, there was a misunderstanding on our part. I was wondering if you were comparing Q3 to each other, which is of course where the profit increase is, but you are comparing Q2 to Q3.

In this sense, if we compare Q2 and Q3, last year's profit decreased by about JPY300 million, and this is the trend every year. I think it is safe to say that seasonality is a good thing.

The year before last, profits also decreased. This was JPY100 million. Before that again, the profit decreased by about JPY200 million. Comparing Q3 and Q2 of each year, we can see that the profit decline is about the same. Will it be okay?

Oda [M]: I understand. I will be happy to discuss the details with you later. I understand that part. Thank you very much.

Kadota [A]: The trend is the same as in previous years. Are you clear with this?

Oda [M]: It's all right.

Kadota [M]: I still want to ask some questions.

Oda [Q]: About rental management. Even excluding gains on sales, this is flat or slightly down compared to last year's Q3, or it may look a little weak, but what is going on is what is happening.

Kadota [A]: As you say, so far, the biggest part is the asset part, but other than that, the intermediation was a little weak in some companies. This is a drag on the market.

However, we are not weak in any way in general, and I think we will be able to cover that area over the course of this Q4. Since there were not that many intermediaries to begin with, the gap between Q1 and Q2 appears to be a little large, but we believe that we will be able to cover the difference in Q4.

Oda [Q]: Thank you very much. Sorry for the questions getting long. I would like to follow up on the second question. You explained that your plans for the next fiscal year may be different from what you have done in the past, such as replacing the contents of the program. In short, the asset model was based on the B/S model, and when the pandemic occurred, the direction was that we would do our best to increase the stock. On the other hand, at President Nakamura's presentation last November, he said that he would increase the number of hotels and other facilities a little more, giving the impression that the policy has changed slightly.

Somehow, I don't think we are getting the stock market's appreciation for making numbers from gains on sales and flow profits. My last question is to ask if you could reiterate any of your current policies in this area.

Kadota [A]: I think you are right, and we also believe that stock business is the most important. Therefore, for example, we do not intend to increase gains from real estate sales beyond what is necessary.

On the other hand, we view the quality of the tourism business a little differently, as this is not temporary, but rather a cycle of increasing the value of the business and then selling it off.

We will continue to operate as usual, and since we still have a certain amount of value-up facilities that we have been working on, I think we will sell them as needed. That is all.

Oda [M]: I understand. Excuse me for being so long. Thank you for your kind attention. That's all from me.

Kadota [M]: Thank you very much. Best regards.

Yasuda [M]: Thank you for your question, Mr. Oda. Next, Daiwa Securities, Mr. Sekine, please ask your question.

Sekine [Q]: I am Sekine from Daiwa Securities. I have two questions, and I would like to ask them together.

The first is the part of the concept for the next fiscal year that Mr. Oda just asked about. Based on what Mr. Kadota just said and the way the current mid-term plan is set up, I felt that the Company probably does not anticipate a strong gain on sales in the next fiscal year compared to the current fiscal year and would like to create figures based on the assumption of stock earnings as much as possible.

On the other hand, you also mentioned the competitive environment, invoices, and cost increases that were not incorporated in the mid-term plan. In particular, the latter part of the cost increase and also the acquisition of Benefit One, which was just announced today. I am wondering if there might be a risk of an increasingly competitive environment now that Benefit One has joined the Dai-ichi Life Group, and I would like to know your thoughts on this area of risk. This is the first.

The second one is the asset part related to SIRVA-BGRS, which you introduced earlier. With interest rates remaining quite high, and talk of vacancy rates rising in the US, I think it is a risk for the stock market whether or not impairment losses will appear somewhere in this area.

I think it is an important point for your company to consider how it should think about this in the future, but at this point, for example, how much of a drop in the value of the assets should be written down or what is your company's policy on this asset? That is all.

Kadota [A]: Thank you very much. First of all, as Mr. Sekine has commented, we will review the plan for the next fiscal year, but we would like to focus as much as possible on the stock rather than the gain on the sale of the flow. I would like to do this in a way that does not rely solely on flow, apart from, of course, the tourism I mentioned earlier.

Another question was to ask our thoughts on the competitive environment and various unforeseen cost increases in this area. The competitive environment is always fierce in the B2B business. We have seen that the direction of Benefit One's TOB has been decided, but we do not expect any major changes as a result of this.

Basically, Dai-ichi Life will of course cooperate with Benefit One, but there have been various sales alliances in the past, and I do not think there has been any significant impact on the competitive relationship. We intend to compete with them by firmly strengthening our existing sales strategy and sales force.

Also, other life insurers will probably distance themselves from Benefit One, and I think this will have a positive impact on us. As I mentioned earlier, we are in constant competition, and we are making very strong sales progress in both new and replacement business, and we hope to continue this momentum.

Cost increases are always unexpected, but we continue to make efforts to reduce costs. We will continue our efforts to offset the cost increases as much as possible in the next fiscal year. In that sense, we would like to do well, including DX.

Secondly, regarding SIRVA-BGRS, I would like to answer your question about the risk of impairment. Naturally, we do not have any plans to do so at this point. Of course, the environment is challenging in some areas, but we are making various efforts to improve, and we will continue to do so in cooperation with our major shareholders. That is all.

Sekine [M]: Okay. Thank you very much.

Yasuda [M]: Thank you for your question, Mr. Sekine. Next, Mr. Kuwana, Mizuho Securities, would you like to ask a question?

Kuwana [Q]: I am Kuwana from Mizuho Securities. Thank you for your explanation. I would like to make two points.

The first question is similar to the previous one, but I would like to ask about the business strategy of the employee benefit program. With the acquisition of Dai-ichi Life, I think Benefit One will be working on some kind of expansion of its service lineup or cross-selling.

On the other hand, although you have not announced it, your company has formed a business alliance with an educational company for small- and medium-sized businesses. Do you have any plans to offer some kind of service or to partner with a company in the future? Or is the expansion of sales offices more important than the content of the service itself? As the first question, what is your strategy for future customer acquisition in the employee benefit business?

The second is the rental management business. Since there were no large-scale M&A acquisitions this quarter, the number of units increased by only about 3,500 units from the end of the previous quarter. Although this may seem a little short, there is a possibility of a large-scale M&A in the Q4, and I think there are many negotiations on a relative basis. Therefore, could you comment on whether the number of such deals has increased or decreased compared to the past? These are the two points I would like to ask for.

Kadota [A]: First of all, the first point. I would like to answer about the impact of the TOB decision of Benefit One and our future policy in the employee benefit business. Of course, both sales and service are important, and we would like to enhance both.

In terms of sales, as I mentioned earlier, we do not know whether Benefit One will change its policy or not, but we are determined to continue with our existing sales strategy. In fact, Benefit One merged with JTB in the past. We have been making a lot of moves to switch over the sales aspect that has increased as a result of the merger. We would like to make a strong sales effort in Tokyo and other regions. We would like to demonstrate our strength in small and medium-sized enterprises as well.

As for services, Dai-ichi Life's materials indicate that they would like to enhance their services in the field of health care. This is naturally an important area for us, and there are many companies with which we have capital and business alliances, and we would like to work with these companies to enhance our services. In fact, some of them are already doing so, and we would like to focus on building new services.

In this sense, we believe that we can fully compete with each other in terms of sales and services. We cannot predict what kind of new innovations they will come up with, but we are determined to respond to them.

As for leasing, we do not have any large M&A projects in the pipeline, but the number of projects has always remained at about the same level as before. We have to be aware of the other parties involved, so it is difficult for us to determine the best timing, but we believe that the number of projects is not bad.

The main market is business succession, and it is our impression that almost 99% of the projects we handle are related to business succession. It is our impression that such projects are constantly appearing. We are receiving such projects not only in the Kanto region but also in various central cities in other regions, and we would like to finish them as soon as they are decided, whether in this Q4 or not. That is all.

Kuwana [Q]: Thank you very much. Regarding the first point about taking SMEs' projects, we currently have a situation where SMEs are experiencing smaller wage increases compared to large companies. In such a situation, do many of them want to increase wages if they are going to expand their benefit packages, or do they want to join a benefit service for a few hundred yen a month and make the most of it for recruitment? How does the strength of the current pull in this area compare to the past?

Kadota [A]: I think that the sales projects themselves are at the highest level compared to past levels. As you just mentioned, small- and medium-sized enterprises are also suffering from a shortage of human resources, and in that sense, I believe there is a strong desire to attract human resources by establishing a solid benefit program that compares favorably with other companies. In that sense, I think it is fair to say that the number of projects is in very good shape.

Kuwana [M]: Okay. Thank you very much.

Kadota [M]: Thank you very much.

Yasuda [M]: Thank you for your question, Mr. Kuwana.

Since there seem to be no other questions, we will conclude the briefing on the financial results for Q3 of the fiscal year ending March 31, 2024. Thank you very much for taking time out of your busy schedule to join us today.

Kadota [M]: Thank you very much.

[END]

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